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 QCA for Service Provided to Customers in its Service Territory	))))	File No. HT-2011-0343 Tariff YH-2012-0159

RESPONSE OF KCP&L GREATER MISSOURI OPERATIONS COMPANY
TO STAFF'S INFORMATIONAL PLEADING AND SUGGESTION

KCP&L Greater Missouri Operations Company ("GMO" or "Company") states the following in response to Staff's Informational Pleading and Suggestion, pursuant to the Commission's Order of October 27, 2011:

1. In its Quarterly Cost Adjustment ("QCA") Rider filing of October 14, 2011, GMO advised the Commission that the tariff sheet submitted by the Company did not reflect any refunds related to Ag Processing, Inc. v. KCP&L Greater Missouri Operations Co., No. HC-2010-0235. Therefore, Staff is correct that the tariff sheet did not implement the refund ordered by the Commission in its Report and Order of September 28, 2011. GMO believes that its filing is consistent with both the letter and the spirit of the QCA Rider, as well as the Commission's Report and Order.

2. Staff also filed a letter with the Commission on November 3, 2011, requesting that the Company file new tariff sheets pursuant to its QCA Rider that incorporate the ordered refund. GMO does not believe that such new tariff sheets are appropriate for the reasons noted below.

3. The Commission did not order an immediate refund of the amounts in question, but rather stated that a refund should occur "through operation of the Quarterly Cost

Adjustment."[1] Consequently, GMO understood that the process of refunding any of the amounts previously collected in the QCA relating to 2006 and 2007 hedging costs would occur -- once such refunds became the subject of a final decision or judgment -- over the same period of time during which such costs were collected. As discussed below, the hedging costs that were the subject of Ag Processing's complaint case were incurred by GMO over 21 months and were collected from customers under the QCA Rider over a 30-month period. Any refund of hedging costs collected from customers over 2 ½ years was not contemplated by GMO's 10th Revised Tariff Sheet No. 6.10 filed on October 14. This revised tariff sheet stated that the QCA adjustment would become effective December 1, 2011 and conclude on November 30, 2012 -- the standard period of 12 months, not the 30 months over which the hedging costs were charged to customers.

4. Based upon the Commission's November 2, 2011 Order Denying Rehearing, it is the Company's intent to appeal this decision to the Court of Appeals pursuant to Section 382.510. If the Company were ordered to flow all of the refunded amounts in question through only one QCA period, GMO will be forced to ask the Court of Appeals to stay or suspend the operation of the Commission's decisions pursuant to Section 386.520.1, given the catastrophic effect that a 12-month refund would have on the financial viability of GMO's steam operations in the St. Joseph area.

5. GMO's steam operation has only recently generated income. In 2005 and 2006 it suffered net operating losses of $1,256,855 and $594,358. In 2007 its net operating income was only $182,792. Since then, GMO's net operating income has steadily increased, reaching $459,538 in 2008, $1,259,406 in 2009, and a high of $1,721,140 in 2010. However, any action by the Commission ordering GMO to refund $2,885,456 (the total of the refunds 2006-07 figures

[1] Report and Order, Ordered Paragraph 1 at 20.

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contained in the Report and Order) over a standard 12-month QCA period would virtually cripple the steam business in St. Joseph.

6. Moreover, any payment by GMO of the refunds at this time while the litigation is still in progress would raise questions of mootness. If a new tariff went into effect where GMO was refunding the disputed hedging costs, it is likely that any reviewing court would find that questions concerning those costs charged to customers under the 2006-07 QCA tariffs are now moot. See State ex rel. Southwestern Bell Tel. Co. v. PSC, 645 S.W.2d 44, 51 (Mo. App. W.D. 1983). See also In re Southwestern Bell Tel. Co., 18 S.W.3d 575, 577 (Mo. App. W.D. 2000); State ex rel. County of Jackson v. PSC, 985 S.W.2d 400, 402-03 (Mo. App. W.D. 1999).

7. Even assuming that the Commission's refund order of nearly $3 million is upheld on appeal, neither the QCA tariff sheets submitted in this proceeding nor tariff sheets submitted in any future QCA proceeding should order a refund over only one QCA period of 12 months. Such a result would be completely at odds with the QCA process, and neither just nor reasonable.

8. As Ag Processing's Complaint asserted, the charges related to the natural gas hedging program were collected on a quarterly basis through the 2006 and 2007 QCA periods. See Complaint of Ag Processing, Inc. at ¶¶ 49-50, 70-71, No. HC-2010-0235 (Jan. 28, 2010). The Commission's Report and Order acknowledged these quarterly adjustments, noting that "quarterly fuel cost variations are collected from customers over the following 12-month period." See Report and Order, ¶ 22 at 9. Citing the testimony of Ag Processing's expert witness, the Commission observed:

> The effect is to protect steam customers from price volatility by increasing retail prices gradually in a period of increasing prices and reducing prices gradually in a period of decreasing prices, thereby averaging the ups and downs as fuel prices move up and down from quarter to quarter. [Id.]

9. Since the QCA process was based explicitly "on an alignment of customer and Company interests in efficient operations,"[2] any adjustment in a QCA should follow this gradual approach over an appropriate period of time.

10. The hedging costs that were an element of GMO's 2006 and 2007 QCA filings were each collected over a series of 12-month periods. The QCA process began collecting 2006 hedging costs incurred as of April 2006, with an effective date of September 1, 2006 and ran through August 31, 2007. Hedging costs for 2006 and 2007 continued for the next two quarters of 2006 and all four quarters of 2007. As a result, GMO's steam costs for 2006-07 -- including the disputed hedging costs -- were accumulated over 21 months and collected from customers over 30 months.

11. The QCA Rider contemplates that adjustments occurring after a Current QCA will occur no less frequently than 12 months in a "Reconciliation Rate" process, and that a 24-month amortization period may be used "if needed in the Company's discretion to minimize any extraordinary increases in energy charges." See Exhibit 1, QCA Rider at Sheet No. 6.9, § 4. The same process should be employed in cases of extraordinary refunds since the Rider contemplates that refunds will occur pursuant to this process: "Other fuel cost refunds or credits related to the operation of this rider may also flow through this reconciliation process, as ordered by the Commission." Id.

12. It is, therefore, appropriate that the Company's tariff filing in this matter did not include any refund amounts, given the pending complaint litigation, as well as the lack of an established process to manage refunds of charges that were collected over a period that exceeds two years.

[2] Exhibit 1, QCA Rider at Sheet No., 6.9, § 6.

13. The Company would welcome the opportunity to appear before the Commission and confer with Staff on how refunds associated with the complaint litigation should occur, assuming the Commission's Report and Order is affirmed on appeal. There are numerous issues to be addressed. For example, under the existing QCA process decreases in charges are flowed back to customers on the basis of current sales. However, in the complaint case, the hedging costs were charged to customers based upon sales occurring in 2006 and 2007. A straight-forward flow-back of the nearly $3 million in hedging costs today would deliver refunds in a different ratio than the costs were charged back in 2006-07. As a result, customers whose loads were well below their 2006-07 steam usage estimates would today receive sums in excess of the amounts they were charged if an unadjusted refund process were implemented. Consequently, the very customers which the Commission determined that GMO should not have relied upon could receive a significantly larger amount from the refund than the amount they actually paid to the Company for hedging costs.

14. Since the QCA process was intended to spread costs incurred in one quarter over the following four quarters, a similar process should be developed so that any refunds resulting from the complaint case are spread over the identical 30-month period during which they were collected and in a fashion that is fair to all steam customers.

WHEREFORE, KCP&L Greater Missouri Operations Co. requests that the Commission permit the 10th Revised Tariff Sheet No. 6.10 to go into effect and that it convene a conference to determine how any refunds resulting from the Commission's Report and Order in Ag Processing, Inc. v. KCP&L Greater Missouri Operations Co., No. HC-2010-0235, be implemented when and if such refunds become the subject of a final decision or judgment.

Respectfully submitted,

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Attorneys for KCP&L Greater Missouri Operations Company

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, transmitted by facsimile or electronically emailed to all counsel of record this 3rd day of November, 2011.

Karl Zobrist

Attorneys for KCP&L Greater Missouri Operations Company

VERIFICATION

STATE OF MISSOURI)
) SS
COUNTY OF JACKSON)

I, Tim M. Rush, having been duly sworn upon my oath, state that I am the Director, Regulatory Affairs of Kansas City Power & Light Company ("KCP&L"), that I am duly authorized to make this affidavit on behalf of KCP&L Greater Missouri Operations Company, and that the matters and things stated in the foregoing Response to Staff's Informational Pleading and Suggestion are true and correct to the best of my information, knowledge and belief.

Tim M Rush

Tim M. Rush
Director, Regulatory Affairs
Kansas City Power & Light Company

Subscribed and sworn before me this 3rd day of November, 2011.

Nicole A. Wehry

Notary Public

My Commission Expires:

Feb. 4, 2015

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

EXHIBIT 1

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION

P.S.C. MO. No.	1	1st	Revised Sheet No. 6.6
Canceling P.S.C. MO. No.	1		Original Sheet No. 6.6

KCP&L Greater Missouri Operations Company — **For St. Joseph, MO & Environs**
KANSAS CITY, MO 64106

QUARTERLY COST ADJUSTMENT RIDER - STEAM

AVAILABILITY

This Quarterly Cost Adjustment (QCA) Rider applies to all sales of steam service provided under all steam rate schedules and contracts that occur on or after July 1, 2009.

The Company will file rate adjustments quarterly to reflect eighty-five percent (85%) of the change in the actual fuel costs above or below a base amount of $3.9500 per million BTU. The sum of the Current Quarterly Cost Adjustment (CQCA), plus the three (3) preceding CQCAs, plus reconciling adjustments, if any, plus the Reconciliation Rate will be billed in addition to all other charges under applicable tariff provisions.

CALCULATIONS

Current Quarterly Cost Adjustment (CQCA):
The CQCA is the rate adjustment component designed to reflect the customer share of the variation in fuel cost for the most recent quarter. In the computation of the CQCA the numerator is the portion of fuel costs to be collected or refunded based on costs incurred for the previous quarter. The denominator is the number of annual billing units used to compute the rate component.

CQCA = Customer Share of Fuel Cost Variation for the Preceding Quarter divided by Annual Billing Determinants

Or, CQCA = $$\frac{[AM \times (FCPM_{pq} - FCPM_b)] \times FI_{pq}}{BD_{p12} + BDA_{f12}}$$

Or, using spreadsheet software math conventions, except substituting variables for cell references:

CQCA = $((AM * (FCPM_{pq} - FCPM_b)) * FI_{pq})$ /
IF (OR ($BD_{pq} > BD_{pq-4}$ * 1.05, $BD_{pq} < BD_{pq-4}$ * .95), $BD_{p12} + BDA_{f12}$, BD_{p12})

Where:

- CQCA= Current Quarterly Cost Adjustment
- AM= Alignment Mechanism = 85%
- $FCPM_{pq}$= Fuel Cost per million BTU for the preceding quarter
- $FCPM_b$= Base Fuel Cost per million BTU = $3.9500
- FI_{pq} = Fuel Input (million BTUs of fuel input to the steam system) during the preceding quarter
- BD_{pq}= Billing Determinants (million BTU delivered to retail customers) for the preceding quarter
- BD_{pq-4}= Billing Determinants for the corresponding quarter one (1) year prior to the preceding quarter
- BD_{p12}= Billing Determinants for the preceding four (4) quarters
- BDA_{f12}= Billing Determinants Adjustment for the following year; provided, however, that this term shall be zero (0) unless BD_{pq} varies by more than five percent (5%) up or down from BD_{pq-4} and Company determines that an adjustment is appropriate.

Note: Billing determinants shall reflect usage corresponding to the period of fuel cost computations, regardless of the "billing" or "revenue month" in which such usage is billed.

December 1, 2009

Issued: November 12, 2009 — Effective: ~~December 12, 2009~~
Issued by: Tim Rush, Director Regulatory Affairs

FILED
Missouri Public
Service Commission
HR-2010-0028; YH-2010-0338

QUARTERLY COST ADJUSTMENT RIDER (Continued)
STEAM

Reconciling Adjustments and the Reconciliation Rate:

At the end of the twelve (12) months of collection of each CQCA, the over- or under-collection of the intended revenues (the numerator of the CQCA) will be applied to customers' bills through a Reconciliation Rate. The Company shall use a collection/refund/credit amortization period of twelve (12) months, provided that an amortization period of twenty-four (24) months may be used, if needed in the Company's discretion, to minimize any extraordinary increases in energy charges. Other fuel cost refunds, or credits related to the operation of this rider may also flow through this reconciliation process, as ordered by the Commission. The Reconciliation Rate shall be calculated similarly to the CQCA, except that the amount shall not be multiplied by the Alignment Mechanism again. Any remaining over- or under-collection from the Reconciliation Rate shall be applied to the next Reconciliation Rate.

DETAILS

1. The cost of fuel will be the amounts expensed in account 501. The amounts expensed will continue to be based on the cost definitions currently used for the inclusion of costs in these accounts and on the currently used cost allocation methods, as explained in some additional detail: the cost of gas will include the cost of physical gas deliveries and financial instruments associated with gas delivered in the quarterly period. The cost of coal expenses to account 501 will continue to reflect the average cost of coal inventory and the cost allocation method(s) including but not limited to the following:

The fuel allocation is performed on a daily basis as is done in actual operations at the Lake Road Generating Station. Fuel expense is allocated based on the following equations:

$F_S = [\, S / (E + S)\,] \times F$
$F_E = F - F_S$

Where,

F is total 900-PSI boiler fuel
F_S is 900-PSI boiler fuel allocated to industrial steam sales
F_E is 900-PSI boiler fuel allocated to the electric turbines
S is industrial steam sales steam mmBtu from boilers
E is 900-PSI electric turbine steam mmBtu from boilers

The remaining fuel not allocated to the industrial steam sales system in the first equation is allocated to the electric system as shown in the second equation. Because the variable "F" shown above includes fuel burned for Lake Road plant auxiliary steam, fuel consumed for that purpose is properly allocated between the electric and industrial steam sales systems.

QUARTERLY COST ADJUSTMENT RIDER (Continued)
STEAM

2. Coal Performance Standard.

a. There shall be defined minimum amounts of coal generation. The BTUs from coal, for the purposes of the Quarterly Cost Adjustment mechanism shall be the actual BTUs for the computation period, provided however, that in any period of computation for a rate adjustment, the BTU attributed to coal shall not be less than 460,000 million for the most recent three (3) months, and shall not be less than 1,920,000 million for the most recent twelve (12) months. If coal generation falls below any defined minimum amount, additional coal generation will be imputed for the computation period up to the defined minimum that produces the largest adjustment and the amount of gas fired generation for the computation period will be reduced for the purposes of the Quarterly Cost Adjustment by a like amount.

b. For purposes of determining whether any such coal generation imputation is necessary, the 1,920,000 million BTU twelve-month coal performance standard and the 460,000 million BTU three-month coal performance standard will be reduced proportionately to the extent aggregate sales volumes (BD_{p12}) (billing determinants for the preceding twelve months) are less than 2,594,975 million BTUs. Should aggregate sales volumes exceed 2,594,975 million BTUs, the 1,920,000 million BTU twelve-month coal performance standard and the 460,000 million BTU three-month coal performance standard will remain unchanged.

c. In the event of a major scheduled outage for system maintenance and improvement, such as occurred in the last quarter of 2008, the Coal Performance Standard shall be subject to further adjustment as agreed upon by the Signatories herein, to reflect the reduced availability of the coal-fired boiler resulting from the scheduled outage. In such case, the three-month and twelve-month coal performance standards will be further adjusted proportionately as agreed to reflect any reduced availability of the Lake Road Boiler 5. As an example, should the coal-fired boiler be scheduled to be off line for 55 days in one quarter due to a major outage, the three-(3) month standard would be reduced to a level of 38.89% ((90-55)/90) of the three-(3) month standard. A corresponding adjustment of 84.93% ((365-55)/365) would be made to the twelve-(12) month standard.

d. Coal used in Lake Road Boiler 5 includes both high BTU coal and low BTU coal. These coals are blended for use in the boiler. If natural gas is less expensive than either coals used in Lake Road Boiler 5 and can be effectively used to lower the overall cost of fuels, then the BTU quantity of natural gas burned which would have otherwise been coal will be treated as coal BTU in determining the coal BTU used in comparison to the coal performance standard.

e. The cost attributed to any coal BTU imputed as a result of this coal performance standard shall be either the cost used for BTU burned during the period that is the basis for the adjustment (the 3 or 12 month standard) or the cost from the most recent quarter in which coal was burned, whichever is less.

f. The gas cost associated with any reduction in gas BTU occasioned by any coal imputation will be the average gas cost per BTU for the time period that is used to price any imputed coal usage.

g. The Company agrees that it will not seek an accounting authority order for fuel costs incurred, but not recovered, due to operation of this minimum coal provision.

QUARTERLY COST ADJUSTMENT RIDER (Continued)
STEAM

3. The Company will make quarterly rate filings with the Commission to adjust the Quarterly Cost Adjustment Rider. Each quarterly rate adjustment will include the fuel costs from the preceding quarter. The Current Quarterly Cost Adjustment factors will be calculated by dividing the fuel costs by the preceding twelve (12) month billing determinants; provided, however, that in the event that steam BTU billing units in a computation period increase or decrease by more than five percent (5%) compared to the corresponding period one year earlier Company may make an adjustment to the historic billing determinants for use in the denominator of the Current Quarterly Cost Adjustment rate computation. Each Quarterly Cost Adjustment will remain in effect for twelve (12) months.
4. There are provisions for prudence reviews and the true-up of revenues collected with costs intended for collection. The reconciliation account shall track, adjust and return true-up amounts and any prudence amounts not otherwise refunded. Fuel costs collected in rates will be refundable based on true-up results and findings in regard to prudence. Adjustments, if any, necessary by Commission order pursuant to any prudence review shall also be placed in the reconciliation account for collection unless a separate refund is ordered by the Commission. A reconciliation rate shall be established at a level designed to bring the reconciliation account to zero over a period of not less than twelve (12) months, provided that an amortization period of twenty-four (24) months may be used, if needed in the Company's discretion, to minimize any extraordinary increases in energy charges. Other fuel cost refunds, or credits related to the operation of this rider may also flow through this reconciliation process, as ordered by the Commission. The Reconciliation Rate shall be calculated similarly to the CQCA, except that the amount shall not be multiplied by the Alignment Mechanism again. Any remaining over- or under-collection from the Reconciliation Rate shall be applied to the next Reconciliation Rate.
5. The quarterly rate adjustments will not include carrying costs related to the timing of fuel cost recovery.
6. In consideration of the sharing provision of this Rider, and the intent to rely on an alignment of customer and Company interests in efficient operations, a two (2) step approach to the review of prudence review will be followed. In Step One, Commission Staff will review to ascertain:
6.1. that the concept of aligning of Company and customer interests is working as intended; and,
6.2. that no significant level of imprudent costs is apparent.
7. This review may be entirely a part of surveillance activity. Customers will be given timely notice of the results of the Step One review no later than 75 days after the end of each year. In consideration of Step One results, the Staff may proceed with Step Two, a full prudence review, if deemed necessary. A full prudence review, if pursued, shall be complete no later than 225 days after the end of each year. Such full prudence review shall be conducted no more often than once every twelve (12) months and shall concern the prior twelve (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. Any customer or group of customers 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 full (Step Two) prudence review by Staff.
9. Pursuant to any prudence review of fuel costs, whether by the Staff process or the complaint process, there will be no rate adjustment unless the resulting prudence adjustment amount exceeds 10% of the total of the fuel costs incurred in an annual review period.

FILED
Missouri Public
Service Commission
HR-2009-0092; YH-2009-0862

QUARTERLY COST ADJUSTMENT RIDER (Continued)
STEAM

RATE:

Current Quarterly Cost Adjustment Table:

Period	First Effective Date	Last Effective Date	CQCA (by Quarter)
2011 Q2	9/1/2011	8/31/2012	($0.1915)
2011 Q1	6/1/2011	5/31/2012	($0.2986)
2010 Q4	3/1/2011	2/29/2012	($0.3551)
2010 Q3	12/1/2010	11/30/2011	($0.2752)

Reconciliation Table:

Period	First Effective Date	Months	Last Effective Date	Monthly Recon (by Quarter)
2011 Q2	9/1/2011	12	8/31/2012	$0.0003
2011 Q1	6/1/2011	12	5/31/2012	$0.0029
2010 Q4	3/1/2011	12	2/29/2012	$0.0045
2010 Q3	12/1/2010	12	11/30/2011	$0.0008

Quarterly Cost Adjustment Table:

Period	First Effective Date	Last Effective Date	Monthly QCA
2011 Q2	9/1/2011	11/30/2011	($1.1119)

Credits are shown in parentheses, e.g. ($.05).