

**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)	<u>Case No. HR-2007-0028</u>
to customers in the KCP&L Greater Missouri)	
Operations Company service territory. ¹)	

In the matter of KCP&L Greater Missouri Operations)	
Company, for authority to file tariffs changing the)	
steam Quarterly Cost Adjustment for service provided)	<u>Case No. HR-2007-0399</u>
to customers in the KCP&L Greater Missouri)	
Operations Company service territory.)	

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)	<u>Case No. HR-2008-0340</u>
KCP&L Greater Missouri Operations Company)	
Service Territory)	

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 prudence, 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