Exhibit No.:	
Issue:	*Complaint Case*
Witness:	*Cary G. Featherstone*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*HC-2012-0259*
Date Testimony Prepared:	*August 21, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES -AUDITING

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. HC-2012-0259

Jefferson City, Missouri
August 2012

** **Denotes Highly Confidential Information** **

NP

TABLE OF CONTENTS

OF THE REBUTTAL TESTIMONY OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. HC-2012-0259

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. HC-2012-0259

Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

INTRODUCTION

Q. Are you familiar with KCP&L Great Missouri Operations Company's steam Quarterly Cost Adjustment mechanism?

A. Yes. Staff has participated in the review of the Quarterly Cost Adjustment (QCA) agreed to and approved by the Commission in Case No. HR-2005-0450 and the subsequent quarterly filings made by KCP&L Greater Missouri Operations Company (herein referred to as "GMO" or "Company") since its initial implementation when it was called Aquila, Inc. ("Aquila"). Staff participated in the prudency reviews of these QCA filings made by Aquila, and later GMO, starting in late spring of 2007 and continuing through the last QCA filings made for calendar year 2011. Staff examined the tariff filings made pursuant to the QCA to ensure compliance with the tariff and the Commission approved *Stipulation and Agreement* (the "2005 Stipulation") from Case No. HR-2005-0450, and the subsequent Commission approved *Stipulation* in Case No. HR-2009-0092 (the "2009 Stipulation") that modified the original 2005 agreement in an order from the Commission dated June 10, 2009. Each of these quarterly filings were reviewed for compliance as well as accuracy of the various calculations made by GMO when they were made. In addition, there was a prudency phase of the review process that allowed Staff and the steam customers to examine the actual results of the QCA from a prudency perspective as long as certain thresholds measurements were met. I was personally involved in the prudency phase of the QCA process.

I reviewed the quarterly filings and the summarized annual information along with supporting documentation, had follow-up discussions with GMO as needed and fully participated in the majority of the meetings with GMO's officials and its largest steam customer, Ag Processing, Inc., a Cooperative ("Ag Processing" or "AGP"). Staff reviewed the complaint filed by Ag Processing on January 29, 2012, designated as Case No. HC-2012-0259, which is the 2012 Complaint for QCA calendar year period 2009 (the 2009 QCA); and Ag Processing's complaint filed on January 28, 2010 designated as Case No. HC-2010-0235, which is the 2010 Complaint for QCA calendar year periods 2006 (actually a partial year) and 2007 (the 2006/2007 QCA).

<u>SUMMARY CONCLUSIONS AND RECOMMENDATIONS</u>

Q. Please summarize Staff's conclusions with respect to this complaint case.

A. After review of the 2012 Ag Processing Complaint Staff makes the following conclusions:

1. GMO was imprudent in managing its hedging program because it over-hedged its purchases of natural gas used as a boiler fuel to produce steam for the GMO's Lake Road Generating Station ("Lake Road") based unreasonably on

estimates of steam loads supplied by the steam customers that consistently were over-stated

2. GMO was imprudent in its failure to have liquidated or unwound the hedging positions entered into prior to the discontinuance of the hedging program for steam operations when the economic conditions existed in 2008 were such that GMO could have realized gains, regardless of whether Ag Processing requested GMO not to liquidate the hedging positions as GMO now alleges. Ag Processing refers to the liquidation of the hedging positions as "cashed out." (see Ag Processing witness Donald direct, page 4, line 38)

3. Although GMO claims Ag Processing instructed GMO not to liquidate the hedging positions, it was and remains the responsibility of GMO to make prudent management decisions regarding all aspects of its operations—steam and electric. GMO had the obligation to operate and make prudent business decisions in what is the best interest of its customers and the Company's financial condition regardless of the desires of its customers. While GMO should consult its customers, especially one that makes up the majority of the steam business like Ag Processing, it is ultimately GMO who has the public utility certificate and it is GMO who has the responsibility to operate the steam business—not Ag Processing.

4. The Commission should encourage the parties to attempt to mediate the dispute, whether through a technical conference or a formal mediation for the parties to reach a fair resolution of the dispute between the steam customers and GMO.

5. If the parties do not reach a resolution, to be consistent with Case No. HC-2010-0235, the Commission should order a refund of the hedging costs to all Steam customers, or such other reasonable result as the Complainants and GMO may reach through negotiations.

6. GMO should continue to not engage in hedging in the existing market conditions for the purchase of natural gas as a boiler fuel at Lake Road for the steam operations. Also, GMO should not reinstitute its hedging program without consultation with Ag Processing and GMO's other steam customers, including Triumph Foods, L.L.C. ("Triumph") and Staff.

7. GMO and its steam customers should work together to develop better procedures regarding projection of steam loads to ensure a proper level of natural gas is purchased to operate the steam business with the understanding that it is ultimately GMO's sole responsibility to procure natural gas and any

other commodity or material necessary for the safe and reliable operations of steam service.

CREDENTIALS

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work included study in the field of Accounting and Auditing.

Q. What job duties have you had with the Commission?

A. I have assisted, conducted, and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of utility requests and applications of electric, industrial steam, natural gas, water, sewer, and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations, and complaints; and cases relating to mergers, acquisitions, and certifications.

Q. Have you previously testified before this Commission?

A. Yes. The Schedule CGF-1, attached to this testimony, contains a list of rate cases in which I have submitted testimony. In addition, I also identify in Schedule CGF-1, other cases where I directly supervised and assisted Commission Staff (Staff) in audits of public utilities, but where I did not testify.

Q. What is the purpose of your rebuttal testimony in Case No. HC-2012-0259?

A. On January 29, 2012, Ag Processing filed a complaint with respect to the prudence of costs incurred by GMO, relating to GMO's QCA. On January 30, 2012, the Commission separated the complaint from the QCA filing identified as Case No. HR-2010-0028 and designated the complaint as Case No. HC-2012-0259. I will respond to various aspects of the complaint, specifically rebutting the testimony of GMO witnesses file on July 2, 2012, and the testimony of Ag Processing witness Donald E. Johnstone filed on June 1, 2012.

On April 18, 2012, Triumph filed for intervention in this complaint case, and the Commission granted intervention status on May 1, 2012. As such, on June 1, 2012, Triumph filed a motion with the Commission that endorsed and adopted the June 1, 2012, direct testimony of Ag Processing.

GMO operates two rate districts: one in the western and central part of the state, called MPS and, one in the northwestern part of the state in the area around the City of St. Joseph, called L&P, both previously served by Aquila.

Q. What knowledge, skill, experience, training, and education do you have with regard to GMO's general rate increase tariff filing that is the subject of Case No. HC-2012-0259?

A. For the complaint case, I reviewed GMO's QCA filings, testimony, work papers, and responses to data requests from GMO and Ag Processing concerning the QCA for the year 2009, and prior QCA filings for the years 2006 through 2008, 2010, and 2011. I have also reviewed documents such as data request responses and work papers in prior cases involving rates for the electric and steam operations, to the extent relevant, for GMO's rate districts MPS and L&P. I conducted and participated in interviews of GMO personnel, relating to previous rate cases involving fuel costs. I performed extensive discovery, concerning aspects of the construction and operation of GMO's steam and electric operations over the course of many rate cases and review of steam quarterly cost adjustments. Over the years, I have had many discussions with GMO regarding its quarterly cost adjustments, fuel and purchased power costs, fuel supply procurement including the purchases of natural gas and the Company's hedging policies, procedures and activities, rate case and regulatory activities, earnings reviews, merger, acquisition, and sales transactions.

With respect to GMO and its affiliate, Kansas City Power & Light Company (KCPL), I have acquired knowledge of the ratemaking and regulatory process through education, training, extensive reading, experience, and communications with other experts while performing my necessary duties that pertain to my employment with the Commission. I have participated in numerous rate cases, complaint cases, merger cases and certificate cases, and filed testimony on a variety of topics. I have also acquired knowledge of these topics through review of Staff work papers from prior rate cases filed before this Commission relating to GMO's steam and electric operations and its predecessor company Aquila, Inc. (formerly called UtiliCorp United Inc.). I have been involved in many cases filed before the Commission concerning KCPL, GMO's affiliate. I have previously examined generation and generation-related topics; conducted and participated in several construction audits involving plant and construction records, specifically the costs of construction projects relating to power plants. I have also been involved in the fuel and fuel-related areas for power plant production, purchased power, and off-system sales on numerous occasions.

In particular, I have been involved in many GMO steam, electric, and natural gas rate cases, including not only GMO but also its predecessor companies Aquila and UtiliCorp United, Inc. ("UtiliCorp").[1] I have also been involved in many of GMO's affiliate company KCPL electric rate cases—three under KCPL's experimental alternative regulatory plan (herein referred to as the "Regulatory Plan") the Commission approved in Case No.

[1] As is relevant to identify the management involved, in this testimony Staff generally distinguishes between GMO and its predecessor entities.

EO-2005-0329 and others in the early 1980’s -- in particular the rate case concerning the in-service of the Wolf Creek Nuclear Generating Station (Wolf Creek). I was also involved in KCPL's steam rate cases in the early 1980's, when KCPL had steam operations in downtown Kansas City before they were sold to Trigen Kansas City Energy in 1990.

I have filed testimony in the following KCPL and GMO electric rate cases:

KCPL	**GMO (former Aquila)**
ER-81-42	ER-90-101
ER-82-66	ER-97-394
ER-83-49	ER-2001-672
ER-85-185	ER-2004-0034
ER-2006-0314	ER-2005-0436
	ER-2007-0004
ER-2009-0089	ER-2009-0090
ER-2010-0355	ER-2010-0356
ER-2012-0174	ER-2012-0175

Before UtiliCorp merged with St. Joseph Light & Power Company in December 2000, under Case No. EM-2000-292, I participated in electric, natural gas, and steam rate cases for St. Joseph Light & Power Company. UtiliCorp changed its name to Aquila in early 2002. Aquila created operating divisions named Aquila Networks-MPS and Aquila Networks-L&P for its Kansas City and St. Joseph, Missouri utility operations, respectively. Aquila had different rate designs and rate structures for each operating division. After Great Plains Energy, Inc., acquired Aquila on July 14, 2008, and renamed it GMO, GMO eliminated the operating divisions; but because they still have different rate designs and rate structures, for regulatory purposes GMO refers to its Kansas City area operations as MPS rate district and its St. Joseph area operations as L&P rate district. L&P has both electric and steam operations.

Since GMO became an affiliate of KCPL, both entities have engaged in much consolidation of their operations. GMO has no employees, and all operations are carried out by KCPL employees. Therefore, specifically, for this complaint case, I reviewed testimony, work papers, and responses to data requests from GMO concerning the QCA for the year 2009, along with documents such as data request responses and work papers in prior cases involving rates, electric and steam, for what are now referred to as MPS and L&P. I have conducted and participated in interviews of Company personnel and examined the operations of KCPL and GMO regarding rate cases involving both of these entities including their steam operations.

I also participated in the 1996 merger application of KCPL and Aquila, where they applied for Commission authority to consolidate those two operations in Case No. EM-96-248. After that merger did not close, I participated in the two cases where KCPL and Westar Energy (then called Western Resources) sought authority to merge in 1998 and 1999, under Cases No. EM-97-515. I participated in the case where St. Joseph Light & Power Company and Aquila sought Commission authority to merge. That merger closed December 2000. The St. Joseph Light & Power Company merger application was designated as Case No. EM-2000-292. I was also involved the case, Case No. EM-2000-0369, where Aquila and The Empire District Electric Company ("Empire") sought Commission authority to merge. That merger did not close.

In addition to the foregoing cases, during my employment at the Commission I have been involved in many other reviews and investigations that were initiated by applications filed by KCPL or GMO.

Q. Were you involved in any of GMO's or Aquila's rate cases for steam operations?

A. Yes. I have participated in all of GMO's rate cases involving its steam operations since Aquila acquired the former St. Joseph Light & Power Company in December 2000. Specifically, I had a lead role in the oversight and management of the rate increase audits involving GMO's steam operations in the following rate cases:

Date	**Company**	**Case Number**
2009	GMO	HR-2009-0092
2005	Aquila	HR-2005-0450
2004	Aquila	HR-2004-0024

I also participated in the 1980 St. Joseph Light & Power rate increase for its steam operations in Case No. HR-80-55 and coordinated its 1988 rate incase case, Case No. HR-88-116. I also had a lead role in the 2000 merger case where Aquila (formerly UtiliCorp) acquired St. Joseph Light & Power's electric and steam operations in Case No. EM-2000-292.

In addition, I participated in the steam rate cases involving KCPL's steam operations in 1982 in Case No. HR-82-67 and coordinated KCPL's 1986 rate case in Case No. HR-86-139.

I have also been in a lead role in the rate cases involving Veolia Energy Kansas City Company's 2011 rate increase for its steam operations filed under Case No. HR-2011-0241, as well as its 2008 rate increase filed under Case No. HR-2008-0300. I have been involved in several cases involving Veolia and its predecessor company Trigen Kansas City Energy Company.

Q. With respect to the GMO and KCPL rate cases for the steam and electric operations, have you been involved in the fuel cost area?

A. Yes. I have testified and been involved in the fuel and purchased power area in numerous rate cases of the electric and steam operations for both of these companies and several cases involving Empire, either as having direct responsibility for the fuel costs determination or supervised in those calculations starting in 1982. This includes fuel and purchased power costs, fuel prices including natural gas pricing with and without hedging, plant maintenance and outages, fuel mix, generation mix, fixed fuel costs and fuel additives, off-system sales, and fuel inventories. I have also testified with respect to forecasted fuel, interim energy charges, and fuel adjustment clauses with regard to the companies GMO, KCPL, and Empire.

OVERVIEW OF AG PROCESSIN'S COMPLAINT CASE

Q. What is the purpose of your rebuttal testimony?

A. Ag Processing filed a complaint case designated as Case No. HC-2012-0259 on January 29, 2012. Thereafter, responding to the direct testimony of Ag Processing witness Donald E. Johnstone, which was filed June 1, 2012, GMO filed rebuttal testimony for six of its witnesses on July 2, 2012.

Ag Processing states in its January 29, 2012, complaint that:

> Aquila failed to prudently administer its hedge program for natural gas and incurred hedge obligations it did not need and that it could have reasonably foreseen that it would not need for the 2009 QCA Period
>
> The Aquila Steam Hedging Program costs incurred by Aquila with respect to the 2009 QCA Period and recovered from Aquila steam customers in St. Joseph were imprudently incurred.
>
> [Complaint paragraphs 69 and 70—page 11].

The complaint case addresses the QCA for the calendar year 2009. The complaint identifies $1,224,510 (herein will be identified as $1.2 million) that relates to hedging losses during the calendar year 2009.

Q. Does GMO agree with the claims made in the complaint?

A. No. GMO has filed rebuttal testimony of six witnesses, all of which disagree with the claims made by Ag Processing regarding the imprudence of the GMO's hedging program.

Q. Have you been involved in GMO's QCA?

A. Yes. I have reviewed and monitored the QCA filings made by GMO and the related costs relating to the steam operations made as part of these filings starting with the first year of the QCA the 2006 partial year and each subsequent year for 2007 through 2011.

These cases include:

2006	HR-2007-0028
2007	HR-2007-0399
2008	HR-2008-0340
2009	HR-2010-0028

Q. Is the Ag Processing complaint the first complaint filed with the Commission regarding the steam QCA?

A. No. Ag Processing filed a complaint on January 28, 2010, designated as Case No. HC-2010-0235, (herein referred to as the 2010 Complaint Case). In that complaint, Ag Processing identified losses for the hedging program for years 2006 and 2007 under Case Nos. HR-2007-0028 and HR-2007-0399, respectively. Aquila's total hedging program costs for 2006 was $1,164,960 and for 2007 was $2,244,861, or a total of $3,606,821. Under the terms of the QCA, only 80% of these costs are charged to customers. Therefore the net hedging program costs for 2006 was $931,968 and for 2007 was $1,953,488 a total of $2,885,456 for both years.

Q. How did the Commission decide the 2010 Complaint Case?

A. The Commission issued an Order on September 28, 2011, requiring Aquila to refund to all the steam customers $931,968 for 2006 and $1,953,488 for 2007 through the QCA. GMO has started making these refunds to its steam customers.

QUARTERLY COST ADJUSTMENT OPERATION AND STEAM HEDGING

Q. How has Staff monitored GMO's QCA operation?

A. At the time each of the quarterly filings were submitted by GMO, Staff reviewed each of the quarterly filings made by GMO (then Aquila) from a compliance perspective, though not as a prudence review. The QCA permitted an annual prudence review. At the end of each calendar year, Staff requested supporting information relating to the QCA. Staff requested follow-up information as necessary. Numerous discussions with Company personnel and customer representatives occurred over a period of the existence of the QCA starting in late spring 2007. Staff, along with representatives of Ag Processing and Company personnel, toured the Lake Road Generating Station in addition to Ag Processing's St. Joseph's manufacturing plant.

Q. Was the calendar year 2009 the first period reviewed for GMO's QCA?

A. No. QCA periods 2006 and 2007 were the first two periods examined by Ag Processing and Staff. Since the Aquila QCA was not implemented until the Commission's Order in Case No. HR-2005-0450 issued February 28, 2006, and became effective on March 6, 2006, initially, the primary focus of the compliance review was on the partial year 2006 QCA period. Because there had not been a fuel clause mechanism in Missouri since 1979, there was need to develop a review process of the QCA, which took considerable amount of time to develop. The electric fuel clause mechanism had not been passed into law or implemented at the time when GMO agreed to the QCA procedure in early 2006.

Much of the initial focus was developing the necessary review of how the QCA mechanism was working with respect to the specific features agreed to by Aquila and Ag Processing in Case No. HR-2005-0450. Once the actual fuel costs were tracked through the QCA, it became apparent the major element of concern related to GMO's hedging program was for the steam operations. The other elements of the QCA appeared to be working as contemplated by the Company and as steam customers originally envisioned. These other elements related to the level of costs which would be subject to the QCA—the 80% tracking threshold level and the coal performance measurements. This last element protected the customers to a minimum agreed upon level of steam production, using the lower cost coal fuel source.

Q. What have been the results of the hedging program?

A. In each year that the hedging program has been in place it has resulted in losses ranging from a low of $154,000 in 2008 and a high of $2.4 million in 2007. The following shows each year's losses since the implementation of the QCA in March 2006:

2006 (partial year)	($1,164,960)
2007	($2,441,860)
2008	($153,960)
2009	($1,224,510)
2010	($163,880)
2011	$0

The partial year 2006 and the calendar year 2007 losses were the subjects of Ag Processing's complaint filed on January 28, 2010, under Case No. HC-2010-0235, where the Commission found that GMO should refund the entire amount of all of the hedging program's losses for those two years that had been collected through the QCA. The total hedging losses were reduced for the 80% amount collected from the steam customers based on the terms of the QCA. The hedging losses realized in 2008 did not meet the 10% threshold that is part of the QCA agreement reached by Aquila and Ag Processing so no refunds were requested or by the steam customers and no complaint case has been filed relating to 2008.

Q. Where there ever any gains from the hedging program?

A. No, not on an overall annual level. There were some individual months most notably in the summer months of 2008 when there were extremely high fuel costs – both for oil and natural gas—that GMO's hedging program produced gains. But for the most part, and certainly on an overall annual basis, each year produced hedging losses.

Q. Did the Commission order the entire amounts of the 2006 and 2007 hedging losses to be refunded?

A. No. Commission recognized that the original 2005 QCA had a 80% threshold for costs passed through to steam customers—with the modification of the QCA in the 2009 steam rate case that threshold is now 85%. The refunds ordered by the Commission in the 2010 Complaint were reduced to this 80% level or for 2006 $931,968, (80% of the full $1,164,960 loss for 2006) and for 2007 $1,953,488 (80% of $2,441,860 for 2007) be refunded (see pages 5 and 20 of the Commission's September 28, 2011 Order in Case No. HC-2010-0235).

Q. Is GMO still hedging natural gas for its steam operations?

A. No. Ag Processing informed Aquila on October 30, 2007 that, as the largest steam customer, Ag Processing did not want Aquila to engage in hedging activities. Aquila stopped making any further hedging activities, but it still had substantial hedges that had already been purchased prior to November 1, 2007. The hedges for the steam operations were completed in 2011; and, thus the reason there are no further hedging losses since that time.

Q. Did Aquila request a formal notice be given to Ag Processing instructing the discontinuance of the hedging program?

A. Yes. At the October 30, 2007 meeting Mr. Gary Clemens—GMO witness in this and the previous complaint cases and former Aquila Senior Director of Regulatory Services—asked Ag Processing's witness Donald Johnstone to provide a written confirmation of the customer's wanting the discontinuance of the hedging program for the steam operating. Mr. Johnstone on behalf of Ag Processing sent the following e-mail dated October 30, 2007:

> Gary,
>
> As you requested, I am sending this e-mail to confirm my understanding that effective November 1, 2007 you will be suspending the Aquila gas hedging program as it relates to the steam business. I understand that you plant to meet with your steam customers in the near future before making a decision regarding the future of the hedging program.
>
> Please acknowledge your receipt of this email and your agreement with the statements herein.
>
> [see Clemens Testimony—Schedule GLC-6, page 1 of 1]

Q. Were you present when Ag Processing indicated that it did not want Aquila to hedge natural gas?

A. Yes. At the conclusion of a meeting held on October 30, 2007, regarding the 2006 QCA, Aquila agreed to discontinue its hedging program for the steam operations. I was also on the distribution list of the above e-mail from Mr. Johnstone to Mr. Clemens, which memorialized in writing the request to suspend gas hedging for the steam operations.

Q. If Aquila ended the hedging program for natural gas why has it continued to incur hedging losses?

A. It has taken until 2011 to complete the hedges that Aquila purchased prior to November 1, 2007. Aquila had already purchased hedges for most of 2008 and 2009 when Ag Processing indicated that it did not want Aquila to engage in hedging of natural gas. While Aquila stopped buying hedges of natural gas for the steam operations, it took several years for the impacts of the hedges to be fully recognized in the cost structure of Aquila's (and now GMO's) steam business.

Q. Could Aquila (now GMO) have ended the hedges purchased in 2007 for 2008 and 2009 prior to when the dates of the hedges came due?

A. Yes. Aquila (now GMO), could have sold (liquidated or unwound) its hedging position prior to the due date -- either at a loss or a gain. When an opportunity presented itself, the purchased hedges could have been liquidated by Aquila. Aquila should have taken advantage of the market condition and captured any gain, especially since Ag Processing had already indicated it did not want to absorb the risk of any hedging program in October 2007. Aquila (and later GMO – since 2009) did not do so, and incurred the losses identified above for each year from 2006 to 2010.

Q. Mr. Johnstone states at page 9 (lines 8-12) that a goal of the QCA was to mitigate rate volatility. Do you agree?

A. While this was certainly one of things discussed in the 2005 steam rate case, the QCA provided significant customer protections from high costs through the implementation of the 80% tracking limitation and the coal performance threshold standards. Both of these items were specifically put in place in the QCA mechanism to reduce risk to the steam customers.

At page 9, Mr. Johnstone also identifies another feature of the QCA to reduce volatility which was the recovery period of the QCA once the accumulation period had been completed. The recovery period enabled a spreading or smoothing out of cost increases over a 12 month period of time. Conversely, price decreases would also be spread over this same 12 month recovery period, thus, providing a mitigation of both price increases and decreases. The steam customers would not realize the full impacts of any price increases or the full benefits of lower prices for entire 12 months.

GMO USE OF CUSTOMERS FORECAST FOR HEDGING

Q. How did GMO determine what amounts of natural gas to purchase using its hedging program?

A. GMO witness Timothy M. Nelson describes the forecasting process used for the steam operations in his testimony. At page 3 of Mr. Nelson's testimony, he indicates that the forecasting process starts with reviewing historical steam customer loads, and the next step involves identifying customers' expected future steam loads using the historical and forecasted steam loads to develop annual forecasted usage for the steam customers.

The annual steam usage was developed to assist the Company in purchasing fuel supply, specifically natural gas volumes. Aquila (GMO) also used these annual steam loads in determining the levels of hedges for natural gas to purchase.

Mr. Rush discusses in his testimony at pages 12 through 14 how the GMO relied on information supplied by its steam customers to develop the annual steam usage forecasts to purchase natural gas. What GMO fails to consider is its ultimate responsibility to develop the expected levels of natural gas to purchase to meet the steam loads

The following table shows the levels of forecasted steam loads in mmbtu's compared to actual:

Year	**Actual mmbtu**	**Budget mmbtu**	**% of budget**
2005	1,855,745	2,067,648	89.7%
2006	2,157,127	2,909,780	74.1%
2007	2,456,440	3,139,431	78.2%
2008	2,601,375	2,741,731	94.9%
2009		2,978,954	%

[source: October 1, 2009 email from Linda Haynes for 2005-2009]

Q. Were the annual forecasts developed by Aquila (and GMO) accurate?

A. No. For various reasons the forecasts used by Aquila (and GMO) did not accurately project the steam usage which made it difficult know the volumes of natural gas to purchase and the amount of natural gas to buy hedges. During the time Aquila purchased hedges prior to the discontinuance of the program on October 30, 2007, the Company purchased more hedges than it needed for its steam operations. The Commission addressed this problem in its September 28, 2011 Order in Case No. HC-2010-0235 (page 16 of Order):

> Aquila would place the blame for its inaccurate forecasts squarely on its customers, arguing that as the sole available supplier of steam, it has an obligation to plan to meet all the needs of its customers. While certainly Aquila had an obligation to meet the needs of its customers, it was Aquila's responsibility to determine the reasonableness of its customer's estimates. **Aquila knew that those customers estimates were not reliable and had an obligation to structure its hedging program to account for the uncertainly of volumes of gas**, yet there is nothing in the record to indicate that it did so. **Aquila has not met its burden of proving that it operated its hedging program in a prudent manner.**
>
> [Emphasis added]

This formed the basis for the Commission ordering a refund of the hedging costs incurred for 2006 and 2007—the QCA periods addressed in Case No. HC-2010-0235.

As early as July 18, 2007, barely a year after the QCA started and GMO implemented its hedging program, Gary Gottsch, who is a GMO witness in the current complaint case, wrote in an e-mail that the forecasted steam loads were not accurate. Mr. Gottsch wrote to Scott Heidtbrink—Aquila's Vice President of Supply and presently KCPL and GMO's Senior Vice President – Supply--:

> I'm going through the process of putting new budgeted numbers from Davis' group into my spreadsheets. **Currently it is looking like the budgets for gas usage for steam generation are off considerably from last years forecasts. Our '08 position is overhedged by 25 contracts** according to my preliminary analysis over several different months. In the past with our hedging program we liquidated positions to get down to levels that would be in sync with the amounts set forth in the hedging program (33% fixed & another 33% with call options). Once I verify these numbers with Resource Planning am I good to go with liquidating excess contracts or is there a different course of action we want to take?
>
> [see Gottsch Testimony—Schedule GLG-3, page 13 of 16]

Mr. Heidtbrink concurred with Mr. Gottsch's assessment.

Respecting continued problems with the forecast estimates for 2008, Mr. Gottsch wrote in an e-mail dated April 3, 2008, that "since the steam hedge program is suspended, do we or do we not act upon new volumes updates for '08 if there are any?"

Mr. Davis Rooney, an Aquila employee, replied that same day that "your last couple of emails raise good questions. Do we unwind hedges if necessary under a suspended program, and how might unwind losses (or gains) be handled for recovery."

In an April 18, 2008, reply to a follow-up e-mail by Mr. Gottsch inquiring, "…what to do with the new steam volumes as they pertain to existing positions for '08 and '09," Mr. Denny Williams, then Aquila Vice President—Regulatory, stated:

> How much lower are the new steam volumes budgeted? How much would we unwind? Is this something we should raise with Johnstone [Ag Processing witness] when we meet? Absent any different thoughts from our customer group, and assuming that the volumes have declined, I would advocate unwinding additional hedges since that is what we have done before and that is what we told them is our approach when we verify a change in volumes."
>
> [see Gottsch Testimony—Schedule GLG-2, page 5 of 6]

Yet despite these early signs of inaccurate steam loads, the Company continued with its hedges program—a program that Ag Processing indicated they did not want as early as October 30, 2007.

Mr. Gottsch (pages 11-16), Mr. Fangman (pages 6-7) and Nelson (page 8) all identify in their respective testimonies how Aquila (and later GMO) relied on the steam customers forecast in developing purchasing of natural gas. The projected steam loads were missed each year. At some point Aquila should not have continued to rely on the steam customers' estimates or at the very least modified (reduced) the natural gas hedges positions more significantly than it did to compensate for these reduced steam volumes.

Q. What would have been the prudent course of action for Aquila (and GMO) to have undertaken regarding the hedging program for its steam operations?

A. As soon as the right market condition presented itself, Aquila (and then GMO) should have unwound the hedges for its steam operations, mitigating any losses and taking advantage of any gains opportunities.

AQUILA'S 2005 STEAM RATE CASE

Q. Mr. Clemens discusses Aquila's the 2005 rate cases in his testimony. Were you involved in the steam rate case filed by Aquila in 2005?

A. Yes. I was one of two case coordinators for Staff in the 2005 rate cases filed by Aquila, -overseeing Staff's review of both Aquila's electric and steam operations. On May 24, 2005, Aquila filed for an electric rate increase, and on May 27, 2005, it filed for a steam rate increase. The electric rate increase case is under Case No. ER-2005-0436 and the steam rate increase case is under Case No. ER-2005-0450.

One of my areas of responsibility in both of those rate cases was providing oversight in Staff's review and development of the fuel and purchased power costs for electric and steam operations. Lake Road is a common plant in that it produces both steam to sale at retail to the steam customers and it produces electricity sold at retail to electric customers. Staff developed its fuel costs for both electric and steam rate case filings using a production cost model using various inputs to economically dispatch electric and steam loads. Through an allocation process which has been used for many rate cases, fuel costs are allocated or assigned to the electric and steam cost of service.

Q. How did Staff develop fuel costs in the 2005 rate cases?

A. Staff reviewed fuel contacts, including freight and transportation agreements and purchased power agreements. Actual fuel costs over a period of several years were examined using Company's documentation including actual fuel invoices to identify actual fuel prices and quantities purchased for all fuel sources. One of the major areas examined is for fuel costs is natural gas—both in terms of how much natural gas is consumed and how much costs for this commodity is incurred. Natural gas, along with purchased power costs, was at that time extremely volatile – high and low pricing -- causing much difficulty in predicting the price levels included in rates. The higher costs of natural gas was especially hardest hit for utilities like Aquila, who had a greater reliance on natural gas as fuel source, than utilities like KCPL, who had a much greater reliance on lower-cost base load generation of coal and nuclear.

During the 2005 rate case, natural gas had an even more price movement compared to previous years because of the economic conditions of natural gas both in terms of supply and weather, but also continued global concerns in the Middle-East supply of oil—at the time oil and natural gas directly tracked each other. At the true-up phase of the 2005 rate cases two major hurricanes occurred within weeks—Hurricanes Katrina and Rita—that caused unprecedented increases to natural gas both in terms of actual price increases paid for then current purchases as well as dramatic price increases for future purchases made in the futures markets such as for NYMEX—New York Mercantile Exchange. The NYMEX futures market was already high in 2005, but the price increased significantly during the time leading up to hurricanes and once the magnitude of destruction resulting from these historic hurricanes became known.

Staff monitored the effects of the high natural gas markets throughout the 2005 rate case, making recommendations using the latest information available during the summer of 2005, taking the position that the effects of the two hurricanes were abnormal events that should not be considered in on-going normalized rates. The extremely high natural gas prices resulting from the two historic hurricanes subsided rather quickly with a corresponding drop in prices once the disruption in the Gulf region stabilized.

Q. How did the high natural gas prices affect the steam operations?

A. Natural gas prices were high regardless of whether the fuel was used to produce steam to sell to customers directly or used to produce electricity. The steam operations felt the same impact on its operations as did the effects for the electric side of Aquila's business. However, unlike the steam operations, Aquila's electric operations had a mechanism in place called an Interim Energy Charge (IEC), which mitigated some of the effects of the extreme run-up in natural gas costs. The IEC helped soften the impact for the electric operations because the higher fuel costs projections were built into the rate increase from the 2004 rate case, Case No. ER-2004-0034 — the rate case that established the 2004 IEC. The IEC went into effect on April 22, 2004, along with the electric rate increase.

Q. Did Aquila hedge natural gas costs for the 2004 rate case?

A. While Aquila started its natural gas hedging program for electric operations in 2004, it treated the hedging activity below-the-line—it excluded the effects of any gains or losses from the ratemaking process. No hedging impacts—gains or losses were included in the actual costs determined through the IEC process. At that time no hedging was being performed for the steam operations. Attached to this rebuttal testimony as Highly Confidential Schedules CGF-2 and CGF-3 are selected pages of Staff's discussion on natural gas costs and hedging presented in Aquila's 2005 rate case in the direct and surrebuttal testimonies of Charles R. Hyneman.

Q. Was Staff aware of Aquila's below-the-line approach to the hedging program in the 2005 rate cases?

A. During the course of the audit of the 2005 rate cases—electric and steam—Staff learned about Aquila's position concerning the exclusion from the ratemaking process the effects of hedging. During a meeting with Aquila personnel attended by Mr. Clemens, Staff had discussions with Aquila regarding natural gas and purchased power costs. During this meeting, Staff first learned about Aquila's treatment of the hedging activities on the Company's financial statements—the below-the-line approach. Essentially this approach excluded the positive as well as the negative impacts from rates. Aquila did not reflect, nor did it discuss, any aspect of the hedging program in testimony of its rate case calculations in the 2005 rate case. Staff had to bring the discussion to the table in that case.

Q. Did Staff believe Aquila was hedging for the steam operations?

A. At the time, Staff was just learning of the details and the accounting treatment of the hedging program, the hedging policy, the hedging philosophy, and the results of this newly developed program. The 2005 rate case was the first opportunity for Staff to review this approach to the purchase of natural gas.

While it never came up in any discussions specific to the details of the hedging program, Staff viewed whatever natural gas was purchased by the Company was for both electric and steam at the Lake Road plant facility. Without even realizing how the actual purchase of natural gas was being made for the Lake Road plant, Staff was of the view that all natural purchased for this plant was being hedged once we learned about the hedging program. Hedging was certainly contemplated part of the 2005 steam QCA, but Staff thought natural gas purchases were being made for steam combined with electric It was not until after the 2007 rate case, when I started reviewing the QCA process in mid-2007, that I learned that the steam hedging was being done completely separate from the electric hedging program. Up until then, Staff was of the view that all natural gas purchases for Lake Road was done for the combined needs of the Lake Road plant.

Q. Mr. Clemens states at pages 3 and 6, that "no party to the 2005 Steam Rate Case, including AGP, raised any objections to the hedging program employed by Aquila or requested that Aquila enter into a different hedging program." Do you agree with Mr. Clemens' recollection of the 2005 rate cases?

A. No. Firstly, Aquila did not start hedging for its steam operations until early 2006—after the 2005 rate cases—steam and electric- was concluding. It was not until February 2006 that hedging for steam operations started so not surprising that no party to the 2005 Steam Rate Case criticized the not yet started hedging program for steam operations.

Secondly, as noted above, Staff did provide criticism to the hedging program in the 2005 rate cases. When we were providing commentary for the hedging program we assumed that our concerns with this program and its approach was for Aquila's purchase of natural gas for whatever its use—electric or steam operations. Staff's assumption was later proven incorrect when more information regarding the hedging programs were provided by Aquila to Staff. As noted in the direct and surrebuttal testimonies of Staff witness Charles R. Hyneman Staff did identify areas of disagreement with the hedging program in the 2005 rate cases. This criticism, from our perspective, was for the entirety of the purchase of natural gas as we were not making a distinction between the two operations.

Q. Did Staff ever reflect any gains for the hedging program for the natural gas?

A. No. While there were substantial gains in the millions of dollars in late 2005, Staff did not reflect any those gains in that case or any other. I am unaware of a time when overall gains occurred, much less were ever included in rates. Certainly the steam operations never have recognized any gains through the QCA process on an annual basis.

Q. Mr. Clemens states at page 4 of his testimony that the 2005 Stipulation included natural gas hedging. Does Staff agree that the QCA included hedging?

A. The Stipulation relating to the QCA had provision for hedging in that the results of a hedging program could be considered. I will say though, as being part of both the electric and steam rate cases, no one contemplated that over long period of time that the hedging program would consistently produce losses. Certainly Staff never anticipated or expected that losses would occur in each and every year the hedging program was used. Just as no one would ever believe there would always be gains, it would be expected that over time gains would occur at some point. Staff fully expected there would be losses along with gains to smooth out the volatility of natural gas.

Q. Mr. Clemens identifies a data request from the 2005 rate case, which he claims shows how other parties became aware of the hedging program. Does this identify the hedging program for the steam operations?

A. No. The Aquila response to Data Request 266 was submitted in the 2005 electric rate case. Refer to Clemens Schedule GLC-2 page 1 of 20, where Case No. ER-2005-0436 is identified on this data request. That is the case number of the electric.

As noted above, Staff made no distinction at the time of this 2005 rate case between the natural gas purchased for the electric and steam operations, in reality the February 25, 2005 document entitled the "Missouri Natural Gas & Purchased Power Hedge Strategy – Implementing the Market Neutral Approach – Update" was exclusively for the electric operations. It did not include the steam side of Aquila's business. It was not until the conclusion of the 2005 rate case with the implementation of the QCA, but more importantly the expected increase in steam loads, did Aquila consider hedging for the steam operations.

To portray that the parties should have been aware and that Aquila was transparent in its implementation of the hedging program is simply not the case. Aquila was not transparent regarding its hedging program when it did not address program in its direct filing in the 2005 rate case—either electric or steam. Aquila was not transparent in its treatment of below-the-line treatment for the hedging program—a program later Staff learned was only for the electric operations.

Simply put, in 2005, there was significant confusion surrounding the hedging program -- in terms of the implementation of the hedging program, the results of the program, and what Aquila's businesses were benefiting from the program.

<u>GMO'S COMMENTS ON STAFF'S INVOLVEMENT WITH THE QCA</u>

Q. At page 11 of his testimony, Mr. Clemens discusses a meeting at the Lake Road plant in spring of 2008 with Ag Processing. Were you present at this meeting?

A. Yes, I was the one who requested the tour of the Lake Road plant facility and meeting to continue the discussions concerning the issues that remained regarding the QCA review. Those issues included hedging policies and procedures and the related hedging costs that still was an outstanding matter. I also requested a tour of the Ag Processing plant facility and wanted to discuss with Aquila and Ag processing personnel the communication between to the two entities regarding operational and customer service items. I was interested on how information was developed and transmitted to Aquila regarding the customer usage (steam loads) forecast used by Aquila's budget process and relied on by the Company as basis to purchase natural gas.

The meeting and tour of Lake Road occurred on April 22, 2008.

Q. Do you recall any discussion by Aquila offering to unwind ("cash out" was the term used by Ag Processing witness Mr. Johnstone) the hedging position for the steam operations?

A. No. I was present for the entirety of the meeting and do not recall any offer made by Aquila to liquidate the then existing natural gas hedged positions. I would agree with Mr. Clemens's assessment of this meeting, in that I did not regard it as a "settlement" meeting.

Q. What was discussed at the April 22, 2008, meeting at Lake Road?

A. Much of the meeting related directly to Lake Road's operations, its plant configuration, and how the steam operations work in relationship to the electric generation operations. Reliability of the Lake Road boiler steam generating units and the impacts of Lake Road outages on Ag Processing's operations were topics discussed that consumed a good part of the meeting, discussing the upgrades of equipment and an additional natural gas-fired boiler (Boiler 8) at Lake Road to improve the reliability and meet increased steam loads. Individual customer issues were also discussed such a fire at one of the customers and the impacts this event had on the operations at Lake Road and with respect to customer forecasted steam expansion.

Staff learned during the discussion that no hedging of natural gas purchases occurred for Lake Road production other than for the steam operations. Aquila did not include in its hedging any estimates of natural gas purchases to meet the electric generation needs. As discussed above, part of the meeting addressed the interaction between Aquila and steam customers and the exchange of information required to provide reliable steam service. And good part of the day was spent touring and discussing the Ag Processing plant facility.

An attendance sheet and a discussion topic list of the April 22, 2008 meeting at Lake Road is attached as Schedule CGF-4 and Schedule CGF-5.

Q. Mr. Gottsch indicates at pages 16 and 17 of his testimony you were present at a meeting in May 2008 where he "…advised the attendees that the hedging program was 'in the money,' meaning that it had a positive value." Do you recall such a discussion?

A. No. While I attended many meetings relating to the QCA I do not recall any meeting in May 2008 in which a discussion took place where Aquila asked what it "should do with the existing [hedge] positions, which at the time had a total positive value of around $2 million for 2009 positions." In reviewing my files and meeting notes I show no meeting occurring with Aquila in May 2008. An attempt was made to have a meeting with Aquila and Ag Processing but I find no record of that meeting taking place May.

Attached as Schedule CGF-6 is an e-mail regarding such an attempt to schedule a meeting as early as April 24, 2008 by Mr. Johnstone, but as can be seen from review of this document no meeting was ever able to be scheduled in May 2008. Schedule CGF-7 actually shows where a meeting was scheduled for July 7, 2008 but was canceled by Aquila because of the pending acquisition of Aquila by Great Plains Energy.

There was a meeting on March 4 and one on April 3 with Aquila and Ag Processing regarding the steam operations. And there was a meeting at the Lake Road on April 22, 2008, which actually turned out to be the last time Staff met with Aquila personnel and Ag Processing.

Q. Do you recall any time where "Aquila asked the customer representative if they wanted to liquidate the hedges already set" as noted at page 16 of Mr. Gottsch's testimony?

A. No. I do not ever recall where Aquila made an offer to liquidate the hedging positions either when they were positive or negative.

Q. Mr. Gottsch states at page 13 of his testimony that "Aquila was concerned that adjustments to the plan would be more likely to be challenged by its regulators, if only on the basis that we did not follow our general policy." Please comment.

A. Based on my involvement in the many Aquila (GMO) rate cases and other utility companies I have worked on, I have never seen where Staff proposed or the Commission approved of adjustments solely on the basis that the company did not follow a plan. Adjustments are made based on given results and events such as a company using missed forecasts and projections and not adjusting for changed circumstances.

Q. Mr. Clemens at page 9 and Mr. Rush at page 17 of their testimonies, indicate that the quarterly tariff filings made for the QCA have been approved by Staff in every instance while showing hedging costs. Are the quarterly tariff filings the place to address disagreements for these hedging costs?

A. No. The quarterly tariff filings and the subsequent review by Staff relate strictly to compliance with the existing tariffs, which is where the stipulations from the 2005 and 2009 rate cases are implemented. The reviews are done at a high level and are not intended to get into to specific costs issues—that is left to the prudency review or any complaint, such as this one, by the steam customers.

Q. Mr. Rush discusses at pages 18 and 19 the "two step approach" relating to the review process for QCA. Did Staff use such an approach for the QCA?

A. What Mr. Rush described in his testimony was taken from the 2005 Stipulation creating the QCA—page 7 of the 2005 Stipulation, Sections 8.6.1 and 8.6.2:

> 8.6.1 that the concept of aligning of company and customer interests is working as intended; and
>
> 8.6.2 that no significant level of imprudent costs is apparent

Staff considered these steps in the years 2006 and 2007 at the time of its review during the 2007 and 2008 time period prior to Ag Processing's first complaint as well as subsequent periods for years 2008 and 2009. The first step was discussed with Ag Processing and Aquila to see if they believed that the specific interests were being met by the QCA. Ag Processing indicated it did for the most part except for the hedging losses. Aquila thought the QCA was working as it was developed by it and Ag Processing but was not happy with the coal performance measures and complained about the levels of projected steam usage was meeting expectations. During the 2009 steam rate case Aquila (GMO) and Ag Processing agreed to modifications of the coal performance standards and reducing the tracking limit from 80% to 85%.

The second step regarding certain level of imprudence was part of on-going discussions between Ag Processing, Aquila and Staff. These discussions took place through much of last half of 2007 and right up to just before the Aquila acquisition in July 2008. Since Ag Processing was involved in much of the meetings with Aquila on the QCA prudence review they were aware of the issues surrounding the hedging program and this subject dominated much of the discussion between the parties.

Q. Mr. Rush also states at page 19 of his testimony that "to date, the Staff has never issued a report addressing the Step Two prudence review." Did Staff ever issue such report?

A. Staff issued several reports identifying the progress being made regarding the QCA review process. These status reports issued in Case Nos. HR-2007-0028, HR-2007-0399 and HR-2008-0340 related to QCA years 2006, 2007 and 2008 respectively and are attached to this testimony as Schedule CGF-8. Staff informed the Commission of the progress and sometimes lack of progress being made regarding the prudency review of the three referenced QCA cases. Ultimately, QCA years 2006 and 2007 were resolved when the Commission issued its order September 28, 2011 regarding the January 28, 2010 Ag Processing complaint—Case No. HC-2010-0235. There was no material issues regarding the 2008 QCA year and the Commission closed this case on February 7, 2012.

Q. Why did Staff provide the Commission with the Reports?

A. The Commission issued an order requiring Staff to provide periodic reports regarding the QCA reviews. Throughout the process Staff believed it was important for the parties, particularly Ag Processing and Aquila (and later GMO) to identify areas of concern on how the QCA mechanism, which was specifically developed by those two entities, was working. Also, Staff believed the best outcome for any differences between Ag Processing and Aquila regarding not only the hedging program but operational matters would be best served if a consensus could be reached. At various times Staff believed the parties were close to developing a resolution but ultimately one could not be reached and Ag Processing pursued a complaint for QCA years 2006 and 2007.

Q. Why didn't Staff complete the prudency reviews within the 225 days framework of the QCA?

A. The QCA was the first fuel clause mechanism of any type for steam that Staff had to review for prudence since the elimination of the steam fuel clauses in the 1980s. The parties including Aquila held numerous discussions regarding the 2006 QCA starting in late spring and throughout the remainder of 2007. These discussions continued for the 2007 QCA through 2008. None of the parties referenced the 225 days threshold at any time until Mr. Rush mentioned it in a meeting I had with him and other GMO personnel in the fall of 2008. This meeting was an update of the status of the QCA reviews for the new GMO personnel of the newly acquired Aquila. None of the GMO personnel including Mr. Rush had been involved in any QCA meetings prior the July 2008 acquisition of Aquila.

Staff believed at the time sufficient progress was being made on the hedging concerns and other issues to not file a report within the 225 days window for either the years 2006 or 2007. Staff both of these years were essentially tied together as the same issues related to both years as far as the hedging costs were concerned and the other performance issues.

Section 8.7 of the 2005 QCA identified the following regarding the partial 2006 QCA:

> 8.7 This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of Step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12 month period or calendar year only, **provided however that the full prudence review addressing the first partial year, if pursued, will**

> **be included with a full prudence review of the first full calendar year of operation of this rate mechanism.**

Staff interpreted Section 8.7 provision that the 2006 QCA year would be included with the 2007 QCA year. Staff started reviewing late spring 2007 the QCA year 2006 but believed it had within the 2008 time period to complete this review because 2007 QCA year had to be completed for both years prudence reviews. Staff believed it was primarily the responsibility of the entities who developed the QCA, Aquila (GMO) and Ag Processing to address the concerns of the operations of the steam system and, ultimately the hedge program. Remember, it was Ag Processing who requested Aquila discontinue the hedging program. Staff believed then as it does today that since Ag Processing was and is such a significant steam customer it should have some level of influence of the GMO steam operations.

Q. Did the fact that Staff did not conduct a full prudency review of the QCA rate mechanism preclude any of the steam customers from conducting such review?

A. No. The 2005 QCA specifically provides for the opportunity of the steam customers to pursue a prudency review and complaint case if warranted. Section 8.8 of the 2005 QCA states:

> 8.8 Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

AG Processing, Inc., Complainant v. KCP&L Greater Missouri Operations Company, Respondent	)))	Case No. HC-2012-0259

AFFIDAVIT OF CARY G FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G Featherstone, 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 34 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.

Cary G. Featherstone

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

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

Notary Public

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	**Case No.**	**Utility**	**Type of Testimony/Issue**	**Case**
2012	ER-2012-0175	KCPL Greater Missouri Operations Company	Direct- sponsor Utility Services Cost of Service Report	Pending
2012	ER-2012-0174	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report	Pending
2010	ER-2010-0355 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report	Pending
2010	SR-2010-0110 and WR-2010-0111 Coordinated	Lake Region Water and Sewer Company (water & sewer rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal True-up Direct Reports to Commission	Contested
2009	HR-2009-0092 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (industrial steam rate increase)	Direct- sponsor Utility Services Cost of Service Report	Stipulated
2009	ER-2009-0090 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal- capacity planning	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2009	ER-2009-0089 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report, Additional Amortizations and Iatan 1 construction Rebuttal- allocations Surrebuttal- allocations	Stipulated
2008	HR-2008-0300 Coordinated	Trigen Kansas City Energy (steam rate increase)	Direct - sponsor Utility Services portion of the Cost of Service Report, overview of rate case, plant review and plant additions, fuel and income taxes	Stipulated
2007	HR-2007-0028, HR-2007-0399 and HR-2008-0340 HC-2010-0235	Aquila, Inc., d/b/a Aquila Networks- L&P [Industrial Steam Fuel Clause Review] (industrial steam fuel clause review)		Pending
2007	HO-2007-0419 Coordinated	Trigen Kansas City Energy [sale of coal purchase contract] (steam)	Recommendation Memorandum	Stipulated
2007	ER-2007-0004 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct-fuel clause, fuel, capacity planning Rebuttal Surrebuttal	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2006	WR-2006-0425 Coordinated	Algonquin Water Resources (water & sewer rate increases)	Rebuttal- unrecorded plant; contributions in aid of construction Surrebuttal unrecorded plant; contributions in aid of construction	Contested
2006	ER-2006-0314 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct-construction audits Rebuttal- allocations Surrebuttal- allocations	Contested
2005	HR-2005-0450 Coordinated	Aquila, Inc., d/b/a Aquila Networks- L&P (industrial steam rate increase)	Direct	Stipulated
2005	ER-2005-0436 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct- interim energy charge; fuel; plant construction; capacity planning Rebuttal Surrebuttal	Stipulated
2005	EO-2005-0156 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS (electric- South Harper Generating Station asset valuation case)	Rebuttal- plant valuation Surrebuttal	Stipulated
2005	HC-2005-0331 Coordinated	Trigen Kansas City Energy [Jackson County Complaint relocation of plant for Sprint Arena] (steam complaint case)	Cross examination- relocation of plant assets	Contested
2004	GR-2004-0072 Coordinated	Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P (natural gas rate increase)	Direct- acquisition adjustment; merger savings tracking Rebuttal	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
2003	ER-2004-0034 and HR-2004-0024 (Consolidated) Coordinated	Aquila, Inc., (formerly UtiliCorp United Inc) d/b/a Aquila Networks-MPS and Aquila Networks-L&P (electric & industrial steam rate increases)	Direct- acquisition adjustment; merger savings tracking Rebuttal Surrebuttal	Stipulated
2002	ER-2002-424 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel-interim energy charge Surrebuttal	Stipulated
2001	ER-2001-672 and EC-2002-265 Coordinated	UtiliCorp United Inc./Missouri Public Service Company (electric rate increase)	Verified Statement Direct- capacity purchased power agreement; plant recovery Rebuttal Surrebuttal	Stipulated
2001	ER-2001-299 Coordinated	Empire District Electric Company (electric rate increase)	Direct- income taxes; cost of removal; plant construction costs; fuel- interim energy charge Surrebuttal True-Up Direct	Contested
2000	EM-2000-369 Coordinated	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger eventually terminated)
2000	EM-2000-292 Coordinated	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger closed)

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1999	EM-97-515 Coordinated	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated (Merger eventually terminated)
1998	GR-98-140 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Testimony in Support of Stipulation And Agreement	Contested
1997	EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal- plant assets & purchased power agreements	Withdrawn
1997	ER-97-394 and EC-98-126 Coordinated	UtiliCorp United Inc./Missouri Public Service (electric rate increase and rate complaint case)	Direct- fuel & purchased power; fuel inventories; re-organizational costs Rebuttal Surrebuttal	Contested
1997	EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric rate complaint case)	Direct- - fuel & purchased power; fuel inventories Verified Statement	Contested Commission Denied Motion
1997	GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1996	ER-97-82	Empire District Electric Company (electric-- interim rate increase case)	Rebuttal- fuel & purchased power	Contested
1996	GR-96-285 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Direct- merger savings recovery; property taxes Rebuttal Surrebuttal	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1996	EM-96-149 Coordinated	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1996	GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1995	ER-95-279 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel & purchased power; fuel inventories	Stipulated
1995	GR-95-160 Coordinated	United Cities Gas Company (natural gas rate increase)	Direct- affiliated transactions; plant	Contested
1994	GA-94-325 Coordinated	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1994	GM-94-252 Coordinated	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal- acquisition of assets case	Contested
1993	GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated
1993	TR-93-181	United Telephone Company of Missouri (telephone rate increase)	Direct- directory advertising Surrebuttal	Contested
1993	TC-93-224 and TO-93-192 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Rebuttal Surrebuttal	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1991	GO-91-359 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (natural gas-- accounting authority order)	Memorandum Recommendation- Service Line Replacement Program cost recovery deferral	Stipulated
1991	EO-91-358 and EO-91-360 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal- plant construction cost deferral recovery; purchased power cost recovery deferral	Contested
1991	EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested
1990	GR-90-152	Associated Natural Gas Company (natural gas rate increase)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1990	GR-90-198 Coordinated	UtiliCorp United, Inc., Missouri Public Service Division (natural gas rate increase)	Direct- Corporate Costs and Merger & Acquisition Costs	Stipulated
1990	ER-90-101 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric rate increase- Sibley Generating Station Life Extension Case)	Direct- Corporate Costs and Merger & Acquisition Costs Surrebuttal	Contested
1990	GR-90-50 Coordinated	Kansas Power & Light - Gas Service Division (natural gas rate increase)	Direct- prudency review of natural gas explosions	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1989	TR-89-182 and TC-90-75	GTE North, Incorporated (telephone rate increase)	Direct- directory advertising Rebuttal Surrebuttal	Contested Decided Feb 9, 1990
1988	TC-89-14 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Surrebuttal	Contested
1987	HO-86-139 Coordinated	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility and rate increase)	Direct- policy testimony on abandonment of steam service Rebuttal Surrebuttal	Contested
1985	ER-85-128 and EO-85-185 Coordinated	Kansas City Power & Light Company (electric rate increase- Wolf Creek Nuclear Generating Unit Case)	Direct- fuel inventories; coordinated construction audit	Contested
1984	EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	TR-83-253	Southwestern Bell Telephone Company (telephone rate increase - ATT Divesture Case)	Direct- revenues & directory advertising	Contested
1983	ER-83-49	Kansas City Power & Light Company (electric rate increase)	Direct- fuel & fuel inventories Rebuttal Surrebuttal	Contested
1983	EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	**Case No.**	**Utility**	**Type of Testimony/Issue**	**Case**
1982	TR-82-199	Southwestern Bell Telephone Company (telephone rate increase)	Direct- revenues & directory advertising	Contested
1982	ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating rate increase)	Direct- fuel & purchased power; fuel inventories Rebuttal Surrebuttal	Contested
1981	TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct- construction work in progress	Contested
1981	TR-81-302	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress	Stipulated
1981	TR-81-208	Southwestern Bell Telephone Company (telephone rate increase)	Direct-cash working capital; construction work in progress; income taxes-flow-through Rebuttal Surrebuttal	Contested
1981	ER-81-42	Kansas City Power & Light Company (electric rate increase)	Direct-payroll & payroll related benefits; cash working capital Rebuttal	Contested
1980	TR-80-235	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress Rebuttal	Contested
1980	GR-80-249 Coordinated	Rich Hill-Hume Gas Company (natural gas rate increase)	No Testimony filed- revenues & rate base	Stipulated
1980	GR-80-173	The Gas Service Company (natural gas rate increase)	Direct	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony/Issue	Case
1980	HR-80-55	St. Joseph Light & Power Company (industrial steam rate increase)	Direct	Stipulated
1980	OR-80-54	St. Joseph Light & Power Company (transit rate increase)	Direct	Stipulated
1980	ER-80-53	St. Joseph Light & Power Company (electric rate increase)	Direct	Stipulated

CARY G. FEATHERSTONE
SUMMARY OF RATE CASE INVOLVEMENT
CASES SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
1986	TR-86-14 Coordinated	ALLTEL Missouri, Inc. (telephone rate increase)		Stipulated
1986	TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	TR-86-63 Coordinated	Webster County Telephone Company (telephone rate increase)		Stipulated
1986	GR-86-76 Coordinated	KPL-Gas Service Company (natural gas rate increase)		Withdrawn
1986	TR-86-117 Coordinated	United Telephone Company of Missouri (telephone rate increase)	Withdrawn prior to filing	Withdrawn
1988	GR-88-115 Coordinated	St. Joseph Light & Power Company (natural gas rate increase)	Deposition	Stipulated
1988	HR-88-116	St. Joseph Light & Power Company (industrial steam rate increase)	Deposition	Stipulated

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

CASES SUPERVISED AND ASSISTED:

Year	Case No.	Utility	Type of Testimony	Case Disposition
2010	SR-2010-0320	Timber Creek Sewer Company	Testimony	Pending
2010	SA-2010-219	Canyon Treatment company Certificate	Recommendation Case Memorandum	Pending
2010	WR-2010-0202	Stockton Water Company	Recommendation Memorandum	Stipulated
2010	EO-2010-0211	KCPL Greater Missouri Operations---- Liberty service center sale	Recommendation Memorandum	Stipulated
2009	EO-2010-0060	KCMP Greater Missouri Operations----- Blue Springs service center sale	Recommendation Memorandum	Withdrawn
2009	WR-2010-0139 SR-2010-0140	Valley Woods Water Company	Recommendation Memorandum	Stipulated
2008	QW-2008-0003	Spokane Highlands Water Company (water- informal rate increase)	Recommendation Memorandum	Stipulated
2007	SR-2008-0080 QS-2007-0008	Timber Creek (sewer- informal rate increase)	Recommendation Memorandum	Stipulated
2006	HA-2006-0294 Coordinated	Trigen Kansas City Energy (steam- expansion of service area)	Recommendation Memorandum & Testimony	Contested
1994	ER-94-194	Empire District Electric Company (electric rate increase)		

CARY G. FEATHERSTONE

SUMMARY OF RATE CASE INVOLVEMENT

CASES SUPERVISED AND ASSISTED:

Year	**Case No.**	**Utility**	**Type of Testimony**	**Case Disposition**
2005	Case No. WO-2005-0206 Coordinated	Silverleaf sale to Algonquin (water & sewer- sale of assets)		Stipulated
2005	GM-2005-0136 Coordinated	Partnership interest of DTE Enterprises, Inc. and DTE Ozark, Inc in Southern Gas Company purchase by Sendero SMGC LP (natural gas -- sale of assets)	Recommendation Memorandum	Stipulated
2004	HM-2004-0618 Coordinated	Trigen- Kansas City Energy purchase by Thermal North America (steam - sale of assets)		Stipulated
2003	QW-2003-016 QS-2003-015	Tandy County (water & sewer informal rate increase)	Recommendation Memorandum	Stipulated

Exhibit No.:	
Issues:	*Gas Prices*
	Corporate Allocation Adjustments
	SJLP Merger Transition Costs
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No:	*ER-2005-0436*
Date Testimony Prepared:	*October14, 2005*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS
AND AQUILA NETWORKS – L&P

CASE NO. ER-2005-0436

Jefferson City, Missouri
October 2005

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Electric Service Provided to Customers in Its MPS and L&P Missouri Service Areas.	))))	Case No. ER-2005-0436 Tariff No. YE-2005-1045

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 36 pages to be presented in the above case; that the answers in the following Direct 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 13th day of October 2005.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin
Notary

TABLE OF CONTENTS OF

DIRECT TESTIMONY OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS

and AQUILA NETWORKS - L&P

CASE NO. ER-2005-0436

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS

and AQUILA NETWORKS - L&P

CASE NO. ER-2005-0436

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street, Room G8, Kansas City, Missouri, 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background and work experience.

A. I have a Masters of Business Administration from University of Missouri at Columbia and a Bachelor of Science degree with a double major in Accounting and Business Administration from Indiana State University in Terre Haute, Indiana. I am a Certified Public Accountant (CPA) licensed in Missouri.

I served 12 years on active duty in the U.S. Air Force in the missile operations and contracting career fields. I was promoted to the rank of Captain in 1989. I was honorably discharged from the Air Force in 1992 and joined the Commission Staff in 1993.

Q. Have you previously filed testimony before the Commission?

A. Yes. Schedule 1, attached to this testimony, lists the cases in which I have filed testimony before the Commission.

Q. With respect to Case No. ER-2005-0436, have you made an examination of the books and records of Aquila Inc. (Aquila or Company) and its Missouri Public Service (MPS) and Light & Power (L&P) operating divisions?

A. Yes, in conjunction with other members of the Commission Staff (Staff).

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to provide a recommendation to the Commission that it should order an Interim Energy Charge (IEC) for MPS and L&P's variable fuel costs, including costs of natural gas purchased for electric generation. If an IEC is not adopted in this case, I provide a recommendation on what the Staff believes to be an appropriate cost of natural gas for MPS' and L&P's electric operations. This price is representative of an amount on which an IEC price range can be developed. Finally, I will describe Aquila's natural gas hedging policies.

In addition to my recommendation on natural gas costs, I will be supporting certain Staff adjustments to Aquila's allocated corporate overhead charges to both of its MPS and L&P operating divisions.

Finally, I will be proposing to include an amortization of the transition costs incurred by Aquila in the integration of L&P into its corporate structure after the acquisition of St. Joseph Light & Power Company (SJLP). This acquisition was approved by the Commission in December 2000.

Executive Summary

Q. Please summarize the Staff recommendations included in your testimony.

A. The Staff is proposing an IEC in substantially the same format as Aquila's current IEC. The Staff believes an IEC is needed in this period of historically high and very volatile gas prices. In his direct testimony, Staff witness Cary G. Featherstone will provide additional information on the IEC and the Staff's proposed modification to Aquila's existing IEC.

I am also proposing the Staff's recommended cost of natural gas burned for electric generation if an IEC is not granted in this case. This price is representative of an amount on which an IEC price range can be developed. The Staff is proposing MPS' and L&P's actual natural gas costs in the month of June 2005 (the end of the Commission's ordered updated test year in this case) as the level of natural gas costs to include in cost of service, absent an ordered IEC in this case. Aquila's pre-hedged cost of natural gas for MPS' and L&P's electric generation was approximately ** $7/MMBtu ** in June 2005.

Finally, with respect to natural gas prices, my testimony includes a description of Aquila's natural gas hedging procedures.

On the issue of corporate allocations, I will be supporting several Staff adjustments to Aquila's proposed level of corporate overhead costs. I will be sponsoring the adjustment to allocate fifty percent of the cost of several corporate departments to Aquila's current corporate restructuring operations.

I will also be sponsoring adjustments to reclassify corporate lobbying costs and a portion of corporate community development costs from above the line accounts (included in cost of service) to below the line accounts (not included in cost of service). The nature of the costs that I am reclassifying have traditionally been treated by this Commission as below-the-line costs for ratemaking purposes.

My other adjustments to corporate allocated costs is to remove all of Aquila's supplemental executive retirement plan (SERP) costs and ** ________________________

____
____ **.

In the last section of my testimony I will be proposing an amortization of transition costs incurred by Aquila in its acquisition of its L&P division in 2000.

Q. What knowledge, skill, experience, training or education do you have with regard to auditing Aquila's natural gas costs and its corporate cost allocation procedures?

A. I have significant experience auditing Aquila's corporate overhead cost allocations as I have audited these costs in both of Aquila's most recent rate cases, Nos. ER-2001-672, ER-2004-0034, HR-20040024 and GR-2004-0072. In addition, I was the primary Staff witness on the issue of corporate overhead cost allocations in other major rate cases before this Commission.

My college undergraduate and graduate coursework included accounting and auditing classes. I also completed several high-level federal contract administration classes through the Air Force Institute of Technology which included an emphasis on cost causation and cost allocation methods.

As it relates to natural gas prices and hedging activities, my formal education at the undergraduate and graduate level included courses in business statistics and finance. I participated in post-graduate work on financial stock options, calls and puts, which included a study and presentation at a financial symposium of the variables that influence the prices of stock options. I also recently completed two training sessions specifically focusing on natural gas purchasing and natural gas hedging procedures.

Q. What Income Statement adjustments to the Staff Accounting Schedules are you sponsoring?

A. I am sponsoring numerous adjustments to Accounting Schedule 9, Income Statement, that are listed on Accounting Schedule 10, Adjustments to Income Statement. These adjustments are:

Corporate Allocations Adjustment Numbers

MPS (Electric)

Restructuring: S-34.14, S-69.14, S-80.13, S-82.13, S-89.13, S-93.9

Lobbying: S-34.15, S-69.15, S-80.14, S-82.14, S-89.14, S-93.10

Community Relations: S-34.16, S-69.16, S-80.15, S-82.15, S-89.15, S-93.11

20 W 9th: S-34.17, S-69.17, S-80.16, S-82.16, S-89.16, S-93.12

SERP: S-34.18, S-69.18, S-80.17, S-82.17, S-85.18, S-89.17, S-93.13

L&P (Electric)

Restructuring: S-34.14, S-67.14, S-79.14, S-81.14, S-89.13, S-94.8

Lobbying: S-34.15, S-67.15, S-79.15, S-81.15, S-89.14, S-94.9

Community Relations: S-34.16, S-67.16, S-79.16, S-81.16, S-89.15, S-94.10

20 W 9th: S-34.17, S-67.17, S-79.17, S-81.17, S-89.16, S-94.11

SERP: S-34.18, S-67.18, S-79.18, S-81.18, S-84.18, S-89.17, S-94.12

The adjustment to include merger transition costs is S-88.12 for MPS and S-88.13 for L&P.

Q. Are you sponsoring any other components of the Staff's Accounting Schedules?

A. Yes. I am also sponsoring Shared Corporate Plant, listed on Accounting Schedule 3, Total Plant in Service.

Q. Are you sponsoring any adjustments to Shared Corporate Plant for either MPS or L&P?

A. No, not at this time. The Staff still has some questions on some of the individual shared corporate plant accounts that have not been resolved. The Staff anticipates resolving these questions soon after its direct filing in this case. The Staff is currently reviewing corporate plant workorders to ensure that all capitalized costs are appropriate to include in rates.

Natural Gas Prices

Q. What is the Staff's recommendation on the cost of natural gas used for generation this case?

A. Aquila currently has an IEC in place from its last rate case, No. ER-2004-0034. This IEC is scheduled to expire when new rates from this case go into effect in April 2006. The volatility in the natural gas and energy markets that caused the need for an IEC in the 2004 case has not subsided. This continued volatility is the basis for the Staff's recommendation that the IEC process for MPS' and L&P's fuel costs should be continued. Staff witness Cary G. Featherstone presents a detailed discussion on the IEC from a historical perspective and the current need for a continuation of the IEC in his direct testimony in this case.

Q. Is the Staff recommending a range of natural gas prices to be used as a "ceiling" and "floor" in its direct filing?

A. No. The Staff is not proposing a specific dollar range of an IEC in direct testimony. The Staff believes it is in the best interests of this case if the actual range of natural gas prices to include in an IEC are negotiated by the parties to this case during the upcoming case settlement discussions. This has been the process in which past IEC mechanisms have been developed. The Staff believes that Aquila's actual costs of natural gas in June 2005 will serve as a basis around which the IEC "floor" and "ceiling" prices can be negotiated.

Q. Will the Staff continue to evaluate Aquila's natural gas prices through the remainder of this case including the true-up phase of its audit?

A. Yes. The Staff will evaluate the recent extreme volatility in the energy market and will address this issue and Aquila's post June 2005 natural gas costs in the true-up audit.

Q. If a new IEC is not ordered in this case, what level of natural gas prices is the Staff recommending be included in cost of service for both MPS and L&P?

A. The Staff is recommending that Aquila's cost of natural gas for electric generation during the month of June 2005, weighted by generation unit, be used as the level of natural gas costs to include in both MPS' and L&P's cost of service in this case.

Q. Please describe MPS' and L&P's electric generation units that use natural gas as a fuel source.

A. The MPS generating units that use natural gas as a fuel source are Greenwood, Ralph Green, KCI and the newly constructed South Harper generating facilities. The L&P generating unit that use natural gas as a fuel source is the Lake Road plant. Please see the direct testimony of Staff witness Graham A. Vesely for a more detailed discussion of Aquila's MPS and L&P generation facilities.

Q. What are the June 2005 natural gas prices per MMBtu by generation unit recommended by the Staff if an IEC is not ordered in this case?

A. ** ____ **. This pricing data was obtained from Aquila in response to Staff Request Nos. 158, 158.1 and 158.2.

Q. Where will these natural gas prices be reflected?

A. Staff witness David W. Elliot of the Commission's Energy Department used these natural gas prices as input data into the RealTime TM production cost model (fuel model) to prepare the fuel and purchased power cost calculations used in the Staff's direct filing.

Q. Do the prices you listed above include the impact of Aquila's natural gas hedging operations?

A. No, they do not. These prices represent actual prices paid to Aquila's natural gas suppliers. However, as will be described later, only one-third of Aquila's gas purchases are subject to current market prices. Two-thirds of its supplies are hedged either through NYMEX futures contracts or options contracts.

Q. How did you develop your current recommended level of natural gas prices?

A. I had many discussions with Company personnel responsible for Aquila's gas purchases and hedging operations. I reviewed several publications that report on natural gas prices and current issues in the natural gas industry. I read many articles and publications on hedging, especially hedging with natural gas futures contracts and options. I read the testimony on the issue of natural gas prices in this case and previous Aquila rate cases. I read the testimony of Staff witnesses and Company witnesses in other rate cases. I reviewed workpapers and analysis of natural gas purchases produced by the Staff and Company witnesses in other rate cases. I reviewed the response to data requests on natural gas and hedging operations in this case. I attended training sessions on natural gas purchasing and hedging practices. Finally, I had discussions with senior staff auditors with vast experience on this issue as well as other auditors who have recently worked on natural gas prices in utility rate cases.

Q. Is the Staff's proposed level of natural gas prices representative of today's current market prices?

A. No. Recently, natural gas prices have been in the $11 to $14/MMBtu range at the Henry Hub. The Henry Hub is the pricing point for natural gas futures contracts traded in the New York Mercantile Exchange, or NYMEX, and is a common reference point for the current price of natural gas. The Henry Hub is a point on the natural gas pipeline system in southern Louisiana. It is owned by Sabine Pipe Line LLC.

Q. Does Aquila buy any of its natural gas from the Henry Hub?

A. No. Aquila purchases its natural gas from sources in the Texas, Oklahoma and Kansas region. Natural gas prices in these markets are typically less than prices at the Henry Hub.

Q. Is there a significant difference in the prices of natural gas sourced in the Gulf region, such as the Henry Hub and the region where Aquila purchases its natural gas for generation because of the recent hurricane activity?

A. Yes. For example, in the Wednesday October 12, 2005 Gas Daily, the October 11, 2005 price at the Henry Hub was $13.665/MMBtu, which was representative of all the natural gas prices in the Gulf region. The average natural gas price where Aquila purchases its natural gas in Oklahoma was around $10.75/MMBtu.

Q. What has led to the current high level of natural gas prices?

A. The recent hurricane activity in the Gulf of Mexico (Hurricanes Katrina and Rita) has led to reduced energy production, which has contributed to lower supplies and therefore higher prices. According to the September 29, 2005 edition of its Natural Gas Weekly Update, the Energy Information Administration (EIA) reported that “the combination of Hurricanes Katrina and Rita has disrupted natural gas supplies and continued to prop up prices at near-record highs around the nation.” In its October 6, 2005 edition, the EIA reported that “with large amounts of offshore production still shut-in in the Gulf of Mexico, natural gas spot prices increased at all market locations over the period covered by this report (September 28 to October 5).”

Q. What is the EIA?

A. The EIA was created by Congress in 1977. It is a statistical agency of the U.S. Department of Energy. The EIA provides policy-independent data, forecasts, and analyses to promote sound policy making, efficient markets, and public understanding regarding energy and its interaction with the economy and the environment. On its website, the EIA produces a weekly report entitled Natural Gas Weekly Update.

Q. What was the price of natural gas at the Henry Hub the month before the impact of Hurricane Katrina was felt in the market?

A. Hurricane Katrina’s impact was reflected in the Henry Hub price on August 26, 2005. On that date, the market price of natural gas was $9.86. On August 31, 2005, market prices at the Henry Hub closed at $12.70 an almost 30 percent increase.

Q. Have you looked at natural gas price forecasts made prior to the impact of Hurricane Katrina?

A. Yes I have.

Q. What have you found?

A. A summary of the price forecasts is shown below:

*In early June 2005, the EIA lowered its estimate of the 2005 overall Henry Hub price by 11 cents to $6.90/Mcf and its 2006 estimated price by 23 cents to $7.10/Mcf.

*In its July short-term energy outlook, the EIA adjusted its full year 2005 and 2006 projections to $7.21/Mcf and $7.41/Mcf respectively.

*On August 1, 2005, Mark Rodekohr, director of EIA's Energy Markets and Contingency Information Division told a Denver, Colorado audience of executives attending the Rocky Mountain Natural Gas Strategy Conference that U.S. natural gas prices will remain at or near current levels for at least two more years. The week prior to his prediction, natural gas prices at the Henry Hub were trading in a range of $7.38 to $7.77.

*On June 16, 2005, Energy and Environmental Analysis projected gas prices for 2007 at the Henry Hub to be a very bullish $8.50/MMBtu. EEA kept its 2005 price prediction of $6.45/MMBtu unchanged and left its 2006 forecast of $7.50/MMBtu intact.

*On Thursday July 21, 2005 Jeffries & Co. energy analyst Frank Bracken increased his 2005 Henry Hub natural gas price forecast to $6.80/MMBtu and adjusted his 2006 forecast to $6.20/MMBtu.

Q. What do these natural gas forecasts indicate?

A. These forecasts indicate that when you carve out the extraordinary impacts of the Hurricane activity in the Gulf of Mexico (these forecasts were made prior to Hurricane Katrina), the projections of the 2006 average "market price" of natural gas prices by experts in this field were all at or under $7.50 per MMBtu. If these forecasts are reasonably accurate, and assuming that the market impact of the hurricane activity has faded from the market in April 2006 (when rates from this case go into effect), these forecasts indicate that the ** ____ **. The Staff's proposal is even further substantiated if Aquila's hedging strategy results in a net lower natural gas cost than the ** _________ ** level proposed by the Staff.

Q. Does Aquila have a hedging program in place to help address volatile natural gas prices?

A. Yes. Aquila began its current hedging program in July 2004. The program was implemented around the same time Aquila's current IEC took effect. Prior to July 2004 Aquila did not have any significant hedging activities.

Q. What is the purpose of a natural gas hedge?

A. The sole purpose of a hedge is to lock in a price today for natural gas that will be delivered in the future. Locking in a price now for a future delivery of a commodity such as natural gas is an attempt to mitigate or lessen price risk. While this describes the purpose of a physical hedge (taking actual delivery of the gas) it is equally applicable to a financial hedge (selling the financial instrument at current market prices prior to taking delivery of the gas). In a financial hedge, the gain on the sale of the financial instrument (futures contract or option) is used to offset the current market price that you pay for the gas.

Q. Please describe Aquila's 2004 hedging program.

A. ** ____

__________ **

Q. What percentage of Aquila's natural gas volumes is hedged?

A. ** __________ **

Q. What is a natural gas futures contract?

A. A natural gas futures contract is a rigidly standardized, monthly forward contract that is traded on the NYMEX for 72 months into the future. It is a firm obligation to buy or sell a defined monthly quantity of natural gas at a specific future time, price and location. Delivery of the physical commodity is possible but occurs infrequently. Most contracts are sold at prevailing market prices prior to the contract expiration.

Q. How far in to the future does Aquila hedge?

A. ** __________ **

Q. Does Aquila engage in any physical hedges, where it would actually take delivery of hedged natural gas or does Aquila engage solely in financial hedges?

A. Aquila engages solely in financial hedges. It does not take physical ownership of any of the gas it hedges.

Q. Mechanically, how does Aquila transact its financial hedges?

A. ** ____

____

______________ ** Aquila has decided to record these financial settlements, which result in either a gain or a loss, in FERC account 417.1 Expenses of non-utility operations.

Q. Has Aquila reflected any of its hedging operations in its direct filing in this case?

A. No. No impact of Aquila's hedging is reflected in its rate case filing. In fact, the Staff has found no reference to Aquila's hedging operations in any testimony filed by Aquila in this case.

Q. Has Aquila reflected the results of its natural gas hedging in the monthly IEC reports submitted to the Staff?

A. No. In tracking its variable fuel and purchase power costs since the implementation of the IEC in its last rate case, Aquila has not reflected the results of its hedging operations.

In discussions with Aquila personnel the Staff has learned that since they believe that the IEC language included in the Stipulation and Agreement in Case No. ER-2004-0034 did not call for the IEC to be adjusted for gains and losses from Aquila's financial hedges, it did not include these gains and losses in the monthly IEC calculations. In order words, hedging gains, which would reduce fuel expense and hedging losses, which would increase fuel expense, are not being reflected in Aquila's current estimate of its over or under recovery of variable fuel expense under its existing IEC.

Q. Prior to this rate case was the Staff under the impression that Aquila's current IEC calculations included the impact of its hedging operations?

A. Yes. Through discussions with Company personnel, the Staff was aware that Aquila's administrative costs of its hedging program was not in the IEC calculation. However, the Staff was under the assumption that the actual gains and losses of the hedges were reflected in the monthly IEC calculations. The Staff made it known to Aquila that it intended to include the administrative costs of the hedging program in the IEC.

Q. Has Aquila's hedging program been successful?

A. This has been hard for the Staff to determine. The Staff has asked Aquila to provide it with monthly pre-hedged and post-hedged gas prices since it instituted its hedging program. Aquila has advised the Staff that it has had great difficulty doing this calculation and has to date not provided this information to the Staff.

However, when you look at the gains and losses from its financial hedging transactions that Aquila records in a below the line FERC account No. 417.1, the results, to date, do not appear to be impressive. Since it began recording gains and losses from this hedging plan in July 2004, Aquila has recorded a cumulative loss of $269,840.

For calendar year 2004 it recorded a loss of $2,192,610. In 2005, with the recent escalation of natural gas prices, the financial results of Aquila's hedging program have improved. From January through September 2005, Aquila has recorded a gain of $1,922,770, with all of this gain occurring in the last three months of July, August and September, with Aquila recording close to a $1 million gain in September. This information was provided to the Staff in response to Data Request No. 448.

Q. What are some of the variables that could influence whether a gain or loss on financial hedging transactions is realized?

A. With all other factors remaining equal, when prices rise in the physical market, a gain is more likely on an existing futures contract as the futures contract becomes more valuable (contract price is less than current market price). The opposite is true. When current market prices of natural gas drop, the value of the futures contracts also drops which causes a loss in the hedging program for that period.

This is one reason why it is difficult to determine at this point if Aquila's hedging program has been successful without further analysis. Its continuing losses up until the recent months could simply be the result of declining gas prices. The Staff has done no analysis to make this determination.

Q. Please provide an example of a hedge where a NYMEX futures contract results in a gain.

A. Assume it is October 10, 2005 and you are a natural gas buyer who plans to purchase December natural gas at the Henry Hub. You are concerned that actual December prices will be higher than the current price of the December futures contract, which is currently trading at $5.00/MMBtu. The first thing you would do is to purchase a futures contract on the NYMEX for December 2005 delivery. Assume now that it is November 25, 2005 and you go out and buy your physical natural gas. You were correct and the price has risen to $7.00/MMBtu. After you purchase your physical gas you no longer have a need for your futures contracts so you call your broker and sell one NYMEX contract at the $7 current market price. Since one NYMEX contract is for 10,000 MMBtu, you record a gain of $20,000 ($2 gain per MMBtu times 10,000 MMBtu).

Q. Please provide an example of a hedge where a NYMEX futures contract results in a loss.

A. Assume the same facts in the example above except that at November 25, 2005 when you go into the market to buy your physical natural gas the price has dropped to $2.50/MMBtu. You purchased your physical gas so you call your broker and close out your futures position. You take a $2.50/MMBtu loss on the futures contract (purchased for $5 and sold for $2.50 current market price) and you pay $2.50/MMBtu for your physical gas for a total cost of $5/MMBtu.

Q. Please provide an example of a hedge using options.

A. Again, assume it is October 10, 2005 and you are a natural gas buyer that plans to purchase December natural gas at the Henry Hub. You expect that natural gas prices will fall but you want to have some insurance against a spike in prices. One action you could take is to establish a price cap by purchasing a call option. Assume you buy a $4.50 call option on a December 2005 natural gas futures contract. The premium or price of the option is $.50 per MMBtu.

In late November you go into the market and purchase natural gas. You predicted incorrectly and the market price of natural gas has risen to $8.00/MMBtu. After you purchase your physical gas you no longer have a need for your call option so you sell your call option. Since the market is at $8/MMBtu and you purchased the call option at $4.50, the intrinsic value of the option is $3.50. This amount, less the $.50 premium results in a gain of $3.00. Your cost of natural gas is the market price of $8.00/MMBtu less the $3.00 gain for a net cost of $5.00/MMBtu. By purchasing a call option you are able to participate in a price declining market, but you also establish a ceiling price you will pay. In this example, the ceiling is the sum of the strike price of the call option, $4.50, and the premium $.50, or $5.00/MMBtu.

If the price of natural gas had declined as you expected, for example to \$2.50/MMBtu, your cost of the gas would be \$3.00. This is the cost of the gas in the market of \$2.50 plus the \$.50 premium. Since the market price of the gas is less than the option to purchase gas (at the option expiration date) the option would expire worthless. The purchase of the call option allowed you to establish a ceiling price while also allowing you to participate in a declining price market.

Q. Is the Staff prepared at this time to provide the Commission with an overall opinion of Aquila's hedging operations?

A. No. This is the first rate case in which Aquila has a hedging program. The program is still relatively young and hopefully Aquila is and will be adjusting its hedging program to make it more effective.

Q. Will the Staff be closely monitoring the effectiveness of Aquila's hedging program in the future?

A. Yes. Because of the impact of Aquila's hedging program on its current and possibly future IEC, the Staff will be paying very close attention to Aquila's hedging operations in the future.

Q. While the Staff has not formulated an overall opinion on Aquila's hedging program, does the Staff have any concerns about Aquila's current hedging program?

A. Yes. ** ____________________

**

It would be appropriate for Aquila to give serious thought and consideration to delaying the purchase of financial hedges in certain situations. One situation is when the market is experiencing extremely high and even unprecedented prices that could very well be caused by a short term extraordinary event, such as the two major hurricanes of historical levels that hit the Gulf region in the last two months. While the decision to buy the hedge may still be appropriate in this situation, the Staff believes Aquila should at least give serious consideration to delaying such purchases.

Corporate Allocation Adjustments

Q. Please describe the process Aquila uses to allocate costs to its business units.

A. A description of Aquila's corporate overhead cost allocation process is included in the direct testimony of Staff witness Lesley R. Preston.

Q. What adjustments are being proposed by the Staff to MPS' and L&P's test year corporate allocated costs?

A. The Staff's adjustments can be classified into nine categories of adjustments to MPS's and L&P's per book corporate allocated costs. I will be sponsoring adjustments 4, 5, 6, 7 and 8. Staff witness Preston will be sponsoring adjustments 1, 2, 3, and 9. These adjustments are included in Accounting Schedule 10, Adjustments to Income Statement:

1. Adjust test year cost to reflect Aquila's corporate allocation adjustment;
2. Modify Aquila's Massachusetts factor as a general allocator;
3. Reflect the Staff's proposed South Harper plant costs in the Massachusetts factor;

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Exhibit No.:	
Issues:	*Gas Prices/SERP*
	Transition Costs
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No:	*ER-2005-0436*
Date Testimony Prepared:	*December 13, 2005*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

**AQUILA, INC. d/b/a AQUILA NETWORKS-MPS
AND AQUILA NETWORKS – L&P**

CASE NO. ER-2005-0436

Jefferson City, Missouri
December 2005

****Denotes Highly Confidential Information****

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Electric Service Provided to Customers in Its MPS and L&P Missouri Service Areas.	))))	Case No. ER-2005-0436 Tariff No. YE-2005-1045

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 24 pages to be presented in the above case; that the answers in the following Surrebuttal 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 12th day of December 2005.

Toni M Charlton
Notary

TONI M. CHARLTON NOTARY SEAL STATE OF MISSOURI

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

TABLE OF CONTENTS OF

SUREBUTTAL TESTIMONY OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS

and AQUILA NETWORKS - L&P

CASE NO. ER-2005-0436

SUREBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS

and AQUILA NETWORKS - L&P

CASE NO. ER-2005-0436

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels Office Building, 615 East 13th Street, Room G8, Kansas City, Missouri, 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Charles R. Hyneman who filed direct testimony and rebuttal testimony in this case?

A. Yes. I filed direct testimony on October 14, 2005 and rebuttal testimony on November 18, 2005.

EXECUTIVE SUMMARY

Q. Please summarize your surrebuttal testimony.

A. In this testimony I will show that the characterizations made by Aquila witness Andrew N. Korte in his rebuttal testimony concerning the Staff's proposed level of natural gas prices are incorrect and unfounded. I will also elaborate on some of the comments made by Aquila witness Philip M. Beyer in his rebuttal testimony concerning Aquila's Supplemental Executive Retirement Plan (SERP) expenses. Finally, I respond to the Office of Public Counsel witness Ted Robertson and AARP witness David J. Effron rebuttal testimonies on the issue of rate recovery of Aquila's merger transition costs.

NATURAL GAS COSTS

Q. Have you reviewed the rebuttal testimony of Aquila witness Andrew N. Korte on the subject of cost of natural gas?

A. Yes, I have.

Q. Do you agree with Mr. Korte's rebuttal comments on the issue of natural gas prices?

A. No. Mr. Korte argues that Staff's current method to develop natural gas prices in this case is inconsistent with the method he believes was used in Aquila's last rate case No. ER-2004-0034. He accuses the Staff of introducing bias into the production cost fuel model by using Aquila's actual prices at a historically low-cost month. Finally, he states that the Staff's selection of June 2005 as the basis for its natural gas price recommendation is arbitrary. Mr. Korte describes Aquila's NYMEX futures method in developing its natural gas prices in this case as a "comprehensive method" that provides a "more complete view of the actual marketplace."

Q. Do you agree that Aquila's method to determine natural gas is a "comprehensive method" that results in a "more complete view of the actual marketplace?"

A. No. Aquila's "NYMEX futures" method completely ignores the "actual" marketplace where it purchases its natural gas.

Q. What level of natural gas prices is the Staff proposing in this case?

A. As described in my direct testimony, the Staff is proposing an interim energy charge (IEC) with a range of natural gas prices. For the purpose of its direct filing, the Staff used Aquila's actual natural gas costs incurred in June, 2005, which is approximately ** _________ **. The individual costs for each of Aquila's natural gas burning generation units are listed on page 8 of my direct testimony.

The Staff has not proposed a recommended range of gas prices to include in an IEC. The Staff believed at the time it filed its direct testimony, as it still believes today, that the parties to this case will have an opportunity to negotiate an IEC in this case that will include a range of natural gas prices.

Q. On what type of measurement is natural gas priced?

A. Natural gas is often referenced on a Mcf or MMBtu basis. An Mcf measures only the volume of gas. In contrast, an MMBtu (one million British thermal units) takes into account the heating value of the gas. One MMBtu is approximately the same as one Mcf. For the remainder of this testimony, all references to natural gas prices will be on a per MMBtu basis.

Q. How did Staff develop its natural gas prices in this case?

A. Staff examined the Company's actual monthly natural gas purchases for volumes and prices, by generating unit, for the past several years. The purchases were segregated into commodity and transportation costs. The transportation costs were further broken out between the fixed and variable components.

In addition to analyzing Aquila's actual natural gas cots, the Staff also reviewed the actual results of Aquila's natural gas hedging program in its determination of its proposed level of natural gas prices to include in this case. As shown on Schedule 5 to this testimony, Aquila's natural gas hedging program has significantly reduced its cost of natural gas over the last few months.

Finally, in addition to analyzing Aquila's actual cost of natural gas and the results of its hedging program, the Staff also reviewed the comments and analysis of several industry experts on the current and projected natural gas market. The Staff reviewed some of the leading industry publications that describe conditions in the natural gas market and also predict price movements based on a variety of factors.

Q. Why did Staff use the month of June to determine its natural gas prices proposed in this case?

A. The last month of the update period through June 30, 2005 represented a rising natural gas market. By reflecting this latest month in its development of natural gas pricing Staff gave consideration to increased costs while at the same time maintaining consistency between all other components of Aquila's cost structure and revenue levels.

Since natural gas costs have risen dramatically over much of 2005, June levels were used to capture the increased costs based on actual amounts paid by Aquila.

Q. How did Aquila develop its natural gas prices in this case?

A. Aquila used a 30-day average of the 2006 NYMEX Strip. This 30-day period was from October 1, 2004 through December 31, 2004. This method and the list of monthly 2006 futures average prices is reflected on Schedule JGB-2 to Aquila witness Jerry G. Boehm's direct testimony.

Q. Is the Staff's proposed level of natural gas prices higher than the level Aquila is proposing in this case?

A. Yes. Staff is proposing a ** __ ** commodity cost of natural gas compared to Aquila's proposed $6.57 commodity cost identified at page 11, line 16 of Mr. Boehm's direct testimony. However, Aquila is actually proposing a $6.17 natural gas price in this case.

Q. Why is there a difference between the $6.57 price and the $6.17 price you provided in the previous answer?

A. In Schedule JGB-2 Mr. Boehm lists Aquila's proposed monthly gas prices for all of its natural gas burning units. These prices are based on a three-month average of the 2006 NYMEX futures strip. Since NYMEX prices are based on taking delivery at the Sabine Pipeline Hub at Henry, Louisiana (Henry Hub), Aquila has to make an adjustment to the NYMEX futures prices to estimate what the cost of gas would be at the location where it purchases its natural gas. Aquila purchases most of its gas from the mid-continent region (Oklahoma and Texas). The cost of natural gas in the mid-continent region has historically been lower than the cost of natural gas at the Henry Hub.

This difference in cost is referred to as a location basis difference and has averaged $.48 per MMBtu over the six months ended July 2005. With the recent hurricane activity in the Gulf region in August and September 2005, it was not unusual for this basis difference to be in the $2 to $3 range. Aquila is proposing a $.40 per MMBtu location basis difference. Subtracting this $.40 from the $6.57 amount listed on page 11, line 16 of Mr. Boehm's direct testimony leaves Aquila's proposed net commodity cost of $6.17.

Q. Is the Staff's proposed level of natural gas prices based on actual costs of natural gas incurred by Aquila?

A. Yes. The Staff did an analysis of Aquila's actual natural gas commodity cost over the last several years for each of Aquila's natural gas burning power plants. The ** __ ** level being proposed by the Staff represents Aquila's actual paid cost of natural gas in June 2005, the end of the Commission-ordered updated test year in this case. While the June, 2005 actual price was used, this price was evaluated for reasonableness based on the results of Aquila's gas hedging program and also based on consideration given to comments and evaluations provided by experts in the natural gas market.

Q. Is the Staff proposing to update its recommendation on natural gas prices to a more recent period?

A. Yes. As I stated at page 7 of my direct testimony, the Staff will evaluate the recent extreme volatility in the energy market and will address this issue and Aquila's post-June 2005 natural gas costs in the true-up audit of this case.

Q. What level of natural gas will Staff be recommending in the true-up?

A. Staff has not made that determination at this time. A review of Aquila's actual costs through the October 31, 2005 true-up date will be made during the Staff's true-up audit. At that time, a determination as to what the best price should be will be recommended in context of the Staff's true-up revenue requirement recommendation. The Staff will re-examine the costs, giving serious consideration to the impact of the recent hurricanes in the Gulf region on the cost of natural gas to Aquila in the months since June 2005. However, as stated earlier, it is hoped that an IEC price range for natural gas will be negotiated and agreed to by the parties to this case.

Q. Will Staff use the last month of the true-up, October 2005, to determine the appropriate natural gas price to use in the fuel calculation as it did for the updated test year period?

A. A review, similar to one made for the direct case will be made and will examine the natural gas costs at the end of the true-up period and all months subsequent to the updated test year period ending June 30, 2005. Careful consideration must be given to the entire energy market because of the historic hurricane season just completed and the effect that the extraordinary impacts that weather conditions had on energy prices. The Staff has not yet examined all the circumstances surrounding the prices Aquila paid for natural gas since June 2005. For example, while Aquila's natural gas costs have increased since June 2005, so have its gains from its natural gas hedging operations. This is a factor that the Staff will include in its analysis when it develops its true-up recommendation for natural gas prices. In addition, the Staff will attempt to obtain all available projections by industry experts to include in its consideration as to the appropriate level of natural gas prices to recommend in the true-up audit. Finally, the Staff will need to examine the short-term impact of the recent hurricane activity on Aquila's actual gas costs subsequent to June 2005.

Q. You described how the Staff is proposing a level of natural gas prices that is based on Aquila's actual costs. Is Aquila's proposed level of natural gas prices related to actual dollars it pays to its natural gas suppliers to purchase natural gas?

A. No. Aquila's proposal only includes an average of NYMEX futures prices for 2006 (NYMEX strip prices). A strip is simply an average of consecutive months' prices for a given time period. For example, a NYMEX 12-month strip price quoted on a certain day would be based on the previous session's average closing price for twelve consecutive months of NYMEX futures contracts. There is no relationship between Aquila's NYMEX futures natural gas prices and the actual natural gas costs incurred by Aquila. This is the main reason why the Staff believes Aquila's "market driven" methodology is not appropriate for setting rates in this case.

Staff witness Kwang Y. Choe, also addresses this issue in his rebuttal testimony in this case and explains why NYMEX futures prices is not a reliable forecasting tool and should not be used for ratemaking purposes.

Q. Why doesn't Aquila use actual natural gas prices as the basis for its proposal?

A. It appears that the use of actual costs would not be consistent with Aquila's approach to how it develops inputs to its fuel and purchase power production cost model.

Q. Please explain.

A. Aquila explains this philosophy to some extent in its response to Staff questions 1 and 2 of Data Request No. 484:

> Q) Has Aquila performed any analysis using Aquila's historical gas prices as an input to the MIDAS model to determine what the spot purchased power prices would be and then compared those prices to Aquila's historical spot purchased power prices? If yes, please explain the analysis done and provide the results of this analysis. If no, please explain why Aquila believes this analysis is not necessary.
>
> A) No. The MIDAS Gold™ model needs to use market gas prices that would be available to all market generators across the Eastern Interconnect.
>
> Substituting the cost structure of an individual company for the collective price developed in the natural gas market would lead to an incorrect result.
>
> Q) Has Aquila performed any analysis comparing Aquila's historical actual spot purchased power prices to Aquila's historical actual natural gas prices? If yes, please explain the analysis done and provide the results of this analysis. If no, please explain why Aquila believes this analysis is not necessary.
>
> A) No. As stated in the answer to part 1), Aquila's costs would not represent a market price that all market participants would be able to transact.

As Aquila states above, it believes that substituting Aquila's actual costs into its model would lead to an incorrect result, or an incorrect estimated cost of purchase power.

Q. Does the Staff agree that using natural gas prices determined in a commodity futures market is a reasonable basis for setting electricity utility rates in Missouri?

A. No. While Aquila's theoretical model may work well in economic theory in an academic environment, for budget development and possibly even for long-term capacity planning, it does not work well for setting utility rates.

Q. Please explain.

A. Utility rates in Missouri have been based, to the greatest extent possible, on actual costs incurred by a utility. Aquila must be able to justify an increase in utility rates by showing that the increase is caused by actual increases in its costs. It is unreasonable to use some academic model to predict what prices will be when actual costs are available and should be used. This is exactly what Aquila is doing in its proposal to use a commodity futures prices to set rates in Missouri. The Commission should seriously question any attempt to set utility rates in Missouri on any basis or methodology that does not consider actual costs as a basis.

Q. Did Aquila update its proposed level of natural gas prices in its rebuttal filing in this case?

A. No, it did not. Through discussions with Company personnel the Staff was under the impression that Aquila was going to update its proposed level of natural gas prices using the same methodology it used in its direct filing but excluding the impact of the hurricanes in the Gulf region that occurred this summer. However, Aquila did not do so in its rebuttal filing. However, in response to Staff Data Request No. 495, Aquila recently provided its updated natural gas prices. In its response to this data request, Aquila stated that its updated prices are based on averaging three month of NYMEX prices ending August 31, 2005 (pre-Katrina). This update reflects an increase in Aquila's natural gas price from $6.17 to $8.02.

Q. Earlier you mentioned that the Staff reviewed the results of Aquila's hedging program in its consideration of its recommended level of natural gas prices. What impact has Aquila's natural gas hedging program had on its actual natural gas costs?

A. During the months when Aquila experienced significant increases in its natural gas costs, Aquila's natural gas hedging program has significantly reduced its cost of natural gas. For example, in response to Staff Data Request No. 269.1, Aquila provided documents that show it realized a gain of ** __________ ** from its natural gas hedges. Most of this gain was realized in the months of September through November 2005 when the prices of natural gas increased sharply primarily as a result of the unprecedented hurricane activity in the Gulf region.

Attached as Schedule 5 to this testimony is an analysis showing Aquila's pre-hedged and post-hedged natural gas costs. Aquila's pre-hedged natural gas costs through November 2005 was ** _____ ** and its post-hedged price through November 2005 was ** _____ **. The Staff took Aquila's post-hedged prices into consideration in its recommendation of the appropriate level of gas prices in this case.

Q. At page 12 of his rebuttal testimony, Mr. Korte appears to criticize the Staff for using different methods to calculate a level of natural gas prices to include in rates in Aquila's last rate case ER-2004-0034 ("2004 rate case") and in this rate case. Is Mr. Korte's criticism valid?

A. No. In the 2004 rate case the Staff used an average of actual incurred gas costs. In this case, the Staff is using the latest known actual natural gas costs consistent with updates made to the test year through June 30, 2005, and after consideration of other factors. The Staff has responded to changes in the natural gas market (as noted by Mr. Korte at page

12, lines 20-22 of this rebuttal testimony) by using a pricing methodology that, while still based on Aquila's actual costs, gives appropriate consideration to the current upward trend in natural gas prices.

Generally, criticism of the Staff's approach would only be appropriate if the Staff continued to use the same natural gas pricing methodology, year after year, despite significantly changed conditions in the natural gas markets. For example, given today's natural gas prices, a multi-year average of natural gas prices would not give appropriate consideration to current market prices and would not be appropriate to use to set Aquila's utility rates in this case.

Q. Please explain.

A. In past years natural gas prices have been relatively stable, with prices fluctuating up and down within a reasonable range. In this stable market, the Staff believes the use of average natural gas prices actually incurred by the utility over a period of time is the best method to use to set natural gas prices for ratemaking purposes.

Recently, however, natural gas prices have reflected unprecedented volatility. Given this significant change in the market for natural gas, the Staff believes it is more appropriate in this case to reflect Aquila's actual gas costs at the latest point in time consistent with the Commission's ordered June 30, 2005 updated test year period.

Q. Is it customary practice to use latest known actual prices or costs when it can be shown that costs are steadily increasing or decreasing?

A. Yes. When there is a steady and consistent pattern of a cost increasing or decreasing, the Staff prefers to use a latest known cost, consistent with the point in time used for other revenue requirement items such as revenues, expenses and investment. In general terms, when there is no clear movement in costs, up or down, the Staff prefers to use some form of averaging of the actual costs over a longer time frame.

In addition, for costs or investments which rarely are decreasing, such as wage rates and plant investment, the Staff has consistently used the latest known and measurable costs or plant balances in its revenue requirement proposal.

Q. Is there an apparent contradiction in Mr. Korte's criticism of the Staff for being inconsistent in its methods for determining appropriate natural gas prices for Aquila for ratemaking purposes?

A. Yes. Mr. Korte accuses the Staff of being inconsistent by not using the same pricing methodology it used in a previous rate case, yet, at page 12, line 20 of his rebuttal testimony, he states that he agrees with the Staff for not using the same methodology it used in Case No. ER-2004-0034.

In addition, Aquila is proposing a completely different method of determining its recommended level of natural gas prices in this case from the method it proposed in Case No. ER-2004-0034. As I discussed in some detail in my rebuttal testimony, Aquila's proposed level of natural gas prices in ER-2004-0034 was based on an average of natural gas price estimates made by experts in the natural gas industry. Aquila completely abandoned that approach in this case when it switched to the 30-day NYMEX futures strip average. While the Staff has been consistent in using Aquila's actual natural gas costs as the basis for its recommendation, Aquila completely changed its methodology without adequate explanation.

Q. Is the Staff's use of an average natural gas cost in Case No. ER-2004-0034 consistent, in theory, with the June 2005 price it is proposing in this case?

A. Yes. The averaging of costs and the end of period (last month) methods are both attempts to develop a level of revenues, expenses and investment that will fairly represent the levels that will exist when the new rates from this case are in effect. As such, it is important to understand that the use of averaging methodology or the determination that a last known amount is appropriate are completely consistent methods. These methods are consistent as long as the actual costs to the utility are used as the basis for the proposal.

However, Aquila has taken a completely different approach in how it developed its proposed natural gas prices in this case compared to how those prices were determined in the Company's last rate case. In its last two rate cases, the two methods used by Aquila to determine natural gas prices are at the opposite ends of the spectrum, with not even a hint of consistency.

In the 2004 rate case Aquila believed that an averaging of industry expert price predictions was the best method to use to determine the level of natural gas prices for ratemaking purposes. As I explained in my rebuttal testimony, Aquila even went into great detail to explain to the Commission how the use of NYMEX futures prices is not appropriate for ratemaking purposes. Yet, just two years later, Aquila is now advising this Commission that the use of NYMEX futures to predict Aquila's natural gas prices is a "comprehensive method" that "incorporates a more complete view of the actual marketplace."

Q. Earlier you said that the Staff considered projections of natural gas industry experts in the formulation of its recommended natural gas prices. Did you review the projections of the same industry experts that Aquila used as the basis for its natural gas recommendation in Case No. ER-2004-0034.

A. Yes. Aquila spends thousands of dollars each year to subscribe to publications produced by experts in the natural gas industry. The Staff reviewed these publications as well as the projections of other entities.

Q. Do the projections made by these industry experts generally support the Staff's natural gas price recommendation in this case?

A. Yes. For example, one of the publications subscribed to by Aquila produced a Spot Natural Gas Price Outlook report in its October 19, 2005 edition. While the projected prices in the first half of 2006 are high and exceed $10, prices start to moderate in July 2006. In September through December 2006 these projected prices, after a basis adjustment, are all below $7. These projections were made by one of the top industry experts in the field.

Q. On Page 12, line 6 Mr. Korte states that Staff has "arbitrarily chosen the month of June 2005 as the accurate month to determine natural gas prices." Do you agree?

A. No. There was nothing arbitrary about the Staff's use of June, 2005 as the basis for its natural gas price recommendation. The selection of this month's natural gas prices was a deliberate decision based on the information available for the Staff to examine consistent with the end of the updated test year in this case. Since Aquila's natural gas prices were trending up, the use of the last known prices gives appropriate consideration to this general price increase. While the Staff looked at averaged natural gas prices over several different periods, it determined that these results did not give appropriate weight to the general trend of increasing prices.

Additionally, the Staff will look at the data again in the true-up portion of this proceeding and determine if averaging or use of end of period is appropriate for the circumstances of the most current natural gas market. Regardless of the actual gas prices used, the Staff will be consistent with the methodology it proposed in its direct filing to use Aquila's actual gas costs that reflect the current market conditions adjusted for known extraordinary conditions, such as the unprecedented impact on natural gas prices of the recent hurricane activity in the Gulf region of the United States.

Q. Should Mr. Korte be aware of the significance of the June 30, 2005 date as it relates to this case?

A. Yes. It is Aquila's proposal that was adopted by the Commission in its Order Concerning Test Year and True Up, and Adopting Procedural Schedule.

Q. At page 12, lines 12-17 of his rebuttal testimony Mr. Korte states that natural gas prices in the month of June have historically been among the lowest. He refers to June as a "historically low priced natural gas month." He goes on to say that using June natural gas prices in the production cost model introduces a bias that would have the effect of lowering estimated costs for operating the company's electric service business. Please comment on these statements.

A. Mr. Korte's statement that June is a low-priced natural gas month is factually wrong in today's natural gas market. This is true whether you compare Aquila's actual natural gas costs by month or whether you natural gas prices at the Henry Hub.

In response to Staff Data Request No. 158, Aquila provided its actual costs to purchase natural gas from 2001 through the most current month. A summary of these costs is shown on Schedule 1 to this testimony. Schedule 1 shows that in 2001, Aquila's cost of natural gas in June was the 6th highest of the year, in 2002, the 7th highest, in 2003, the 3rd highest and in 2004 the fourth highest. Aquila's cost of natural gas in June exceeded the price in January (presumably a high cost month) in 2002, 2003, 2004 and 2005.

Q. In addition to comparing Aquila's actual June natural gas costs with the rest of the months in the year's gas costs, did you also do a similar analysis of Henry Hub natural gas prices?

A. Yes. I used the actual NYMEX settlement prices which reflect the actual price of natural gas at the Henry Hub at the end of each month. Schedule 2 to this testimony shows that for the year 2002, the June price of natural gas was the fifth highest of the year. In 2003, the price of natural gas in June was the second highest of the year, and in 2004, the price in June was the third highest of the year.

Q. Because it used June 2005 actual natural gas prices, Mr. Korte in his rebuttal testimony at page 12 accuses the Staff of introducing "bias into the results of the production cost model." Please comment.

A. Using a known and actual amount incurred by Aquila at the end of its updated test year does not "bias" or distort Aquila's true cost of natural gas. To the contrary, actual costs represent the very best information on which to base utility rates and are a reasonable indication of what future costs will be. Use of actual Aquila-specific information is superior to the use of prices in the NYMEX market where Aquila doesn't even buy any of its natural gas.

Aquila is not only relying on a market where it does not buy its natural gas – the Henry Hub, it is relying on prices in a commodities futures market for gas to be delivered up to two years in the future (Aquila's proposal is based on NYMEX futures prices through December 2006 as they existed during the period October through December 2004).

As explained previously, Aquila buys no natural gas from the Henry Hub, yet it is basing its entire recommendation for natural gas costs on a market in which it makes no transactions. Aquila buys most of its natural in the mid-continent region. As noted above, Aquila, once it determines NYMEX futures prices, it must make arbitrary adjustments to its estimate of natural gas prices just to estimate its actual cost in the market where it buys its natural gas.

Q. Please summarize your comments on Mr. Korte's rebuttal testimony as it relates to natural gas prices.

A. Mr. Korte said the Staff's proposal to use Aquila's June 2005 actual incurred natural gas prices is arbitrary. This is incorrect. As described above, June 30, 2005 is the well-established cutoff date for revenues, expenses and rate base component. June 2005 was the end of Aquila's updated test year recommendation, and was the end of the updated test year ordered by the Commission. Mr. Korte's assertion indicates that he was unaware of his own Company's updated test year recommendation and the Commission's ordered updated test year in this case.

Mr. Korte also refers to the month of June as a historically low-priced natural gas month and the Staff uses this month's prices to bias its recommendation in favor of low natural gas prices. Actually, the opposite is true. In the years 2002-2004, natural gas prices in the month of June have been among the highest of the calendar year. If any bias is introduced by the Staff in using the month of June, it is a bias in favor of higher natural gas prices. Just the opposite of what Mr. Korte asserts.

Finally, Aquila's approach is to rely on the NYMEX natural gas futures market as the basis for its natural gas price proposal in this case. This market is completely unrelated to the market where Aquila actually makes its buying decisions. This reliance on future predicted prices in a foreign market introduces a whole new set of complications in any attempt to reflect Aquila's true actual natural gas prices.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

Q. At page 3, lines 14 through 17 of his rebuttal testimony Aquila witness Philip Beyer provides a very general definition of a "change in control." Is this the definition of change in control used by Aquila in its SERP?

A. No. Aquila's SERP is attached at Schedule 3 to this testimony. In paragraph 1.04 of the SERP Aquila describes its definition of change in control. This provision serves no other purpose but to protect the financial interests of Aquila's senior executives, especially its Chief Executive Officer, Mr. Richard C. Green. Under Aquila's definition, a change in control also occurs when there is a change in Aquila's board of directors or if there is a merger and Mr. Richard Green does not continue as a member of the board of directors.

Q. Could the change in control provisions in Aquila's SERP prove to be a detriment to Aquila's ratepayers?

A. Yes, it can.

Q. Please explain.

A. Aquila's Missouri ratepayers could benefit if a more efficiently-run utility acquires Aquila's Missouri utility assets and provides safe and reliable utility service at a lower cost to its customers. The change in control provisions in Aquila's SERP seeks to prevent any such acquisition by a potentially better-run utility.

Q. If Aquila removed the change in control provisions, would you then recommend recovery of the costs of Aquila's SERP?

Schedule 1

Deemed

Highly Confidential

In Its Entirety

Historical NYMEX Expiration Prices

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2000	$ 2.344	$ 2.610	$ 2.603	$ 2.900	$ 3.089	$ 4.406	$ 4.369	$ 3.820	$ 4.618	$ 5.312	$ 4.541	$ 6.016
2001	$ 9.978	$ 6.293	$ 4.998	$ 5.384	$ 4.891	$ 3.738	$ 3.182	$ 3.167	$ 2.295	$ 1.830	$ 3.202	$ 2.316
2002	$ 2.555	$ 2.006	$ 2.388	$ 3.472	$ 3.319	$ 3.420	$ 3.278	$ 2.976	$ 3.288	$ 3.686	$ 4.126	$ 4.140
2003	$ 4.988	$ 5.660	$ 9.133	$ 5.146	$ 5.123	$ 5.945	$ 5.291	$ 4.693	$ 4.927	$ 4.430	$ 4.459	$ 4.860
2004	$ 6.150	$ 5.775	$ 5.150	$ 5.365	$ 5.935	$ 6.680	$ 6.141	$ 6.048	$ 5.082	$ 5.723	$ 7.626	$ 7.976
2005	$ 6.213	$ 6.288	$ 6.304	$ 7.323	$ 6.748	$ 6.123	$ 6.976	$ 7.647	$ 10.847	$ 13.908	$ 13.832	$ -

Schedule 5

Has Been Deemed

Highly Confidential

In Its Entirety

*************** -COMM. JOURNAL- ****************** DATE APR-25-2008 ***** TIME 11:40 *** P.01

MODE = MEMORY TRANSMISSION START=APR-25 11:18 END=APR-25 11:40

FILE NO.= 156

STN NO.	COM	ABBR NO.	STATION NAME/TEL.NO.	PAGES	DURATION
001	634	8	85733659064	000/001	00:00'00"

*********************************** - - ***** - - *********

Aquila meeting at Lake Road 4/22/08 10:00 AM

Cary Featherstone	Mo Public Service Commission Staff	Auditor
Susan Braun	Aquila, Inc.	Regulatory
Tim Buthe	Ag Processing Inc	Purchasing
Davis Rooney	Aquila	Resource Planning
Gary Clemens	Aquila	Reg. Services
Mark Howell	Aquila - Lake Road	Plant Manager
Chuck Hyneman	MO PSC	Auditor
Don Johnstone	CED LLC	consultant
Joe Pangman	Aquila	ED & Cust Relation
Mike Smith	Aquila	Outgoing - Plant Manager

4/22/08 Meeting on Lake Road Industrial Steam

General Discussion

- 900# System – Base load steam/peaking electric
- Normal operation with generation
- Normal operation without generation
- Many different operating scenarios possible
- High steam availability required (Lake Road only source)
- Heavy redundancy necessary (boiler capacity and other equipment)
- Highly transient steam load (severe load following duty)
- Steam header pressure control (900#, 200# & 3#)
- Need to maintain customer delivery temperature and pressure
- Need to hot-bank offline boiler (gas fuel)
- Frequent equipment warmups
- Use of online turbine or steam venting for steam load control
- Generation for test purposes or substation needs (not dispatched)
- #2 fuel oil backup (Blrs 1, 2, 4 & 8)
- Propane backup for gas pilots
- New Southern Star gas connection
- Plant auxiliary steam supplied from 900# plant
- No condensate return from steam customers
- Large hot lime water softener system plus two RO's
- Heavy continuous blowdown required (flash tanks/heater exchanges)

Featherstone, Cary

From: Stu Conrad [stucon@fcplaw.com]
Sent: Friday, June 27, 2008 12:54 PM
To: 'Clemens, Gary'; DonaldCEDLLC@sbcglobal.net; Featherstone, Cary; Hyneman, Chuck
Cc: 'Rooney, Davis'; 'Gottsch, Gary'; 'Braun, Susan'; DonaldCEDLLC@sbcglobal.net; Renee Parsons
Subject: RE: Aquila Steam Gas Acquisition Strategy
Attachments: Gas Purchase Draft Jun27 2008.pdf

Ooops: I had attached an earlier draft, but I'm also advised that Don corresponded to update it. Here is what I should have sent.

Gary et al., we've reworked this after some additional input from some folk that are rather knowledgeable regarding hedging and the various issues involved. This is our suggestion, however. Know that the time grows short to take care of this, and would therefore ask your review as quickly as possible and setting up of a further discussion/conference call/whatever in the near term.

I'm not going to attempt to put a heavy spin on this save to quickly observe that our thought here is to put something together that will be a good guideline for the future as well as a basis for dealing with the past issues.

Let me know.

Stu

From: Clemens, Gary [mailto:Gary.Clemens@aquila.com]
Sent: Thursday, June 05, 2008 9:29 AM
To: DonaldCEDLLC@sbcglobal.net; stucon@fcplaw.com; Featherstone, Cary
Cc: Rooney, Davis; Gottsch, Gary; Braun, Susan
Subject: RE: Aquila Steam Gas Acquisition Strategy

Don,

Do you have any dates available to meet regarding the Steam audit? With the busy schedules we may need to have the meeting via a conference call. Please e-mail some availiable dates and I will set something up.

Thanks,
Gary Clemens
816-467-3807 fax 816-467-9807

From: Braun, Susan
Sent: Friday, May 09, 2008 12:53 PM
To: 'DonaldCEDLLC@sbcglobal.net'; Clemens, Gary
Cc: stucon@fcplaw.com
Subject: RE: Aquila Steam Gas Acquisition Strategy

Don -

Thanks for responding, that's the good news. The bad news is that none of those days work for the people that need to be involved. Here are a few dates - Thursday, May 22nd or Tuesday, May 27th. If those days don't work, we will need to look for something in June that might work for all of us.

Thanks...

From: Donald Johnstone [mailto:DonaldCEDLLC@sbcglobal.net]
Sent: Friday, May 09, 2008 12:12 PM
To: Braun, Susan; Clemens, Gary
Cc: stucon@fcplaw.com
Subject: RE: Aquila Steam Gas Acquisition Strategy

Next Thursday or Friday, the 15th or 16th would be good. During the following week Monday the 19th would be good.

Thanks,

Don

Donald Johnstone

Phone: (573) 365-4441
Mobile: (573) 480-2391

Phone Messages: The 365-4441 phone forwards to the mobile if unanswered within 3 rings. If the mobile is not answered it will go to voicemail for your message.

From: Braun, Susan [mailto:Susan.Braun@aquila.com]
Sent: Wednesday, May 07, 2008 1:24 PM
To: DonaldCEDLLC@sbcglobal.net; Clemens, Gary
Cc: stucon@fcplaw.com
Subject: RE: Aquila Steam Gas Acquisition Strategy

Don -

If you would like to throw out some dates that would work for you, we would be happy to discuss some of the work that Davis has performed. Davis implied that a phone conference would be possible to flush out some ideas. Let me know your thoughts? Our plans would be to invite Staff.

Thanks,

Susan Braun

From: Donald Johnstone [mailto:DonaldCEDLLC@sbcglobal.net]
Sent: Thursday, April 24, 2008 10:49 PM
To: Clemens, Gary; Braun, Susan
Cc: stucon@fcplaw.com
Subject: Aquila Steam Gas Acquisition Strategy

Based on a brief discussion with Davis at the meeting Tuesday, I understand some work has been done by Aquila in regard to the suggestions made on behalf of the customer group. Perhaps a phone conference could be scheduled to bring me up to speed. Let me know how you would like to proceed.

Thanks,

Don

Donald E. Johnstone, President
Competitive Energy Dynamics, L. L. C.
384 Black Hawk Dr.
Lake Ozark, MO 65049

Phone: (573) 365-4441
Mobile: (573) 480-2391

Phone Messages: The 365-4441 phone forwards to the mobile after 3 rings. If I am not available to answer please feel free to leave a voice message at the prompt. I make every attempt to monitor the messages and will respond at the first opportunity.

From:	Clemens, Gary [Gary.Clemens@aquila.com]
Sent:	Monday, July 07, 2008 10:35 AM
To:	stucon@fcplaw.com
Cc:	Featherstone, Cary; DonaldCEDLLC@sbcglobal.net
Subject:	RE: Gary, 7/7 in the mid-afternoon works fine for us. Suggest 2 p.m. Can you advise your team, please?

Will need to cancel today's meeting. With merger approved will need to have KCP&L included in discussions and they are not up to speed on the issue. I will work with KCP&L to pass along the appropriate information.

Thanks,
Gary Clemens
816-467-3807 fax 816-467-9807

-----Original Message-----
From: Stu Conrad [mailto:stucon@fcplaw.com]
Sent: Tuesday, July 01, 2008 4:31 PM
To: Clemens, Gary
Cc: 'Featherstone, Cary'; DonaldCEDLLC@sbcglobal.net
Subject: Gary, 7/7 in the mid-afternoon works fine for us. Suggest 2 p.m. Can you advise your team, please?

Stuart W. Conrad, Esq., Attorney and Counselor at Law
Finnegan, Conrad & Peterson, L.C.
1209 Penntower Office Center
3100 Broadway
Kansas City, Missouri 64111
Office Voice: (816)753-1122 Ext. 211
Office Fax: (816)756-0373
"Legis vigilantibus non dormientibus, subveniunt"
<stucon@fcplaw.com>

REBUTTAL SCHEDULE CGF-8
INDEX

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks - L&P service territory.	))))	**<u>Case No. HR-2007-0028</u>**

<u>ORDER DIRECTING FILING</u>

Issue Date: June 12, 2007 Effective Date: June 12, 2007

This case was opened to receive the steam Quarterly Cost Adjustment tariff sheets of Aquila, Inc., d/b/a Aquila Networks-L&P, filed pursuant to the terms of the Stipulation and Agreement approved by the Commission in Case No. HR-2005-0450, and covers the period September 1, 2006, through May 31, 2007. The Commission will direct its Staff to file a status report indicating if it expects to complete an audit for the period covered by this case or if this case may be closed. If Staff expects to file an audit, Staff should indicate when it expects to do so.

IT IS ORDERED THAT:

1. The Staff of the Commission shall file a status report as described above no later than July 2, 2007.

2. This order shall become effective on June 12, 2007.

BY THE COMMISSION

Colleen M. Dale
Secretary

(S E A L)

Nancy Dippell, Deputy Chief Regulatory
Law Judge, by delegation of authority
pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 12th day of June, 2007.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S RESPONSE TO COMMISSION ORDER

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 12, 2007, the Commission issued its *Order Directing Filing.* In this Order, the Commission directed the Staff to file a status report indicating if the Staff expects to complete an audit for the period covered by this case or if the case may be closed.

2. Staff will conduct a true-up audit of the "fuel rider" for the period covered by this case. To facilitate the audit—the first to be performed in carrying out the Stipulation and Agreement the Commission approved in Case No. HR-2005-0450[1]—the Staff will work with the other parties in this case to facilitate a Technical Conference and will report the status of this matter no later than August 31, 2007. Staff recommends that this case remain open.

WHEREFORE, the Staff of the Missouri Public Service Commission recommends the Commission leave this case open to receive reports on Staff's "fuel rider" true-up audit.

1 The Stipulation and Agreement includes a "fuel rider" that requires quarterly rate adjustments and no more frequently than annual true-ups.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 27th day of June 2007.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks - L&P service territory.	))))	**Case No. HR-2007-0028**

ORDER DIRECTING FILING OF STATUS REPORTS

Issue Date: June 29, 2007 Effective Date: June 29, 2007

On June 12, 2007, the Commission directed its Staff to file a report as to whether Staff expects to complete an audit in this case or whether it may be closed. Staff responded on June 27, 2007, stating that Staff will conduct a true-up audit of the "fuel rider" for the period covered by this case and recommended that the case remain open. To facilitate the audit, Staff will work with the other parties and will schedule a technical conference. Staff proposes to report the status of this matter no later than August 31, 2007.

The Commission has considered Staff's recommendation and will leave this case open pending Staff's true-up audit. The Commission will direct Staff to file periodic status reports until the audit is completed.

IT IS ORDERED THAT:

1. The Staff of the Commission shall file status reports as described above at three-month intervals until the true-up audit is completed. The first status report shall be due no later than August 31, 2007.

2. This order shall become effective on June 29, 2007.

BY THE COMMISSION

Colleen M. Dale
Secretary

(S E A L)

Nancy Dippell, Deputy Chief Regulatory Law Judge, by delegation of authority pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri, on this 29th day of June, 2007.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. The parties in this case held a Technical Conference on August 10, 2007. Since then the Staff has reviewed information it has received and participated in discussions regarding the true-up audit of the "fuel rider" for the period covered by this case.

3. The Staff plans additional discussions with the parties regarding the scope and parameters of the true-up audit and will provide status reports at least as often as the three-month intervals the Commission has ordered.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 22nd day of August 2007.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. Since its last status report, filed August 22, 2007, the Staff met with Aquila, Inc. on August 29, 2007, September 12, 2007 and October 4, 2007, and the Staff participated in conference calls with Aquila, Inc. and Ag Processing, Inc. on October 10 and again on October 30, 2007. Additionally, the Staff has engaged in numerous other communications with the parties by telephone and e-mail since it last filed a status report.

3. While the Staff has made progress regarding the scope and parameters of the true-up audit, the Staff plans additional discussions with the parties regarding them. In particular, the Staff is currently waiting on input from Ag Processing, Inc. for defining the scope and parameters of the audit.

4. The Staff will continue to provide status reports at least as often as the three-month intervals the Commission has ordered.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams
Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 20th day of November 2007.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. Since the Staff's last status report, filed November 20, 2007, the Staff has encouraged, but not participated in, meetings between Aquila and Ag Processing focused on resolving their differences on the scope and parameters of the true-up audit for the steam "fuel rider."

3. Since the Staff filed its last report Ag Processing and Aquila have met twice to discuss their differences on the scope and parameters of the true-up audit—once in December 2007 and again January 2008. At this time they have not resolved all of their differences.

4. In an effort to enhance progress on resolving the remaining true-up audit issues, the parties scheduled a meeting for February 22, 2008 for all the parties to attend, including the Staff; however, due to weather conditions affecting travel, that meeting has been rescheduled to March 4, 2008.

5. If progress to resolution of the remaining issues does not continue, the Staff will prepare and file its recommendation of the scope and parameters for the true-up audit for Aquila's steam "fuel rider" for the 2006 audit period in this case. Otherwise, the Staff will continue to provide status reports at least as often as the three-month intervals the Commission has ordered.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams
Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 28th day of February 2008.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. Since the Staff's last status report, filed February 29, 2008, the Staff has participated in meetings between Aquila and Ag Processing focused on resolving their differences on the scope and parameters of the true-up audit for the steam "fuel rider."

3. Since the Staff filed its last report Ag Processing, Aquila and the Staff met several times and toured the Lake Road plant and customer's plant sites to discuss the differences between Ag Processing and Aquila on the scope and parameters of the true-up audit. While their discussions continue they have not yet resolved all of their differences.

4. In an effort to speed progress on resolving the remaining true-up audit issues—progress which has been impeded by attention required by the litigation in Case No. EM-2007-374 and other matters, the parties plan to schedule another meeting within the next couple of weeks for all the parties to attend.

5. If progress to resolution of the remaining issues does not continue, the Staff will prepare and file its recommendation of the scope and parameters for the true-up audit for Aquila's steam "fuel rider" for the 2006 audit period in this case. Otherwise, the Staff will

continue to provide status reports at least as often as the three-month intervals the Commission has ordered.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 30th day of May 2008.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.[1]	)))))	<u>Case No. HR-2007-0028</u> Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. For purposes of both this case and Case No. HR-2007-0399, the Staff has participated in meetings between Aquila and Ag Processing focused on resolving their differences on the scope and parameters of the true-up audit for the steam "fuel rider."

3. In the Staff's last report, the Staff related that Ag Processing, Aquila and the Staff met several times, and toured the Lake Road plant and customer's plant sites to discuss the differences between Ag Processing and Aquila on the scope and parameters of the true-up audit. The Staff also related that Ag Processing and Aquila planned further meetings. Since that report Ag Processing and Aquila continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374. They have not yet resolved all of their differences.

1 Aquila is now authorized to do business as KCP&L Greater Missouri Operations Company; *Order Recognizing Name Change and Approving Tariffs*, Case No. EN-2009-0015, issued August 7, 2008 effective August 8, 2008.

4. In Case No. EM-2007-0374 the Commission approved the acquisition of Aquila on July 1, 2008. Afterward, Aquila notified Ag Processing and Staff that, because Kansas City Power & Light Company personnel needed to attend an already planned meeting and were not prepared to do so, the meeting needed to be canceled. The parties plan to schedule another meeting with Kansas City Power & Light Company personnel acting on Aquila's behalf in the near term for all the parties to attend to bring those individuals up to date with regard to Aquila's steam fuel clause process, identify and discuss the issues concerning the parties, status of the progress made thus far between the parties and to identify Aquila's steam fuel clause review process going forward.

5. If progress does not continue, the Staff will prepare and file its recommendation of the scope and parameters for the true-up audit for Aquila's steam "fuel rider" for the audit period in this case and in Case No. HR-2007-0399.

6. Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 18th day of August 2008.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory. [1]	)))))	Case No. HR-2007-0028 Tariff No. YH-2007-0027

STAFF'S STATUS REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. On June 29, 2007, the Commission issued its *Order Directing Filing of Status Reports*. In this Order, the Commission directed the Staff to file a status report by August 31, 2007, with following reports at three-month intervals.

2. For purposes of both this case and Case No. HR-2007-0399, the Staff has participated in meetings between Aquila and Ag Processing focused on resolving their differences on the scope and parameters of the true-up audit for the steam "fuel rider."

3. In the Staff's last report, the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences.

---

1 Aquila is now authorized to do business as KCP&L Greater Missouri Operations Company; *Order Recognizing Name Change and Approving Tariffs*, Case No. EN-2009-0015, issued August 7, 2008 effective August 8, 2008, and in pending Case Nos. EN-2009-0164 and HN-2009-0165 Aquila is seeking Commission authorization to change its name from Aquila, Inc. to KCP&L Greater Missouri Operations Company.

4. In its August 18, 2008 status report the Staff indicated that the parties planned to schedule soon another meeting with Kansas City Power & Light Company personnel acting on Aquila's behalf for all the parties to attend to bring those individuals up to date with regard to Aquila's steam fuel clause process, identify and discuss the issues concerning the parties, status of the progress made thus far between the parties and to identify Aquila's steam fuel clause review process going forward.

5. The Staff has met with representatives of Aquila (d/b/a KCP&L-GMO) to inform them of the meetings and progress that took place during the course of the review of the steam fuel clause costs of what was formerly called the Aquila Networks-L&P division. Staff also met with representatives of Ag Processing to also discuss the next steps in this case and Case No. HR-2007-0399. Staff is in the process of setting a meeting with representatives of Aquila and Ag Processing to discuss the progress to date and to further define the review of these fuel costs.

6. As before, if progress does not continue, the Staff will prepare and file its recommendation of the scope and parameters for the true-up audit for Aquila's steam "fuel rider" for the audit period in this case and in Case No. HR-2007-0399.

7. Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 25th day of November 2008.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.[1]	)))))	Case No. HR-2007-0028
In the matter of Aquila, Inc. d/b/a Aquila Networks–L&P, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the Aquila Networks–L&P service territory.	)))))	Case No. HR-2007-0399
In the Matter of Aquila, Inc., d/b/a KCP&L Greater Missouri Operations Company, for Authority to File Tariffs Changing the Steam QCA for Service Provided to Customers in the KCP&L Greater Missouri Operations Company Service Territory	)))))	Case No. HR-2008-0340

STAFF'S REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. KCP&L Greater Missouri Operations Company's ("GMO," formerly Aquila, Inc.) steam rates are adjusted quarterly on terms set out in a non-unanimous stipulation and agreement: the Commission approved in Case No. HR-2005-0450. The non-unanimous stipulation and agreement includes the following provision:

> 8.4. As detailed below, there will be prudence reviews and true-up of revenues collected and costs. A reconciliation account shall be created to track, adjust and return true-up amounts not otherwise refunded. The

1 Aquila is now KCP&L Greater Missouri Operations Company, Case Nos. EN-2009-0164 and HN-2009-0165.

difference between the costs intended for recovery and revenues collected will be tracked in a reconciliation account. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. . . . .

a. The nonunanimous stipulation and agreement is otherwise silent as to the scope and parameters of the true-ups; however, it includes the following regarding prudence reviews: In consideration of the sharing provisions of the fuel rate mechanism, and the intent to rely on an alignment of customer and Company interest in efficient operations, a two-step approach to prudence review will be followed. In step one the Staff will review to ascertain:

   i. that the concept of aligning of company and customer interests is working as intended; and,

   ii. that no significant level of imprudent costs is apparent.

b. This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of Step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12 month period or calendar year only, provided however that the full prudence review addressing the first partial year, if pursued, will be included with a full prudence review of the first full calendar year of operation of this rate mechanism.

c. Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.

d. Pursuant to any prudence review of fuel costs, whether by the Staff or Aquila steam customer(s), there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10 percent of the total of the fuel costs incurred in an annual review period.

2. In past status reports in these cases the Staff has stated, "Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff

is unable to indicate the date on which it expects to file its true-up audits of the fuel rider."

3. In Case No. HR-2005-0450 the Staff provided suggestions in support of the Nonunanimous Stipulation and Agreement that included the following description:

> For assurance the fuel adjustment rider is properly executed, there is a two-step review process. In the first step the Staff will review for determination that the rider is working as intended and that no significant level of imprudent costs is apparent. Based on step-one results the Staff may perform a detailed prudence review not more than once every twelve months.

4. In the Staff's last reports in these cases, the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences. Since then KCP&L Greater Missouri Operations Company (GMO) has filed a new steam rate case, along with a new electric rate case, and Ag Process and GMO have continued their discussions within the context of the steam case.

5. Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to perform its true-up audits of the fuel rider.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 27th day of February 2009.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory. [1]	)))))	Case No. HR-2007-0028
In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.	)))))	Case No. HR-2007-0399
In the Matter of KCP&L Greater Missouri Operations Company, for Authority to File Tariffs Changing the Steam QCA for Service Provided to Customers in the KCP&L Greater Missouri Operations Company Service Territory	)))))	Case No. HR-2008-0340

STAFF'S MAY 2009 REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. KCP&L Greater Missouri Operations Company's ("GMO," formerly Aquila, Inc.) steam rates are adjusted quarterly on terms set out in a non-unanimous stipulation and agreement the Commission approved in Case No. HR-2005-0450. The non-unanimous stipulation and agreement includes the following provision:

> 8.4. As detailed below, there will be prudence reviews and true-up of revenues collected and costs. A reconciliation account shall be created to track, adjust and return true-up amounts not otherwise refunded. The

1 When these cases started the company was called Aquila, Inc. and was authorized by the Commission and Missouri Secretary of State to do business as Aquila Networks-L&P and Aquila Networks-MPS. In Case EM-2007-0374, the Commission authorized the parent of Kansas City Power & Light Company—Great Plains Energy, Inc—to acquire Aquila, Inc., after Aquila divested most of its assets other than its Missouri regulated electric and steam operations. In Case Nos. EN-2009-0164 and HN-2009-0165, the Commission approved Aquila's name change from Aquila, Inc. to KCP&L Greater Missouri Operations Company.

> difference between the costs intended for recovery and revenues collected will be tracked in a reconciliation account. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. . . . .

2. The non-unanimous stipulation and agreement is otherwise silent as to the scope and parameters of the true-ups; however, it includes the following regarding prudence reviews: In consideration of the sharing provisions of the fuel rate mechanism, and the intent to rely on an alignment of customer and Company interest in efficient operations, a two-step approach to prudence review will be followed. In step one, the Staff will review to ascertain:

> a. that the concept of aligning of company and customer interests is working as intended; and,
>
> b. that no significant level of imprudent costs is apparent.

3. This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12 month period or calendar year only, provided, however, that the full prudence review addressing the first partial year, if pursued, will be included with a full prudence review of the first full calendar year of operation of this rate mechanism.

4. Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.

5. Pursuant to any prudence review of fuel costs, whether by the Staff or Aquila steam customer(s), there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10 percent of the total of the fuel costs incurred in an annual review period.

6. In past status reports in these cases, the Staff has stated, "Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider."

7. In Case No. HR-2005-0450, the Staff provided suggestions in support of the Non-unanimous Stipulation and Agreement that included the following description:

> For assurance the fuel adjustment rider is properly executed, there is a two-step review process. In the first step, the Staff will review for determination that the rider is working as intended and that no significant level of imprudent costs is apparent. Based on step one results, the Staff may perform a detailed prudence review not more than once every twelve months.

8. In the Staff's last reports in these cases, the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences. Since then, GMO filed a new steam rate case (Case No. HR-2009-0092), along with a new electric rate case (Case No. ER-2009-0090), and Ag Processing and GMO continued their discussions within the context of the steam case.

9. The parties to the GMO steam rate case have entered into a Unanimous Stipulation and Agreement they filed with the Commission on May 22, 2009 resolving Case No. HR-2009-0092. Now that the steam rate case is resolved, the Staff believes an additional period of time is needed to allow the parties to these above-captioned cases to meet and discuss the true-up of the quarterly adjustment clause. The Staff believes that the parties will be able to complete

the true-up of the 2006 and 2007 calendar years quarterly adjustment clauses (Case Nos. HR-2007-0028 and HR-2007-0399) within the next three-month reporting period and start the review of the 2008 calendar year quarterly adjustment clause (Case No. HR-2008-0340) as well.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 1st day of June 2009.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.[1]	)	Case No. HR-2007-0028
In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.	)	Case No. HR-2007-0399
In the Matter of KCP&L Greater Missouri Operations Company, for Authority to File Tariffs Changing the Steam QCA for Service Provided to Customers in the KCP&L Greater Missouri Operations Company Service Territory	)	Case No. HR-2008-0340

STAFF'S AUGUST 2009 REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. KCP&L Greater Missouri Operations Company's ("GMO," formerly Aquila, Inc.) steam rates are adjusted quarterly on terms set out in a non-unanimous stipulation and agreement the Commission approved in Case No. HR-2005-0450. The non-unanimous stipulation and agreement includes the following provision:

> 8.4. As detailed below, there will be prudence reviews and true-up of revenues collected and costs. A reconciliation account shall be created to track, adjust and return true-up amounts not otherwise refunded. The difference between the costs intended for recovery and revenues collected

---

1 When these cases started the company was called Aquila, Inc. and was authorized by the Commission and Missouri Secretary of State to do business as Aquila Networks-L&P and Aquila Networks-MPS. In Case EM-2007-0374, the Commission authorized the parent of Kansas City Power & Light Company—Great Plains Energy, Inc—to acquire Aquila, Inc., after Aquila divested most of its assets other than its Missouri regulated electric and steam operations. In Case Nos. EN-2009-0164 and HN-2009-0165, the Commission approved Aquila's name change from Aquila, Inc. to KCP&L Greater Missouri Operations Company.

will be tracked in a reconciliation account. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. .

2. The non-unanimous stipulation and agreement is otherwise silent as to the scope and parameters of the true-ups; however, it includes the following provisions regarding prudence reviews:

8.6 In consideration of the sharing provisions of the fuel rate mechanism, and the intent to rely on an alignment of customer and Company interest in efficient operations, a two-step approach to prudence review will be followed. In step one, the Staff will review to ascertain:

8.6.1 that the concept of aligning of company and customer interests is working as intended; and,

8.6.2 that no significant level of imprudent costs is apparent.

8.7 This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12-month period or calendar year only, provided, however, that the full prudence review addressing the first partial year, if pursued, will be included with a full prudence review of the first full calendar year of operation of this rate mechanism.

8.8 Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.

8.9 Pursuant to any prudence review of fuel costs, whether by the Staff or Aquila steam customer(s), there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10 percent of the total of the fuel costs incurred in an annual review period.

3. In past status reports in these cases, including its most recent May 2009 report, the Staff has stated, "Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider."

4. In Case No. HR-2005-0450, the Staff provided suggestions in support of the Non-unanimous Stipulation and Agreement that included the following description:

> For assurance the fuel adjustment rider is properly executed, there is a two-step review process. In the first step, the Staff will review for determination that the rider is working as intended and that no significant level of imprudent costs is apparent. Based on step one results, the Staff may perform a detailed prudence review not more than once every twelve months.

5. In the Staff's last report in these cases, the Staff stated that in prior reports the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences.

6. On September 5, 2008, GMO initiated a new steam rate case (Case No. HR-2009-0092), along with a new electric rate case (Case No. ER-2009-0090), and Ag Processing and GMO continued their discussions within the context of the steam case. On June 24, 2009, the Commission approved tariff sheets implementing the Unanimous Stipulation and Agreement the parties in Case No. HR-2009-0092 filed with the Commission on May 22, 2009 that resolved the case. On July 30, 2009 the Commission approved tariff sheets implementing the resolution of the related GMO case, Case No. ER-2009-0090. Further, on July 28, 2009 the Commission approved tariff sheets implementing the resolution of the then pending general rate increase case of GMO's affiliate Kansas City Power & Light Company in Case No. ER-2009-0089.

7. In its May 2009 report the Staff stated the following:

> Now that the steam rate case is resolved, the Staff believes an additional period of time is needed to allow the parties to these above-captioned cases to meet and discuss the true-up of the quarterly adjustment clause. The Staff believes that the parties will be able to complete the true-up of the 2006 and 2007 calendar years quarterly adjustment clauses (Case Nos. HR-2007-0028 and HR-2007-0399)

within the next three-month reporting period and start the review of the 2008 calendar year quarterly adjustment clause (Case No. HR-2008-0340) as well.

8. While events have shown the Staff was overly optimistic in its belief the parties would be able to complete the true-up of the 2006 and 2007 calendar year quarterly adjustment clauses before this report, there have been discussions between representatives of GMO and the Staff, GMO and steam customers, steam customers and the Staff and, as shown by certificates of service filed August 10, 2009 in Case Nos. HR-2007-0028 and HR-2007-0399, steam customers are formally seeking information from GMO related to these issues. Based on the discussions in which the Staff has participated, where GMO and the steam customers have expressed a desire to move forward with the quarterly adjustment clause true-ups of years 2006 and 2007, the Staff expects the parties to meet jointly in the very near future to engage in a discussion that at a minimum will address step one evidence and conclusions regarding the true-up of the quarterly adjustment clause, in particular for years 2006 and 2007, but also for 2008.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams
Nathan Williams #35512
Deputy General Counsel

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 21st day of August 2009.

<u>/s/ Nathan Williams</u>

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.[1]	)))))	Case No. HR-2007-0028
In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.	)))))	Case No. HR-2007-0399
In the Matter of KCP&L Greater Missouri Operations Company, for Authority to File Tariffs Changing the Steam QCA for Service Provided to Customers in the KCP&L Greater Missouri Operations Company Service Territory	)))))	Case No. HR-2008-0340

STAFF'S DECEMBER 2009 REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. KCP&L Greater Missouri Operations Company's ("GMO," formerly Aquila, Inc.) steam rates are adjusted quarterly on terms set out in a non-unanimous stipulation and agreement the Commission approved in Case No. HR-2005-0450. The non-unanimous stipulation and agreement includes the following provision:

> 8.4. As detailed below, there will be prudence reviews and true-up of revenues collected and costs. A reconciliation account shall be created to track, adjust and return true-up amounts not otherwise refunded. The

1 When these cases started the company was called Aquila, Inc. and was authorized by the Commission and Missouri Secretary of State to do business as Aquila Networks-L&P and Aquila Networks-MPS. In Case EM-2007-0374, the Commission authorized the parent of Kansas City Power & Light Company—Great Plains Energy, Inc—to acquire Aquila, Inc., after Aquila divested most of its assets other than its Missouri regulated electric and steam operations. In Case Nos. EN-2009-0164 and HN-2009-0165, the Commission approved Aquila's name change from Aquila, Inc. to KCP&L Greater Missouri Operations Company.

difference between the costs intended for recovery and revenues collected will be tracked in a reconciliation account. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. . . . .

2. The non-unanimous stipulation and agreement is otherwise silent as to the scope and parameters of the true-ups; however, it includes the following provisions regarding prudence reviews:

8.6 In consideration of the sharing provisions of the fuel rate mechanism, and the intent to rely on an alignment of customer and Company interest in efficient operations, a two-step approach to prudence review will be followed. In step one, the Staff will review to ascertain:

8.6.1 that the concept of aligning of company and customer interests is working as intended; and,

8.6.2 that no significant level of imprudent costs is apparent.

8.7 This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12-month period or calendar year only, provided, however, that the full prudence review addressing the first partial year, if pursued, will be included with a full prudence review of the first full calendar year of operation of this rate mechanism.

8.8 Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.

8.9 Pursuant to any prudence review of fuel costs, whether by the Staff or Aquila steam customer(s), there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10 percent of the total of the fuel costs incurred in an annual review period.

3. In past status reports in these cases, including its most recent August 2009 report, the Staff has stated, "Until the scope and parameters for true-up audits for Aquila's steam "fuel

rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider."

4. In Case No. HR-2005-0450, the Staff provided suggestions in support of the Non-unanimous Stipulation and Agreement that included the following description:

> For assurance the fuel adjustment rider is properly executed, there is a two-step review process. In the first step, the Staff will review for determination that the rider is working as intended and that no significant level of imprudent costs is apparent. Based on step one results, the Staff may perform a detailed prudence review not more than once every twelve months.

5. In the Staff's last report in these cases, the Staff again stated that in prior reports the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences.

6. As the Staff noted in its August 2009 report, on September 5, 2008, GMO initiated a new steam rate case (Case No. HR-2009-0092), along with a new electric rate case (Case No. ER-2009-0090), and Ag Processing and GMO continued their discussions within the context of the steam case. On June 24, 2009, the Commission approved tariff sheets implementing the Unanimous Stipulation and Agreement the parties in Case No. HR-2009-0092 filed with the Commission on May 22, 2009 that resolved the case. On July 30, 2009 the Commission approved tariff sheets implementing the resolution of the related GMO case, Case No. ER-2009-0090. Further, on July 28, 2009 the Commission approved tariff sheets implementing the resolution of the then pending general rate increase case of GMO's affiliate Kansas City Power & Light Company in Case No. ER-2009-0089.

7. In its May 2009 report the Staff stated the following:

> Now that the steam rate case is resolved, the Staff believes an additional period of time is needed to allow the parties to these above-captioned cases to meet and discuss the true-up of the quarterly adjustment clause. The Staff believes that the parties will be able to complete the true-up of the 2006 and 2007 calendar years quarterly adjustment clauses (Case Nos. HR-2007-0028 and HR-2007-0399) within the next three-month reporting period and start the review of the 2008 calendar year quarterly adjustment clause (Case No. HR-2008-0340) as well.

8. As the Staff noted in its August 2009 report, events have shown the Staff was overly optimistic in its belief the parties would be able to complete the true-up of the 2006 and 2007 calendar year quarterly adjustment clauses before its August 2009 report, before that report there were discussions between representatives of GMO and the Staff, GMO and steam customers, steam customers and the Staff and, as shown by certificates of service filed August 19, 2008 in Case Nos. HR-2007-0028 and HR-2007-0399, steam customers formally sought information from GMO related to those issues. Based on the discussions in which the Staff has participated before its August 2009 report, where GMO and the steam customers have expressed a desire to move forward with the quarterly adjustment clause true-ups of years 2006 and 2007, the Staff expected the parties to meet jointly in the very near future to discuss the true-up of the quarterly adjustment clause, in particular for years 2006 and 2007, but also for 2008, Case No. HR-2008-0340.

9. The interested parties met jointly on November 23, 2009. During that meeting one party made a settlement proposal that would encompass the outstanding issues in all three of these cases. The other interested parties are evaluating that proposal.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 1st day of December 2009.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory. [1]	)	Case No. HR-2007-0028
In the matter of KCP&L Greater Missouri Operations Company, for authority to file tariffs changing the steam Quarterly Cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company service territory.	)	Case No. HR-2007-0399
In the Matter of KCP&L Greater Missouri Operations Company, for Authority to File Tariffs Changing the Steam QCA for Service Provided to Customers in the KCP&L Greater Missouri Operations Company Service Territory	)	Case No. HR-2008-0340

STAFF'S MARCH 2010 REPORT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully states:

1. KCP&L Greater Missouri Operations Company's ("GMO," formerly Aquila, Inc.) steam rates are adjusted quarterly on terms set out in a non-unanimous stipulation and agreement the Commission approved in Case No. HR-2005-0450. The non-unanimous stipulation and agreement includes the following provision:

> 8.4. As detailed below, there will be prudence reviews and true-up of revenues collected and costs. A reconciliation account shall be created to track, adjust and return true-up amounts not otherwise refunded. The difference between the costs intended for recovery and revenues collected

1 When these cases started the company was called Aquila, Inc. and was authorized by the Commission and Missouri Secretary of State to do business as Aquila Networks-L&P and Aquila Networks-MPS. In Case EM-2007-0374, the Commission authorized the parent of Kansas City Power & Light Company—Great Plains Energy, Inc—to acquire Aquila, Inc., after Aquila divested most of its assets other than its Missouri regulated electric and steam operations. In Case Nos. EN-2009-0164 and HN-2009-0165, the Commission approved Aquila's name change from Aquila, Inc. to KCP&L Greater Missouri Operations Company.

> will be tracked in a reconciliation account. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. . . . .

2. The non-unanimous stipulation and agreement is otherwise silent as to the scope and parameters of the true-ups; however, it includes the following provisions regarding prudence reviews:

> 8.6 In consideration of the sharing provisions of the fuel rate mechanism, and the intent to rely on an alignment of customer and Company interest in efficient operations, a two-step approach to prudence review will be followed. In step one, the Staff will review to ascertain:
>
> 8.6.1 that the concept of aligning of company and customer interests is working as intended; and,
>
> 8.6.2 that no significant level of imprudent costs is apparent.
>
> 8.7 This review may be entirely a part of surveillance activity. Aquila steam customers in the L&P service area will be given timely notice of the results of the step one review. In consideration of step one results, the Staff may proceed with a full prudence review, if deemed necessary. Such full prudence review shall be conducted no more often than once every 12 months and shall concern the prior 12-month period or calendar year only, provided, however, that the full prudence review addressing the first partial year, if pursued, will be included with a full prudence review of the first full calendar year of operation of this rate mechanism.
>
> 8.8 Any Aquila steam customer or group of steam customers in the L&P service area may make application to initiate a complaint for the purpose of pursuing a prudence review by use of the existing complaint process. The application for the complaint and the complaint proceeding will not be prejudiced by the absence of a step two prudence review by Staff.
>
> 8.9 Pursuant to any prudence review of fuel costs, whether by the Staff or Aquila steam customer(s), there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10 percent of the total of the fuel costs incurred in an annual review period.

3. In past status reports in these cases the Staff has stated, "Until the scope and parameters for true-up audits for Aquila's steam "fuel rider" are determined, the Staff is unable to indicate the date on which it expects to file its true-up audits of the fuel rider."

4. In Case No. HR-2005-0450, the Staff provided suggestions in support of the Non-unanimous Stipulation and Agreement that included the following description:

> For assurance the fuel adjustment rider is properly executed, there is a two-step review process. In the first step, the Staff will review for determination that the rider is working as intended and that no significant level of imprudent costs is apparent. Based on step one results, the Staff may perform a detailed prudence review not more than once every twelve months.

5. In numerous of the Staff's reports in these cases, the Staff related that Ag Processing and Aquila had continued discussions and made progress, but were hampered by the attention devoted to planning and executing the integration of Aquila's operations with those of Kansas City Power & Light Company as proposed in Case No. EM-2007-374, and that they had not yet resolved all of their differences.

6. As the Staff has noted in multiple reports, on September 5, 2008, GMO initiated a new steam rate case (Case No. HR-2009-0092), along with a new electric rate case (Case No. ER-2009-0090), and Ag Processing and GMO continued their discussions within the context of the steam case. On June 24, 2009, the Commission approved tariff sheets implementing the Unanimous Stipulation and Agreement the parties in Case No. HR-2009-0092 filed with the Commission on May 22, 2009 that resolved the case. On July 30, 2009 the Commission approved tariff sheets implementing the resolution of the related GMO case, Case No. ER-2009-0090. Further, on July 28, 2009 the Commission approved tariff sheets implementing the resolution of the then pending general rate increase case of GMO's affiliate Kansas City Power & Light Company in Case No. ER-2009-0089.

7. In its May 2009 report the Staff stated the following:

> Now that the steam rate case is resolved, the Staff believes an additional period of time is needed to allow the parties to these above-captioned cases to meet and discuss the true-up of the quarterly adjustment clause. The Staff believes that the parties will be able to complete the true-up of the 2006 and 2007 calendar years

quarterly adjustment clauses (Case Nos. HR-2007-0028 and HR-2007-0399) within the next three-month reporting period and start the review of the 2008 calendar year quarterly adjustment clause (Case No. HR-2008-0340) as well.

8. As the Staff noted in its August 2009 report and again in its December 2009 report, events have shown the Staff was overly optimistic in its belief the parties would be able to complete the true-up of the 2006 and 2007 calendar year quarterly adjustment clauses before its August 2009 report, before that report there were discussions between representatives of GMO and the Staff, GMO and steam customers, steam customers and the Staff and, as shown by certificates of service filed August 19, 2008 in Case Nos. HR-2007-0028 and HR-2007-0399, steam customers formally sought information from GMO related to those issues. Based on the discussions in which the Staff has participated before its August 2009 report, where GMO and the steam customers have expressed a desire to move forward with the quarterly adjustment clause true-ups of years 2006 and 2007, the Staff expected the parties to meet jointly in the very near future to discuss the true-up of the quarterly adjustment clause, in particular for years 2006 and 2007, but also for 2008, Case No. HR-2008-0340.

9. The interested parties met jointly on November 23, 2009. During that meeting one party made a settlement proposal that would encompass the outstanding issues in all three of these cases. When the Staff filed its December 2009 report, the other interested parties were evaluating that proposal.

10. Ag Processing's complaint filed in these cases on January 28, 2010 shows that settlement is unlikely. On February 11, 2010 the Commission issued an order separating that complaint into Case No. HC-2010-0235.

11. The issues between GMO and Ag Processing, the parties who negotiated the provisions of the non-unanimous stipulation and agreement the Commission approved in Case

No. HR-2005-0450, are now squarely joined in Case No. HC-2010-0235 and include the issues the Staff believes either GMO or Ag Processing or both expected the Staff to review for prudency, unless the Commission orders otherwise, the Staff plans to take no further action in these above-captioned cases while the complaint in Case No. HC-2010-0235 is pending before the Commission.

WHEREFORE, the Staff of the Missouri Public Service Commission submits this status report to the Commission.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 31st day of March 2010.

/s/ Nathan Williams

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2007-0028**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2007-0399**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2008-0340**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2010-0028**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HT-2010-0288**

ORDER DIRECTING STAFF TO FILE A STATUS REPORT

Issue Date: December 6, 2011 Effective Date: December 6, 2011

This string of steam quarterly cost adjustment cases has been on hold pending a Commission decision in a related complaint case, HC-2010-0235. Having issued a decision in that case, the Commission will direct Staff to file a status report indicating when it will be able to file recommendations in these cases.

THE COMMISSION ORDERS THAT:

1. The Commission's Staff shall file a status report no later later than December 14, 2011.

2. This order shall become effective immediately upon issuance.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Morris L. Woodruff, Chief Regulatory
Law Judge, by delegation of authority
pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 6th day of December, 2011.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2007-0028**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2007-0399**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2008-0340**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HR-2010-0028**
In the matter of KCP&L Greater Missouri Operations Company's tariffs changing the steam quarterly cost Adjustment for service provided to customers in the KCP&L Greater Missouri Operations Company Service territory.	)))))	**Case No. HT-2010-0288**

STATUS REPORT AND RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and, for its *Status Report and Recommendation* states as follows:

1. In its December 6, 2011, *Order Directing Staff to File a Status Report*, the Commission directed Staff to file a status report indicating when it will be able to file recommendations in the captioned cases.

2. Case Nos. HR-2007-0028 and HR-2007-0399 concern the years 2006 and 2007. These years were the subject of the recently concluded Case No. HC-2010-0235. Therefore, Staff will not perform a separate audit for these cases, and recommends Case Nos. HR-2007-0028 and HR-2007-0399 be closed.

3. Staff does not consider the closing of a case to be an indication of an affirmative finding of prudency.

4. Concerning Case No. HR-2008-0340, Staff believes it will be able to file its recommendation no later than January 20, 2012.

5. Concerning Case No. HR-2010-0028, it is Staff's understanding that certain industrial steam consumers plan to file a complaint regarding 2009 prudence. Staff will defer filing a recommendation during the pendency of such a complaint.

6. Concerning Case No. HT-2010-0288, Staff believes it will be able to file its recommendation, if necessary, no later than January 20, 2012.

WHEREFORE, Staff submits this *Status Report* and recommends the Commission close Case Nos. HR-2007-0028 and HR-2007-0399, concerning the years 2006 and 2007.

Respectfully submitted,

/s/ Sarah Kliethermes

Sarah L. Kliethermes
Senior Counsel
Missouri Bar No. 60024

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6726 (Telephone)
(573) 751-9285 (Fax)
sarah.kliethermes@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 14th day of December, 2011.

/s/ Sarah Kliethermes

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter Of KCP&L Greater Missouri Operations Company's Tariffs Changing The Steam Quarterly Cost Adjustment For Service Provided To Customers In The KCP&L Greater Missouri Operations Company Service Territory.	)))))	**File No. HR-2007-0028**

NOTICE CLOSING FILE

Issue Date: December 16, 2011

No further action by the Commission is required and this case shall be closed.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Dated at Jefferson City, Missouri,
on this 16th day of December, 2011.

Woodruff, Chief Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In The Matter Of KCP&L Greater Missouri Operations Company's Tariffs Changing The Steam Quarterly Cost Adjustment For Service Provided To Customers In The KCP&L Greater Missouri Operations Company Service Territory.	)))))	**File No. HR-2007-0399**

NOTICE CLOSING FILE

Issue Date: December 16, 2011

No further action by the Commission is required and this case shall be closed.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Dated at Jefferson City, Missouri,
on this 16th day of December, 2011.

Woodruff, Chief Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter Of KCP&L Greater Missouri Operations Company's Tariffs Changing The Steam Quarterly Cost Adjustment For Service Provided To Customers In The KCP&L Greater Missouri Operations Company Service Territory.	)))))	**File No. HR-2008-0340**

NOTICE CLOSING CASE

Issue Date: February 7, 2012

The Commission opened this case to consider KCP&L-Greater Missouri Operations Company's (KCPL-GMO's) steam quarterly cost adjustment for 2008. On January 20, 2012, Staff filed a recommendation advising the Commission to close this case with no further action. On February 6, KCPL-GMO filed a reply to Staff's recommendation in which it concurs that the case should be closed. No other party filed a response.

The Commission concludes that no further action by the Commission is required. This case shall be closed.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Dated at Jefferson City, Missouri,
on this 7th day of February, 2012.

Woodruff, Chief Regulatory Law Judge