NON-PROPRIETARY VERSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

REPLY BRIEF OF
KCP&L GREATER MISSOURI OPERATIONS COMPANY

James M. Fischer, MBN 27543
Fischer & Dority, P.C.
101 Madison Street, Suite 400
Jefferson City, MO 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
Email: jfischerpc@aol.com

Roger W. Steiner, MBN 39586
Kansas City Power & Light Company
1200 Main—16th Floor
Kansas City, Missouri 64105
Phone: (816) 556-2314
Fax: (816) 556-2787
Email: roger.steiner@kcpl.com

Attorneys for KCP&L Greater Missouri Operations Company

TABLE OF CONTENTS

PAGE

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

REPLY BRIEF OF KCP&L GREATER MISSOURI OPERAITONS COMPANY

KCP&L Greater Missouri Operations Company ("GMO") respectfully submits its Reply Brief in response to the Staff's Initial Brief ("Staff Brief") filed on July 6, 2012.

I. INTRODUCTION

Initially, the Company wishes to highlight a few areas of agreement with the Staff:

First, Staff has recognized that GMO "purchases 3.5 million to 3.9 million MWhs of power annually at a cost of $120 million to $135 million, an amount which constitutes fully 40% of GMO's energy requirements. Much of this power is purchased on the spot market. Spot-market purchased power, therefore, is a big item for GMO." (Staff Brief at 4) As a result, spot purchased power is also a "big item" to GMO's customers since prudently incurred purchased power costs are passed through the Fuel Adjustment Clause ("FAC") mechanism to GMO's customers. Therefore, it is important to determine if the Commission wishes GMO to attempt to hedge these purchased power costs on behalf of its customers to reduce volatility, or instead purchase power on the spot market without attempting to hedge volatile electricity costs. Up until this case, GMO has believed that the Commission and its Staff expected GMO to attempt to hedge these costs for the benefit of GMO's customers, which it has successfully done in this FAC audit review period. However, the Company will follow the direction from the Commission with regard to its future hedging program plans.

Second, Staff has clearly recognized that "Staff bears the burden of making an initial showing of imprudence. . ." citing *Re: Union Electric Company*, 27 Mo.P.S.C. (N.S.) 183, 193 (1985). GMO also agrees with Staff's statement: "Thus, in the first instance, it is the parties challenging the decisions and expenditures of a utility that have the initial burden [of] defeating the presumption of prudence accord the utility." (Staff Brief at 7) As Staff pointed out in its Staff Report, the prudence standard must be applied as follows:

> In the same [*Union Electric*] case, the PSC noted that this test of prudence should not be based upon hindsight, but upon a reasonableness standard:
>
> > [T]he company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.

However, instead of identifying any evidence available contemporaneously that ostensibly supports Staff's allegation that the Company was acting unreasonably at the time decisions were being made to hedge the customers' substantial risk associated with purchased power costs, Staff's Brief instead relies upon hindsight analysis, stating: "[i]t is Staff's position that the existence of $15 million of hedging losses over an 18-month period raises doubts as to the prudence of GMO's conduct sufficient to require the Company to affirmatively show that its conduct was prudent." (Staff Brief at 7-8) As noted by Staff witness Lena Mantle, such evidence of losses is only available "after-the-fact". (Tr. 231, 248) As noted in the *Union Electric* decision, the test of prudence should not be based upon hindsight, but upon a reasonableness standard. Such hindsight evidence is not sufficient to defeat the presumption of prudence. In fact, the Commission itself has already recognized that increased costs above the spot market price [e.g. losses from futures contracts] associated with a hedging program are not unanticipated: "Part of a . . . utility's balanced portfolio may be higher than spot market price at

times, and this is recognized as a possible result of prudent efforts to dampen upward volatility." *Natural Gas Price Volatility Mitigation Rule*, 4 CSR 240-40.018 (GMO Ex. No. 16).

Third, the Company agrees with Staff that that hedging is a risk reduction strategy:

> It is similar to buying insurance. The hedger, like the purchaser of insurance, accepts a small loss to avoid or mitigate the possibility of a larger one. The homeowner pays an insurance premium, accepting the loss represented by the cost of the insurance, to mitigate the possibility of a far larger loss should her house catch on fire. In this case, GMO purchased natural gas futures and options as a hedge against upwards volatility in spot-market, purchased-power prices. (Staff Brief at 3)

Hedging is not a strategy for increasing profits for the shareholders. GMO's shareholders don't make money by hedging since the gains or losses in the physical market are largely offset by the opposite gains or losses in the derivative market, and the gains or losses in the derivative market are passed along to consumers just as are the gains or losses in the physical market. Therefore, hedging does not create profit opportunities for shareholders.

The Staff Brief also raised four (4) areas where Staff is apparently now alleging that GMO was imprudent: (1) GMO's over-reliance on purchased power ; (2) GMO's accounting practices; (3) GMO's conduct of passing hedging costs through the FAC mechanism; and (4) GMO's use of cross-hedging with natural gas futures contracts to mitigate purchased power price risk. Each of these allegations will be addressed below.

For the reasons stated herein, the Commission should reject Staff's allegations of imprudence, and instead find that GMO's purchasing practices, including the use of natural gas futures contracts to cross-hedge its customers' spot purchase power price risk, were prudent during the FAC audit period. In addition, the Commission should find that GMO has properly accounted for its hedging costs under the uniform system of accounts, previous stipulations and

agreements, Staff's suggestions in support of a previous stipulation and agreement, Staff's testimony in a previous case, and orders of the Commission.

II. GMO's RELIANCE ON PURCHASED POWER IS NOT THE BASIS FOR STAFF'S PROPOSED DISALOWANCE AND REFUND.

The first area of imprudence alleged by Staff's Brief is "GMO's over-reliance on purchased power due to its lack of sufficient efficient generation capacity." (Staff Brief at 8). This allegation is not supported by competent and substantial evidence in the record, and should be rejected by the Commission. In fact, Staff witness Lena Mantle, who supervises Staff witness Dana Eaves (Tr. 252), testified that GMO's reliance on purchased power was not the basis for Staff's proposed disallowance and refund in this case (Tr. 205-06):

> Q. And is the fact that GMO relies on spot market electricity the reason Staff is proposing to disallow its hedging costs associated with the spot purchased power in this case?
>
> A. No, it is not.
>
> Q. Is the fact that GMO relies so heavily from Staff's perspective on spot market electricity the reason that Staff is proposing to disallow the hedging costs in this case?
>
> A. No, it is not.
>
> Q. Is Staff's prudence adjustment based upon Staff's concern that GMO has relied too heavily on spot market electricity?
>
> A. I don't -- I don't believe Staff has ever said that they relied too heavily on. The Staff position is, if it is the least cost and reliable source of energy is a spot market, then GMO or Ameren Missouri or Empire District or Kansas City Power & Light should purchase the energy either on the spot market or through purchased power agreements. That's the Staff's position.

Q. I doubt anyone in the industry would you disagree with you. Wouldn't you think that's true.

A. I hope they wouldn't.

Q. But for purposes of this case, your disallowance is not based upon the fact that GMO relies more heavily on spot purchased power, right?

A. No, it is not.

Q. Does the Staff believe that it's imprudent for GMO to rely upon spot purchased power during the FAC audit period?

A. No. It was the most prudent method for them to meet their customers' need, the least expensive way, because their own generation was much more expensive.

Q. And Staff hasn't made any disallowance because they didn't use the least expensive option, right?

A. If we did, it would increase the fuel cost to the customers, increasing what they would have had to pay through the FAC.

The Staff Brief also alleged that "GMO missed an opportunity to add the Aries combined-cycle exempt wholesale generation plant to its fleet." (Staff Brief at 10) However, Ms. Mantle testified at the hearings that GMO's decision regarding the Aries plant in the year 2000 was not the basis for Staff's proposed disallowance and refund: (Tr. 207)

Q. Okay. Is Staff proposing to disallow the hedging costs related to its spot purchased power in this case because they didn't buy the Aries plant in the year 2000?

A. No.

Staff's Brief also asserted that a combined cycle plant would be a "hedge" against fluctuating natural gas prices. (Staff Brief at 10). However, as Mr. Blunk also testified, GMO would have had the same natural gas hedges even if the Company had built more natural gas

generation or purchased the Aries plant in 2000. (Tr. 132)(GMO Ex. No. 2, Blunk Surrebuttal, pp. 6-7) As a result, GMO's decisions related to adding additional natural gas generation or purchasing the Aries plant in 2000 does not affect the level of hedging that would have been required during the FAC audit period.

Based upon the record in this case, the Commission should reject Staff's proposed disallowance and refund based upon the assertions in Staff's Brief that GMO was over-reliant on purchased power, or failed to purchase the Aries plant. Staff's own witness rejected these arguments as support for Staff's disallowance and refund, and the Commission should also reject them.

III. GMO'S ACCOUNTING OF ITS HEDGING COSTS WAS NOT MISLEADING OR VIOLATIVE OF GMO'S FAC TARIFF.

The second and third areas of alleged "imprudence" raised in the Staff Brief related to GMO's accounting of its hedging costs and its FAC tariffs. As explained below, these accounting issues are not "prudence" issues at all, but appear to be Staff's attempt to prevent recovery of prudently incurred hedging costs, based upon Staff's strained interpretation of a *Non-unanimous Stipulation and Agreement* in Aquila 2005 rate case (Case No. ER-2005-0436), and the Company's revised FAC tariff sheets.

First, Staff has erroneously argued that the Company accounted for the costs of its electric hedging program in the wrong FERC account. Staff has argued that the Company did not place the hedge costs in the correct FERC Account No. 555, Purchased Power. According to Staff, the Company has instead placed hedge costs in Account No. 547, Natural Gas, in an attempt to mislead. (Staff Brief at 11) Staff goes on to argue that booking the natural gas hedging costs used to mitigate the volatility of purchased power costs in FERC Account 547, Natural Gas, is "unauthorized," and "results in distorted financial statements that, at the very

least, misrepresent the state and condition of the Company's finances and operations." (Staff Brief at 11)

Second, Staff argues that the FAC tariff does not include hedging costs in Account 555, and therefore hedging costs associated with natural gas hedges that are intended to mitigate the volatility associated with spot purchased power should not be recoverable through the FAC mechanism. As explained herein, these assertions are simply incorrect. In addition, Staff has failed to present competent and substantial evidence to demonstrate that any of the Company's accounting practices are misleading, unauthorized, or resulted in distorted financial statements.

In contrast, GMO witnesses Ryan Bresette and Tim Rush have testified that the Company maintains its books and records in accordance with FERC's Uniform Standard of Accounts (USOA). (GMO Ex. No. 3, Bresette Surrebuttal, p. 15; GMO Ex No. 6, Rush Direct, p. 6) GMO's accounting treatment of its hedging program is also in accordance with the Generally Accepted Accounting Principles (GAAP) and FERC accounting. (GMO Ex. No. 3, Bresette Surrebuttal, p. 15-16) In addition, Mr. Bresette testified that GMO fully discloses its accounting methods in its financial reports. (GMO Ex. No. 3, Bresette Surrebuttal, pp. 7-8)

As explained by Mr. Bresette, the hedging of natural gas financial instruments has been and should always be included in FERC Account 547. (Id. at 19) Natural gas expenses should be booked to the FERC natural gas expense account 547. Staff is suggesting the Company record natural gas hedging cost to an account (FERC Account 555) that has nothing to do with natural gas in order to disallow prudently incurred costs from GMO's FAC mechanism. (Id. at 19)

The Company accounted for the natural gas hedge costs associated with its cross-hedging practice in Account 547 because at the time the hedges actually settle, the determination of whether or not the company will generate or purchase power has not yet been made since that determination is based upon a review of the least cost option. (GMO Ex. No. 7, Rush Surrebuttal, pp. 10-11) Therefore, all hedge settlements costs are actually natural gas settlement costs and are recorded in the 547 account, the natural gas account. (Id.)

As Mr. Bresette has testified, if GMO had started by booking its cross hedges as Staff is now saying it should, it would have had a very perverse impact on the pre-merger FAC mechanism. Since the pre-merger FAC mechanism did not include revenue from Account 447, GMO's customers would have effectively paid double for all electricity that was hedged. Customers would have paid when the physical electricity was purchased and recorded in Account 555. They would have also paid for the futures contract as it was recorded in Account 555 but they would not have received the revenue from the sale of the futures contract because it would have been recorded in Account 447. (Id. at 15-16)

If the Company had forward purchase electricity contracts that did not qualify for normal purchase and normal sale, then the related realized gains or losses would be recorded to FERC account 555. If the Company had forward sale electricity contracts, then the realized revenue from that sale would be recorded to FERC account 447. (Id. at 16) However, hedging costs associated with natural gas futures contracts are booked in FERC 547, Natural Gas, since they are natural gas hedges.

On page 12 of the Staff Brief, Staff discusses the *Nonunanimous Stipulation And Agreement* in Aquila's 2005 rate case, Case No. ER-2005-0436 ("Stipulation"), and suggests that paragraph 17 of the Stipulation "was not intended to grant discretion to the Company to

record hedge costs in either account at its whim." (Staff Brief at 12). The Company agrees that this provision was not intended to give the Company discretion to account for its hedging program expenses and revenues in either account "at its whim". As discussed above, the Company has followed the USOA rules for booking its hedge costs, and it has consistently done so since 2005. Until this case, Staff has never questioned GMO's accounting related to its hedging practices.

GMO fully complied with this language of the Stipulation (and with Staff's Suggestions) by recording the hedge settlements for natural gas generation to FERC Account 547. In addition, natural gas hedge settlements to mitigate power price volatility were appropriately recorded to FERC Account 547. However, GMO did not incur any hedge settlements directly related to on-peak purchased power transactions that would have been appropriately charged to FERC Account 555.

Staff also suggests that hedging costs associated with on-peak spot market purchases of electricity are not expressly included in the "PP = Purchased Power Costs" of the FAC. (Staff Brief at 16) As Mr. Rush explained, the specific language of the FAC tariffs changed during the FAC audit review period to add more clarity to the components in the FAC. (GMO Ex No. 6, Rush Direct, p. 7) In the original version of the FAC tariffs, all costs associated with both FERC accounts 547 and 555 were to be included in the FAC mechanism. In the revised version of the tariffs, specific types of costs were referenced, but the revisions were never intended to exclude prudently incurred hedging costs that had been previously included in Accounts 547 or 555.

Since the Company has been recording the settlement gains or losses associated with its hedging program to Account 547 since the 2005 rate case, and since these costs were

expressly included in the FAC in Case No. ER-2007-0004, the tariff listed hedging costs in the description of FAC includable costs in Account 547. The Company, and apparently the Staff, did not see the need to explicitly include the word "hedging" in the description of Account 555. This is because the hedging and settlement costs have been booked to Account 547 since the Company was ordered to record those costs above the line in Case No. ER-2005-0436. (GMO Ex No. 6, Rush Direct, p. 8)

As explained by Mr. Bresette, some of the hedge costs associated with the electricity that is hedged using NYMEX natural gas futures contracts are included in the "PP = Purchased Power Costs" component of the FAC. Sometimes GMO will convert a natural gas cross hedge to an electricity forward. When that happens, the hedge adjustment from the natural gas contract that effectively fixed the future price of electricity through the cross hedge is recorded in Account 547 and included in the "FC = Fuel Costs Incurred to Support Sales" component of the FAC. The price fix which began as a natural gas cross hedge is converted from one derivative to another derivative. It is converted from a NYMEX futures contract for natural gas to a forward contract for electricity. Much like the hedge adjustment recorded in Account 547 which occurred because the natural gas market had moved from the time the hedge was initiated to the time it was closed. The Company is locked into a price for electricity that ends up being either less or more than the prevailing spot price for electricity. That non-cash opportunity gain or loss on the electricity forward which began as a NYMEX natural gas futures contract is included in Account 555 and the PP = Purchased Power Costs" component of the FAC. (GMO Ex. No. 3, Bresette Surrebuttal, p. 12)

Staff's allegation that GMO's accounting of its hedge program is intended to mislead and "misrepresent the state and condition of the Company's finances and operations" (Staff

Brief at 11) is also totally false. As Mr. Bresette testified, GMO discloses its accounting methods in the notes to the financial statements of GMO's FERC Form 1. (GMO Ex. No. 3, Bresette Surrebuttal, p. 7) In GMO's FERC Form 1, GMO discloses the fair value of these contracts that are subject to regulatory treatment. In addition, the Company has consistently disclosed that the gain or loss on these types of contracts which mitigate both fuel and power price risk are recorded to fuel expense (i.e. FERC Account 547).[1] In the derivative footnote, GMO discloses the hedging program and the purpose of the program. GMO typically states something to the effect of:

> GMO's risk management policy is to use derivative instruments to mitigate price exposure to natural gas price volatility in the market. The fair value of the portfolio relates to financial contracts that will settle against actual purchases of natural gas and purchased power. (KCP&L Greater Missouri Operations Company, FERC Form No. 1, Page 123.29)

In a table in the footnote, the Company discloses the fair value of the natural gas hedges recorded in a regulatory account and the amount of gain or loss recorded in fuel expense in 2009 and 2010. (GMO Ex. No. 3, Bresette Surrebuttal, p. 7)

Staff also challenged the relevance or importance of the *Suggestions in Support of Nonunanimous Stipulation And Agreement* filed in Case No. ER-2005-0436 and the transcript of the on-the record presentation related to the Stipulation. (Staff Brief at 13-14) As previously discussed in GMO's Initial Brief at 46-48, the Staff's *Suggestions In Support Of Nonunanimous Stipulation And Agreement* in Case No. ER-2005-0436 clearly indicated that Staff understood that Aquila's hedging program included both "natural gas and purchased power hedging." (GMO Ex. No. 11, pp. 1-2) The Suggestions goes on to state: "This

[1] See exhibit GMO Ex No. 3, Bresette Surrebuttal, Schedule RAB-1 for copies of GMO's derivative footnote from 2006 – 2011.

accounting authority is acceptable to the Staff and should be implemented by the Commission because it allows Aquila to track the benefits and related costs for its hedging program consistent with how fuel costs are developed and be in compliance with generally accepted accounting principles once the Commission grants the authority." (Id. at 2) (emphasis added) (Tr. 166-70)

At page 13 of the Staff Brief, the Staff argued that "Purchased power is not a fuel cost". However, Staff has previously recognized in the *Suggestions* in Case No. ER-2005-0436 that the hedging program costs should be booked consistent with "how fuel costs are developed and in compliance with generally accepted accounting principles." (GMO Ex. No. 11, p. 2) GMO has acted consistently with these principles.

As noted above, in reality, the accounting issues raised by Staff are not "prudence" issues at all, but appear to be Staff's attempt to prevent recovery of prudently incurred hedging costs, based upon Staff's strained interpretation of a *Non-unanimous Stipulation and Agreement* in Aquila 2005 rate case (Case No. ER-2005-0436) and Staff's requested revisions to the Company's FAC tariff sheets. Staff motivation for raising this issue is revealed in the Staff Brief when they attempt to explain "Why is this accounting issue important?" (Staff Brief at 15) Staff claims that the FAC Tariff Sheets allow recovery through the FAC of hedging costs in Account 547, but not in Account 555. Therefore, any hedging costs in Account 555 would not be recoverable for this reason. (Id. at 15)

In the process of constructing an argument designed to deny recovery of prudently incurred hedging costs, Staff failed to even address the Commission's *Order Clarifying Report and Order* issued on May 22, 2007 in Case No. ER-2007-0004, (Aquila's 2007 rate case), where

the Commission clearly stated on page 1: "Under the Stipulation and Agreement, prudently incurred hedging costs will flow through the fuel adjustment clause…."

Staff also totally ignored seven years of regulatory history. The Company has been recording the settlements of those hedges in account 547 since the 2005 Aquila rate case. (GMO Ex. No. 6, Rush Direct, p. 5) Notwithstanding the fact that the Company has been audited by Staff for two previous FAC audit periods and had its rates and operations reviewed in four rate cases, and the Company also has external auditors who have given GMO unqualified statements related to its books and records (GMO Ex No. 3, Bresette Surrebuttal, Schedule RAB-2)[2], Staff now has decided that certain hedging costs were placed in the wrong account, and therefore, they should not be allowed for recovery from the customers that the hedging programs were designed to protect. Staff auditors have been aware that GMO was hedging its purchased power with natural gas hedges, and the Staff has never questioned the accounting of these hedge costs until this case. In fact, until this case, GMO has had no indication from Staff that it disagreed with the inclusion of hedge settlement in the FAC.

For the reasons stated herein, the Commission should reject Staff's position that the Company has not properly accounted for its hedging costs, or that hedging costs are not recoverable under the FAC mechanism. Instead, the Commission should find and conclude that GMO has properly accounted for its hedging costs, consistent with the Uniform System of Accounts, previous stipulations and agreements, and orders of the Commission.

[2] Deloitte & Touche, LLP, the Company's external auditors, have stated in these opinions:
"In our opinion, such regulatory-basis financial statements present fairly, in all material respects, the assets, liabilities, and proprietary capital of the Company as of December 31, 2010, and the results of its operations and its cash flows for the year ended December 31, 2010, in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in the Uniform System of Accounts and published accounting releases." (Id. at Schedule RAB-2, page 6 of 7)

IV. GMO WAS PRUDENT IN ITS USE OF NATURAL GAS FUTURES CONTRACTS TO MITIGATE THE PRICE RISK ASSOCIATED WITH SPOT PURCHASED POWER DURING THE FAC AUDIT PERIOD.

In its brief, Staff raised the following concerns with regard to GMO's cross-hedging program:

(1) "First, the effectiveness of this cross-hedging strategy is entirely dependent on the degree of correlation between natural gas prices and on-peak spot-market purchased power prices. That correlation is simply not strong enough to support GMO's cross-hedging strategy." (Staff Brief at 17);

(2) "Second, there is a gross time mis-match between the hourly spot-market prices and the monthly average natural gas futures prices." (Staff Brief at 19); and

(3) "Third, GMO was unable to provide to Staff any studies performed before GMO implemented its cross-hedging program that show that such a hedging program would be prudent and effective." (Staff Brief at 19).

These allegations will be addressed below:

A. Effectiveness of GMO's Cross-hedging Strategy

With regard to the degree of correlation between natural gas prices and on-peak spot-market purchased power prices, the Company has already exhaustively addressed the evidence that demonstrated that there is a sufficient link between natural gas and electricity prices to permit the use of cross-hedging. (GMO Brief at 26-34)

In its Brief, Staff pointed to Mr. Eave's correlation analysis which showed a correlation co-efficient of 0.8941 between SPP Electricity prices with the NYMEX natural gas settlement prices from February 2007 through August 2011. (Staff Brief at 17-18) Rather than recognizing that Mr. Eaves' analysis supports the conclusion that the natural gas and on-peak

electricity prices have, in Mr. Eaves' words, a "strong positive association for the data set in the analysis period" (Staff Ex No. 1, Eaves Direct/Rebuttal, p. 15; Tr. 317-18), Staff draws the incorrect conclusion that this correlation "is not sufficient to demonstrate an effective hedge…" (Staff Brief at 17-18)

Staff seems to be concerned that 0.8941 is slightly less than the 0.90 correlation coefficient referenced in GMO Ex No. 19. During cross-examination, Staff witness Eaves confirmed that he would recommend a minimum correlation coefficient (or r-value) of 0.85 as a rule of thumb to determine if a data set has a strong positive correlation. (Tr. 314). He also testified that he would use this same correlation coefficient as a rule of thumb for determining if a data set was "highly correlated." However, he also recognized that the number itself was "subjective" and required the exercise of professional judgment. (Tr. 317-18):

> Q. Is the .85 the minimum level of correlation coefficient that you believe would indicate that the data are having a strong positive association?
>
> A. Yes.
>
> Q. What is the minimum level of correlation coefficient that you believe would indicate that data are highly correlated?
>
> A. I think as -- as I stated in response to this data request, as a rule of thumb, the .85 is probably a good range. Some of the things to think about is not every commodity, not every item that you're trying to draw a correlation to is the same. So some things that show .85 you might -- you might want to have a little higher correlation to it to get a better relationship.
>
> But those things aside, what we're talking about here has -- the relationship between these two commodities have over a long period of time tend to have a high level of correlation.
>
> Q. So you're saying that a .85 is a minimum level from your perspective to define it as being highly

correlated?

A. If I had to pick a number, 85 sounds -- .85 sounds like a good number.

Q. Okay.

A. I mean, again, I come back to my original statement and we're -- it's difficult to say this is the number, because that number is -- it's subjective, and sometimes you have to use professional judgment.

The R-squared of Mr. Eaves' 0.8941 correlation coefficient would be 0.79941 (0.8941 x 0.8941 = 0.79941) Mathematically, this R-squared would equate to 99.93 percent of the 0.80 R-squared standard referenced in GMO Ex No. 19. However, just because the R-squared is very slightly less than 0.80 does not mean that the hedges are not effective. As Mr. Bresette and Mr. Blunk testified, a lower R-squared than 0.80 does not mean that the hedge is not "effective". It means that it would have a different accounting treatment than a hedge that, after the fact, met the 0.80 R-squared test. (GMO Ex No. 7, Bresette Surrebuttal, p. 9; GMO Ex. No. 2, Blunk Surrebuttal, p. 23).

Q: If a hedge does not meet these criteria, is it considered not to be an effective hedge?

A: No. It just means the hedge receives different accounting treatment. If the hedge is not "highly effective" under accounting rules, then a portion of the unrealized gain or loss on the hedge is deemed to be ineffective and the change in fair value must be reflected in the income statement. The mere fact that FAS 133 addresses what to do with hedges that do not meet the high hurdle of "highly effective" illustrates that the FASB anticipated entities would use hedges that are not "highly effective."(GMO Ex No. 7, Bresette Surrebuttal, p. 9)

Next, Staff cited to the *SPP Marketing Monitoring Report for May 2009* where it stated: "Coal generation was setting market price 48 percent of the time <u>in May</u>." (Staff Ex No. 11, p. 3)(emphasis added) This reference is no support for Staff's proposed disallowance

since the fact that coal generation is often setting the market price in the off-peak month of May has no relevance to the question of whether natural gas prices are driving electric prices during the on-peak summer months when GMO was hedging its spot, on-peak purchased power costs. As Mr. Blunk explained, "GMO uses natural gas derivates to hedge natural gas price risk and 'on peak' purchased power price risk. … 'On peak' is defined as the Monday-Friday 5x16 block, excluding North American Electric Reliability Corporation holidays." (GMO Ex No. 1, Blunk Direct, pp. 28-29) The competent and substantial evidence shows that natural gas is the fuel that is driving the price of electricity during on-peak periods. (GMO Brief at 28-30)

B. Staff's Alleged Time Mismatch Between Hourly Spot-Market Prices and Monthly Average Natural Gas Futures Prices.

Staff's Brief also attempted to rebut the evidence that shows that there is a strong correlation between natural gas prices and on-peak electric prices by citing to Mr. Eaves' One-Day Analysis for a day in August, 2009. (Staff Brief at 19) Based upon this flawed analysis, he concluded there was little or no correlation in this data. (Staff Ex. No. 1, Eaves Direct/Rebuttal, p. 17)

Initially, it should be noted that Mr. Eaves confirmed that he performed the correlation analysis -- evidently the key factor in determining Staff's position that GMO was imprudent -- after Staff filed its Report with the charge of imprudence. (Tr. 311, line 16) The Staff Report was filed November 28, 2011, and Mr. Eaves Direct/Rebuttal Testimony was filed March 21, 2012, so it appears that Mr. Eaves performed Staff's key imprudence analysis in that time period. (GMO Ex. No. 2, Blunk Surrebuttal, p. 13) Such information would not have been available to GMO prior to the time the decision to cross-hedge was made.

More importantly, as Mr. Blunk explained in his surrebuttal testimony, Staff's "One Day" analysis is flawed and erroneous. (GMO Ex. No. 2, Blunk Surrebuttal, pp. 13-17). The following is a list of the more obvious errors with Staff's "One Day" analysis which are discussed in detail in Mr. Blunk's Surrebuttal Testimony:

(1) With over 500 days of data readily available Staff randomly chose 1 day of data and suggested that 1 randomly chosen day was representative. The review period represents a period of about 547 days. Staff did not explain why it rejected the other 546 days of the review period. This is especially troublesome because all of the data Staff used was available before the audit began. The reason for choosing just one day out of 547 was not due to unavailability or cost of data. (Id. at 14)

(2) Staff misinterpreted or misunderstood the Company's data filings made pursuant to 4 CSR 240-3.190 ("3.190 data filings"). The Company's monthly data filings made pursuant to 4 CSR 240-3.190 ("3.190 data filings") include spot purchases plus all other purchases. The 4 CSR 240-3.190 Reporting Requirements for Electric Utilities and Rural Electric Cooperatives paragraph (1)(E) require:

> Megawatt amount and delivery prices of hourly purchases and sales of electricity from or to other electrical services providers, independent power producers, or cogenerators, including the parties to purchases and sales, and the terms of purchases and sales.

Those monthly 3.190 data filings show all power purchases by hour by day by counterparty. Staff has no discussion in its testimony or its brief explaining how Mr. Eaves filtered or adjusted that data to account for the longer term purchases which are included in the data. Instead of scrubbing the data, Mr. Eaves suggests he combined GMO's data with data from KCP&L. Since the 3.190 data filings include longer term transactions, the 3.190 data may not be representative of the prices that GMO faced on the spot market. The SPP pricing data Staff

used to calculate the 0.8941 correlation between natural gas and power prices does not have that issue. (Id. at 15)

(3) Staff relied exclusively on hindsight data. Since the hedges that are being evaluated in this review were placed before June 1, 2009, Staff should have limited its reasonableness evaluation to data available before June 1, 2009. The "one-day" of data that Staff is relying on was August 3, 2009, obviously occurring after the June 1, 2009 date. (Id. at 16)

(4) Staff used the wrong New York Mercantile Exchange ("NYMEX") pricing data or misinterpreted the data used. (Id. at 14)

(5) Staff's calculations cannot be verified or replicated. (Id. at 14, 19)

For these reasons, Staff's "One Day" analysis should not be relied upon by the Commission.

C. Staff's Alleged Need For More Information Regarding the GMO's Hedging Program

In its Brief, Staff argued that "GMO was unable to provide to Staff any studies performed before GMO implemented its cross-hedging program that show that such a hedging program would be prudent and effective." (Staff Brief at 19-20) Contrary to Staff's argument, the evidence indicates that Staff's data request requested "any studies and/or analysis that GMO or its consultants have performed showing the correlation between Southwest Power Pool on-peak purchased power price and NYMEX natural gas futures price." In response, GMO provided "a study which showed the correlation between NYMEX Henry Hub natural gas futures and SPP on-peak power prices exceeded 0.90." (GMO Ex No. 2, Blunk Surrebuttal, p. 30) Staff's Brief misinterprets or mis-states the Staff's original request for information, and incorrectly implies that the Company did not have any studies that showed that its hedging program was prudent and effective. This implication is not correct. The Company also relied upon studies and information provided by Kase, as discussed herein, for developing its hedging programs.

Staff also suggested that "GMO should have engaged in discussions with the Staff before initiating a hedging program of this sort." (Staff Brief at 20) In light of the events discussed below which detail numerous discussions with Staff regarding GMO's hedging program, such criticism is unwarranted. The evidence indicates that Staff has been aware of the Company's hedging program for seven years. Staff has criticized the program on occasion, and the Company has responded to those criticisms. GMO encouraged the Staff itself to participate in the development of its most recent hedging program. The Company also tried to keep Staff apprised of each step in the process of developing its hedging strategy by inviting Staff's participation in the overview of the program. (GMO Ex No. 7, Rush Surrebuttal, pp. 24-25) It is therefore incorrect for the Staff to suggest that GMO has not provided Staff with opportunities to discuss the hedging program, or other relevant information as GMO implemented its cross-hedging program.[3]

Since 2004, GMO has employed essentially three different hedging programs. All three programs hedged purchased power with natural gas derivatives. GMO's February 25, 2005, hedge program, which has sometimes been referred to as the "One-Third Strategy" and at other times as the "post 2004 Hedging Strategy," was attached as Schedule 2-2 to Staff witness Charles R. Hyneman's Direct Testimony in Rate Case No. ER-2005-0436 ("ER-2005-0436") and Schedule 4-2 to Staff witness Charles R. Hyneman's Surrebuttal Testimony in Rate Case No. ER-2007-0004. That attachment clearly states:

> Rather than implement a generally less efficient on-peak purchase power hedge plan at a remote hub Aquila will convert on-peak purchase power quantities into equivalent quantities of natural gas. To determine the equivalent number of natural gas contracts to hedge on-peak purchased power, a market heat rate is computed. (GMO Ex. No. 5, Heidtbrink Direct, p. 4)

[3] Mr. Scott Heidtbrink has provided a lengthy history of, and Staff's involvement in the Company's hedging program. (GMO Ex. No. 5, Heidtbrink Direct, pp. 3-11) The following history is taken from this testimony.

Staff first investigated GMO's hedging program in 2005. Staff witness Charles R. Hyneman included a copy of "Missouri Natural Gas & Purchase Power Hedge Strategy" GMO's February 25, 2005, hedge program as a Schedule to his Direct Testimony in Case No. ER-2005-0436. He also discussed the program through the course of the case. In Case No. ER-2005-0436 Direct Testimony, Staff witness Cary G. Featherstone at page 32 stated: "Staff's position is that hedging is done to mitigate natural gas and energy costs and should be reflected in the IEC mechanism to reduce the substantial risk of extremely high energy markets." (GMO Ex. No. 5, Heidtbrink Direct, pp. 5-7)

In Case No. ER-2005-0436, Staff witness Charles R. Hyneman expressed a concern about Aquila's "post-2004 Hedging Strategy" that was in place at that time. Mr. Hyneman felt that program was too systematic and too rigid. (GMO Ex. No. 5, Heidtbrink Direct, p. 6) Staff witness Cary G. Featherstone expressed concern that Aquila was booking hedging costs to Account 430.17, i.e., "below-the-line". At page 33 of his testimony, Mr. Featherstone advocated that "the results of the hedging program and prudently incurred costs to implement such program should be included in the true-up IEC Audit," i.e., "above-the-line." (Id. at 6) His testimony also indicated that "The proposed IEC mechanism that may result from the Commission's decision in this case, should include the results from a well thought out, managed and prudently executed hedging program." (GMO Ex. No. 4, Clemens Surrebuttal, p. 5)

In Case No. ER-2007-0004, Staff witness Charles R. Hyneman repeated his concern about Aquila's "post-2004 Hedging Strategy" as being too systematic without giving consideration to current market conditions. He also noted that Aquila had made no changes in its hedging policy since he examined it in 2005. He again attached Aquila's "Missouri Natural

Gas & Purchase Power Hedge Strategy" as a Schedule to his Surrebuttal Testimony. (GMO Ex. No. 5, Heidtbrink Direct, p. 6)

Based upon the concerns voiced by Staff, GMO agreed to include hedge costs and benefits in its retail revenue requirement from Case No. ER-2005-0436. GMO included the results of its hedging programs in its FACs beginning with Case No. ER-2007-0004, and continuing on through Case Nos. ER-2009-0090 and ER-2010-0356. (Id. at 6-7) (GMO Ex. No. 5, Heidtbrink Direct, pp. 6-7)

Following the conclusion of Case No. ER-2007-0004, GMO agreed to look into other available hedging programs and decided to retain Kase and Company, Inc. ("Kase"), a risk-management and trading technology firm which provides trading, hedging and analytical solutions for managing market risk, to develop a natural gas price hedging program. (Id. at 7) In April 2007, the Company invited Commission Staff members Schallenberg, Featherstone and Hyneman to attend an overview and training meeting relating to the Kase program of hedging natural gas for peak generation as well as to mitigate the risk of peak purchased power price volatility. (GMO Ex. No. 4, Clemens Surrebuttal, p. 7) Mr. Hyneman attended by telephone. Staff did not give any feedback relating to the program, other than the endorsement of the KCP&L program mentioned in their testimony. Mr. Hyneman did encourage the Company to continue to hedge its risk but to do it with a program other than the One-Third program in place. (Id. at 7) As Company witness Wm. Edward Blunk explained, GMO has continued that Kase program. (GMO Ex No. 1, Blunk Direct, pp. 26-30) GMO ultimately chose Kase because it was a proven program, the Staff's familiarity with the program, (KCP&L was using the Kase Hedging Program) and the program provided for some subjectivity. (GMO Ex. No. 5, Heidtbrink Direct, p. 7)

Based upon this extensive regulatory history and Staff involvement in the Company's hedging program, it is clear that the Company provided Staff with opportunities to discuss and have input into the development of the Company's evolving hedging program. Therefore, Staff's criticism that it should been provided with more information or opportunities to discuss the Company's hedging program should be discounted by the Commission.

D. Staff's Allegation That GMO's Hedging Program Is Insensitive to the Market

Finally, Staff argued that "GMO's hedging program actually increased the risk to the ratepayers because it was – and is –insensitive to the market." (Staff Brief at 20). This criticism first appeared in the case in Staff's Position Statement. (Staff Position Statement at 1) However, this allegation is not based upon any evidence presented by Staff witnesses, and it is not correct.

Ms. Lena Mantle indicated during cross-examination that this criticism, to the best of her knowledge, was not included anywhere in her testimony or other Staff witness's testimony (Tr. 209-10):

> Q. In the Staff's position statement, under the first two issues, the Staff states, GMO was imprudent in that it relied on an overly rigid market insensitive cross hedging strategy resulting in the loss of $14.9 million during the review period. Is that your understanding?
>
> A. That's how I remember.
>
> Q. Does your prefiled testimony in this case assert that GMO's hedging strategy was overly rigid?
>
> A. No.
>
> Q. Does your prefiled testimony in this case assert that GMO's hedging strategy was market insensitive?
>
> A. No.

> Q. Do you know of any prefiled Staff testimony that includes an assertion that GMO's current hedging program is overly rigid or market insensitive?
>
> A. I don't recall any, but Mr. Hyneman and Mr. Eaves had quite a few pages of testimony. I really can't say.

If the Commission searches for references to "insensitivity" or "rigid" in the testimony of Staff witnesses Mantle, Eaves and Hyneman, it will not find any allegations that the current GMO hedging program is "insensitive to the market" or "rigid", as alleged by Staff counsel. The only reference that is remotely close is Mr. Hyneman's discussion of Staff's position in the 2005 Aquila rate case where Staff suggested that the One-Third Program was "too systematic and too rigid." (Staff Ex No. 3, Hyneman Rebuttal, p. 15, lines 7-9)

GMO specifically stopped utilizing its One-Third Program in favor of the Kase Program in order to employ a less rigid and more market sensitive approach to its hedging decisions. (GMO Ex. No. 5, Heidtbrink Direct, pp. 5-7) As explained by Mr. Blunk, GMO's natural gas hedging program is oriented toward finding a balance between the need to protect against high prices and the opportunity to purchase gas at low prices. It is not rigid or market-insensitive. GMO's hedging program first divides the hedge volume into two parts. One-third of the volume is not hedged but is left to primarily absorb the risk of requirements being less than projected and secondarily float with the market. The remaining two-thirds are hedged under two hedging programs, Kase and Company, Inc.'s HedgeModel and ezHedge. (GMO Ex No. 1, Blunk Direct, p. 26)

The approach of the HedgeModel program is to identify statistically favorable points at which to hedge. The strategy can be thought of as a three-zone strategy comprised of high price, normal price and low price zones. The high price zone identifies prices that are threatening to

move upward. In this price zone actions are taken to protect against unfavorable high price levels, mostly through the use of options-related tactics. The normal price zone identifies prices that are in a "normal" range, neither high enough to warrant protecting price, nor low enough to be considered "opportunities." No action is taken whenever prices are deemed to be in the normal price range. The low price zone identifies prices that are statistically low. In this zone, actions are taken to capture favorable forward prices as the market moves into a range where the probability of prices remaining at or below these levels is decreasing. While the main focus in the high price zone is defensive, to set a maximum or ceiling on prices, in the low price zone the focus is on capturing attractive prices. (Id. at 27)

Kase's ezHedge generates hedging signals based on market cycles and uses a volume averaging approach, similar to dollar cost averaging. The model divides a price range into five zones based on an evaluation of percentile levels over a range of look-back periods. It selects the look-back length based on market behavior relative to the highest and lowest zones. This approach results in hedges being placed under all but the most favorable conditions, in which case volumes are left unhedged. The volume averaging aspect results in more frequent hedges when prices are in the lower priced zones and fewer hedges are in the higher price zones. (Id. at 28)

ezHedge usually results, over time, in all of the volumes placed in that program being hedged. On the other hand, if prices do not fall low enough, or if prices stay too high, there is a possibility that certain contract months could go unhedged when using HedgeModel. Combining ezHedge with HedgeModel helps ensure that at least a modest portion of the exposure has a high probability of being hedged. (Id. at 28)

The primary purpose for leaving one-third of the forecast volume requirements unhedged is to provide a cushion for the possibility that actual requirements may turn out to be less than projected. GMO updates its projected requirements monthly. If the projected requirements are determined to be significantly different than prior projections, hedge volumes may be adjusted. If the volumes increase, the increases are added to the volume available to hedge. If the volumes decrease but the decrease is not material and GMO already has the two-thirds hedged, those hedges that exceed the two-thirds are liquidated. If the decrease were material, GMO would develop a remediation strategy. (Id. at 29)

Staff observed that: "Natural gas prices collapsed after mid-2008, from nearly $13.60 per MMBTU to $2.50 by August, 2009." (Staff Brief at 23). Obviously, declining energy prices were beneficial to customers, but this collapse in the energy markets also explains, in large measure, the reason that there were losses on the derivative side of the hedge transactions during this FAC audit review period. As Mr. Heidtbrink explained in his direct testimony:

> It was always understood that in a declining natural gas market that the natural gas hedges would lose money. It is also important to look at both sides of the equation. Since natural gas and wholesale power prices are still correlated, GMO's cost for purchased power has decreased as well. Therefore, as shown in Mr. Blunk's Direct Testimony the cost of fuel plus purchased power including hedges has decreased since May 2009. (GMO Ex. No. 5, Heidtbrink Direct, p. 11)

The losses that occurred were anticipated in a declining energy market. This expected result does not indicate, as Staff alleges, that "GMO's hedging program was overly-rigid and un-thoughtful." (Staff Brief at 23). Staff is merely engaging in more hindsight analysis of the Company's hedging program, without providing any evidence of what the Company should have done under the circumstances that existed at the time the Company was making its hedging decisions.

Staff also lodged the unwarranted criticism that the hedging insurance was "too costly." (Staff Brief at 24). Staff indicates that the hedge costs added $1.80 to the price of every megawatt that GMO produced and that this additional expense is unjustified and unreasonable. (Id.) During the hearings, Mr. Blunk put that $1.80 amount in perspective. (Tr. 118-20):

.

> Q. Would that roughly equate to the $1.80 that Mr. Thompson was referring to per megawatt hour or not?
>
> A. Well, if you only looked at the futures side, you get to the $1.80 or something like that, but if you recognize both sides of the hedge, there is really no adjustment.
>
> Q. Well, did you do an analysis of that $1.80 effectively and whether that was a reasonable cost for the insurance that you were buying to cover the risk of the electric price spikes?
>
> A. I did. But if you'd like to go back to the one schedule that Mr. Thompson gave me from Ms. Mantle's testimony, that would be an easy place just to even eyeball it without even going into my own testimony of schedule where it's –
>
> Q. That's Schedule 9, I believe.
>
> A. This one (indicating).
>
> Q. Yes.
>
> A. In the lower right-hand corner you'll see it refers to total purchases and it says total purchases, the dollar cost was on average $26.86. Well, $1.80 of $26 is less than 10 percent. And where I live, sales tax is almost 9 percent. So what's a reasonable amount to pay for this insurance? Industry rule of thumb, as long as you're less than 30 percent, you've done well. We've done very well. (emphasis added)

The schedule that Mr. Blunk was referring to from staff witness Mantle (LMM-2-1) which shows the $26.86 represents the average purchase price for GMO's purchased power. The $1.80 for hedging costs was less than 10 percent of the total average purchased power costs (i.e. 6.7%). Even though the $1.80 amount is a reasonable amount considering the total cost involved, that number itself is not representative of the actual cost of the hedge as it ignores both sides of the hedge. Unlike Staff, Mr. Blunk's testimony looked at both sides of the hedge and calculated the net cost of the hedge when both the derivative and physical side of the hedge is examined to be **_____**. (GMO Ex No. 2HC, Blunk Surrebuttal, Schedule WEB-9). The amount is far less than what Staff alleges. Staff argues at p. 24 of its brief that GMO lost $14.9 million to protect $40 million and that this insurance was too costly. Staff's argument is flawed because it compares two different time periods and does not recognize two sides of a hedge. The $40 million dollar risk is that estimated annual expense for on-peak power price risk. (Id. at Schedule WEB-19) The $ 14.9 million dollar cost of the derivative side of the hedges was based on the 18 month FAC audit period. In order for the comparison to be valid, it must be for the same time periods. More importantly, the $14.9 million dollar cost ignores the offsetting gains in the physical market. Because the price of energy dropped during the FAC audit period, the net cost of GMO's cross hedging was approximately **_____**. (Id.) Instead of the insurance costing $14.9 million, the insurance cost **_____** which is a reasonable amount to pay considering the power price risk was greater than $40 million.

Finally, Staff argues that "GMO has attempted to cross-hedge by investing in natural gas futures, but these instruments do not create a real hedge at all." (Staff Brief at 25) GMO addressed this argument at length in its Initial Brief. (GMO Initial Brief at 3-9, and 23-38) As explained therein, cross-hedging is a widely accepted hedging technique that is used in the

electric and many other industries to hedge the risk of a commodity that does not have a futures market for the commodity that is being hedged. It is not a "gamble" as suggested by Staff Brief at 25. It is a prudent attempt to hedge the risk of a volatile purchase power market that does not have an organized market that allows the purchase of electric futures contracts. Staff's argument should be rejected by the Commission.

V. CONCLUSION

In conclusion, Staff has raised nothing in their Initial Brief which should cause the Commission to have any concerns regarding the Company's hedging program during the FAC audit review period.

As explained in GMO's Initial Brief, the Commission should reject the unprecedented position being advocated by the Commission Staff in this case. As the record clearly demonstrates, cross-hedging of electric price risk using natural gas futures contracts is a widely taught and accepted hedging technique. The Staff has been aware that the practice of cross-hedging has been used by Aquila since 2005, and while they have raised other concerns about Aquila's previous hedging programs (which the Company previously addressed), cross-hedging has not been previously raised as an issue. When Aquila revised its hedging program in 2007 in response to the Staff's concerns, the Staff was included in the discussions that set up the current program. However, until this case, GMO was never informed that Staff had any issues with the use of the cross-hedging method.

When competent and substantial evidence is fully considered, the Commission should find and conclude that Staff failed to raise a "serious doubt" regarding the prudence of the Company's hedging program. Notwithstanding Staff's failure to meet its burden of proof under

the prudence standard, the Company has fully addressed the concerns raised in the record, and has shown that its hedging program is prudent.

As explained in the Company's Initial Brief, the evidence demonstrates that:

(1) Natural gas and spot purchased power prices are highly correlated when judged by industry and accounting standards. The hedge data meets both the "R-squared Test" of around 0.80, and the related "Dollar Offset Test" used by the industry and the accounting profession to determine the effectiveness of the hedges.

(2) The Staff's "perfect correlation" test is unrealistic and is not used anywhere in the industry or by other regulatory agencies for judging the link between natural gas and electricity prices, and should be rejected by the Commission.

(3) GMO has properly accounted for its hedging costs under the uniform system of accounts, previous stipulations and agreements, Staff's suggestions in support of a previous stipulation and agreement, Staff's testimony in a previous case, and orders of the Commission.

(4) GMO'S FAC tariffs authorize purchased power hedging costs to be passed on the customers through the FAC mechanism.

(5) Most importantly, the evidence indicates that the Company's hedging program is prudent, and there is no lawful basis for a disallowance and refund in this case.

WHEREFORE, KCP&L Greater Missouri Operations Company respectfully submits this reply brief, and requests that the Commission adopt the positions stated herein.

Respectfully submitted,

/s/ James M. Fischer
James M. Fischer, MBN 27543
Fischer & Dority, P.C.
101 Madison—Suite 400

Jefferson City, MO 65101
Phone: (573) 636-6758 ext. 1
Email: jfischerpc@aol.com

Roger W. Steiner, MBN 39586
Kansas City Power & Light Company
1200 Main—16th Floor
Kansas City, Missouri 64105
Phone: (816) 556-2314
Fax: (816) 556-2787
Email: roger.steiner@kcpl.com

Attorneys for KCP&L Greater Missouri Operations Company

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, First Class mail, postage prepaid, this 27th day of July, 2012, to all counsel of record in this matter.

/s/ James M. Fischer
James M. Fischer