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UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

Staff Exhibit No. 3
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File No. EO-2011-0390

KCPL GREATER MISSOURI OPERATIONS COMPANY

FILE NO. EO-2011-0390

Staff Ex 3

Jefferson City, Missouri
March 2012

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Rebuttal Testimony of
Charles R. Hyneman

1 operating within the state of Missouri. I have participated in examinations of electric, natural
2 gas, water and telecommunication companies. I have been involved in cases concerning
3 proposed rate increases, earnings investigations, and complaint cases, as well as cases relating
4 to construction audits and prudence reviews, mergers and acquisitions, certifications and
5 affiliate transactions.

6 Q. Have you previously testified before this Commission?

7 A. Yes. Schedule CRH 1, attached to this testimony, is a list of rate cases in which
8 I have submitted testimony.

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to rebut certain sections of the direct
11 testimonies of KCP&L Greater Missouri Operations Company ("GMO") witnesses Scott H.
12 Heidtbrink, Tim M. Rush and Wm. Edward Blunk. My rebuttal testimony primarily relates to
13 the sections of the GMO direct testimony that discussed Aquila Inc.'s ("Aquila") hedging
14 program in Case No. ER-2005-0436 ("2005 rate case") and Case No. ER-2007-0004
15 ("2007 rate case"). In addition I will address the portion of GMO's direct testimonies that
16 attempt to justify GMO's erroneous accounting for its hedge settlement gains and losses.

17 As noted in my rebuttal testimony, several of the points made in the direct testimonies
18 of GMO witnesses were not clear, however I addressed in this testimony what I believe is the
19 intent of the statements made in GMO's testimony.

20 Q. Did you attempt to meet with GMO after the filing of direct testimony to get
21 clarification of some of the issues raised by GMO witnesses in direct testimony?

22 A. Yes, however GMO refused to meet with the Staff. On Friday, March 9, 2012,
23 I submitted a data request (DR) asking for a meeting with Messrs. Rush, Blunk and

1 Heidtbrink. When I attempted to find out about the status of this request I was advised that
2 I would have to speak to Mr. Roger Steiner, GMO's attorney. I subsequently learned that
3 Mr. Steiner did not feel it was appropriate for me to meet with GMO witnesses and refused to
4 arrange a meeting. In an email from GMO counsel dated March 20, 2012, GMO's counsel
5 stated "*As Roger Steiner mentioned to you last week, GMO objects to DR No. 112 in Case No.*
6 *EO-2011-0390. GMO's witnesses are available to participate in properly scheduled*
7 *depositions provided that staff witnesses are made available for depositions.*" The Staff data
8 request and GMO's objection to meet with Staff is shown below:

9 Question No. 0112

10 Please arrange for separate meetings with the following company
11 witnesses to discuss statements made in their direct testimonies related
12 to Staff treatment of Aquila's hedging activities in the 2005 and 2007
13 Aquila rate cases, as well as the appropriate accounting for hedge gains
14 and losses in FERC accounts 547 and 555: Scott H. Heidtbrink Tim M.
15 Rush Wm Edward Blunk.

16 Objection:

17 GMO respectfully objects to this data request on the ground that the
18 Commission's rules of practice and procedure do not require Company
19 witnesses to participate in informal meetings with Staff after the
20 completion of the audit for the purpose of discussing statements made in
21 the Company's pre-filed testimony. Pursuant to 4 CSR 240-2.085,
22 discovery may be obtained by the same means and under the same
23 conditions as in civil actions in the circuit court. GMO's witnesses are
24 available to participate in properly scheduled depositions provided that
25 staff witnesses are made available for depositions, and the Company
26 continues to answer data requests, pursuant to 4 CSR 240-2.085.

27 Q. Have you ever experienced a time when a Missouri utility refused to meet with
28 the Commission's Staff and objected to a Staff DR requesting a meeting?

29 A. No. I have been employed by the Commission for almost 20 years and have
30 attended hundreds of meetings with utility representatives. This is the first time I have ever
31 experienced a utility refusing to meet with the Commission Staff.

1 **GMO witness Scott H. Heidtbrink**

2 Q. At page 2 of his direct testimony Mr. Heidtbrink states that the purpose of his
3 testimony is to provide a history of the GMO's (formerly Aquila, Inc.) hedging program.
4 Do you agree with his overall characterization?

5 A. No, I do not agree with his understanding of the history of Aquila's hedging
6 program as it relates to Aquila's 2005 and 2007 rate cases. For clarity purposes, since my
7 testimony is related primarily to facts and circumstances applicable to the hedging program
8 created by Aquila management in 2004 ("Aquila's 2004 hedging program"), I will refer to the
9 Company now named GMO as Aquila. For facts and circumstances that occurred after the
10 acquisition of Aquila's Missouri regulated properties by Great Plains Energy (GPE), Kansas
11 City Power & Light Company's (KCPL) parent company in July 2008, I will refer to the
12 company as GMO.

13 Q. Were you involved in Aquila's 2005 and 2007 rate cases?

14 A. Yes. Specifically, I was the Staff auditor primarily responsible for the audit
15 of Aquila's natural gas expense and natural gas hedging activities in Aquila's 2005 and 2007
16 rate cases.

17 Q. Did GMO witness Scott H. Heidtbrink file any testimony in Aquila's 2005 or
18 2007 rate cases?

19 A. No, he did not.

20 Q. Did Mr. Heidtbrink participate in any of the meetings and discussions between
21 Staff and Aquila related to Aquila's 2004 hedging program in either of the 2005 or 2007
22 rate cases?

1 A. No. I remember participating in several meetings and discussions with Aquila
2 personnel in the 2005 and 2007 rate cases but do not recall Mr. Heidtbrink participating in
3 any meeting or discussion in any rate case matter, including the issue of Aquila's 2004
4 hedging program.

5 The primary Aquila employees involved in these meetings and discussions were
6 Mr. Dennis Williams, Vice President of Regulatory Services, Mr. Davis Rooney, Director of
7 Financial Management and Mr. Gary Clemens, Director of Regulatory. None of these former
8 Aquila employees are currently employed by GMO, KCPL or GPE. Also participating in the
9 meetings relating to natural gas costs, although on a more limited basis, was Mr. Gary Gottsch,
10 who to my knowledge is still an employee of GMO.

11 Q. At page 3 line 4 of his direct testimony, Mr. Heidtbrink states that Aquila's
12 purchased power hedging costs have been part of GMO's retail cost of service since 2005. Is
13 that correct?

14 A. No. In its 2005 rate case Aquila did not consider its hedging costs to be a part
15 of its cost of providing utility service. In that case, Aquila provided no testimony concerning
16 its recently-created 2004 hedging program and it did not propose the costs of its 2004 hedging
17 program be included in base electric utility rates. As noted at page 14 of my direct testimony
18 in the 2005 rate case, "*no impact of Aquila's hedging is reflected in its rate case filing. In fact,*
19 *the Staff has found no reference to Aquila's hedging operations in any testimony filed by*
20 *Aquila in this case.*"

21 Also at page 14 of my direct testimony in Aquila's 2005 rate case I noted that, in the
22 operation of Aquila's then-existing Interim Energy Charge ("IEC"), Aquila did not include

1 any hedging costs in its tracking of variable fuel and purchased power costs as part of
2 the IEC mechanism.

3 During the course of the Staff's audit in Aquila's 2005 rate case Staff learned that
4 Aquila booked all hedging costs, losses and gains on its books in "below-the-line" accounts.
5 This accounting treatment, in effect, treats hedging activities as though they did not exist for
6 ratemaking purposes.

7 Q. You stated that Aquila did not include the costs and benefits of its
8 2004 hedging program in its 2005 rate case cost of service. After concluding its rate case
9 audit, did Staff propose to include the costs and benefits of Aquila's 2004 hedging program in
10 its revenue requirement recommendation to the Commission?

11 A. No. During its audit in the 2005 rate case, Staff found significant problems with
12 Aquila's hedging program (both for natural gas and purchased power) and did not recommend
13 that any gains or losses of Aquila's hedging program be included in rates.

14 In the 2005 rate case Staff advised the Commission and Aquila of the Staff's serious
15 concerns regarding the prudence of Aquila's hedging activities. The primary concern was
16 related to Aquila's almost total lack of business judgment in the application of the program.
17 For example, Aquila would systematically spend thousands of dollars buying New York
18 Mercantile Exchange ("NYMEX") natural gas futures contracts with almost total disregard of
19 the events that were driving wild swings in natural gas prices at that time, such as the
20 devastating 2005 hurricanes in the U.S. Gulf region.

21 Q. Did the concerns expressed by Staff in Aquila's 2005 rate case continue into
22 Aquila's 2007 rate case?

1 A. Yes. In the 2007 rate case Aquila did seek rate recovery of its hedging gains
2 and losses. However, Aquila completely ignored the Staff's concerns and continued with its
3 2004 hedging program. In the 2007 rate case the Staff concluded that the hedging program
4 was imprudent and recommended a total disallowance of all hedging costs in that case. This
5 total disallowance included all hedging activity related to purchased power hedges and natural
6 gas fuel hedges for generation. At page 26 of my surrebuttal testimony in the 2007 rate case
7 I stated: "*The Staff believes that Aquila's hedging plan is imprudent and has led to excessive*
8 *hedging losses. Imprudent costs incurred by a regulated utility should not be included*
9 *in rates.*"

10 In the *Stipulation and Agreement As to Certain Issues* in Aquila's 2007 rate case, at
11 paragraph 8, it was agreed that Aquila would not seek rate recovery of the costs of its 2004
12 hedging program (at the time of the Settlement this amount was \$11.5 million). Given this
13 concession by Aquila and the fact that Staff understood that Aquila was committed to
14 exploring changes to its hedging program, Staff determined that it would be reasonable to not
15 seek any further prudence disallowances of the ultimate settlement values of the hedge
16 positions that were actually in effect on March 27, 2007. This was the consideration given to
17 Aquila to reach this Settlement.

18 Q. What happened after the conclusion of the 2007 rate case?

19 A. During the 2007 rate case the Staff had discussions with Aquila personnel about
20 potentially abandoning its 2004 hedging program and adopting a new program that would
21 allow more business judgment in the selection and timing of hedges. Mr. Heidtbrink discusses
22 this at page 7 of his direct testimony in this proceeding. Aquila eventually decided to form a

1 hedging consulting relationship with Kase & Co. (Kase), the same hedging consultant used by
2 KCPL at that time and presently.

3 Q. Did Staff participate in discussions with Kase?

4 A. No. While Staff was invited to attend the meetings between Kase and Aquila
5 personnel, Staff only listened to the May 2007 presentations via conference call. Staff did not
6 provide any input to the process nor did it ask any questions. The Kase presentations were
7 made strictly to Aquila personnel for the purpose of evaluating the purchase of the Kase
8 program. Staff believed this was an Aquila management decision and, as such, did not get
9 involved with this evaluation process.

10 Q. Which Staff members listened to the Kase presentations?

11 A. I was the only Staff member who listened to these presentations from my office
12 in Kansas City, Missouri. I understand that the only other Staff member to listen to the
13 presentations was Mr. David M. Sommerer of the Utility Services Department- Procurement
14 Analysis from his office in Jefferson City, Missouri.

15 While Aquila regulatory personnel did invite certain members of the Staff to attend the
16 Kase presentations, Staff declined. Staff did not believe its role was to help develop Aquila's
17 hedging program. Staff viewed its role was to evaluate the effectiveness of the hedging
18 program selected by utility management and the prudence of such a program.

19 Q. At page 7, line 20 of his direct testimony Mr. Heidtbrink said that during the
20 May 2007 Kase presentations to Aquila (to which the Staff was listening in by speakerphone)
21 it was clear that GMO still planned on hedging on-peak purchased power. Do you agree with
22 this statement?

1 A. No it was not at all clear. As I recall listening to these presentations I do not
2 remember any discussions about Aquila continuing with its purchased power hedging
3 program. The Kase presentations focused on strategies, methods and the most advantageous
4 timing of purchasing natural gas hedges, something that did not exist in the 2004 Aquila
5 hedging program. Although it is possible that purchased power hedges were discussed as I did
6 not listen to all of the Kase discussions, but it definitively was not clear to me that Aquila
7 would continue hedging purchased power.

8 Moreover, I do not recall Aquila ever advising Staff that it intended to continue with
9 any aspect of its 2004 hedging program. It was my understanding that after its 2007 rate case
10 Aquila was intending to abandon its 2004 hedging program in favor of the hedging programs
11 proposed by Kase. The new GMO Kase hedge programs are described by GMO witness
12 Blunk at pages 27 and 28 of his direct testimony in this case. In essence, I believed that
13 Aquila was moving to a completely different hedging program. It was my impression at the
14 time, that since KCPL would be approving any new GMO hedging policy, the hedging policy
15 adopted by GMO would be similar to the hedging policy employed by KCPL.

16 Q. Were there other issues that Aquila had to consider concerning its 2004 hedging
17 program?

18 A. Yes. On February 7, 2007, GPE announced the agreement to acquire Aquila.
19 This announcement was made prior to Aquila's meetings with Kase. I believed that any
20 hedging program that Aquila adopted would have to be approved by KCPL. Staff had
21 examined KCPL's fuel procurement policies in KCPL's 2006 and 2007 rate cases and took no
22 issue with KCPL's hedging program with Kase. Because of the Aquila acquisition by GPE,
23 Staff believed KCPL would incorporate its approach to procure natural gas using a hedging

1 program consistent with how KCPL purchased its natural gas. In essence, I assumed KCPL
2 would correct any past issues concerning Aquila's problems with hedging for natural gas.

3 Q. At page 3 Mr. Heidtbrink's direct testimony he describes how Aquila has been
4 "fully transparent" about its hedging for purchased power in the past and Staff has been aware
5 of the fact that hedging for purchased power has been a part of Aquila's hedging program. Do
6 you agree?

7 A. No. However, to the extent that Mr. Heidtbrink defines "fully transparent" as
8 meaning Aquila did not make an overt attempt to hide this hedging practice once it was
9 exposed, yes, I agree. However, Aquila did not reveal the existence of its hedging program
10 (both for purchased power and natural gas used as a fuel source for its generating units) in its
11 direct filing in its 2005 rate case. It was not until much later in the case that the Auditing
12 Department Staff discovered that Aquila was engaging in hedging transactions related to
13 purchased power. I recall that the Auditing Staff first learned of this practice in a meeting with
14 Aquila personnel concerning its hedging program. I do agree that Staff became aware of
15 Aquila's use of purchasing hedges for purchased power at some point during Aquila's 2005
16 rate case.

17 Q. At page 3 lines 9 and 10 Mr. Heidtbrink accuses the Staff of proposing a
18 disallowance of hedging costs "*only now, when one aspect of the total program shows losses*".
19 Please comment.

20 A. This accusation is completely unfounded and it is in stark contrast to the factual
21 information to which Mr. Heidtbrink has access. If he made any attempt to research the Staff's
22 historical treatment of Aquila's hedging gains and losses, GMO's hedging gains and losses
23 and KCPL's hedging gains and losses, he would find that Staff bases its conclusions not on the

1 results of the hedging program, but the prudence of the hedging program, and the prudence of
2 how the hedging program is administered. While it is true that a hedging program that
3 continually results in significant hedging losses will draw more of a Staff focus than a hedging
4 program that actually reduces costs or results in immaterial losses, the Staff's ratemaking
5 recommendation focuses on the prudence of the program.

6 Q. Please provide an example of how the historical facts of Staff's treatment of
7 Aquila's hedging program was not affected by whether or not the program was currently
8 showing gains or losses.

9 A. At page 15 of my direct testimony in Case No. ER-2005-0436, I identified that
10 Aquila had recorded gains in 2005 from its hedging program. Staff did not reflect these gains
11 in its revenue requirement recommendations to the Commission or even propose recognition
12 of these hedging gains in its rate case settlement negotiations with Aquila. It was because the
13 Staff had strong concerns about the prudence of Aquila's 2004 hedging program that it did not
14 include hedging gains in its revenue requirement recommendation to the Commission or seek
15 to include the hedging gains in the rate case settlement. So, contrary to the implication by
16 Mr. Heidtbrink that the Staff is only proposing a disallowance when the hedging program is in
17 a loss, the Staff has consistently recommended the exclusion of hedging gains and losses under
18 Aquila's 2004 hedging program regardless of whether it was in a loss or gain position.

19 Q. Has Aquila previously alleged, as Mr. Heidtbrink does in his testimony, that
20 Staff has a bias of only reflecting hedging gains and not hedging losses?

21 A. Yes. In the 2007 rate case, Aquila's cost of service witness for its 2004
22 hedging program was Mr. Davis Rooney. Mr. Rooney made the allegation in his rebuttal
23 testimony at page 26 that Staff only includes gains from hedging in its recommendations and

1 ignores hedging losses. He claimed that the Staff's standard of prudence in a hedging program
2 is its ability to produce gains.

3 Aquila met with Staff representatives Cary Featherstone,
4 Charles Hyneman, and Steve Traxler. Also present from Aquila
5 were Gary Clemens, Susan Braun, Gary Gottsch, Laura
6 Templemen and me. I, for one, left with the impression that the
7 standard of prudence for hedging is the ability to produce
8 gains. Those conversations left me with the impression that
9 Staff believes only positive settlements are prudent.

10 The fact that 1) Staff did not propose rate inclusion of hedging gains in the 2005 rate case and
11 2) Aquila agreed to writeoff its hedging losses in the 2007 rate case as well as abandon its
12 2004 hedging program is strong evidence that the Staff's focus in its audit of hedging
13 programs is on the prudence of the plan itself, not whether or not it consistently produced
14 hedging gains.

15 Further evidence of the fairness of Staff's approach in evaluating the prudence of
16 utility hedging programs is that Staff has never proposed any cost of service adjustment to
17 KCPL's hedging program losses or gains in its 2006, 2007, 2009 and 2010 rate cases. The
18 reason is that, at least to date, the Staff has believed that KCPL's hedging program was
19 prudent, even in the years when it resulted in only hedging losses.

20 Q. Did you explain in Aquila's 2007 rate case how the Staff evaluates hedging
21 programs?

22 A. Yes. Staff's approach is clearly explained in my surrebuttal testimony in Case
23 No. ER-2007-0004 at page 27:

24 Q. What improvements does the Staff believe should be made to
25 Aquila's hedging plan?

26
27 A. Aquila should seek assistance in developing a new hedging plan by
28 personnel who have experience in the field of natural gas hedging. The
29 plan would need to be designed or modified by personnel who are

1 experts in the in type of business that the hedging plan would be used.
2 For Aquila, the type of business would not just be a utility, but an
3 electric utility engaged in the generation, transmission and distribution
4 of electricity. Finally, the hedging plan would have to be employed with
5 reasonable amount flexibility to allow a degree of sound business
6 judgment in the purchase of hedges.
7

8 The Staff would not support a hedging plan that was primarily designed
9 to "beat the market" and produce only hedging gains any more than its
10 supports Aquila's hedging plan which is primarily designed to "ignore
11 the market price." As I will describe later in this testimony, other
12 Missouri electric utilities incorporate price sensitivity or price flexibility
13 in the determination of when and if to purchase hedges, and these
14 hedging plans have been successful. Aquila should follow the example
15 set by these companies.
16

17 In addition to mitigating price volatility, a hedging plan that is prudent
18 would include in its design a requirement to continually focus on prices
19 in the natural gas market and take advantages of pricing opportunities as
20 they develop and if they develop. Hedges have to be made and if natural
21 gas prices decrease below the hedged price, hedging losses will occur.
22 That is a fact. But when hedging losses are passed on to the ratepayer,
23 the ratepayer should at least be assured that the Company has tried to
24 minimize the hedging losses to the greatest extent possible. At this
25 point, Aquila's ratepayers do not have this assurance.
26

27 Q. Does the Staff define a prudent hedging plan as one that only
28 produces gains?
29

30 A. No, absolutely not. The incurrence of hedging losses can very likely
31 occur in a prudent and well-designed hedging plan. As long as the
32 hedging plan was well designed and modified for the type of business in
33 which it will be employed and the personnel responsible for purchasing
34 the hedged natural gas are allowed to take advantage of pricing
35 opportunities as they arise, customer benefit exists regardless of whether
36 the hedging plan results in a net gain or a net loss for any given year.
37 The customers will be protected from sudden extreme increases in
38 natural gas prices and will only be charged a reasonable price for this
39 protection.

40 Q. Did Aquila's 2004 hedging program result in significant hedging losses since
41 its inception in 2005 and did these hedging losses continue under GMO?

1 A. Yes. The combined Aquila and GMO hedging program has resulted in almost
2 \$40 million of net losses from January 2005 through February 2011. In the six calendar years
3 from 2005 through 2010, Aquila and GMO only showed positive gains in the years 2005 and
4 2008. Of the 74 months from January 2005 through February 2011 the combined hedging
5 program resulted in hedging losses in 58 of those months, or 78 percent of the months.

6 Q. At page 3 of his direct testimony GMO witness Heidtbrink describes the
7 reasons why Aquila created its 2004 hedging program. Did Aquila create this hedging
8 program to provide benefits to its ratepayers?

9 A. No. Aquila did not develop its hedging program for the benefit of its
10 customers. As noted above, in its 2005 rate case, its first rate case since the creation of its
11 hedging program, Aquila was treating its hedging program below-the-line for financial
12 purposes and did not include any of the gains from those hedges in its filed rate case.

13 Q. Why did Aquila not include its 2004 hedging plan in regulated operations prior
14 to the 2007 rate case?

15 A. Aquila was afraid that the Staff would recognize only hedging gains and not
16 hedging losses, so to ensure that hedging gains would flow to its shareholders, Aquila decided
17 not to include its 2004 hedging program in regulated operations. Mr. Davis Rooney explained
18 these reasons at page 24 of his rebuttal testimony in Aquila's 2007 rate case:

19 Q. What is your understanding of the Company's historical view of
20 hedges and regulation?

21
22 A. From my perspective, Aquila has viewed hedging as a program with
23 high regulatory risk. The primary risk has been the expectation that
24 hedge benefits would be flowed back to the customers and hedge costs
25 would be disallowed.

26
27 Q. How did Aquila address this risk?
28

1 A. Aquila chose to record both hedge benefits and costs below the line,
2 thus removing them both from rate making. Aquila held both the risk of
3 the costs and the benefits for the shareholder. As noted by Mr.
4 Featherstone, prior to the stipulation in Case No. ER-2005-0436, Aquila
5 recorded both gains and losses below the line.

6 Q. At page 6 line 7 of his direct testimony GMO witness Heidtbrink states that in
7 the 2005 rate case "Mr. Hyneman felt that program was too systematic and too rigid." Is that a
8 correct statement?

9 A. Yes. While it is correct, this was not just my opinion, but the collective opinion
10 of the Staff in the 2005 rate case and in the 2007 rate case.

11 Q. At page 6, line 21 of his direct testimony, GMO witness Heidtbrink states
12 that "GMO agreed to include hedge costs and benefits in its retail revenue requirement from
13 ER-2005-0436." Please comment.

14 A. If Mr. Heidtbrink is asserting that any of the costs or benefits of Aquila's
15 hedging program were included in base utility rates in the 2005 rate case, he is incorrect.
16 Aquila never proposed to include its hedging costs and benefits in base rates in its 2005 rate
17 case and the Staff never proposed to include Aquila's hedging costs and benefits in its
18 2005 rate case revenue requirement recommendation to the Commission.

19 There was no settlement or agreement regarding the inclusion of any hedging costs or
20 benefits in the 2005 rate case. However, Mr. Heidtbrink could be referring to the agreement
21 reached by the parties to the 2005 rate case that the Commission issue an AAO allowing
22 Aquila to record hedging gains and losses above the line in accounts 547 and 555, as part of
23 fuel cost and purchased power cost instead of recording hedging gains and losses below the
24 line. This is the only agreement reached between Aquila and Staff in the 2005 rate case and

1 addressed only the accounting of these gains and losses, not how these gains and losses would
2 be treated in future rate cases.

3 Q. At page 8, line 26 of his direct testimony GMO witness Heidtbrink states that
4 the Stipulation and Agreements in Aquila's 2005 and 2007 rate cases provided for the
5 recovery of hedge settlements associated with natural gas futures or options used to hedge
6 electricity price risk. Is this statement true?

7 A. No. In fact it is completely false. The only thing that the 2005 rate case
8 Stipulation and Agreement allowed was for Aquila to record the results of its hedging program
9 above-the-line on a going forward basis. This was provided in the form of an Accounting
10 Authority Order by the Commission. Previously Aquila recorded these results below-the-line
11 and it needed (presumably to satisfy its outside auditors) some guidance from the
12 Commission regarding this change in accounting. This Stipulation and Agreement had
13 nothing to do with rate recovery of the hedging costs. Any decisions regarding rate recovery
14 would be reserved to Aquila's next rate case. As I said earlier, not only did Aquila not
15 propose rate recovery of its hedging costs in the 2005 rate case, the Staff also did not propose
16 rate recovery of Aquila's hedging costs in that rate case. These positions did not change with
17 the Stipulation and Agreement.

18 In the 2007 rate case Staff found Aquila's hedging program to be imprudent and
19 recommended a total disallowance. Aquila maintained that its hedging program was prudent
20 and this hedging prudence issue was set for hearing before the Commission. In settlement
21 discussions, Aquila agreed not to seek rate recovery of any hedging costs in the rate case
22 (it was seeking recovery of \$11.5 million in hedging losses) if the Staff would agree not to
23 challenge, on prudence grounds, the hedge positions Aquila had in place at the time of the

1 settlement, that is as of March 27, 2007. Aquila also agreed informally to explore changing its
2 hedging program and meet with hedging consultants – which it did shortly after the conclusion
3 of the 2007 rate case. The Staff found this resolution reasonable. However, by not forcing
4 Aquila to writeoff its hedging losses in the future as it unwound its hedging positions was in
5 no way an indication that the Staff felt that any of Aquila's hedging program was prudent.
6 This was a rate case issue settlement and nothing more than a rate case issue settlement. In its
7 direct testimony it appears that GMO is attempting to represent this rate case issue settlement
8 as something it is not.

9 Q. At page 8, line 17 of his direct testimony Mr. Heidtbrink quotes the hedging
10 program settlement language in the 2007 rate case *Stipulation and Agreement as to Certain*
11 *Issues*. Does his selective quotation of the Stipulation and Agreement language give a false
12 impression of the true meaning of the agreement on the hedging program as reflected in the
13 Stipulation and Agreement?

14 A. Yes, it does. Mr. Heidtbrink failed to include the first part of the first sentence
15 which states that Aquila agreed not to seek recovery of its 2006 hedge settlement loss of
16 \$11.5 million in the 2007 rate case or in any future rate case. This was the crux of the
17 Agreement from Staff's perspective and yet Mr. Heidtbrink did not even address this express
18 condition of the settlement his direct testimony.

19 The full Settlement and Agreement paragraph 8 related to the hedging settlement is
20 shown below. The underlined language below is the portion of Paragraph 8 that
21 Mr. Heidtbrink selectively includes in his direct testimony.

22 8. Hedge Costs. Aquila agrees not to seek recovery of its 2006 hedge
23 settlement losses of \$11.5 million in this or any future regulatory
24 proceedings. The Signatories agree
25

1 that ultimate settlement values of Aquila's hedge contracts in place on
2 March 27, 2007 for the period June 1, 2007 through December 31, 2009
3 will be subject to the provisions of any fuel cost recovery mechanism
4 approved by the Commission in this case. However, the ultimate
5 settlement values will not be subject to challenge as to a prudence
6 disallowance relative to Aquila's original decisions to enter into these
7 hedge positions.

8
9 The market values for these contracts as of March 27, 2007 are reflected
10 on the attached Schedule 1. In the event that the Commission does not
11 implement a fuel cost recovery mechanism for Aquila, then the
12 treatment for hedge costs shall be determined in a future proceeding.
13 While Aquila believes that its current hedging practices are prudent,
14 Aquila acknowledges that its continued use of its current hedging
15 practices is subject to a prudence review and potential disallowances
16 relative to hedge positions taken after March 27, 2007. [Emphasis
17 added]

18 Q. At page 8 of his direct testimony does Mr. Heidtbrink include the full paragraph
19 of the 2005 rate case Stipulation and Agreement related to hedging?

20 A. No. Mr. Heidtbrink fails to include the part of the agreement in which
21 Aquila agreed to include hedging gains and losses in Account 555, Purchased Power and
22 Account 547 Fuel. The full paragraph 17 is reflected below:

23 Accounting Authority Order

24
25 17. The Signatory Parties agree, for accounting and ratemaking
26 purposes, that hedge settlements, both positive and negative, and related
27 costs (e.g. option premiums, interest on margin accounts, and carrying
28 cost on option premiums) directly related to natural gas generation and
29 on-peak purchased power transactions under a formal Aquila Networks-
30 MPS hedging plan will be considered part of the fuel cost and purchased
31 power costs recorded in FERC Account 547 or Account 555 when the
32 hedge arrangement is settled. These hedging costs will continue to be
33 recorded on a Mark-To-Market basis, as required by Financial
34 Accounting Standard No. 133, with an offsetting regulatory asset FERC
35 Account 182 .3 or regulatory liability FERC Account 254 entry that
36 recognizes the change in the timing of value recognition under Financial
37 Accounting Standard No. 71 . Aquila agrees there will be no rate base
38 treatment afforded to hedging expenditures recorded on the Mark-To-
39 Market basis. Aquila agrees to maintain separate accounting in

1 Accounts 547 and 555 to track the hedging transaction expenditures
2 recorded under this agreement.

3 The agreement in the 2005 rate case dealt strictly with Aquila booking the hedging costs
4 above-the-line in accounts 547 and 555. This agreement did not address any ratemaking
5 treatment for these hedging costs. Any portrayal of this Stipulation and Agreement as
6 reflecting a position that Staff supported rate treatment of Aquila's 2004 hedging program is
7 totally incorrect. The Staff, especially after raising serious concerns about potential
8 imprudence of the 2004 hedging program in that rate case, would certainly never agree to rate
9 treatment of a potentially imprudent hedging program.

10 Q. At page 9, line 3 of his direct testimony Mr. Heidtbrink states that "*since 2004*
11 *when Aquila started using natural gas derivatives to cross hedge electricity price risk neither*
12 *this Commission nor its Staff claimed that GMO's use of natural gas derivatives to cross*
13 *hedge electricity price risk was imprudent.*" Please comment.

14 A. As noted above, Aquila did not seek rate recovery of its hedging program in its
15 2005 rate case, so whether or not Aquila's hedging for purchased power was prudent or not
16 was never an issue for the Staff to address. In the 2007 rate case I recall having questions and
17 concerns about Aquila hedging for purchased power, especially since I was not aware of any
18 other Missouri utility (including KCPL) that hedged its purchased power costs. However,
19 since Staff found Aquila's total 2004 hedging program to be imprudent and recommended
20 disallowance of the costs of the total program, it did not seem necessary to evaluate the part of
21 the program related to purchased power as opposed to natural gas. The whole program was
22 considered imprudent and the Staff recommended a disallowance of the whole program.

1 Q. Subsequent to the 2007 rate case, Aquila was acquired by GPE and was
2 renamed KCP&L Greater Missouri Operations (“GMO”). How did the Staff approach GMO’s
3 hedging costs in GMO’s subsequent rate cases, ER-2009-0090 and ER-2010-0356?

4 A. I was involved to some extent in GMO’s fuel issues in both rate cases.
5 The Staff took comfort that, although GMO was still recording hedging losses from unwinding
6 its March 27, 2007 hedging position in accordance with the 2007 rate case Stipulation and
7 Agreement, KCPL personnel would now be in charge of GMO’s hedging program and Staff
8 believed it would be administered under the Kase hedge models instead of the 2004 Aquila
9 hedging program. In the 2009 and 2010 GMO rate cases Staff did not propose
10 any adjustments to the level of hedging costs sought by GMO related to its new Kase
11 hedging program.

12 Q. At page 12, line 2 of his direct testimony GMO witness Heidtbrink states that
13 GMO has repeatedly demonstrated a willingness to adjust its hedging strategy in response to
14 issues raised by Staff. Do you agree with this statement?

15 A. No. This statement is not true. The Staff in testimony advised the Commission
16 and Aquila of its serious concerns about Aquila’s 2004 hedging program in Aquila’s 2005 rate
17 case. Aquila completely ignored these concerns. It was not until late in the 2007 rate case
18 when Aquila realized that it could suffer financial losses as a result of its imprudent hedging
19 program that it agreed to make changes. There was no demonstration of a willingness,
20 repeated or otherwise, to adjust its hedging program. There was a lack of concern by Aquila
21 of the serious issues raised by Staff in the 2005 rate case and there was an aggressive
22 resistance by Aquila to the Staff’s findings of imprudence in the 2007 rate case.

1 Q. At page 12, line 13 of his direct testimony GMO witness Heidtbrink makes the
2 following statement:

3 *However, in the meantime the Commission should allow the
4 Company recovery of prudently incurred costs in the existing program
5 since it was acting in good faith under a program that has been subject
6 to several previous reviews.

7 Is this comment of particular concern to the Staff?

8 A. Yes. Mr. Heidtbrink seems to be claiming some type of safe harbor on
9 purchased power hedging costs simply because he contends that GMO's program for hedging
10 for purchased power was subject to a Staff review in the past. As I noted above, in the 2009
11 and 2010 GMO rate cases, where the Kase hedging program was used, the Staff did not review
12 the merits or the prudence of GMO's purchased power hedging programs. Since Aquila was
13 acquired by GPE, Staff assumed the Kase-based hedging program used by GMO would be
14 similar to the one used by KCPL. In preparing for this case Staff discovered that was not the
15 case. In any event, there may be several utility costs or programs that the Staff does not
16 specifically review in great detail in any given rate case. Staff does not do a 100 percent audit
17 of all revenues, expenses, gains and losses in every rate case. This lack of a detailed Staff
18 review certainly does not mean that the Staff is prohibited from reviewing costs or programs in
19 a subsequent rate case or, as in this case, a fuel adjustment case.

20 **GMO witness Tim M. Rush**

21 Q. At page 5 of his direct testimony GMO witness Tim Rush states that
22 GMO agreed in the Stipulation and Agreement in Aquila's 2005 rate case to record the
23 settlement costs associated with its hedge program to FERC accounts 547 (Fuel) and

1 555 (Purchased Power) and to include those costs in its retail revenue requirement. Do you
2 agree with this statement?

3 A. I do, in part. The Stipulation and Agreement required GMO to record hedging
4 gains and losses related to fuel purchases of natural gas to Account 547 Fuel, and to record
5 gains and losses related to hedging for purchased power in to Account 555, Purchased Power.
6 I do agree with that part of Mr. Rush's statement.

7 However, the Stipulation and Agreement only required specific accounting for the
8 hedging program; it did not require GMO to include the hedging costs in its retail revenue
9 requirement. At the request of Aquila, this specific language in the Stipulation and Agreement
10 was provided in the form of an Accounting Authority Order (AAO). AAOs do not grant any
11 special ratemaking treatment nor do they require any special ratemaking treatment. It has been
12 the longstanding policy of the Missouri Public Service Commission ("Commission") that
13 specific rate treatment for AAOs is reserved for rate cases. Mr. Rush correctly states the total
14 impact of this AAO at page 5, lines 15-21 of his direct testimony.

15 Q. You state above that the Stipulation and Agreement in Aquila's 2005 rate case
16 required Aquila and GMO to record hedging gains and losses related to fuel purchases of
17 natural gas to Account 547 Fuel, and to record gains and losses related to hedging for
18 purchased power in to Account 555, Purchased Power. Has GMO complied with this
19 Stipulation and Agreement?

20 A. No. For some unknown reason, even though the Stipulation and Agreement
21 clearly required hedging costs to be charged to Purchased Power Account 555, Aquila decided
22 to record all hedging gains and losses to Account 547, Fuel. This is a clear violation of the

1 plain language of the Stipulation and Agreement. The complete language related to hedging in
2 the 2005 rate case Stipulation and Agreement is reflected below:

3 Accounting Authority Order

4
5 **17. The Signatory Parties agree, for accounting and**
6 **ratemaking purposes, that hedge settlements, both positive**
7 **and negative, and related costs (e.g. option premiums, interest on**
8 **margin accounts, and carrying cost on option premiums) directly**
9 **related to natural gas generation and on-peak purchased**
10 **power transactions under a formal Aquila Networks-MPS**
11 **hedging plan will be considered part of the fuel cost and**
12 **purchased power costs recorded in FERC Account 547 or**
13 **Account 555 when the hedge arrangement is settled.** These
14 hedging costs will continue to be recorded on a Mark-To-Market
15 basis, as required by Financial Accounting Standard No. 133, with
16 an offsetting regulatory asset FERC Account 182 .3 or regulatory
17 liability FERC Account 254 entry that recognizes the change in
18 the timing of value recognition under Financial Accounting
19 Standard No. 71 . Aquila agrees there will be no rate base
20 treatment afforded to hedging expenditures recorded on the Mark-
21 To-Market basis. **Aquila agrees to maintain separate**
22 **accounting in Accounts 547 and 555 to track the hedging**
23 **transaction expenditures recorded under this agreement.**
24 **(Emphasis added)**

25 Q. How does Staff interpret the above language as it applies to accounting for
26 natural gas and purchased power hedges?

27 A. Hedges intended to mitigate volatility in the cost of natural gas to burn at
28 GMO's power plants should be recorded in Account 547 Fuel. Hedges intended to mitigate
29 volatility in the cost of purchased power should be charged to Account 555 Purchased Power.
30 This is the simple clear meaning of the language in the Stipulation and Agreement.

31 Q. How does Mr. Rush attempt to justify GMO's departure from the explicit
32 language in the 2005 rate case Stipulation and Agreement requiring hedging costs to be
33 charged to both accounts 547 Fuel and 555 Purchased Power?

1 A. Mr. Rush ignores the clear language of the Stipulation and Agreement and tries
2 to justify GMO's improper accounting by a distorted reading of the FERC Uniform System of
3 Accounts for purchased power hedge settlements.

4 Mr. Rush states correctly that natural gas hedge settlements related to hedging for fuel
5 for use in GMO's peaking facilities should be charged to Account 547 Fuel. I agree with
6 Mr. Rush on this point and this is fully consistent with the 2005 rate case Stipulation and
7 Agreement. However, Mr. Rush goes on to state that the hedge settlements from purchased
8 power hedges should not be recorded to Account 555 Purchased Power but, like hedges for
9 fuel, be charged to Account 547 Fuel.

10 Mr. Rush's hedge accounting reasoning is illogical and it is in direct conflict with the
11 2005 rate case Stipulation and Agreement where "*Aquila agrees to maintain separate*
12 *accounting in Accounts 547 and 555 to track the hedging transaction expenditures recorded*
13 *under this agreement.*" Aquila and GMO did not maintain separate accounting in accounts 547
14 Fuel and 555 Purchased Power, and instead chose to record all hedge settlements to
15 Account 547 Fuel.

16 Q. Why do you say that charging purchased power expenses to a fuel account
17 is illogical?

18 A. First, charging costs related to purchased power to a fuel account is illogical on
19 its face and bad accounting. Fuel and purchased power are two completely separate and
20 independent utility expenses. Costs charged to fuel accounts represent the cost of generation in
21 the utility-owned power plants. Costs charged to purchased power accounts represent costs to
22 acquire power from other producers. Mixing costs between these two accounts results in
23 distorted accounting of a utility's financial statements that do not faithfully represent what they

1 are designed to represent. As discussed below this concept of representational faithfulness of
2 accounting information is reflected in professional accounting literature.

3 In September 2010 the Financial Accounting Standards Board (FASB) issued
4 *Statement of Financial Accounting Concepts No. 8*. Concepts Statements are intended to set
5 forth objectives and fundamental concepts that will be the basis for development of financial
6 accounting and reporting guidance. In this document the FASB stated, "if financial
7 information is to be useful, it must be relevant and faithfully represent what it purports to
8 represent." Applying to this situation with GMO, GMO has devised a hedging program to
9 mitigate the cost of its purchased power expenses. Gains from purchased power hedges should
10 reduce the cost of purchased power and losses from purchased power hedges should increase
11 purchased power expenses. However, under GMO's accounting, this is not what takes place.

12 As noted at page 4, line 9 of Mr. Rush's direct testimony the reason why GMO hedges
13 purchased power through the purchase of NYMEX futures contracts is to mitigate the
14 volatility of purchased power costs. Yet GMO does not reflect the cost of this volatility
15 mitigation in its purchased power accounts. It reflects this volatility mitigation in an account
16 not related to purchased power but to the cost of acquiring natural gas to burn in its
17 power plants.

18 As an example, if spot purchased power prices increase, GMO will theoretically
19 experience gains in its purchased power hedges. However, under GMO's accounting GMO
20 charges these gains to a natural gas fuel account, not the purchased power account. As a result
21 of this improper accounting the actual results of real world transactions and events are not
22 faithfully or accurately represented in GMO's financial statements. GMO's purchased power
23 account will reflect the actual higher purchased power dollars paid out to other electricity

1 suppliers and it will not reflect the actual hedging gain intended to mitigate the actual
2 purchased power expenditures made.

3 Q. How did Mr. Rush explain why GMO recorded purchased power hedge
4 settlements to a fuel account?

5 A. He rationalizes at page 6, lines 18-21 that since GMO hedges "the equivalent
6 mmBtu of natural gas" for its purchased power needs, the purchased power hedge settlements
7 should not be recorded in a purchased power account but a fuel account.

8 However, when GMO buys a NYMEX natural gas futures contract to hedge against
9 volatile spot purchased power prices, it is not hedging for natural gas fuel to generate
10 electricity, it is hedging against volatile purchased power prices. Accordingly, GMO's intent
11 is clearly to mitigate the impact on purchased power expense, the expenses it charges to
12 Account 555, not to mitigate the price of its natural gas fuel purchases it uses to generate
13 electricity in its owned power plants, expenses that it charges to Account 547.

14 Q. At page 7 line 1 of his direct testimony Mr. Rush makes an implication that
15 because its outside accounting firm has not raised an issue related to GMO's FAC that GMO's
16 act of recording purchased power hedge settlements to a fuel account is appropriate. Please
17 comment.

18 A. If Mr. Rush believed GMO's accounting for purchased power hedge
19 settlements in a fuel account is proper accounting and that this accounting is consistent with
20 the 2005 rate case Stipulation and Agreement, he could have provided a certified public
21 accountant in the employ of GMO or a member of its external auditor audit team to testify to
22 this effect. However, testifying that he is not aware of any issue raised by GMO's auditors is
23 not evidence. Mr. Rush does not indicate whether or not he even knows if this issue was ever

1 reviewed by GMO's auditors or whether or not GMO has incorrectly advised its auditors in the
2 past that its accounting for all hedging gains and losses costs in Account 547 was approved by
3 the Commission.

4 Q. At page 10 line 5 of his direct testimony Mr. Rush discusses the issue of
5 "splitting" hedge settlement gains and losses between accounts 547 Fuel and 555 Purchased
6 Power. Would the Staff support a splitting?

7 A. No. If GMO continues to hedge for purchased power costs, then the cost of the
8 NYMEX hedge contract or the cost of call option premiums that are incurred from a purchased
9 power hedge should be recorded to Account 555, Purchased Power. Splitting or allocating
10 hedge costs would not be appropriate. These are direct costs directly assignable to a specific
11 cost objective and a specific expense account. Under the 2005 rate case Stipulation and
12 Agreement GMO is required to track the specific transactions and not "split" or "allocate" the
13 settlement gains and losses among Accounts 547 and 555.

14 **GMO witness Wm. Edward Blunk**

15 Q. At page 9, line 1 of his direct testimony Mr. Blunk states that the cost of using
16 natural gas futures and options to hedge purchased power risk have been recovered in GMO's
17 rates since the implementation of rates in Aquila's 2005 rate case. Is he correct?

18 A. No, he is incorrect. I have already addressed this point in the section of my
19 rebuttal testimony addressing Mr. Heidtbrink.

20 Q. At page 10, line 25 Mr. Blunk asks why the Staff did not challenge the practice
21 of hedging for purchased power when it first learned about this practice during Aquila's 2005
22 rate case?

Rebuttal Testimony of
Charles R. Hyneman

1 A. Again, I have previously addressed this argument in the section of my rebuttal
2 testimony addressing Mr. Heidtbrink.

3 Q. At page 11, line 13 through page 12, line 12 Mr. Blunk purports to describe the
4 Stipulation and Agreement in Aquila's 2007 rate case. Have you already discussed the
5 inaccuracies of GMO's characterization of this Stipulation and Agreement in your rebuttal
6 testimony?

7 A. Yes.

8 Q. Was Mr. Blunk an employee of Aquila at any time during the 2005 or 2007 rate
9 cases?

10 A. No.

11 Q. Did Mr. Blunk participate in the settlement discussions or have any input at all
12 into the Stipulation and Agreement on hedging in Aquila's 2005 or 2007 rate cases?

13 A. No.

14 Q. Did Mr. Blunk indicate that he ever spoke to any individual who was involved
15 in the settlement negotiations or the drafting of the Stipulation and Agreement in Aquila's
16 2005 or 2007 rate cases?

17 A. No.

18 Q. Is it surprising to you then that a person who was not even employed by the
19 utility during the rate case in question, was not involved in any manner in the settlement
20 negotiations or drafting of the Stipulation and Agreement, apparently never spoke to
21 anyone who had any knowledge about these settlement negotiations or Settlement Agreement,
22 would portray himself to be an expert on the intent of the parties and the effect of this
23 Stipulation and Agreement?

1 A. Yes and I believe the Commission should consider these facts when evaluating
2 the appropriate weight to give to Mr. Blunk's testimony.

3 Q. Please explain your concern with Mr. Blunk's interpretation of the Stipulation
4 and Agreement reached in Aquila's 2007 rate case.

5 A. Mr. Blunk ignores the express language of the Stipulation and Agreement. The
6 facts are that Staff made a determination that Aquila's total hedging program was imprudent
7 and was going to make a total disallowance of all hedging costs in the 2007 rate case. Aquila
8 took the position that its 2004 hedging program was prudent and was prepared to take this
9 issue to the Commission. As a result of negotiations, Aquila agreed to not seek rate recovery
10 of all of its hedging costs sought in that case, approximately \$11.5 million. As consideration
11 for this total concession by Aquila, the Staff agreed to not challenge the prudence of the costs
12 of Aquila unwinding the hedges it had in place on March 27, 2007. The very first sentence in
13 the 2007 Stipulation and Agreement paragraph on hedging states that "*Aquila agrees not to*
14 *seek recovery of its 2006 hedge settlement losses of \$11.5 million in this or any future*
15 *regulatory proceedings.*" By not including this express language, which described the basis of
16 the 2007 rate case settlement, Mr. Blunk distorts the meaning of the settlement between Staff
17 and Aquila.

18 Q. How has Mr. Blunk portrayed this Stipulation and Agreement?

19 A. Mr. Blunk is portraying, by selective quotation of the language in the
20 Stipulation and Agreement that the Staff somehow agreed that Aquila's hedging costs were
21 prudent and should be recovered in rates. This is inaccurate and attempts to portray something
22 that is actually in direct opposition to the express language of the Stipulation and Agreement --
23 that Aquila will not seek rate recovery of its 2006 hedging losses of \$11.5 million.

1 Q. Mr. Hyneman, were you directly involved in the settlement negotiation on
2 hedging in Aquila's 2007 rate case?

3 A. Yes, I was. In addition I was heavily involved in drafting the language in the
4 Stipulation and Agreement on the hedging issue.

5 Q. At page 11, line 10 of his direct testimony GMO witness Rush stated that GMO
6 moved to its current hedging program based on Staff concern with its former hedging program.
7 Is this an accurate statement?

8 A. Yes, I believe it is. Although not formally included in the 2007 rate case
9 Stipulation and Agreement, the process of Aquila moving away from its 2004 hedging
10 program was part of the discussions between Staff and Aquila employees Dennis Williams and
11 Gary Clemens prior to the conclusion of the 2007 rate case. This willingness on the part of
12 Aquila to move away from its 2004 hedging program was a significant reason why I supported
13 the hedging language in the 2007 Stipulation and Agreement that allowed Aquila to extract
14 itself from the hedging program it had in place in the 2007 rate case without suffering further
15 financial losses.

16 Q. At page 17 of his direct testimony Mr. Blunk describes an informal survey he
17 made of other utilities about cross hedging electricity price risk. What are your observations
18 on this informal survey?

19 A. Apparently out of all the electric utilities in the United States, Mr. Blunk could
20 only find three companies that cross-hedge electricity price risk. What Mr. Blunk does not say
21 is that none of the electric utilities in Missouri, including Mr. Blunk's employer, KCPL,
22 engage in cross hedging electricity price risk. The issue Mr. Blunk avoids and the other GMO
23 witnesses in this case avoid is the specific reason why GMO is placed in this unique position

1 among Missouri electric utilities. All other Missouri regulated utilities have avoided incurring
2 an additional \$19 million premium in purchased power hedging costs over the 18 months in
3 this FAC accumulation period. Nowhere in GMO's testimony does it attempt to explain the
4 reasons why its operations are so significantly different from the operation of the other
5 Missouri utilities, including its sister utility, KCPL.

6 Q. At page 23, line 1 of his direct testimony Mr. Blunk states that the Commission
7 allowed GMO to use natural gas derivatives to cross hedge electricity price risk. What is his
8 basis for this statement?

9 A. He cites as his basis the AAO provided by the Commission to Aquila in
10 Aquila's 2005 rate case.

11 Q. Does the granting of an AAO, which addressed only the appropriate accounts to
12 book hedging settlement gains and losses in any way indicate that hedging for purchased
13 power is appropriate, reasonable and prudent?

14 A. No. In fact, this AAO was necessary because Aquila did not seek Commission
15 approval of its 2004 hedging program in the 2005 rate case. It explicitly recorded these
16 hedging gains and losses below the line for ratemaking purposes and did not seek rate recovery
17 in the 2005 rate case. The only thing the AAO did was provide Aquila with the correct
18 accounting of these hedging gains and losses (purchased power hedges to Account 555 and
19 natural gas hedges to Account 547) and the opportunity to seek rate recovery in future rate
20 cases.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

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) File No. EO-2011-0390
Fuel Adjustment Clause of KCP&L Greater)
Missouri Operations Company)

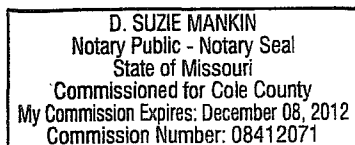
AFFIDAVIT OF CHARLES R. HYNEMAN

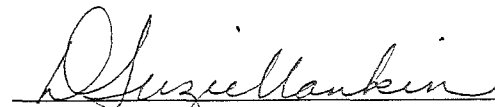
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 31 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Charles R. Hyneman

Subscribed and sworn to before me this 21st day of March, 2012.




Notary Public

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
05/12/11	Laclede Gas Company	GC-2011-0098	Affiliate Transactions	Surrebuttal
04/28/11	The Empire District Electric Company	ER-2011-0004	Iatan 2 Project Construction Disallowances	Surrebuttal
04/19/11	Laclede Gas Company	GC-2011-0098	Affiliate Transactions	Rebuttal
03/22/11	Laclede Gas Company	GC-2011-0098	Affiliate Transactions	Direct
02/25/11	The Empire District Electric Company	ER-2011-0004	Iatan 1 and Iatan 2 and Common Plant Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan Construction Project For Costs Reported As Of October 31, 2010
02/23/11	The Empire District Electric Company	ER-2011-0004	Generally Accepted Auditing Standards (GAAS)/ Iatan 1 and Iatan 2 and Common Construction Audit and Prudence Review/Plum Point Construction Audit and Prudence Review	Direct
02/23/11	The Empire District Electric Company	ER-2011-0004	Staff's Construction Audit and Prudence Review of Plum Point	Cost of Service Report
02/22/11	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan Construction Audit and Prudence Review	True-Up Direct
02/22/11	Kansas City Power and Light Company	ER-2010-0355	Iatan Construction Audit and Prudence Review	True-Up Direct
01/12/11	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan Construction Project	Surrebuttal
01/05/11	Kansas City Power and Light Company	ER-2010-0355	Iatan Construction Project	Surrebuttal
12/15/10	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan Construction Project	Rebuttal
12/08/10	Kansas City Power and Light Company	ER-2010-0355	Iatan Construction Project	Rebuttal
11/18/2010	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan Construction Project	Cost of Service Report

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
11/17/10	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Overview Iatan Unit 1 AQCS, Iatan 2 and Iatan Common Plant; GAAS	Direct
11/10/10	Kansas City Power and Light Company	ER-2010-0355	Overview Iatan Unit 1 AQCS, Iatan 2 and Iatan Common Plant; GAAS	Direct
11/10/2010	Kansas City Power and Light Company	ER-2010-0355	Iatan Construction Project	Cost of Service Report
11/04/10	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan 1 and Iatan 2 and Common Plant Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan Construction Project For Costs Reported As Of June 30, 2010
11/04/10	Kansas City Power and Light Company	ER-2010-0355	Iatan 1 and Iatan 2 and Common Plant Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan Construction Project For Costs Reported As Of June 30, 2010
08/06/2010	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan 1 Environmental Upgrades (Air Quality Control System - AQCS) For Costs Reported As Of April 30, 2010

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
08/06/2010	Kansas City Power and Light Company	ER-2010-0355	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan 1 Environmental Upgrades (Air Quality Control System - AQCS) For Costs Reported As Of April 30, 2010
01/01/2010	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Report Regarding Construction Audit and Prudence Review of Environmental Upgrades to Iatan 1 and Iatan Common Plant
12/31/2009	Kansas City Power and Light Company	ER-2009-0089	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Report Regarding Construction Audit and Prudence Review of Environmental Upgrades to Iatan 1 and Iatan Common Plant
04/09/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Transition costs, SJLP SERP, Acquisition Detriments, Capacity Costs, Crossroads Deferred Taxes	Surrebuttal
04/07/2009	Kansas City Power and Light Company	ER-2009-0089	Transition Costs, Talent Assessment Program, SERP, STB Recovery, Settlements, Refueling Outage, Expense Disallowance	Surrebuttal
03/13/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Crossroads Energy Center, Acquisition Saving and Transition Cost Recovery	Rebuttal
03/11/2009	Kansas City Power and Light Company	ER-2009-0089	KCPL Acquisition Savings and Transition Costs	Rebuttal

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
02/27/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Various Ratemaking issues	Cost of Service Report
02/11/2009	Kansas City Power and Light Company	ER-2009-0089	Corporate Costs, Merger Costs, Warranty Payments	Cost of Service Report
09/24/2007	Kansas City Power and Light Company	ER-2007-0291	Miscellaneous A&G Expense	Surrebuttal
07/24/2007	Kansas City Power and Light Company	ER-2007-0291	Miscellaneous	Cost of Service Report
07/24/2007	Kansas City Power and Light Company	ER-2007-0291	Talent Assessment, Severance, Hawthorn V Subrogation Proceeds	Direct
03/20/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Hedging Policy Plant Capacity	Surrebuttal
02/20/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Natural Gas Prices	Rebuttal
01/18/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Fuel Prices Corporate Allocation	Direct
11/07/2006	Kansas City Power and Light Company	ER-2006-0314	Fuel Prices	True-Up
10/06/2006	Kansas City Power and Light Company	ER-2006-0314	Severance, SO ₂ Liability, Corporate Projects	Surrebuttal
08/08/2006	Kansas City Power and Light Company	ER-2006-0314	Fuel Prices Miscellaneous Adjustments	Direct
12/13/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	Surrebuttal
12/13/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR-2005-0450	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	Surrebuttal
11/18/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Natural Gas Prices	Rebuttal

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CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
10/14/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Corporate Allocations, Natural Gas Prices Merger Transition Costs	Direct
10/14/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR-2005-0450	Corporate Allocations, Natural Gas Prices Merger Transition Costs	Direct
02/15/2005	Missouri Gas Energy	GU20050095	Accounting Authority Order	Direct
01/14/2005	Missouri Gas Energy	GU20050095	Accounting Authority Order	Direct
06/14/2004	Missouri Gas Energy	GR20040209	Alternative Minimum Tax; Stipulation Compliance; NYC Office; Executive Compensation; Corporate Incentive Compensation; True-up Audit; Pension Expense; Cost of Removal; Lobbying.	Surrebuttal
04/15/2004	Missouri Gas Energy	GR20040209	Pensions and OPEBs; True-Up Audit; Cost of Removal; Prepaid Pensions; Lobbying Activities; Corporate Costs; Miscellaneous Adjustments	Direct
02/13/2004	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR20040024	Severance Adjustment; Supplemental Executive Retirement Plan; Corporate Cost Allocations	Surrebuttal
02/13/2004	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER20040034	Severance Adjustment; Corporate Cost Allocations; Supplemental Executive Retirement Plan	Surrebuttal
01/06/2004	Aquila, Inc.	GR20040072	Corporate Allocation Adjustments; Reserve Allocations; Corporate Plant	Direct

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12/09/2003	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR20040024	Current Corporate Structure; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments	Direct
12/09/2003	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER20040034	Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Current Corporate Structure	Direct
03/17/2003	Southern Union Co. d/b/a Missouri Gas Energy	GM20030238	Acquisition Detriment	Rebuttal
08/16/2002	The Empire District Electric Company	ER2002424	Prepaid Pension Asset; FAS 87 Volatility; Historical Ratemaking Treatments-Pensions & OPEB Costs; Pension Expense-FAS 87 & OPEB Expense-FAS 106; Bad Debt Expense; Sale of Emission Credits; Revenues	Direct
04/17/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service & St. Joseph Light & Power	GO2002175	Accounting Authority Order	Rebuttal
01/22/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001265	Acquisition Adjustment	Surrebuttal
01/22/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2001265	Acquisition Adjustment; Corporate Allocations;	Surrebuttal
01/08/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2002265	Acquisition Adjustment	Rebuttal
01/08/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001672	Acquisition Adjustment	Rebuttal

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12/06/2001	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001672	Corporate Allocations	Direct
12/06/2001	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2002265	Corporate Allocations	Direct
04/19/2001	Missouri Gas Energy, a Division of Southern Union Company	GR2001292	Revenue Requirement; Corporate Allocations; Income Taxes; Miscellaneous Rate Base Components; Miscellaneous Income Statement Adjustments	Direct
11/30/2000	Holway Telephone Company	TT2001119	Revenue Requirements	Rebuttal
06/21/2000	UtiliCorp United, Inc. / The Empire District Electric Company	EM2000369	Merger Accounting Acquisition	Rebuttal
05/02/2000	UtiliCorp United, Inc. / St. Joseph Light and Power	EM2000292	Deferred Taxes; Acquisition Adjustment; Merger Benefits; Merger Premium; Merger Accounting; Pooling of Interests	Rebuttal
03/01/2000	Atmos Energy Company and Associated Natural Gas Company	GM2000312	Acquisition Detriments	Rebuttal
09/02/1999	Missouri Gas Energy	GO99258	Accounting Authority Order	Rebuttal
04/26/1999	Western Resources Inc. and Kansas City Power and Light Company	EM97515	Merger Premium; Merger Accounting	Rebuttal
07/10/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	SLRP AAOs; Reserve; Deferred Taxes; Plant	True-Up
05/15/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	SLRP AAOs; Automated Meter Reading (AMR)	Surrebuttal
04/23/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	Service Line Replacement Program; Accounting Authority Order	Rebuttal
03/13/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	Miscellaneous Adjustments; Plant; Reserve; SLRP; AMR; Income and Property Taxes;	Direct

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Date Filed	Case Name	Case Number	Issue	Exhibit
11/21/1997	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER97394	OPEB's; Pensions	Surrebuttal
08/07/1997	Associated Natural Gas Company, Division of Arkansas Western Gas Company	GR97272	FAS 106 and FAS 109 Regulatory Assets	Rebuttal
06/26/1997	Associated Natural Gas Company, Division of Arkansas Western Gas Company	GR97272	Property Taxes; Store Expense; Material & Supplies; Deferred Tax Reserve; Cash Working Capital; Postretirement Benefits; Pensions; Income Tax Expense	Direct
10/11/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Surrebuttal
09/27/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Rebuttal
08/09/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Direct
05/07/1996	Union Electric Company	EM96149	Merger Premium	Rebuttal
04/20/1995	United Cities Gas Company	GR95160	Pension Expense; OPEB Expense; Deferred Taxes; Income Taxes; Property Taxes	Direct
05/16/1994	St. Joseph Light & Power Company	HR94177	Pension Expense; Other Postretirement Benefits	Direct
04/11/1994	St. Joseph Light & Power Company	ER94163	Pension Expense; Other Postretirement Benefits	Direct
08/25/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital	Surrebuttal
08/13/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital	Rebuttal
07/16/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital; Other Rate Base Components	Direct