BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

AG PROCESSING INC A COOPERATIVE, **Complainant,**	)	
vs.	)	**HC-2010-0235**
KCP&L GREATER MISSOURI OPERATIONS COMPANY, **Respondent.**	)	

AG PROCESSING INC A COOPERATIVE
STATEMENT OF POSITION

Comes now Complainant AG Processing Inc a Cooperative ("AGP") pursuant to the Commission's Scheduling Order of July 16, 2010, and provides its statement of position corresponding to its listing of issues:

A. Given that the Quarterly Cost Adjustment ("QCA") mechanism contained in the Stipulation approved in Case No. HR-2005-0450 included a price volatility mitigation mechanism, was Aquila/GMO imprudent in implementing a natural gas steam hedging program in order to mitigate price volatility?

Yes. The Stipulation that was approved in Case No. HR-2005-0450 included a natural gas price volatility mitigation mechanism identified as a Quarterly Cost Adjustment or "QCA." The QCA captured cost variations above or below an agreed cost base and passed these cost changes through to retail steam customers in overlapping 12-month periods. The result was to spread quarterly cost variations across a 12-month period thereby mitigating price volatility. Despite the adoption of this mechanism, Aquila/GMO nevertheless adopted and implemented an unnecessary hedging program that was intended to mitigate price volatility of natural gas and duplicated the QCA mechanism. Aquila/GMO failed to adopt, consider or implement a hedging program to capture lowest cost natural gas for the benefit of its retail steam customers. These actions were imprudent.

B. Given that a price volatility mitigation mechanism was established in the Stipulation approved in Case No. HR-2005-0450, was Aquila/GMO imprudent in failing to take into appropriate consideration that mitigation mechanism before proceeding to implement a financial hedging program for natural gas fuel that was used to raise steam?

Yes. Aquila/GMO completely failed to apprehend the significance of what had been approved by the Commission and, instead, implemented a hedging strategy that was unnecessary, duplicative and administered it in a manner that resulted in significant and unnecessary costs to retail steam customers.

C. Given that a price mitigation mechanism was approved by the Commission in the Stipulation in Case No. HR-2005-0450 and that there were only six steam customers, was Aquila/GMO imprudent in failing to discuss its proposed steam hedging program with its customers before implementing such a program?

Yes. Although there were a small number of steam customers on its certificated St. Joseph steam distribution system (AGP being the largest), Aquila/GMO failed to inform these customers or solicit their comment or opinion before implementing its unnecessary steam hedging program and failed to discuss its intentions with them before implementing a program that was unnecessary and which dramatically increased costs to these retail steam customers. These actions and failures to act constitute imprudence, resulting in significantly increased costs to retail steam customers which excess costs should be refunded to them through the QCA mechanism.

D. Given that natural gas is used as a "swing" fuel for raising steam and that analysis is required to establish the amount of natural gas to be hedged, was Aquila/GMO imprudent in adopting a steam hedging program design without analyzing the nature of its natural gas usage and quantifying the amount of natural gas fuel that should have been subject to any steam hedging program?

Yes. Without analysis, Aquila/GMO simply adopted, then implemented a natural gas hedging program that it now claims was identical to the hedging program that it used for its electric generating system and its local distribution company systems. Aquila/GMO never analyzed the "swing" nature of its use of natural gas to generate steam at its Lake Road Plant in St. Joseph, never identified that this was a "swing" load, and never identified specific goals for its steam hedging program. These actions and failures to act constitute imprudence, resulting in significantly increased costs to retail steam customers which costs should be refunded to them through the QCA mechanism.

E. Given that analysis is required to establish the amount of natural gas to be hedged for use as a "swing" fuel,

did Aquila/GMO act imprudently in failing to analyze the nature of natural gas usage and the quantity to be hedged and in failing to properly use information purportedly obtained from consultations with its customers regarding their projected steam usage resulting in forecasts that were over twice the actual usage in many months?

Yes. Aquila/GMO failed to analyze the nature and size of the natural gas that was needed as a "swing" fuel for its steam system in St. Joseph. This failure, and other failures and actions noted, constituted imprudence which resulted in significantly increased costs to retail steam customers during the periods covered by the 2006 and 2007 adjustment periods which excess costs should be refunded to those steam customers.

F. Given that Aquila/GMO claimed to be seeking to mitigate price volatility through its hedging program, did Aquila/GMO act imprudently in making a forecast of natural gas usage requirements that was two or more times actual usage thereby creating volatility in fuel costs and price spikes that moved prices up in a market when they should have been going down?

Yes. Because of its failure to properly analyze the nature of the natural gas that it was hedging as a "swing" fuel and making an incorrect forecast of steam requirements, Aquila/GMO employed hedging instruments that were not properly suited to the task of reducing costs and instead were focused on duplicative and unnecessary efforts to mitigate price volatility. Moreover, Aquila/GMO continued to implement its strategy to purchase these instruments even as prices were increasing with the result that excessive price volatility was introduced when natural gas prices fell.

G. Given that Aquila/GMO claimed to be seeking to mitigate price volatility through its hedging program, did Aquila/GMO act imprudently by implementing a hedge program that sold puts for profit thereby contributing to costs of a steam hedging program that caused a spike in the October 2006 cost of natural gas and that was counterproductive to the stated volatility mitigation purpose of the hedge program?

Yes. See the above statement of position referencing Aquila/GMO's use of an incorrect hedging mechanisms noted in Issue F.

H. Given that a forecast of natural gas usage was shown by actual consumption to have been excessive, did Aquila/GMO act imprudently in not adjusting its natural gas usage forecast and its hedging program in response to actual consumption data?

Yes. Despite having ample and early evidence that its natural gas steam purchasing budget was excessive, Aquila/GMO mechanistically continued to implement its chosen hedging mechanisms and did not adjust its purchasing strategy to take into account actual consumption data that was substantially below its budget. Together with the implementation of incorrect hedging mechanisms for incorrect reasons, this resulted in significantly increased costs that were passed through to retail steam customers and was imprudent. These excessive costs should be refunded to the retail steam customers.

I. Given that divergence between actual steam sales and the Aquila/GMO budget first became manifest in 2006 and continued to be manifest in 2007, was Aquila/GMO imprudent in not adjusting its natural gas steam fuel hedging program to be more aligned with actual experience?

Yes. Despite being confronted with evidence that its budget projections were excessive, Aquila/GMO nevertheless continued to commit to the acquisition of natural gas through its hedging program thereby acquiring natural gas hedges that significantly exceeded its natural gas steam fuel requirements. These actions were imprudent and resulted in excessive costs being passed through to retail steam customers for natural gas that was not needed for their service. These excessive costs should be refunded to the retail steam customers.

J. What is the amount that is subject to refund to steam customers for the 2006 collection period?

Based on Aquila/GMO's answers to data requests, requests to admit and responses to interrogatories, the subject to refund amount for the 2006 collection period is $931,968.

K. What is the amount that is subject to refund to steam customers for the 2007 collection period?

Based on Aquila/GMO's answers to data requests, requests to admit and responses to interrogatories, the subject to refund amount for the 2007 collection period is $1,953,488.

Respectfully submitted,

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ATTORNEYS FOR AG PROCESSING INC.

SERVICE CERTIFICATE

I certify that I have served a copy of the foregoing pleading upon identified representatives of the parties hereto per the EFIS listing maintained by the Secretary of the Commission by electronic means as an attachment to e-mail, all on the date shown below.

Stuart W. Conrad, an attorney for
Ag Processing Inc a Cooperative

November 12, 2010