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Witness: Ryan A. Bresette  
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Case No.: EO-2011-0390  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: EO-2011-0390**

**SURREBUTTAL TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
April 2012**

\*\*\* [REDACTED] \*\*\* Designates "Highly Confidential" Information  
Has Been Removed  
Pursuant To 4 CSR 240-2.135.

**SURREBUTTAL TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**Case No. EO-2011-0390**

1   **Q:   Please state your name and business address.**

2   A:   My name is Ryan A. Bresette. My business address is 1200 Main, Kansas City, Missouri  
3       64105-2122.

4   **Q:   By whom and in what capacity are you employed?**

5   A:   I am employed by Kansas City Power & Light Company (“KCP&L”) as Assistant  
6       Controller.

7   **Q:   On whose behalf are you testifying?**

8   A:   I am testifying on behalf of KCP&L Greater Missouri Operations Company (“GMO” or  
9       the “Company”) for the territories served by St. Joseph Light & Power (“L&P”) and  
10      Missouri Public Service (“MPS”).

11  **Q:   What are your responsibilities?**

12  A:   As Assistant Controller, I oversee margin accounting (revenue, fuel and purchased  
13      power), derivative accounting (hedging), the monthly accounting close process, accounts  
14      payable and accounting systems. In addition, I have responsibility for leading the  
15      Company’s monthly forecasting and annual budgeting process.

16  **Q:   Please describe your education, experience and employment history.**

17  A:   I graduated from Rockhurst University in Kansas City, Missouri in December 1994 with  
18      a Bachelor of Science in Business Administration with a major in Accounting. In 1997, I  
19      passed the Certified Public Accountant’s exam. In May 2010, I graduated from the

1 University of Missouri-Kansas City with a Masters in Business Administration. I have  
2 previously worked with Sprint, Applebee's International and Interstate Bakeries  
3 Corporation in a variety of accounting and finance roles prior to joining KCP&L in  
4 December 2004. I joined Great Plains Energy, Incorporated ("GPE") as an Accounting  
5 Policy Specialist and have also held the positions of Manager Corporate Accounting,  
6 Director Revenue and Energy Accounting, and Director Accounting before assuming my  
7 current position in May 2011.

8 **Q: What experience and expertise do you possess with regard to hedging and related**  
9 **financial instruments?**

10 A: For the last seven years at GPE, I have either prepared or approved the accounting  
11 designation for financial instruments and forward contracts such as natural gas, purchased  
12 power and coal contracts. Prior to GPE, I was responsible for derivative accounting,  
13 primarily natural gas hedges, for Interstate Bakeries Corporation.

14 **Q: Have you previously testified in a proceeding before the Missouri Public Service**  
15 **Commission ("MPSC" or "Commission") or before any other utility regulatory**  
16 **agency?**

17 A: I have not previously testified before the MPSC, but I have provided written testimony to  
18 the Kansas Corporation Commission in support of KCP&L's 2008, 2009, 2010 and 2011  
19 Actual Cost Adjustment factor filings related to our Energy Cost Adjustment.

20 **Q: What is the purpose of your testimony in this proceeding?**

21 A: The purpose of my testimony is to rebut certain comments by Staff witnesses Dana  
22 Eaves, Lena Mantle and Charles Hyneman that criticize the Company's accounting  
23 related to its hedging program. In response to these criticisms, I will address the

1 accounting for the settlement of natural gas hedges and natural gas cross hedges for  
2 purchased power. I will also explain the accounting view of a highly effective hedge.  
3 My testimony rebuts Staff's contention that the Company did not properly account for its  
4 hedging gains and losses.

5 **Q: How is your testimony organized?**

6 A: My testimony is organized as follows:

7 I. Accounting Designation of Financial Instruments;

8 II. Effectiveness of Hedges;

9 III. Two Sides of a Hedge; and

10 IV. Recording natural gas hedges to the Federal Energy Regulatory Commission  
11 ("FERC") Account 547.

12 **I. ACCOUNTING DESIGNATION OF FINANCIAL INSTRUMENTS**

13 **Q: What are the accounting designations for commodities the Company elects?**

14 A: Normal purchase and normal sale ("NPNS"), cash flow hedge and economic hedge.

15 **Q: Please explain the accounting difference between each one.**

16 A: Under the NPNS election, accrual accounting is followed and recognizes the sale or  
17 expense in the period that physical delivery occurs. In order to elect NPNS accounting,  
18 physical delivery of the hedged item must be probable at the inception of the contract.  
19 Under the cash flow hedge and economic accounting model, preparers of financial  
20 statements are required by Accounting Standards Codification ("ASC") Topic 815,  
21 "Derivatives and Hedging," to record the change in fair value of the financial instrument  
22 in the financial statements.

1   **Q:    Is there a difference between a cash flow hedge and an economic hedge?**

2   A:    Yes. Under a cash flow hedge, the effective portion of the change in fair value of a cash  
3       flow hedge is recorded in a derivative asset or liability with an offset to Other  
4       Comprehensive Income (“OCI”), which is a component of Stockholders’ Equity on the  
5       balance sheet. In summary, the change in fair value of a cash flow hedge is all on the  
6       balance sheet and does not affect the income statement. Upon physical delivery of the  
7       underlying transaction, the realized and/or unrealized gain or loss is moved from the  
8       balance sheet to the income statement. For example, if GMO enters into a natural gas  
9       future to hedge price risk of natural gas in March 2012 for October 2013, then GMO  
10      would recognize the change in fair value in GMO’s financial statements between March  
11      2012 until the hedge is cash settled and becomes a realized gain or loss. In October 2013  
12      when the original underlying hedged transaction occurs, then the realized gain or loss is  
13      recognized in the income statement in October 2013. Under an economic hedge, the  
14      change in fair value is recorded to a derivative asset or liability with the offset to the  
15      income statement in the period the change in fair value occurs.

16   **Q:    How would you define fair value?**

17   A:    Very simply, it is the market value of the financial instrument.

18   **Q:    How does GMO designate its natural gas derivatives?**

19   A:    GMO designates its natural gas derivatives as economic hedges.

20   **Q:    What risks does GMO hedge with natural gas derivatives?**

21   A:    GMO uses natural gas derivatives to mitigate price exposure to natural gas and purchased  
22      power price volatility. Both natural gas prices and power prices are affected by natural  
23      gas price volatility. Consequently, when I refer to natural gas hedges I will be referring

1 to natural gas derivatives used to mitigate price exposure for both natural gas and  
2 purchased power price volatility. In essence, by GMO entering into natural gas futures,  
3 GMO establishes the price for natural gas to be burned to produce electricity and  
4 purchased power. Thus, GMO mitigates its retail customers' exposure to market price  
5 volatility.

6 **Q: You mentioned the Company is required to record the change in fair value for**  
7 **economic hedges to the income statement. Does GMO record the change in fair**  
8 **value for these economic hedges to the income statement?**

9 A: No, pursuant to GMO's 2005 Stipulation and Agreement (referenced in Staff witness  
10 Hyneman's Rebuttal Testimony on page 23), GMO records the change in fair value as  
11 either a regulatory asset or liability.

12 **Q: For GMO's natural gas hedges for fuel and power, does GMO have realized or**  
13 **unrealized gains or losses recorded to FERC Account 547?**

14 A: Only cash settled realized gains or losses are recorded in FERC Account 547 and  
15 included in GMO's fuel adjustment clause ("FAC"). GMO does not record the  
16 unrealized gains or losses in FERC Account 547.

17 **Q: What happens to the unrealized gains or losses on the natural gas hedges for fuel**  
18 **and power?**

19 A: Unrealized gains and losses are incurred from the date of entering the natural gas futures  
20 or forward contracts until the date the contracts are cash settled. At that time, unrealized  
21 gains or losses are converted to realized gains or losses. Then, the realized gains or  
22 losses are recorded in FERC Account 547 in the period when the original underlying  
23 hedged transaction occurs, as described above.

1   **Q:    Why does GMO not designate these derivatives as NPNS?**

2   A:    Under ASC Topic 815, these natural gas derivative contracts do not qualify for NPNS  
3        accounting designation.

4   **Q:    Why don't GMO's natural gas derivatives qualify for NPNS accounting**  
5        **designation?**

6   A:    Since GMO is hedging its price risk for both natural gas and purchased power, GMO is  
7        unable to elect NPNS accounting. GMO's natural gas futures will settle in cash and there  
8        is no expectation of physical delivery of natural gas. As mentioned above, NPNS  
9        accounting requires that physical delivery must be probable at the inception of the  
10       contract.

11   **Q:    What about cash flow hedge?**

12   A:    Pursuant to GMO's 2005 Stipulation and Agreement I mentioned previously, GMO is  
13        required by the MPSC to defer the unrealized gains and losses in a regulatory asset or  
14        liability, therefore, GMO accounts for these contracts as an economic hedge.

15   **Q:    What is the difference between a cash flow hedge and GMO's accounting**  
16        **treatment?**

17   A:    Simply, it is the location on the balance sheet.

18   **Q:    Please explain.**

19   A:    Typically under a cash flow hedge, the unrealized gain or loss on a derivative contract is  
20        deferred in OCI. Like many regulated utilities, GMO's treatment is to defer the gain or  
21        loss in either a regulatory asset or liability.

1   **Q:    What about the income statement?**

2   A:    As described above, when the underlying transaction that is hedged is completed, the  
3       deferred gain or loss is recorded to the appropriate income statement FERC account.

4   **Q:    Would the treatment of these contracts as a cash flow hedge change the FERC**  
5       **income statement account the cash settled gain or loss is recorded to?**

6   A:    No. The cash settled gain or loss would be recorded to 547.

7   **Q:    Has the Company ever disclosed this accounting methodology?**

8   A:    Yes. In the notes to the financial statements of GMO's FERC Form 1.

9   **Q:    Does the Company disclose the fair value of GMO's natural gas contracts?**

10  A:    Yes, in GMO's FERC Form 1, GMO discloses the fair value of these contracts that are  
11       subject to regulatory treatment. In addition, the Company has consistently disclosed that  
12       the gain or loss on these types of contracts, which mitigate both fuel and power price risk,  
13       are recorded to fuel expense (i.e. FERC Account 547). *See* Schedule RAB-1 for copies  
14       of GMO's derivative footnote from 2008–2011.

15  **Q:    Did the Company disclose GMO's natural gas hedges distinctly in the notes to the**  
16       **financial statements in GMO's FERC Form 1 for the time period affected by the**  
17       **prudence review?**

18  A:    Yes. In the derivative footnote, GMO discloses the hedging program and the purpose of  
19       the program. In a table in the footnote, the Company discloses the fair value of the  
20       natural gas hedges recorded in a regulatory account and the amount of gain or loss  
21       recorded in fuel expense in 2009 and 2010.



1    **Q:    Did the Company disclose in the notes to the financial statements in the FERC Form**  
2           **1 that these natural gas hedge settlements were included in GMO's FAC?**

3    A:    Yes.

4    **Q:    Does Staff have access to these reports?**

5    A:    Yes. These are publicly filed documents.

6    **Q:    After reviewing GMO's FERC Form 1 derivative footnote again for 2009 and 2010,**  
7           **could you briefly describe how GMO discloses its accounting methodology for**  
8           **natural gas hedges for fuel and purchased power?**

9    A:    GMO discloses a derivation of the following statement:

10           GMO's risk management policy is to use derivative instruments to  
11           mitigate price exposure to natural gas price volatility in the market. The  
12           fair value of the portfolio relates to financial contracts that will settle  
13           against actual purchases of natural gas and purchased power.... In  
14           connection with GMO's 2005 Missouri electric rate case, it was agreed  
15           that the settlement costs of these contracts would be recognized in fuel  
16           expense. The settlement cost is included in GMO's FAC.

17           KCP&L Greater Missouri Operations Company, 2010 FERC Form No. 1, Page 123.29

18   **Q:    Staff witness Eaves, on page 11, lines 7-8, states, "As I testified earlier, this issue was**  
19           **buried in FERC Account 547." With these multiple disclosures in GMO's FERC**  
20           **Form 1 derivative footnote, would you agree with Mr. Eaves that this issue was**  
21           **buried?**

22   A:    Absolutely not. The Company was transparent in its financial disclosures regarding its  
23           accounting treatment of these hedges.

1                                    **II.     ACCOUNTING EFFECTIVENESS OF HEDGES**

2    **Q:     What does it mean to be “highly effective” from an accounting view?**

3    A:     It means that the financial instrument used to hedge a transaction is highly correlated with  
4           the risk being hedged.

5    **Q:     Please explain what you mean by “accounting view.”**

6    A:     For the entire unrealized gain or loss to be deferred in OCI, a hedge must meet certain  
7           hurdles for this deferral. ASC Topic 815 requires the hedge to be “highly effective.” The  
8           accounting industry has accepted two main criteria for “highly effective” hedges using  
9           regression analysis. First, the  $R^2$  must be greater than or equal to 0.8. Second, the slope  
10          must be between negative 0.8 and negative 1.25.

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

12   A:     No. It just means the hedge receives different accounting treatment. If the hedge is not  
13          “highly effective” under accounting rules, then a portion of the unrealized gain or loss on  
14          the hedge is deemed to be ineffective and the change in fair value must be reflected in the  
15          income statement. The mere fact that FAS 133 addresses what to do with hedges that do  
16          not meet the high hurdle of “highly effective” illustrates that the FASB anticipated  
17          entities would use hedges that are not “highly effective.”

18   **Q:     If the R-squared is less than 0.80 or if the slope is not between negative 0.8 and**  
19          **negative 1.25, does that mean you cannot use natural gas to hedge electricity?**

20   A:     No. It just means you have to account for the hedge differently. As mentioned above,  
21          the effective component of the hedge adjustment would be carried in OCI through the  
22          duration of the hedge and reposted as income when the hedge reaches its end.

1     **Q:     Company Witness Blunk has provided schedule WEB-9 that indicates the dollar**  
2     **offset ratio of GMO’s actual natural gas cross hedges for purchased power prices**  
3     **was 109.6%. Does this provide evidence to you that these hedges were “highly**  
4     **effective?”**

5 A: Yes, it does.

6 Q: Would you agree that a hedge would not be considered effective if the accounting  
7 rules consider it not to be effective?

8 A: Absolutely not. Accounting rules are established to potentially put all companies on the  
9 same playing field. In GMO's case, GMO is managing price risk by entering into natural  
10 gas hedges. As illustrated in Mr. Blunk's testimony, the natural gas hedges are highly  
11 correlated to purchased power prices and meet the economical intent of the Company to  
12 mitigate price volatility.

13 **III. TWO SIDES OF A HEDGE**

14 **Q:** Could you please explain the two sides of a hedge?

15     A:     Every hedge has two sides to the transaction, a gain and a loss. For financial instruments,  
16           the cash settlement is easy to identify because it is cash settled. The other side of the  
17           hedge is non-cash but impacts the Company. For example, when the price of natural gas  
18           decreases in a financially hedged transaction for purchased power, then the natural gas  
19           hedge decreases in value and the underlying hedge for purchased power has an offsetting  
20           non-cash increase in value (i.e. – market prices of purchased power are decreasing).

1   **Q:    Has GMO included the two sides of these hedges in the FAC?**

2   A:    Yes. The natural gas derivative cash settlement is in FERC Account 547 as a component  
3       of Fuel Costs and the non-cash change in value is in FERC Account 555 as a component  
4       of Purchased Power Costs.

5   **Q:    Staff claims that hedging gains and losses associated with on-peak spot market**  
6       **purchases of electricity are not included in the “PP = Purchased Power Costs” of the**  
7       **FAC. Does that mean those costs are excluded from recovery through the FAC?**

8   A:    No. The costs of certain electricity hedges are recovered through the “PP = Purchased  
9       Power Costs” component of the FAC. Not all hedges result in a “hedge settlement.”

10  **Q:    What do you mean saying “hedge costs are recovered through the ‘PP = Purchased**  
11       **Power Costs’ component of the FAC?”**

12  A:    Whenever GMO uses a forward contract for electricity to hedge its on-peak electricity  
13       purchases the costs of that hedge are included in the PP = Purchased Power Costs”  
14       component of the FAC. I will discuss below how the hedge costs associated with  
15       purchased power are a component of the FAC.

16  **Q:    Are hedge costs associated with the natural gas cross hedges for on-peak power**  
17       **purchases recovered through the “PP = Purchased Power Costs” component of the**  
18       **FAC?**

19  A:    Yes. Some of the hedge costs associated with the electricity that is hedged using the New  
20       York Mercantile Exchange (“NYMEX”) natural gas futures contracts are included in the  
21       “PP = Purchased Power Costs” component of the FAC.

1   **Q:   How are hedge costs associated with the cross hedges included the “PP = Purchased**  
2   **Power Costs” component of the FAC?**

3   A:   Sometimes GMO will convert a natural gas cross hedge to an electricity forward. When  
4       that happens the hedge adjustment from the natural gas contract that effectively fixed the  
5       future price of electricity through the cross hedge is recorded in Account 547 and  
6       included in the “FC = Fuel Costs Incurred to Support Sales” component of the FAC. The  
7       price fix which began as a natural gas cross hedge is converted from one derivative to  
8       another derivative. It is converted from a NYMEX futures contract for natural gas to a  
9       forward contract for electricity. Much like the hedge adjustment recorded in Account  
10      547 which occurred because the natural gas market had moved from the time the hedge  
11      was initiated to the time it was closed. The Company is locked into a price for electricity  
12      that ends up being either less or more than the prevailing spot price for electricity. That  
13      non-cash opportunity gain or loss on the electricity forward which began as a NYMEX  
14      natural gas futures contract is included in Account 555 and the PP = Purchased Power  
15      Costs” component of the FAC.

16   **Q:   How is the change in value related to purchased power accounted for in the**  
17   **Company’s ledger?**

18   A:   In FERC Account 555. Forward physical electricity contracts are hedges that are  
19       designated as NPNS. As I discussed previously, these contracts are accounted for under  
20       accrual accounting and the Company records the contractual price per MWh in FERC  
21       Account 555. Forward contracts will always have a different price than the spot market.  
22       The difference between the forward contract price and the spot market price is the non-  
23       cash hedge cost included in FERC Account 555.

1   **Q:   How did the Company record the cost of purchased power costs during the time**  
2       **period related to the natural gas hedges?**

3   A:   The actual price of the purchased power was recorded in FERC Account 555. Again, this  
4       includes the non-cash gain or loss from the spot market or physical side of the hedge.

5   **Q:   In Mr. Blunk's testimony, he indicates that purchased power prices actually**  
6       **decreased during the time the Company had natural gas contracts in place. How**  
7       **did the Company account for the decrease in purchased power costs?**

8   A:   The unrealized gain related to purchased power is included in FERC Account 555 since  
9       the Company paid less per MWh to external electricity suppliers

10  **Q:   Did the Company adjust its purchased power costs in the FAC for these unrealized**  
11       **gains?**

12  A:   No.

13  **Q:   Currently the Company records the net change or realized gain or loss from the**  
14       **derivative transactions in a subaccount of FERC Account 547. If the Company**  
15       **recorded derivative transactions in FERC Account 555 as Staff is advocating, would**  
16       **there be a separate subaccount in FERC Account 555 for the net change or realized**  
17       **gain or loss from the derivative transactions?**

18  A:   No. The gain or loss from the derivative transactions would be included in FERC  
19       Account 447 as part of the revenue from the sale of the derivatives. The gain or loss  
20       would be embedded in the price received from those sales. There would not be a separate  
21       account which showed the net change or realized gain or loss like there is using FERC  
22       Account 547.

1   **Q:    Why doesn't the Company adjust its purchased power costs in the FAC for these**  
2       **unrealized gains?**

3   A:    There is no need for a separate adjustment. The unrealized gain (i.e. lower price than  
4       expected) is included in the price the Company pays for its spot purchase of power.

5   **Q:    Did Staff propose an adjustment for this unrealized gain?**

6   A:    No.

7   **Q:    Why didn't Staff propose an adjustment for this unrealized gain?**

8   A:    I assume Staff did not assign a value to both sides of the hedged transactions as  
9       mentioned above. As Mr. Blunk mentioned in his testimony, Staff is only including one  
10      side of the hedge. Mr. Blunk has calculated the theoretical spot market gain in highly  
11      confidential schedule WEB-9. During the audit period, GMO had a theoretical gain of  
12      \*\*[REDACTED]\*\* in purchased power due to the change in spot market prices. As clearly  
13      laid out in schedule WEB-9, the cost per MWh decreased from \$51.55/MWh to \$38.50  
14      MWh.

15   **Q:    Staff witness Hyneman purports on page 25, lines 22 – 23 and page 26, lines 1 – 2**  
16       **that “GMO's purchased power account will reflect the actual higher purchased**  
17       **power dollars paid out to other electricity suppliers and it will not reflect the actual**  
18       **hedging gain intended to mitigate the actual purchased power expenditures made.”**  
19       **Do you agree with Staff witness Hyneman's statement?**

20   A:    No, I do not. As I interpret Mr. Hyneman's testimony, he is expecting a net hedge  
21       adjustment in FERC Account 555. However, FERC Account 555 will never have a net  
22       hedge adjustment as the sale of the derivative would be recorded to FERC Account 447

1 and the purchase of the derivative is in FERC Account 555. This is the same accounting  
2 GMO has for bookouts.

3 **Q: Are GMO's retail customers being financially harmed by the inclusion of the cash**  
4 **settlement of natural gas cross hedges for purchased power in the FAC?**

5 A: No. Under the Company's method, the customer is not harmed since the loss in FERC  
6 Account 547 and theoretical gain in FERC Account 555 are both included in the FAC.

7 **IV. RECORDING NATURAL GAS HEDGES TO FERC ACCOUNT 547**

8 **Q: Staff witness Eaves asserts on pages 9-11 of his testimony that the Company**  
9 **improperly accounted for hedging gains and losses associated with purchased power**  
10 **and violated Commission rules. Do you agree?**

11 A: No. As I explain above, the Commission rule cited by Staff witness Eaves requires that  
12 the Company maintain its books and records in accordance with FERC's Uniform  
13 Standard of Accounts ("USOA"). GMO's accounting treatment of its hedging program is  
14 in accordance with the USOA. If GMO had started by booking its cross hedges as Staff  
15 is now saying it should, it would have had a very perverse impact on the pre-merger  
16 FAC. Since the pre-merger FAC did not include revenue from Account 447, GMO's  
17 customers would have effectively paid double for all electricity that was hedged. I  
18 believe we all recognize they would have paid when the physical electricity was  
19 purchased and recorded in Account 555. They would have also paid for the futures  
20 contract as it was recorded in Account 555 but they would not have received the revenue  
21 from the sale of the futures contract because it would have been recorded in Account 447.



1   **Q:   Does the Company have a documented history of recording similar power**  
2       **transactions in both Accounts 555 and 447?**

3   A:   Yes.

4   **Q:   Please give an example of how GMO keeps the purchase and sale sides of power**  
5       **transactions that do not result in physical delivery separate.**

6   A:   “Bookouts” are purchases or sales that do not result in physical delivery. The Company  
7       uses this method of accounting for its bookouts. When the Company enters into a  
8       bookout with a counterparty, the cash settlement of a purchase transaction is recorded to  
9       FERC Account 555 and the cash settlement of a sale transaction is recorded to FERC  
10      Account 447.

11  **Q:   Is this appropriate accounting under GAAP and FERC?**

12  A:   Yes, this accounting treatment is appropriate for both GAAP and FERC.

13  **Q:   Does the Company record gains and losses related to electricity forward contracts?**

14  A:   If the Company had forward purchase electricity contracts that did not qualify for NPNS,  
15       then the related realized gains or losses would be recorded to FERC Account 555. If the  
16       Company had forward sale electricity contracts, then the realized revenue from that sale  
17       would be recorded to FERC Account 447.

1   **Q:**    At page 7, Staff witness Eaves said “Hedging costs are not specifically listed in the  
2           definition of PP, but hedging costs associated with fuel burned for generation of  
3           power are specifically listed....” As I understand your answers so far, GMO  
4           probably never would show a “hedging cost” in Purchased Power Account 555.  
5           Can you explain why GMO probably never would show a “hedging cost” in  
6           Purchase Power Account 555?

7   **A:**    Yes. “Hedging cost” represents the net of purchasing a derivative and selling that  
8           derivative. GMO probably never would show a “hedging cost” in Purchase Power  
9           Account 555 because it would only record the purchase of the electricity derivative to  
10          Account 555. It would record the sale of that derivative to Account 447.

11   **Q:**    Does that mean if GMO had recorded the natural gas cross hedges for purchased  
12          power in FERC Account 555 like Staff is claiming it should have, and assuming  
13          Staff meant to recognize the revenue from closing the hedges, the Cost Adjustment  
14          Factors (CAF) for the FAC would have been the same as the CAF derived from  
15          recording the cross hedges in Account 547?

16   **A:**    Yes. It makes no effective difference to the CAF or FAC whether you record the natural  
17          gas cross hedges for purchased power in FERC Account 547 or in FERC accounts 555  
18          and 447.

1 **Q: Staff witness Eaves on page 2 of his rebuttal testimony says the Company should**  
2 **have recorded the cost associated with natural gas hedging to FERC Account 555.**  
3 **Using Mr. Blunk's schedule WEB-9, could you please explain how the Company**  
4 **would have recorded the transactions related to the Futures Market under Staff**  
5 **witness Eaves recommendation on how to account for these hedges?**

6 A: Under this approach, first, the Company would have recorded \*\*[REDACTED]\*\* in FERC  
7 Account 555 for the purchase of natural gas futures for the purpose of mitigating price  
8 risk associated with purchased power. Second, the Company would have recorded a sale  
9 of the natural gas futures to FERC Account 447 for \*\*[REDACTED]\*\*.

10 **Q: Does recording the natural gas futures as recommended by Staff witness Eaves**  
11 **change the end result of the FAC calculation?**

12 A: Assuming FERC Account 447 is always part of the FAC, no, not at all. In calculating the  
13 FAC, both FERC Accounts 447 and 555 are included. The result is a gross-up in these  
14 FERC Accounts that would not change the amount the Company reflected in its FAC  
15 filing.

16 **Q: Above you stated, "Assuming FERC Account 447 is always part of the FAC." Has**  
17 **FERC Account 447 always been a part of the FAC calculation?**

18 A: No. FERC Account 447 was added to the FAC calculation effective September 1, 2009.

19 **Q: What would have been the effect on ratepayers had the Company recorded the**  
20 **natural gas futures under Staff's recommendation for the time period prior to**  
21 **September 1, 2009?**

22 A: Ratepayers would have been financially harmed by Staff's approach if the Company had  
23 recorded the purchase of natural gas futures used to cross hedge purchased power to

1 FERC Account 555 and the sale of those natural gas futures to FERC Account 447.  
2 Consequently, ratepayers would have been charged the costs in FERC Account 555  
3 without receiving the offsetting revenue in FERC Account 447.

4 **Q: Staff witness Eaves has asserted that hedging costs are not included in the FAC as a**  
5 **component of FERC Account 555. Why are you saying these costs would be**  
6 **properly included?**

7 A: As mentioned above, the hedging cost represents the net of sale and purchase of the  
8 derivative. Under the Staff's recommendation, the Company would only record the  
9 purchase of the electricity derivative to Account 555. It would record the sale of that  
10 derivative to Account 447. It would not be recording a "hedging cost" or "hedge  
11 settlement" from the cross hedges.

12 **Q: Staff witness Hyneman asserts on pages 24–26 of his testimony that charging the**  
13 **natural gas hedging costs to FERC Account 547 is illogical and creates a distorted**  
14 **view of the utility's financial statements. Do you agree with Staff witness Hyneman?**

15 A: No, I do not. The hedging of natural gas financial instruments has been and should  
16 always be included in FERC Account 547. Natural gas expenses should be booked to the  
17 FERC natural gas expense Account 547. Staff witness Hyneman is suggesting the  
18 Company record natural gas hedging cost to an account that has nothing to do with  
19 natural gas in order to disallow prudently incurred costs from GMO's FAC.

20 **Q: Do you have any other concerns with Staff witness Hyneman's testimony?**

21 A: Yes, Staff witness Hyneman's interpretation of the 2005 Stipulation and Agreement is  
22 explained by him in a way to only support his opinion. I agree with the excerpt on page  
23 23 of Staff witness Hyneman's testimony of the excerpt from the 2005 Stipulation and

1 Agreement. His interpretation is his opinion and not consistent with the language in the  
2 Stipulation and Agreement. It is clearly stated that “The Signatory Parties agree, for  
3 accounting and ratemaking purposes, that hedge settlements, both positive and negative,  
4 and related costs (e.g. option premiums, interest on margin accounts, and carrying cost on  
5 option premiums) directly related to natural gas generation and on-peak purchased power  
6 transactions under a formal Aquila Networks-MPS hedging plan will be considered part  
7 of the fuel cost and purchased power costs recorded in FERC Account 547 or Account  
8 555 when the hedge is settled.” GMO fully complied with this language by recording the  
9 hedge settlements for natural gas generation to FERC Account 547. In addition, natural  
10 gas hedge settlements to mitigate power price volatility were appropriately recorded to  
11 FERC Account 547. However, GMO did not incur any hedge settlements directly related  
12 to on-peak purchased power transactions that would have been appropriately charged to  
13 FERC Account 555.

14 **Q: You have testified that the Company has included the natural gas hedging costs in**  
15 **FERC Account 547. Does the Company include these costs in FERC Account 547 in**  
16 **its FERC Form 1 filings?**

17 **A:** Yes.

18 **Q: Do the Company’s external auditors express an opinion on the Company’s FERC**  
19 **Form 1 filings?**

20 **A:** Yes. GMO’s external auditors express an opinion on GMO’s financial statements. Since  
21 GMO began hedging natural gas for fuel and purchased power, the Company’s external  
22 auditors expressed an unqualified opinion on the Company’s financial statements. The  
23 unqualified opinions of the external auditors for 2006-2011 are attached as Schedule

1 RAB-2. The FAC is a significant calculation to the materiality of GMO's financial  
2 statements. Since the external auditors did not express a qualified opinion, it is  
3 completely logical to assume the external auditors were comfortable with the Company's  
4 accounting for GMO's FAC.

5 **Q: What do the external auditors express an opinion on?**

6 A: The external auditors "have audited the balance sheet – regulatory basis of KCP&L  
7 Greater Missouri Operations Company ("the Company") as of December 31, 2010, and  
8 the related statements of income – regulatory basis; retained earnings – regulatory basis;  
9 and cash flows – regulatory basis, for the year ended December 31, 2010...of the  
10 accompanying Federal Energy Regulatory Commission Form 1." In the second to last  
11 paragraph of the audit opinion, the external auditors state, "such regulatory-basis  
12 financial statements present fairly, in all material respects, the assets, liabilities, and  
13 proprietary capital of the Company as of December 31, 2010, and the results of  
14 operations and its cash flows for the year ended December 31, 2010, in accordance with  
15 the accounting requirements of the Federal Energy Regulatory Commission as set forth in  
16 its applicable Uniform System of Accounts and published accounting releases."<sup>1</sup>

17 **Q: Would you agree that the Company's external auditors are experts in GAAP and**  
18 **FERC accounting and are aware that the GMO FAC is a significant asset**  
19 **calculation to GMO's financial statements?**

20 A: Yes.

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<sup>1</sup> See Schedule RAB-2, p. 6.

1   **Q:    In reviewing the exhibits, it appears GMO changed auditors between 2007 and**  
2       **2008. Could you explain why this occurred?**

3   A:    Yes. In July 2008, GPE completed its acquisition of the Missouri electric properties from  
4       Aquila, Inc. Prior to the acquisition, Aquila utilized a different external auditing firm  
5       than GPE. Subsequent to the merger, GPE continued with the external auditing firm it  
6       has utilized for many years.

7   **Q:    Does that conclude your testimony?**

8   A:    Yes, it does.

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

**STATE OF MISSOURI            )**  
   **) ss**  
**COUNTY OF JACKSON        )**

1. My name is Ryan A. Bresette. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Assistant Controller.

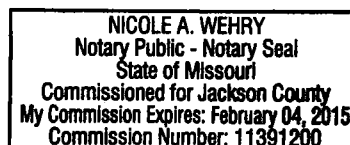
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
Ryan A. Bresette

Subscribed and sworn before me this 30<sup>th</sup> day of April, 2012.

Nicole A. Kelly  
Notary Public

My commission expires: Feb. 4, 2015





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KCP&L Greater Missouri Operations Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	04/16/2009	2008/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

**KCP&L Greater Missouri Operations Company**  
**Notes to Financial Statements**  
**(Unaudited)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The terms "Company" and "GMO" are used throughout this report and refer to KCP&L Greater Missouri Operations Company (GMO). On October 17, 2008, GMO changed its name from Aquila, Inc., to KCP&L Greater Missouri Operations Company. GMO is a wholly owned subsidiary of Great Plains Energy Incorporated (Great Plains Energy). Great Plains Energy also owns Kansas City Power & Light (KCP&L), a regulated electric utility.

**Basis of Accounting**

The accounting records of GMO are maintained in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases. The accompanying financial statements have been prepared in accordance with the accounting requirements of these regulators, which differ from generally accepted accounting principles (GAAP). GMO classifies certain items in its accompanying Comparative Balance Sheet (primarily the components of accumulated deferred income taxes, certain miscellaneous current and accrued liabilities and current maturities of long-term debt) in a manner different than that required by GAAP. In addition, in accordance with regulatory reporting requirements, GMO accounts for its investments in majority-owned subsidiaries on the equity method rather than consolidating the assets, liabilities, revenues and expenses of these subsidiaries, as required by GAAP.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments with original maturities of three months or less at acquisition.

**Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

*Other Special Funds* – GMO's other special funds include rabbi trust assets. GMO's rabbi trusts related to its Supplemental Executive Retirement Plans (SERP) are recorded at fair value, which are based on quoted market prices of the investments held by the trusts and/or valuation models. The fair values of other various investments are not readily determinable and the investments are therefore stated at cost.

*Long-term debt* – Fair value is based on quoted market prices, with the incremental borrowing rate for similar debt used to determine fair value if quoted market prices were not available. At December 31, 2008, the book value and fair value of GMO's long-term debt was \$1,033.1 million and \$1,023.5 million, respectively. The \$1,033.1 million book value equals the principal amount of GMO's long-term debt and excludes the \$117.5 million fair value adjustment. See Note 8 for additional information regarding the fair value adjustment. At December 31, 2007, the book value and fair value of GMO's long-term debt was \$1,035.0 million and \$1,184.6 million, respectively.

*Derivative instruments* – The fair value of derivative instruments is estimated using market quotes, over-the-counter forward price and volatility curves and correlation among fuel prices, net of estimated credit risk.

*Pension plans* – For financial reporting purposes, the market value of plan assets is the fair value.

**Derivative Instruments**

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This statement generally

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requires derivative instruments to be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. GMO enters into derivative contracts to manage exposure to commodity price fluctuations. Derivative instruments designated as normal purchases and normal sales (NPNS) and cash flow hedges are used solely for hedging purposes and are not issued or held for speculative reasons.

GMO considers various qualitative factors, such as contract and market place attributes, in designating derivative instruments at inception. GMO may elect the NPNS exception, which requires the effects of the derivative to be recorded when the underlying contract settles. GMO accounts for derivative instruments that are not designated as NPNS as cash flow hedges or non-hedging derivatives, which are recorded as assets or liabilities on the consolidated balance sheets at fair value. In addition, if a derivative instrument is designated as a cash flow hedge, GMO documents the method of determining hedge effectiveness and measuring ineffectiveness. See Note 13 for additional information regarding derivative financial instruments and hedging activities.

GMO offsets fair value amounts recognized for derivative instruments under master netting arrangements, which include rights to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable), pursuant to Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 39, "*Offsetting of Amounts Related to Certain Contracts.*" GMO classifies cash flows from derivative instruments in the same category as the cash flows from the items being hedged.

#### Nonutility Property

GMO's nonutility property includes land and buildings and improvements (45- year life) and office furniture (24- year life) and is recorded at historical cost, net of accumulated depreciation.

#### Utility Plant

GMO's utility plant is stated at historical cost. These costs include taxes, an allowance for the cost of borrowed and equity funds used to finance construction and payroll-related costs, including pensions and other fringe benefits. Replacements, improvements and additions to units of property are capitalized. Repairs of property and replacements of items not considered to be units of property are expensed as incurred (except as discussed under Accounting for Planned Major Maintenance). When property units are retired or otherwise disposed, the original cost, net of salvage, is charged to accumulated depreciation. Substantially all of GMO's St. Joseph Light & Power division is pledged as collateral for GMO's mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented.

As prescribed by the Federal Energy Regulatory Commission (FERC), Allowance for Funds Used During Construction (AFUDC) is charged to the cost of the plant. AFUDC is included in the rates charged to customers by GMO over the service life of the property. AFUDC equity funds are included as a non-cash item in non-operating income and AFUDC borrowed funds are a reduction of interest charges. The rates used to compute gross AFUDC are compounded semi-annually and averaged 4.9% in 2008 and 6.3% in 2007.

Utility plant includes production (22- to 60-year life), transmission (49- to 60-year life), distribution (14- to 66-year life) and general equipment (8- to 50-year life) and is recorded at original cost, net of accumulated depreciation.

#### Depreciation and Amortization

Depreciation and amortization of GMO's utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3.0% for GMO.

Depreciation of nonutility property is computed using the straight-line method. GMO's nonutility property annual depreciation rates for 2008 and 2007 were 8.4% and 7.6%, respectively.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

## 12. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

GMO receives various support and administrative services from Great Plains Energy Services (Services), a wholly owned subsidiary of Great Plains Energy. These services are billed at cost, based on payroll and other expenses, incurred by Services for the benefit of GMO. These costs totaled \$2.4 million in 2008. These costs consisted primarily of employee compensation, benefits and fees associated with various professional services. KCP&L employees manage GMO's business and operate its facilities at cost. These costs totaled \$41.0 million since the July 14, 2008, acquisition of GMO. Additionally, KCP&L and GMO engage in wholesale electricity transactions with each other. At December 31, 2008, GMO had a \$23.7 million net payable to KCP&L.

## 13. DERIVATIVE INSTRUMENTS

The Company is exposed to market risks including commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on the Company's operating results. The risk management activities, including the use of derivative instruments, are subject to the management, direction and control of an internal risk management committee. Management maintains commodity price risk management strategies that use derivative instruments to reduce the effects of fluctuations in fuel expense caused by commodity price volatility. Counterparties to commodity derivatives expose the Company to credit loss in the event of nonperformance. This credit loss is limited to the cost of replacing these contracts at current market rates. Derivative instruments, excluding those instruments that qualify for the NPNS election, which are accounted for by accrual accounting, are recorded on the balance sheet at fair value as an asset or liability. Changes in the fair value of derivative instruments are recorded to a regulatory asset or liability consistent with MPSC regulatory orders, as discussed below.

### Commodity Risk Management

GMO's price risk policy is to use derivative instruments to mitigate price exposure to natural gas price volatility in the market. This program extends multiple years and the mark-to-market value of the portfolio relates to financial contracts that will settle against actual purchases of natural gas and purchased power in 2008 through 2010. At December 31, 2008, GMO had financial contracts in place to hedge approximately 65% and 4% of the expected on-peak natural gas and natural gas equivalent purchased power price exposure for 2009 and 2010, respectively. In connection with GMO's 2005 Missouri electric rate case, it was agreed that these contracts would be recognized into the cost of sales when they settle. The settlement cost is a component of the energy cost included in GMO's Missouri fuel adjustment clause. A regulatory asset has been recorded to reflect the change in the timing of recognition authorized by the MPSC. To the extent that recovery of actual costs incurred is allowed, amounts will not impact earnings, but will impact cash flows due to the timing of the recovery mechanism.

The notional and recorded fair values of GMO's open positions for derivative instruments are summarized in the following table. The fair values of these derivatives are recorded on the balance sheet.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

	December 31			
	2008		2007	
	Notional Contract Amount	Fair Value	Notional Contract Amount	Fair Value
Great Plains Energy	(millions)			
Swap contracts				
Non-hedging derivatives	\$ 43.3	\$ (7.1)	\$ 64.8	\$ (4.3)
Option contracts				
Non-hedging derivatives	28.2	0.2	168.1	5.8

#### 14. FAIR VALUE MEASUREMENTS

GMO adopted SFAS No. 157, "Fair Value Measurements" effective January 1, 2008. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The statement does not require any new fair value measurements but provides guidance on how to measure fair value when required. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad categories, giving the highest priority to quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. A definition of the various levels, as well as discussion of the various Company measurements within the levels is as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that the Company has access to at the measurement date. Assets and liabilities categorized within this level consist of various exchange traded derivative instruments and GMO's SERP rabbi trust fund.

Level 2 – Market-based inputs for assets or liabilities that are observable (either directly or indirectly) or inputs that are not observable but are corroborated by market data. Assets and liabilities categorized within this level consist of GMO's various non-exchange traded derivative instruments traded in over-the-counter markets and GMO's SERP rabbi trust fund.

Level 3 – Unobservable inputs, reflecting the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability.

The following table includes GMO's balances of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2008.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

**KCP&L Greater Missouri Operations Company**  
**Notes to Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The terms "Company" and "GMO" are used throughout this report and refer to KCP&L Greater Missouri Operations Company (GMO). GMO is a wholly owned subsidiary of Great Plains Energy Incorporated (Great Plains Energy). Great Plains Energy also owns Kansas City Power & Light Company (KCP&L), a regulated electric utility.

**Basis of Accounting**

The accounting records of GMO are maintained in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC) as set forth in its applicable Uniform System of Accounts and published accounting releases. The accompanying financial statements have been prepared in accordance with the accounting requirements of these regulators, which differ from Generally Accepted Accounting Principles (GAAP). GMO classifies certain items in its accompanying Comparative Balance Sheet (primarily the components of accumulated deferred income taxes, certain miscellaneous current and accrued liabilities and current maturities of long-term debt) in a manner different than that required by GAAP. In addition, in accordance with regulatory reporting requirements, GMO accounts for its investments in majority-owned subsidiaries on the equity method rather than consolidating the assets, liabilities, revenues and expenses of these subsidiaries, as required by GAAP.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments with original maturities of three months or less at acquisition.

**Funds on Deposit**

Funds on deposit consist primarily of cash provided to counterparties in support of margin requirements related to commodity purchases, commodity swaps and futures contracts. Pursuant to individual contract terms with counterparties, deposit amounts required vary with changes in market prices, credit provisions and various other factors. Interest is earned on most funds on deposit.

**Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

*Rabbi trust* - GMO's rabbi trusts related to its Supplemental Executive Retirement Plans (SERP) are recorded at fair value, which are based on quoted market prices of the investments held by the trusts and/or valuation models. The rabbi trusts are included in Other Special Funds on the comparative balance sheets.

*Long-term debt* - Fair value is based on quoted market prices, with the incremental borrowing rate for similar debt used to determine fair value if quoted market prices were not available. At December 31, 2009, the book value and fair value of GMO's long-term debt, including current maturities, was \$1,047.1 million and \$1,075.1 million, respectively. At December 31, 2008, the book value and fair value of GMO's long-term debt, including current maturities, was \$1,150.6 million and \$1,023.5 million, respectively.

*Derivative instruments* - The fair value of derivative instruments is estimated using market quotes, over-the-counter forward price and volatility curves and correlation among fuel prices, net of estimated credit risk.

**Derivative Instruments**

The Company records derivative instruments on the balance sheet at fair value in accordance with GAAP. GMO enters into derivative contracts to manage exposure to commodity price fluctuations. Derivative instruments designated as

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normal purchases and normal sales (NPNS) and cash flow hedges are used solely for hedging purposes and are not issued or held for speculative reasons.

GMO considers various qualitative factors, such as contract and market place attributes, in designating derivative instruments at inception. GMO may elect the NPNS exception, which requires the effects of the derivative to be recorded when the underlying contract settles. GMO accounts for derivative instruments that are not designated as NPNS as cash flow hedges or non-hedging derivatives, which are recorded as assets or liabilities on the balance sheets at fair value. In addition, if a derivative instrument is designated as a cash flow hedge, GMO documents the method of determining hedge effectiveness and measuring ineffectiveness. See Note 13 for additional information regarding derivative financial instruments and hedging activities.

GMO offsets fair value amounts recognized for derivative instruments under master netting arrangements, which include rights to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable). GMO classifies cash flows from derivative instruments in the same category as the cash flows from the items being hedged.

#### Utility Plant

GMO's utility plant is stated at historical cost. These costs include taxes, an allowance for the cost of borrowed and equity funds used to finance construction and payroll-related costs, including pensions and other fringe benefits. Replacements, improvements and additions to units of property are capitalized. Repairs of property and replacements of items not considered to be units of property are expensed as incurred. When property units are retired or otherwise disposed, the original cost, net of salvage, is charged to accumulated depreciation. Substantially all of GMO's St. Joseph Light & Power division utility plant is pledged as collateral for GMO's mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented.

As prescribed by FERC, Allowance for Funds Used During Construction (AFUDC) is charged to the cost of the plant during construction. AFUDC equity funds are included as a non-cash item in non-operating income and AFUDC borrowed funds are a reduction of interest charges. The rates used to compute gross AFUDC are compounded semi-annually and averaged 5.4% in 2009 and 4.9% in 2008.

Utility plant includes production (22- to 60-year life), transmission (49- to 60-year life), distribution (14- to 66-year life) and general equipment (8- to 50-year life) and is recorded at original cost, net of accumulated depreciation.

#### Depreciation and Amortization

Depreciation and amortization of GMO's utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3% for GMO.

#### Regulatory Matters

GMO defers items on the balance sheet resulting from the effects of the ratemaking process, which would not be recorded if GMO was not regulated. See Note 4 for additional information concerning regulatory matters.

#### Revenue Recognition

GMO recognizes revenues on sales of electricity when the service is provided. Revenues recorded include electric services provided but not yet billed by GMO. Unbilled revenues are recorded for kWh usage in the period following the customers' billing cycle to the end of the month. GMO's estimates are based on net system kWh usage less actual billed kWhs. GMO's estimated unbilled kWhs are allocated and priced by regulatory jurisdiction across the rate classes based on actual billing rates.

GMO collects from customers gross receipts taxes levied by state and local governments. These taxes from GMO's

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not recorded. At December 31, 2009, Great Plains Energy has provided \$1,063.6 million of credit support for GMO as follows:

- Great Plains Energy direct guarantees to GMO counterparties totaling \$87.9 million, which expire in 2010,
- Great Plains Energy letters of credit totaling \$25.4 million to GMO counterparties, which expire in 2010, and
- Great Plains Energy guarantee of GMO long-term debt totaling \$950.3 million, which includes debt with maturity dates ranging from 2010-2023.

Great Plains Energy has also guaranteed GMO's \$400 million revolving line of credit dated September 23, 2008, with a group of banks, expiring September 23, 2011. At December 31, 2009, there was \$232.0 million outstanding under this facility.

## 12. RELATED PARTY TRANSACTIONS AND RELATIONSHIPS

GMO has no employees of its own. KCP&L employees manage GMO's business and operate its facilities at cost. These costs totaled \$102.7 million for 2009 and \$41.0 million in 2008 subsequent to the July 14, 2008, acquisition of GMO. Additionally, KCP&L and GMO engage in wholesale electricity transactions with each other. In 2008, GMO received various support and administrative services from Great Plains Energy Services Incorporated, (Services) a wholly owned subsidiary of Great Plains Energy, and these costs totaled \$2.4 million. GMO is also authorized to participate in the Great Plains Energy money pool. The money pool is an internal financing arrangement in which funds deposited into the money pool may be lent on a short-term basis to GMO. At December 31, 2009 and 2008, GMO had a \$26.4 million and \$23.7 million, respectively, net payable to KCP&L.

## 13. DERIVATIVE INSTRUMENTS

The Company is exposed to a variety of market risks including commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on the Company's operating results. Commodity risk management activities, including the use of certain derivative instruments, are subject to the management, direction and control of an internal risk management committee. Management maintains commodity price risk management strategies that use derivative instruments to reduce the effects of fluctuations in fuel expense caused by commodity price volatility. Counterparties to commodity derivatives expose the Company to credit loss in the event of nonperformance. This credit loss is limited to the cost of replacing these contracts at current market rates. Derivative instruments, excluding those instruments that qualify for the normal purchase normal sale election, which are accounted for by accrual accounting, are recorded on the balance sheet at fair value as an asset or liability. Changes in the fair value of derivative instruments are recorded to a regulatory asset or liability consistent with MPSC regulatory orders, as discussed below.

The Company has posted collateral, in the normal course of business, for the aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a liability position. If the credit risk-related contingent features underlying these agreements were triggered, GMO would be required to post an insignificant amount of collateral to its counterparties.

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. At December 31, 2009, GMO had financial contracts in place to hedge approximately 55% and 3% of the expected on-peak natural gas and natural gas equivalent purchased power price exposure for 2010 and 2011, respectively. In connection with GMO's 2005 Missouri electric rate case, it was agreed that the settlement costs of these contracts would be recognized in fuel expense. The settlement cost is included in GMO's Missouri FAC. A regulatory asset has been recorded to reflect the change in the timing of recognition authorized by the MPSC. To the extent that recovery of actual costs incurred is allowed, amounts will not impact earnings, but will impact cash flows due

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NOTES TO FINANCIAL STATEMENTS (Continued)			

to the timing of the recovery mechanism.

The notional and recorded fair values of GMO's open positions for derivative instruments are summarized in the following table. The fair values of these derivatives are recorded on the balance sheets. The fair values below are gross values before netting of cash collateral.

	December 31			
	2009		2008	
	Notional Contract Amount	Fair Value	Notional Contract Amount	Fair Value
	(millions)			
Swap contracts				
Non-hedging derivatives	\$ -	\$ -	\$ 43.3	\$ (7.1)
Futures contracts				
Non-hedging derivatives	29.8	(0.9)	-	-
Option contracts				
Non-hedging derivatives	-	-	28.2	0.2

The fair value of GMO's open derivative positions are summarized in the following table. The table contains derivative instruments not designated as hedging instruments (non-hedging derivatives) under GAAP. GMO currently has no derivative instruments designated as hedging instruments. The fair values below are gross values before netting of cash collateral.

December 31, 2009	Balance Sheet Classification	Asset Derivatives Fair Value	Liability Derivatives Fair Value
Derivatives Not Designated as Hedging Instruments		(millions)	
Commodity contracts	Derivative instruments	\$ 0.7	\$ 1.6

The following table summarizes the amount of gain (loss) recognized in a regulatory balance sheet account or earnings for GMO utility commodity hedges. GMO utility commodity derivatives fair value changes are recorded to either a regulatory asset or liability consistent with MPSC regulatory orders.

Derivatives in Regulatory Account Relationship			
	Amount of Gain (Loss) Recognized in Regulatory Account on Derivatives (Effective Portion)	Gain (Loss) Reclassified from Regulatory Account	
		Income Statement Classification	Amount
2009	(millions)		(millions)
Commodity contracts	\$ (12.8)	Fuel	\$ (20.5)
Total	\$ (12.8)	Total	\$ (20.5)

#### 14. FAIR VALUE MEASUREMENTS



Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/15/2011	Year/Period of Report 2010/Q4
KCP&L Greater Missouri Operations Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

*Derivative instruments* – The fair value of derivative instruments is estimated using market quotes, over-the-counter forward price and volatility curves and correlation among fuel prices, net of estimated credit risk.

#### **Derivative Instruments**

The Company records derivative instruments on the balance sheet at fair value in accordance with GAAP. GMO enters into derivative contracts to manage exposure to commodity price fluctuations. Derivative instruments designated as normal purchases and normal sales (NPNS) and cash flow hedges are used solely for hedging purposes and are not issued or held for speculative reasons.

GMO considers various qualitative factors, such as contract and market place attributes, in designating derivative instruments at inception. GMO may elect the NPNS exception, which requires the effects of the derivative to be recorded when the underlying contract settles. GMO accounts for derivative instruments that are not designated as NPNS as cash flow hedges or non-hedging derivatives, which are recorded as assets or liabilities on the balance sheets at fair value. In addition, if a derivative instrument is designated as a cash flow hedge, GMO documents the method of determining hedge effectiveness and measuring ineffectiveness. See Note 13 for additional information regarding derivative financial instruments and hedging activities.

GMO offsets fair value amounts recognized for derivative instruments under master netting arrangements, which include rights to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable). GMO classifies cash flows from derivative instruments in the same category as the cash flows from the items being hedged.

#### **Utility Plant**

GMO's utility plant is stated at historical cost. These costs include taxes, an allowance for the cost of borrowed and equity funds used to finance construction and payroll-related costs, including pensions and other fringe benefits. Replacements, improvements and additions to units of property are capitalized. Repairs of property and replacements of items not considered to be units of property are expensed as incurred. When property units are retired or otherwise disposed, the original cost, net of salvage, is charged to accumulated depreciation. Substantially all of GMO's St. Joseph Light & Power division utility plant is pledged as collateral for GMO's mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented.

As prescribed by FERC, Allowance for Funds Used During Construction (AFUDC) is charged to the cost of the plant during construction. AFUDC equity funds are included as a non-cash item in non-operating income and AFUDC borrowed funds are a reduction of interest charges. The rates used to compute gross AFUDC are compounded semi-annually and averaged 4.6% in 2010 and 5.4% in 2009.

Utility plant includes production (22- to 60-year life), transmission (49- to 60-year life), distribution (14- to 66-year life) and general equipment (8- to 50-year life) and is recorded at original cost, net of accumulated depreciation.

#### **Depreciation and Amortization**

Depreciation and amortization of GMO's utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3% for GMO. GMO's depreciation expense was \$72.6 million and \$70.4 million for 2010 and 2009, respectively.

#### **Regulatory Matters**

GMO defers items on the balance sheet resulting from the effects of the ratemaking process, which would not be recorded if GMO was not regulated. See Note 3 for additional information concerning regulatory matters.

#### **Revenue Recognition**

Name of Respondent KCP&L Greater Missouri Operations Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/15/2011	Year/Period of Report 2010/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

2009, GMO had a \$29.6 million and \$26.4 million, respectively, net payable to KCP&L.

### 13. DERIVATIVE INSTRUMENTS

The Company is exposed to a variety of market risks including commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on the Company's operating results. Commodity risk management activities, including the use of certain derivative instruments, are subject to the management, direction and control of an internal risk management committee. Management maintains commodity price risk management strategies that use derivative instruments to reduce the effects of fluctuations in fuel expense caused by commodity price volatility. Counterparties to commodity derivatives expose the Company to credit loss in the event of nonperformance. This credit loss is limited to the cost of replacing these contracts at current market rates. Derivative instruments, excluding those instruments that qualify for the NPNS election, which are accounted for by accrual accounting, are recorded on the balance sheet at fair value as an asset or liability. Changes in the fair value of derivative instruments are recorded to a regulatory asset or liability consistent with MPSC regulatory orders, as discussed below.

The Company posts collateral, in the ordinary course of business, for the aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a liability position. At December 31, 2010, GMO has posted collateral in excess of the aggregate fair value of its derivative instruments, therefore, if the credit risk-related contingent features underlying these agreements were triggered, GMO would not be required to post additional collateral to its counterparties.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law in July 2010, includes provisions related to the swaps and over-the-counter derivative markets. GMO currently expects that its commodity hedges will be exempt from mandatory clearing and exchange trading requirements. Capital and margin requirements for these hedges are expected to be determined over the next year as regulatory agencies implement rules. While GMO currently does not anticipate this law and the associated regulatory rules to have a material impact on its financial condition, the ultimate impact cannot be reasonably determined until the final rules are issued.

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. At December 31, 2010, GMO had financial contracts in place to hedge approximately 67%, 45% and 38% of the expected on-peak natural gas and natural gas equivalent purchased power price exposure for 2011, 2012 and 2013, respectively. In connection with GMO's 2005 Missouri electric rate case, it was agreed that the settlement costs of these contracts would be recognized in fuel expense. The settlement cost is included in GMO's FAC. A regulatory asset has been recorded to reflect the change in the timing of recognition authorized by the MPSC. To the extent recovery of actual costs incurred is allowed, amounts will not impact earnings, but will impact cash flows due to the timing of the recovery mechanism.

The notional and recorded fair values of GMO's open positions for derivative instruments are summarized in the following table. The fair values of these derivatives are recorded on the balance sheets. The fair values below are gross values before netting agreements and netting of cash collateral.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/15/2011	Year/Period of Report 2010/Q4
KCP&L Greater Missouri Operations Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

	December 31			
	2010		2009	
	Notional Contract Amount	Fair Value	Notional Contract Amount	Fair Value
	(millions)			
Futures contracts				
Non-hedging derivatives	\$ 59.5	\$ (2.5)	\$ 29.8	\$ (0.9)
Option contracts				
Non-hedging derivatives	0.2	-	-	-

The fair value of GMO's open derivative positions are summarized in the following table. The table contains derivative instruments not designated as hedging instruments (non-hedging derivatives) under GAAP. The fair values below are gross values before netting agreements and netting of cash collateral.

	Balance Sheet Classification	Asset Derivatives Fair Value	Liability Derivatives Fair Value
December 31, 2010			
		(millions)	
Derivatives Not Designated as Hedging Instruments			
Commodity contracts	Derivative instruments	\$ 0.5	\$ 3.0
December 31, 2009			
Derivatives Not Designated as Hedging Instruments			
Commodity contracts	Derivative instruments	\$ 0.7	\$ 1.6

The following table summarizes the amount of gain (loss) recognized in a regulatory balance sheet account or earnings for GMO utility commodity hedges. GMO utility commodity derivatives fair value changes are recorded to either a regulatory asset or liability consistent with MPSC regulatory orders.

Derivatives in Regulatory Account Relationship			
	Amount of Gain (Loss) Recognized on Regulatory Account on Derivatives (Effective Portion) (millions)	Gain (Loss) Reclassified from Regulatory Account	
		Income Statement Classification	Amount (millions)
2010			
Commodity contracts	\$ (8.2)	Fuel	\$ (7.2)
Total	\$ (8.2)	Total	\$ (7.2)
2009			
Commodity contracts	\$ (12.8)	Fuel	\$ (20.5)
Total	\$ (12.8)	Total	\$ (20.5)

#### 14. FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2011/Q4
KCP&L Greater Missouri Operations Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

*Derivative instruments* – The fair value of derivative instruments is estimated using market quotes, over-the-counter forward price and volatility curves and correlation among fuel prices, net of estimated credit risk.

#### **Derivative Instruments**

The Company records derivative instruments on the balance sheet at fair value in accordance with GAAP. GMO enters into derivative contracts to manage exposure to commodity price fluctuations. Derivative instruments designated as normal purchases and normal sales (NPNS) and cash flow hedges are used solely for hedging purposes and are not issued or held for speculative reasons.

GMO considers various qualitative factors, such as contract and market place attributes, in designating derivative instruments at inception. GMO may elect the NPNS exception, which requires the effects of the derivative to be recorded when the underlying contract settles. GMO accounts for derivative instruments that are not designated as NPNS as cash flow hedges or non-hedging derivatives, which are recorded as assets or liabilities on the balance sheet at fair value. In addition, if a derivative instrument is designated as a cash flow hedge, GMO documents the method of determining hedge effectiveness and measuring ineffectiveness. See Note 13 for additional information regarding derivative financial instruments and hedging activities.

GMO offsets fair value amounts recognized for derivative instruments under master netting arrangements, which include rights to reclaim cash collateral (a receivable), or the obligation to return cash collateral (a payable). GMO classifies cash flows from derivative instruments in the same category as the cash flows from the items being hedged.

#### **Utility Plant**

GMO's utility plant is stated at historical cost. These costs include taxes, an allowance for the cost of borrowed and equity funds used to finance construction and payroll-related costs, including pensions and other fringe benefits. Replacements, improvements and additions to units of property are capitalized. Repairs of property and replacements of items not considered to be units of property are expensed as incurred. When property units are retired or otherwise disposed, the original cost, net of salvage, is charged to accumulated depreciation. Substantially all of GMO's St. Joseph Light & Power division utility plant is pledged as collateral for GMO's mortgage bonds under the General Mortgage Indenture and Deed of Trust dated April 1, 1946, as supplemented.

As prescribed by The Federal Energy Regulatory Commission (FERC), Allowance for Funds Used During Construction (AFUDC) is charged to the cost of the plant during construction. AFUDC equity funds are included as a non-cash item in non-operating income and AFUDC borrowed funds are a reduction of interest charges. The rates used to compute gross AFUDC are compounded semi-annually and averaged 5.4% in 2011 and 4.6% in 2010.

Utility plant includes production (22- to 60-year life), transmission (49- to 60-year life), distribution (14- to 66-year life) and general equipment (8- to 50-year life) and is recorded at original cost, net of accumulated depreciation.

#### **Depreciation and Amortization**

Depreciation and amortization of GMO's utility plant is computed using the straight-line method over the estimated lives of depreciable property based on rates approved by state regulatory authorities. Annual depreciation rates average approximately 3% for GMO.

#### **Regulatory Matters**

GMO defers items on the balance sheet resulting from the effects of the ratemaking process, which would not be recorded if GMO was not regulated. See Note 3 for additional information concerning regulatory matters.

#### **Revenue Recognition**

GMO recognizes revenues on sales of electricity when the service is provided. Revenues recorded include electric

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2011/Q4
KCP&L Greater Missouri Operations Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

### 13. DERIVATIVE INSTRUMENTS

The Company is exposed to a variety of market risks including commodity prices. Management has established risk management policies and strategies to reduce the potentially adverse effects that the volatility of the markets may have on the Company's operating results. Commodity risk management activities, including the use of certain derivative instruments, are subject to the management, direction and control of an internal risk management committee. Management maintains commodity price risk management strategies that use derivative instruments to reduce the effects of fluctuations in fuel expense caused by commodity price volatility. Counterparties to commodity derivatives expose the Company to credit loss in the event of nonperformance. This credit loss is limited to the cost of replacing these contracts at current market rates. Derivative instruments, excluding those instruments that qualify for the NPNS election, which are accounted for by accrual accounting, are recorded on the balance sheet at fair value as an asset or liability. Changes in the fair value of derivative instruments are recorded to a regulatory asset or liability consistent with MPSC regulatory orders, as discussed below.

The Company posts collateral, in the ordinary course of business, for the aggregate fair value of all derivative instruments with credit risk-related contingent features that are in a liability position. At December 31, 2011, GMO has posted collateral in excess of the aggregate fair value of its derivative instruments; therefore, if the credit risk-related contingent features underlying these agreements were triggered, GMO would not be required to post additional collateral to its counterparties.

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. At December 31, 2011, GMO had financial contracts in place to hedge approximately 45%, 38% and 38%, respectively, of the expected on-peak natural gas and natural gas equivalent purchased power price exposure for 2012, 2013 and 2014. GMO has designated its natural gas hedges as economic hedges (non-hedging derivatives). In connection with GMO's 2005 Missouri electric rate case, it was agreed that the settlement costs of these contracts would be recognized in fuel expense. The settlement cost is included in GMO's FAC. A regulatory asset has been recorded to reflect the change in the timing of recognition authorized by the MPSC. To the extent recovery of actual costs incurred is allowed, amounts will not impact earnings, but will impact cash flows due to the timing of the recovery mechanism.

	December 31			
	2011		2010	
	Notional Contract Amount	Fair Value	Notional Contract Amount	Fair Value
	(millions)			
Futures contracts				
Non-hedging derivatives	\$ 23.6	\$ (5.0)	\$ 59.5	\$ (2.5)
Option contracts				
Non-hedging derivatives	0.4	-	0.2	-

The notional and recorded fair values of open positions for derivative instruments are summarized in the following table. The fair values of these derivatives are recorded on the balance sheet. The fair values below are gross values before netting agreements and netting of cash collateral.

The fair values of GMO's open derivative positions are summarized in the following table. The table contains derivative

Name of Respondent KCP&L Greater Missouri Operations Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2011/Q4
NOTES TO FINANCIAL STATEMENTS (Continued)			

instruments not designated as hedging instruments (non-hedging derivatives) under GAAP. The fair values below are gross values before netting agreements and netting of cash collateral.

	Balance Sheet Classification	Asset Derivatives Fair Value	Liability Derivatives Fair Value
<b>December 31, 2011</b>			
<b>Derivatives Not Designated as Hedging Instruments</b>			(millions)
Commodity contracts	Derivative instruments	\$ -	\$ 5.0
<b>December 31, 2010</b>			
<b>Derivatives Not Designated as Hedging Instruments</b>			
Commodity contracts	Derivative instruments	\$ 0.5	\$ 3.0

The following table summarizes the amount of gain (loss) recognized in a regulatory balance sheet account or earnings for GMO utility commodity hedges. GMO utility commodity derivatives fair value changes are recorded to either a regulatory asset or liability consistent with MPSC regulatory orders.

<b>Derivatives in Regulatory Account Relationship</b>			
		<b>Gain (Loss) Reclassified from Regulatory Account</b>	
	<b>Amount of Gain (Loss) Recognized on Regulatory Account on Derivatives (Effective Portion) (millions)</b>	<b>Income Statement Classification</b>	<b>Amount (millions)</b>
<b>2011</b>			
Commodity contracts	\$ (8.3)	Fuel	\$ (3.8)
Total	\$ (8.3)	Total	\$ (3.8)
<b>2010</b>			
Commodity contracts	\$ (8.2)	Fuel	\$ (7.2)
Total	\$ (8.2)	Total	\$ (7.2)

#### 14. FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad categories, giving the highest priority to quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. A definition of the various levels, as well as discussion of the various measurements within the levels, is as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that GMO has access to at the measurement date. Securities categorized within this level consist of GMO's various exchange traded derivative instruments and equity securities that are actively traded within GMO's SERP rabbi trust fund.

Level 2 – Market-based inputs for assets or liabilities that are observable (either directly or indirectly) or inputs that are



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## Independent Auditors' Report

The Board of Directors  
Aquila, Inc.:

We have audited the accompanying comparative balance sheets – regulatory basis of Aquila, Inc. (the Company) as of December 31, 2006 and 2005, and the related statements of income, retained earnings, cash flows, and accumulated comprehensive income, comprehensive income, and hedging activities—regulatory basis for the years then ended, included on pages 110 through 123 (excluding pages 115 and 116) of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to the financial statements, effective December 31, 2006 the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Also, as discussed in note 12 to the financial statements, effective January 1, 2006 the Company adopted FASB Statement of Financial Accounting Standards No. 123 (Revised), *Share-Based Payment*, replacing SFAS No. 123, *Accounting for Stock-Based Compensation*.

As described on page 123.1, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Federal Energy Regulatory Commission, as set forth in its applicable uniform system of accounts and published accounting releases, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the comparative balance sheet-regulatory basis of Aquila, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described on page 123.1.

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Page 1 of 7



This report is intended solely for the information and use of the board of directors and management of Aquila, Inc. and the Federal Energy Regulatory Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Kansas City, Missouri  
May 14, 2007





KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## Independent Auditors' Report

The Board of Directors  
Aquila, Inc.:

We have audited the accompanying comparative balance sheets – regulatory basis of Aquila, Inc. (the Company) as of December 31, 2007 and 2006, and the related statements of income, retained earnings, cash flows, and accumulated comprehensive income, comprehensive income, and hedging activities – regulatory basis for the years then ended, included on pages 110 through 123 (excluding pages 115 and 116) of the accompanying Federal Energy Regulatory Commission Form No. 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, and FSP AUG AIR-1, *Accounting for Planned Major Maintenance Activities*.

As described on page 123.1, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Federal Energy Regulatory Commission, as set forth in its applicable uniform system of accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted comparative balance sheets – regulatory basis of Aquila, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described on page 123.1.

This report is intended solely for the information and use of the board of directors and management of Aquila, Inc. and the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Kansas City, Missouri  
April 16, 2008

## INDEPENDENT AUDITORS' REPORT

KCP&L Greater Missouri Operations Company  
Kansas City, Missouri

We have audited the balance sheet — regulatory basis of KCP&L Greater Missouri Operations Company (the "Company") as of December 31, 2008, and the related statements of income — regulatory basis; retained earnings — regulatory basis; cash flows — regulatory basis, and accumulated other comprehensive income, comprehensive income, and hedging activities — regulatory basis, for the year ended December 31, 2008, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2008, and the results of its operations and its cash flows for the year ended December 31, 2008, in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

February 27, 2009

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## INDEPENDENT AUDITORS' REPORT

KCP&L Greater Missouri Operations Company  
Kansas City, Missouri

We have audited the balance sheet — regulatory basis of KCP&L Greater Missouri Operations Company (the "Company") as of December 31, 2009, and the related statements of income — regulatory basis; retained earnings — regulatory basis; and cash flows — regulatory basis, for the year ended December 31, 2009, included on pages 110 through 123, except for the statement of accumulated other comprehensive income, comprehensive income, and hedging activities — regulatory basis on pages 122a and 122b, of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2009, and the results of its operations and its cash flows for the year ended December 31, 2009, in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

April 19, 2010

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## INDEPENDENT AUDITORS' REPORT

KCP&L Greater Missouri Operations Company  
Kansas City, Missouri

We have audited the balance sheet — regulatory basis of KCP&L Greater Missouri Operations Company (the “Company”) as of December 31, 2010, and the related statements of income — regulatory basis; retained earnings — regulatory basis; and cash flows — regulatory basis, for the year ended December 31, 2010, included on pages 110 through 123, except for the statement of accumulated other comprehensive income, comprehensive income, and hedging activities — regulatory basis on pages 122a and 122b, of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

April 15, 2011

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## INDEPENDENT AUDITORS' REPORT

KCP&L Greater Missouri Operations Company  
Kansas City, Missouri

We have audited the balance sheet — regulatory basis of KCP&L Greater Missouri Operations Company (the “Company”) as of December 31, 2011, and the related statements of income — regulatory basis, retained earnings — regulatory basis, and cash flows — regulatory basis for the year then ended December 31, 2011, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

February 28, 2012

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