PRUDENCE REVIEW OF COSTS
RELATED TO THE FUEL ADJUSTMENT CLAUSE
FOR THE ELECTRIC OPERATIONS
OF
KCP&L GREATER MISSOURI OPERATIONS COMPANY

December 1, 2010 through May 31, 2012

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

FILE NO. EO-2013-0325

Jefferson City, Missouri
May 29, 2013

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

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Prudence Review of Costs Report

I. Executive Summary

The Missouri Public Service Commission ("Commission") first authorized a Fuel Adjustment Clause ("FAC") for Aquila, Inc. ("Aquila") in Case No. ER-2007-0004. The Commission approved the acquisition of Aquila, by Great Plains Energy, Inc. and subsequently Aquila was renamed KCP&L Greater Missouri Operations Company ("GMO" or "Company")[1]. This acquisition became effective July 14, 2007. Since then, the Commission has approved continuation of GMO's FAC with modifications in its orders in the Company's general rate cases, Case No. ER-2009-0090, Case No. ER-2010-0356 and Case No. ER-2012-0175.

Missouri statute and Commission rule, Section 386.266.4(4) RSMo (Supp. 2010), and 4 CSR 240-20.090(7), respectively, require prudence reviews of an electric utility's FAC no less frequently than at 18-month intervals. In this prudence review Staff analyzed items affecting GMO's costs for fuel, purchased power, net emissions allowances, transmission costs, and revenues from off-system sales for the eighth, ninth and tenth six-month accumulation periods of GMO's FAC ("prudence review period"). The eighth accumulation period started December 1, 2010 and ended May 31, 2011, the ninth accumulation period started June 1, 2011 and ended November 31, 2011, and the tenth accumulation period started December 1, 2011 and ended May 31, 2012. Thus, the 18-month prudence review period that is documented in this Prudence Review Report is from December 1, 2010 through May 31, 2012. This is Staff's fourth Prudence Review Report for GMO's FAC.

Staff filed its first Prudence Review Report in File No. EO-2009-0115. That report covered the first two six-month accumulation periods of GMO's FAC—the period June 1, 2007 through May 31, 2008. Staff filed its second Prudence Review Report in File No. EO-2010-0167. That report covered the third and fourth six-month accumulation periods

[1] In Case No. EN-2009-0164 the Commission recognized, by order dated November 20, 2008 and made effective December 3, 2008, the name change of Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company to KCP&L Greater Missouri Operations Company. At different points in time the company now named KCP&L Greater Missouri Operation Company was known as, or did business in Missouri as, Aquila, Inc., Aquila Networks-MPS, Aquila Networks-L&P and KCP&L Greater Missouri Operations Company. Presently, to the public it, jointly with Kansas City Power & Light Company ("KCPL") does business using the service mark "KCP&L" For ease, in this report the Company will be uniformly referred to as "GMO" or "Company."

of GMO'S FAC—the period June 1, 2008 through May 31, 2009. Staff filed its third Prudence Review Report in File No. EO-2011-0390. That report covered the fifth, sixth and seventh six-month accumulation periods of GMO's FAC—the period June 1, 2009 through November 30, 2010.

In evaluating prudence, Staff reviews whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed was reasonable based on the circumstances at the time the decision was made, *i.e.*, without the benefit of hindsight. The decision actually made is disregarded and the review is an evaluation, instead, of the reasonableness of the information the decision-maker relied on and the decision-making process the decision-maker employed. If either the information relied upon or the decision-making process employed was imprudent, then Staff examines whether the imprudent decision caused any harm to ratepayers. Only if an imprudent decision resulted in harm to ratepayers, will Staff recommend a refund.

Staff analyzed a variety of items in examining whether GMO prudently incurred the fuel and purchased power costs associated with its FAC. Based on its review, Staff found no evidence of imprudence by GMO for the items it examined for the period of December 1, 2010, through May 31, 2012.

II. Introduction

A. General Description of GMO's FAC

For each accumulation period ("AP"), GMO's Commission-approved FAC allows GMO to recover (if the net costs exceed) or refund (if the net costs are less than) to its ratepayers ninety-five percent (95%) of the "net fuel cost" defined as the difference between its prudently incurred variable fuel, purchased power, transmission costs and net emissions costs plus off-system sales revenue, and the base energy cost amount. GMO accumulates variable fuel, purchased power, transmission costs and net emissions costs plus off-system sales revenue during six-month accumulation periods. Each six-month accumulation period is followed by a twelve-month recovery period

where the over- or under-recovery during the previous six-month accumulation period relative to the base energy cost amount[2] is flowed through to ratepayers by an increase or decrease in the FAC Cost Adjustment Factor ("CAF"). An adjustment to the CAF is designed to offset that over- or under-recovery for a given AP by the end of the twelve-month recovery period ("RP"). Because the CAF rarely, if ever, will exactly match the required offset, GMO's FAC is designed to true-up the difference between the revenues billed and the revenues authorized for collection during recovery periods. Any disallowance the Commission orders as a result of a prudence review shall include interest at the Company's short-term interest rate$_2$ and will be accounted for as a true-up item.

B. Prudence Standard

In *State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo.*, 954 S.W.2d 520, 528-29 (Mo. App. W.D., 1997) the Western District Court of Appeals stated the Commission's prudence standard as follows:

> The PSC has defined its prudence standard as follows:
>
> > [A] utility's costs are presumed to be prudently incurred.... However, the presumption does not survive "a showing of inefficiency or improvidence."
> >
> > ... [W]here some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent. (Citations omitted).
>
> *Union Electric*, 27 Mo. PSC (N.S.) 183, 193 (1985) (quoting ***529** *Anaheim, Riverside, Etc. v. Fed. Energy Reg. Com'n*, 669 F.2d 799, 809 (D.C.Cir.1981). In the same case, the PSC noted that this test of prudence should not be based upon hindsight, but upon a reasonableness standard:
>
> > [T]he company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.
>
> *Union* Electric, 27 Mo. P.S.C. at 194 (quoting *Consolidated Edison Company of New York, Inc.* 45 P.U.R. 4th 331 (1982)).

[2] GMO's P.S.C.MO. No. 1, 1st Revised Sheet No. 127.8 defines base energy cost as net system input times base energy costs per kWh, calculated separately for MPS and L&P, respectively. The base energy costs per kWh are approved by the Commission in each general rate case in which the Company's FAC is continued with modification.

In reversing the Commission in that case, the Court did not criticize the Commission's definition of prudence, but held, in part, that to disallow a utility's recovery of costs from its ratepayers based on imprudence; the Commission must determine the detrimental impact of that imprudence on the utility's ratepayers. *Id*. at 529-30

This is the prudence standard Staff has followed in this review.

The Staff reviewed for prudence the areas identified and discussed below for GMO's eighth, ninth and tenth six-month AP.

III. Fuel and Purchased Power

The total energy cost for the purpose of GMO's FAC is comprised of five major components and is equal to: Fuel Costs, plus Purchased Power Costs, plus Net Emission Allowances Costs, plus Transmission Costs, minus Off-System Sales Revenue.

A. Utilization of Generation Capacity

1. Description

GMO has enough base and peaking generation to meet native load and reserve margin requirements but will purchase power based upon reliability and economic considerations. The following generating station units provided base-load energy during the Prudence Review Period: Sibley 1, 2, and 3; Lake Road 4; Jeffrey Energy Center 1, 2, and 3; Iatan 1 and 2; and L&P Landfill Gas. GMO's remaining units provided intermediate energy and peak energy and include; Crossroads 1, 2, 3 and 4; Greenwood 1, 2, 3 and 4; KCI 1 and 2; Lake Road 1, 2, 3, 5 and 7; Nevada 1; Ralph Green 3; and South Harper 1, 2, and 3. The following table summarizes GMO's Generation Capacity.

Table A

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In Its Entirety

The normal (excludes coal conservation conditions) economic dispatch (loading order) of each generating unit for the review period is as follows.[4]

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There were no "forced" or "must run" generating units on the system during the prudence review period; however, there are "must take" unit participation power agreements with Nebraska Public Power District ("NPPD") for their Gerald Gentlemen Station and Cooper Nuclear Station and with the Gray County Wind facility. Operating reserves for the GMO system typically ranges from ** _____ ** MW with at least half being spinning reserves as maintained by the Southwest Power Pool ("SPP") who is the Reliability Coordinator ("RC") for GMO. The Reliability Coordinator is a North American Reliability Corporation (NERC) designation for that entity that acts and directs actions on the electrical grid to maintain compliance with NERC reliability standards. GMO is a member of SPP and is required to maintain a capacity margin of at least 12% of the projected summer peak load

[4] GMO Response to Staff Data Request 0011.1.

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and meets this requirement with its generation assets, capacity purchases and Demand Side Management ("DSM") programs. SPP performs Network Integration Transmission Services for GMO that involves operating the electrical grid in accordance with NERC reliability standards for GMO's generation sources and providing energy to GMO's customer loads.

GMO is registered with NERC/SPP for the following functions[5]:

- Balancing Authority
- Transmission Operator
- Transmission Owner
- Transmission Planner
- Transmission Service Provider
- Generation Operator
- Generation Owner
- Resource Planner
- Purchasing Selling Entity
- Load Serving Entity
- Distribution Provider

During this review period, significant flooding on the Missouri River disrupted coal delivery via the railroads to several Kansas City Power & Light Company ("KCPL") generating stations including Iatan 1 and Iatan 2, of which GMO has 18% ownership in each. This disruption in coal delivery to Iatan 1 and Iatan 2 caused KCPL to initiate coal conservation measures, in order to keep the units on-line and avoid shutting down those units, commencing July 2, 2011 and ending October 12, 2011. The coal conservation measures consisting of KCPL increasing the offered generation pricing into the SPP market for the Iatan, LaCygne and Hawthorn units to a level that reflected the scarcity of the coal supply. The net impact of these coal conservation measures resulted in SPP dispatching more economical units on the system to satisfy generation needs resulting in reduced dispatched loading for these units, thereby reducing the amount of fuel consumed and keeping the units online. By keeping these units online, they were available to ramp up to full rated unit output in the event of an emergency situation. The net impact to GMO was that it had to replace the

[5] GMO Response to Staff Data Request 0019.1.

power it normally would have received from Iatan with power from other more expensive sources, but this consequence was unavoidable and represented the best options available at the time to both KCPL and GMO management.

Table B
A Summary of GMO's 2011&2012 Capacity Balances[6]

Type or Category of Capacity & Load	2011 MW	2012 MW
Total Base Generation	** _____ **	** _____ **
Total Peaking Generation	** _____ **	** _____ **
Net Capacity Purchases	** __ **	** ____ **
Total System Capacity (TSC)	** _____ **	** _____ **
Forecasted Peak Load	** _____ **	** _____ **
Less Adjusted DSM*	** ____ **	** ____ **
Net Forecasted Peak Load (PF)	** _____ **	** _____ **
Capacity Reserves(CR)=TSC-PF	** ___ **	** ____ **
Required Capacity(RC)=PF+CR	** _____ **	** _____ **
Capacity Balance=TSC-RC	** _ **	** _ **
% Reserve Margin (CR/PF)	** ____ **	** ____ **
% Capacity Margin(CM)=CR/TSC	** ____ **	** ____ **

**Demand Side Management ("DSM") includes the net MW load curtailment as a result of Energy Efficiency ("EE") and Demand Response ("DR") Programs*

As can be seen by the above table and previous discussions, GMO met its load obligation by utilizing a combination of base and peaking generation, DSM, and purchased power agreements. There are several factors that go into the decision process to arrive at a prudent mix of supply-side resources to satisfy safety, reliability and economic criteria. These criteria include, but are not limited to, transmission and distribution congestion, contingency scenarios that include the unexpected loss of generation and/or transmission and distribution,

[6] GMO Response to Staff Data Request 0056.

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fuel supply interruptions, labor disputes, forecasted weather, fuel supply choices and tradeoffs of cost and performance vs. meeting environmental regulations, etc.

2. Summary of Cost Implications

Staff reviewed the generation assets of GMO, and how GMO met its required load and reserve margin during the audit period. If GMO had been imprudently managing its generation capacity, *e.g.*, using its peaking units to serve base-load demand, ratepayers could be harmed by increased fuel costs recovered through GMO's FAC.

3. Conclusion

Staff found no indication GMO imprudently dispatched its units during the Prudence Review Period.

4. Documents Reviewed

a. Testimony filed in GMO's last general rate case, Case No. ER-2012-0175;
b. SPP Service Agreement No. 1765 for Network Integration Transmission Service between SPP and GMO;
c. Great Plains Energy 2011 Annual Report;
d. SPP Compliance Audit Report NCR01058 performed in November 2009;
e. SEC Form 10-K for the fiscal year ended December 31, 2012;
f. GMO responses to Staff Data Request Nos. 004.1, 009.1, 0010.1, 0011.1, 0012.1, 0015.1, 0016.1, 0019.1, 0020.1, 0022.1, 0024.1, 0048.1, 0056, 0058, 0059 issued in this case; and
g. Monthly generation data GMO submitted in compliance with 4 CSR 240-3.190.

Staff Expert: Randy S. Gross

B. Utilization of Purchased Power Agreements

1. Description

In addition to obtaining power from the generating units it owns during the prudence review period, GMO received energy and capacity through long-term and short-term purchased power agreements ("PPA"). GMO had separate long-term PPAs with the NPPD and a wind energy PPA with Gray County Wind Farm for the MPS and L&P rate districts. During the review period the ** _____ ** NPPD contract associated with L&P expired and was not renewed. The other ** _____ ** associated with the MPS is still in force. During

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the review period GMO also had several short-term PPAs with various suppliers. In GMO's general electric rate case, Case No. ER-2010-0356, the Commission ordered the Crossroads station be added to GMO's rate base effective May 14, 2011, up to that point GMO had a tolling agreement[7].

2. Summary of Cost Implications

If GMO imprudently entered into one or more short-term PPAs for additional energy to meet its demand, evidence of imprudence regarding the resulting purchased energy would only be found if the cost of the energy obtained through the PPA(s) exceeded the cost of generating the energy by GMO generating capacity or the cost of purchasing the energy on the spot market. If GMO imprudently entered into PPAs, ratepayer harm could result from an increase in costs to be collected through the FAC.

3. Conclusion

Staff found GMO's long-term, base-load agreements to be reasonable as they are below both the cost of generating power with its own peaking units and the cost of purchased power. Staff found GMO's short-term contracts to be reasonable as they were used to meet GMO's short-term peaking capacity requirements at a cost below the cost of generating power of GMO's highest cost peaking generating units. Staff found no indication of imprudence by GMO for entering into long-term and short-term purchased power contracts.

4. Documents Reviewed

a. GMO Responses to Staff Data Requests Nos., 0011, 0014, 0015, 0016, 0017, 0018, 0019, 0020, 0023, 0024 and 0049 in this case; and

b. Monthly purchases and sales data GMO submitted in compliance with 4 CSR 240-3.190 .

Staff Expert: Dana Eaves

[7] A tolling agreement is a contract to purchase power wherein the utility pays the seller of the energy, usually a generator, a periodic payment for capacity for the length of the contract. The utility is generally responsible for the delivery of the fuel (e.g. natural gas) to the seller's power plant generating units and scheduling of the generating units under contract.

C. Purchased Power Costs

1. Description

Staff reviewed spot market purchases ("purchased power") and the results of GMO's natural gas hedging activities linked to its on-peak energy purchases.

Staff has determined GMO's total purchased power expense, that GMO is seeking to be recovered for the 18-month period reviewed, including hedging gains and losses, is approximately **_____ **. Included in this amount are the net gains/losses associated with its purchased power hedging activities. In GMO's response to Staff's Data Request No. 0054, it provides the results of its hedging activities for the review period, from that information Staff has determined the amount of hedging losses related to hedges placed to protect on-peak purchased power to be ** _____ ** for the period December 1, 2010 through May 31, 2012

In addition to the PPAs discussed above, GMO also purchases hourly energy in the market from other electric suppliers to help meet GMO's load during times of forced or planned plant outages and during times when the market price is below both the marginal cost of providing that energy from GMO's generating units and purchased power contracts. During the review period, GMO submitted revised tariff sheets that changed the components of the GMO FAC; Staff has provided the appropriate tariff language for both sets of FAC tariffs sheets in effect during the prudence review period.

GMO's FAC Original Sheet No 127.3, effective September 1, 2009 through June 30, 2011, defines the Purchase Power Costs ("PP") components as:

PP = Purchased Power Costs:

- Purchased power costs reflected in FERC Account Numbers 555, 565, and 575: Purchased power costs, settlement proceeds, insurance recoveries, and subrogation recoveries for increased purchased power expenses in Account 555, excluding SPP and MISO administrative fees and excluding capacity charges for purchased power contracts with terms in excess of one (1) year.
- GMO's FAC tariff Original Sheet No. 127.8 effective: July 1, 2011 and Thereafter, defines the Purchase Power Costs ("PP") components as:

- PP = Purchased Power Costs:
  - Purchased power costs reflected in FERC Account Numbers 555: Purchased power costs, settlement proceeds, insurance

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> recoveries, and subrogation recoveries for increased purchased power expenses in Account 555, excluding capacity charges for purchased power contracts with terms in excess of one (1) year.

Staff found in GMO's last prudency review, File No EO-2011-0390, that GMO included in its on-peak purchased power costs, along with the energy costs, hedging gains and losses associated with natural gas future contracts that it incurred in an effort to mitigate risk associated with purchasing spot market power. This "cross hedging" methodology is not used by the other investor-owned electric utilities in Missouri. During GMO's last prudency review, Staff recommended an adjustment of approximately $14 million that reflected net losses associated with GMO's use of New York Mercantile Exchange ("NYMEX") natural gas futures contracts in an attempt to mitigate spot purchased power energy price volatility. As a result of a hearing associated with prudency issues raised by Staff, the Commission issued a Report and Order[8] on September 4, 2012. The Commission found:

> The Commission's Staff has failed to provide substantial controverting evidence to rebut the presumption of the prudence of GMO's hedging practices. The Commission's Staff has failed to meet its burden, by a preponderance of the evidence, of proving the GMO was imprudent with its hedging practices during the prudence review period of June 1, 2009 through November 30, 2010. The Commission's Staff has failed to meet its burden, by a preponderance of the evidence, of proving GMO engaged in improper accounting practices in violation of the Accounting Authority Order from File Number ER-2005-0436. The Commission's Staff has failed to meet its burden, by a preponderance of the evidence, of proving that GMO violated the Uniform System of Accounts. The Commission's Staff has failed to meet its burden, by a preponderance of the evidence, of proving GMO violated its Fuel Adjustment Clause Tariff. All of Staff's allegations, and the relief sought by Staff, will be denied.

Also, as a result of File No. EO-2011-0390 the Commission found it was appropriate to open an investigatory docket, File No. EW-2013-0101, "to review policies or procedures with regard to electric companies' hedging programs that will hopefully assist the utilities

[8] In the Matter of the Third Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company, File No. EO-2011-0390, Report and Order.

with developing effective hedging programs that serve the public interest by mitigating the rising costs of fuel"[9].

Included in Table C are the results for the review period of GMO hedging practices as related to natural gas during the review period.

Table C
Purchased Power Hedging Results

	Projected Natural Gas Burn Converted to MMBtu **For Own Generation**	Projected Natural Gas MMBtu Equivalents for **On Peak Purchased Power**	Total MMBtu Requirements
MMBtu Requirements	** _____ **	** _____ **	** _____ **
Percentage of MMBtu Requirements by type	** _____ **	** _____ **	
Volume Actually Hedged	** _____ **	** _____ **	** _____ **
Volume of Hedges Actual Used	** _____ **	** _____ **	** _____ **
Volume of Hedges Not Used	** _____ **	** _____ **	** _____ **
Percent of Hedges Not Used	** _____ **	** _____ **	** _____ **
Net Gains/(Losses) from Hedging Activities	** _____ **	** _____ **	** _____ **
Percent of Losses by activity	** _____ **	** _____ **	

2. Summary of Cost Implication

If GMO was imprudent in its hedging, ratepayer harm could result from an increase in the hedging costs that are collected through GMO's FAC.

[9] In the Matter of a Working Docket to Address the Hedging Practices of Electric Utilities used to Mitigate the Rising Costs of Fuel

3. Conclusion

GMO continues to experience cash losses associated with its hedging activities. In File No. EO-2011-0390 the commission found that Staff was unable to provide substantial controverting evidence to rebut the presumption of the prudence of GMO's hedging practices. Staff's review here has found only similar evidence. Therefore, although Staff continues to have concerns related to GMO's "cross hedging" on-peak energy prices with NYMEX natural gas futures contracts, Staff is not recommending an adjustment as a result of this prudency review.

4. Documents Reviewed

a. GMO's responses to Staff Data Request File No. EO-2013-0325 and GMO's responses to Staff Data Request in File No. EO-2011-0390; and

b. GMO's filings in this case and FAC tariff sheets.

Staff Expert: Dana Eaves

D. Hourly Weighted Transfer Pricing

1. Description

Like GMO, KCPL is a wholly-owned subsidiary of Great Plains Energy, Inc.; KCPL operates GMO under the terms of an operating agreement[10]. In that agreement in Section 1.2, it was agreed that KCPL could act as an agent for GMO. However, KCPL and GMO operate as separate Load Balancing Authorities ("LBA"), and, therefore, must operate independently when forecasting load. Once each utility has forecasted its power requirements for an upcoming period under the Joint Operating Agreement, KCPL has the authority to act on GMO's behalf when making decisions about how best to fulfill GMO's energy needs. KCPL combines KCPL and GMO forecasted loads when acquiring energy in the real-time market and uses a weighted average price methodology to transfer the cost of energy purchased on behalf of GMO to GMO's books and records. GMO's answer to Staff Data Request No. 0075 provides the following:

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[10] Joint Operating Agreement between Kansas City Power & Light Company and Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company Case No EM 2007-0374

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Staff has reviewed in detail the transactions related to real-time and day-ahead transactions and the transferring process to obtain an understanding of the process.

Staff had concerns that KCPL's transfer pricing process would lead to a higher price for the energy purchased on GMO's behalf by KCPL. After sampling hourly transactions

during the review period Staff found no material impact as a result of the use of this hourly weighted average price methodology on the cost of real-time and day-ahead energy purchases.

2. Summary of Cost Implications

If KCPL was imprudent in its decisions relating to purchasing energy on behalf of GMO, rate payer harm could result from an increase in FAC charges.

3. Conclusion

Staff found no indication that the use of KCPL's accounting for real-time and day-ahead pricing methodology were imprudent during the time period examined in this prudence review and harmed GMO's customers.

4. Documents reviewed

a. GMO's responses to Staff Data Requests in File No. EO-2013-0325; and

b. GMO's filings in this case and FAC tariff sheets; and

c. Meetings with KCPL and GMO representatives.

Staff Expert: Dana Eaves

E. Plant Outages

1. Description

Generating station outages generally can be classified as scheduled outages, forced outages or partial outages (derating). Scheduled outages consist of either a planned outage or a maintenance outage. A planned outage is described as being scheduled well in advance, being a predetermined duration and occurring only once or twice a year.

A maintenance outage is an outage that can be deferred beyond the end of the next weekend but must be taken before the next planned outage. A forced outage is an outage that cannot be deferred beyond the next weekend and a partial outage or derating is a condition that exists that requires the unit to be limited to an energy output below maximum capacity.

Outages taken at any of the generating units have an impact on how much GMO will pay for fuel and purchased power and have the potential result of GMO asking for more fuel and purchased power cost than is necessary. Periodic planned outages are required to maintain generation units in peak condition in order to avoid forced or maintenance outages that could occur during peak load demand and high replacement energy costs, typically in the

summer months of June through August. The Company has little or no control over maintenance or forced outages of the generating stations it owns or operates as a result of unforeseen events. The Company has no control over the timing of outages for generating stations that it does not operate, and, therefore, these units are excluded from Staff's review for planned outages.

As an example, planned outage intervals for boiler work typically occur every 12 to 24 months and for turbine work every 6 to 10 years. When a base-load unit is taken out of service, the Company typically experiences increased purchased power and fuel expenditures associated with the replacement power that are recovered through the Fuel Adjustment Clause. Staff examined the planned outages and the timing of these outages to determine if these outages were prudently taken. Staff determined that the planned outages that did occur during the review period were prudently planned to occur during the spring or the fall. An example of an imprudent outage would be scheduling a planned outage of a large base-loaded coal unit during what are normally peak load demand times.

2. Summary of Cost Implications

An imprudent outage could result in GMO purchasing expensive spot market power or running its more expensive gas units to meet demand, thereby causing the Company to incur higher fuel costs than it would otherwise have incurred. If GMO was imprudent in when it incurred its plant outages, ratepayer harm could result from an increase in the fuel costs that are collected through GMO's FAC.

3. Conclusion

Staff found no indication GMO's plant outages were imprudent during the time period examined in this prudence review.

4. Documents Reviewed

a. GMO responses to Staff Data Requests Nos. 0003.1, 0004.1, 0005.1, and 0048.1; and

b. Monthly Outage data submitted by GMO in compliance with 4 CSR 240-3.190.

Staff Expert: Randy Gross

F. Natural Gas Costs

1. Description

For the prudence review period approximately ** _____ ** or 7% of GMO's total fuel cost was associated with the natural gas used in generating electricity. The cost of natural gas includes various miscellaneous charges such as firm transportation service charges and other fuel handling expenses. The following list is GMO's peaking generating units that burn natural gas:

Ralph Green 3;
Greenwood 1, 2, 3 and 4;
Crossroads 1, 2, 3 and 4;
Nevada 1;
KCI 1 and 2;
South Harper 1, 2, 3; and
Lake Road 1, 2, 3, and 5.

During the period in review, GMO's natural gas price averaged $3.34 per MMBtu. Natural gas prices have remained at historic levels due to advanced technologies to retrieve natural gas. The advanced technology is called "fracking". Fracking is defined as follows:

> Fracking, or hydraulic fracturing, is the process of extracting natural gas from shale rock layers deep within the earth. Fracking makes it possible to produce natural gas extraction in shale plays that were once unreachable with conventional technologies. Recent advancements in drilling technology have led to new man-made hydraulic fractures in shale plays that were once not available for exploration. In fact, three dimensional imaging helps scientists determine the precise locations for drilling.
>
> Horizontal drilling (along with traditional vertical drilling) allows for the injection of highly pressurized fracking fluids into the shale area. This creates new channels within the rock from which natural gas is extracted at higher than traditional rates. This drilling process can take up to a month, while the drilling teams delve more than a mile into the Earth's surface. After which, the well is cased with cement to ensure groundwater protection, and the shale is hydraulically fractured with water and other fracking fluids.[11]

[11] http://www.what-is-fracking.com/.

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2. Summary of Cost Implications

If GMO was imprudent in its purchasing decisions relating to natural gas, rate payer harm could result from increased FAC charges.

3. Conclusion

Staff found no indication GMO's purchases of natural gas for the prudence review period reviewed in this case were imprudent.

4. Documents Reviewed

a. GMO's responses to Staff Data Request Nos. 1.1 and 2.1; and

b. GMO's General Ledger, fuel adjustment rate calculation ("FAR"), and other work papers from this case to determine the amount that GMO paid for natural gas as compared to the total cost of natural gas that GMO incurred during its eighth, ninth and tenth accumulation periods.

Staff Expert: Matthew J. Barnes

G. Coal Costs

1. Description

For the prudency review period approximately ** _____ ** or ** ____ ** of GMO's total fuel cost was associated with the coal used in generating electricity. The cost of coal includes various miscellaneous charges such as rail and other ground transportation service charges, and other fuel handling expenses. Staff reviewed GMO's coal contracts and discovered that ** _____ ** contracts expired during the review period. During the same review period GMO entered into ** _ ** contracts to replace the ** _ **that expired. The counterparties for the coal contracts are:

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The contracts provide coal delivery to GMO's Jeffrey Energy Center 1, 2 and 3, Sibley 1, 2, and 3, Lake Road 4, Iatan 1, and Iatan 2 generating stations. The price of coal can either be a fixed price for the entire contract, a fixed price for each year of the contract, a base price plus an escalation as calculated per the contract, a Master Purchase & Sales Agreement, or indexed based.

2. Summary of Cost Implications

If GMO was imprudent in its decisions relating to purchasing coal, rate payer harm could result from an increase in FAC charges.

3. Conclusion

Staff found no indication GMO's purchases of coal for the prudence review period of GMO's FAC from December 1, 2010 to May 31, 2012 were imprudent.

4. Documents Reviewed

a. GMO's fixed coal contracts in place for the delivery of coal to each of its generating units;
b. GMO's responses to Staff Data Request Nos. 1.1, 2.1 and 25.1; and
c. GMO's General Ledger, CAFC, and other work papers to determine the amount that GMO paid for coal as compared to the total cost of coal that GMO incurred during its eighth, ninth, and tenth accumulation periods.

Staff Expert: Matthew J. Barnes

H. Fuel Oil Costs

1. Description

For the prudency review period approximately ** _____ ** of GMO's total fuel cost was associated with the fuel oil used in generating electricity. The cost of fuel oil includes various miscellaneous charges, such as rail and/or ground transportation service charges and other miscellaneous fuel handling expenses.

2. Summary of Cost Implications

If GMO imprudently purchased fuel oil, rate payer harm could result from increased FAC charges.

3. Conclusion

Staff found no indication GMO's costs associated with its fuel oil contracts in place for December 1, 2010 to May 31, 2012, the prudence review period in this case, were imprudent.

4. Documents Reviewed

a. GMO's General Ledger;

b. GMO's responses to Staff Data Request Nos.1 and 2; and

c. FAR and other supporting work papers in this case to determine the amount GMO paid for fuel oil as compared to the total cost of fuel oil GMO incurred during its eighth, ninth and tenth accumulation periods.

Staff Expert: Matthew J. Barnes

I. Alternative Fuels

1. Description

At GMO's Sibley Generating Station, which has cyclone-fired boilers, one type of alternative fuel was burned during the prudence review period—tire-derived fuel ("TDF"). Sibley Unit 3 has been burning TDF since 1997, and TDF is considered part of the normal fuel supply. TDF is a higher energy value fuel than the bituminous coal used at Sibley. TDF increases the overall heat input to the boiler. Cyclone-fired units require a certain amount of ash content in the fuel to maintain a slag layer in the cyclone unit. TDF is low in ash, and, therefore, the amount of TDF that can be blended with coal is limited. Prior to the installation of the Selective Catalytic Reducer (SCR) to Sibley Unit 3 in late 2008, the maximum blend ratio was ** _____ **. The maximum blend ratio was reduced to less than ** _____ ** after installation of the SCR. The cost of TDF includes material, transportation, labor and equipment for material handling at the plant, including personnel to manage and load TDF during normal weekday hours.

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At Unit 4/6 of the Lake Road Generating Station, TDF is the only type of alternative fuel that was burned during the prudence review period. Lake Road Unit 4/6 has been burning TDF since 2004 and is currently using a maximum blend ratio of ** _____ **.

For the 18-month period ending May 31, 2012, used for the Staff's prudence review, GMO's alternate fuel expense used for generation was approximately ** _____ **.

2. Summary of Cost Implications

If GMO's use of alternative fuels was imprudent, ratepayer harm could result from an increase in FAC charges.

3. Conclusion

Staff found no indication GMO's use of alternate fuels for the time period December 1, 2010 through May 31, 2012, was imprudent.

4. Documents Reviewed.

Company response to Staff's Data Requests Nos. 001.1 and 045.1.

Staff Expert: Matthew J. Barnes

J. SO2 Allowances

1. Description

The U.S sulfur dioxide ("SO_2") emission allowance trading program was established by Title IV of the 1990 Clean Air Act Amendments ("CAAA"). The program is intended to reduce environmental and human health impacts associated with the release of sulfur emissions from coal-fired electric power plants. CAAA requires electric utilities to reduce their SO_2 emissions by about 50% from 1980 levels, or purchase allowances to meet this standard.

Under the CAAA power plants are allocated a 30-year stream of tradable allowances, each worth one ton of SO_2. The allocation of allowances is based on an average capacity factor from the period 1985 to 1987. Allowances are awarded by the Environmental Protection Agency ("EPA") every year, and are designated by vintage year. The vintage year denotes the first year the allowances may be used for compliance. Unused allowances can be sold or banked for use in subsequent years.

The US EPA's Clean Air Interstate Rule ("CAIR"), issued in 2005, was developed to address the transport of pollutants from upwind to downwind states. States in the eastern half

of the country were required, over a six-year compliance period (2009-2015), to participate in a federal program intended to reduce emissions of SO_2 by 57% from 2003 levels and Nitrogen Oxide (NO_X) by 61% from 2003 levels.

However, a number of petitions for judicial review of CAIR were filed in the D.C. Circuit Court, and on July 11, 2008, the D.C. Circuit Court of Appeals vacated the CAIR. A December 2008 court decision temporarily kept the requirements of CAIR in place and directed EPA to issue a new rule to implement Clean Air Act requirements concerning the transport of air pollution across state boundaries. On July 6, 2011, the EPA finalized the Cross-State Air Pollution Rule ("CSAPR") that regulates power plant emissions of SO_2, NO_X, ozone and fine particulates. The requirements of CAIR were in effect during the prudence review period. The requirements of CSAPR were not in effect during the prudence review period; however, CSAPR requirements affect future accumulation periods.

The primary mechanism of CAIR is a cap-and-trade program that allows a major source of NO_X and/or SO_2 to trade excess allowances when its emissions of a specific pollutant fall below its cap for that pollutant. EPA issued a model cap-and-trade program for power plants, which could have been used by states as the primary control mechanism under CAIR. Under CAIR, starting in 2010, owners of power plants are required to submit two SO_2 allowances for each ton of SO_2 emitted. This ratio is further tightened in 2015 to 2.86 SO_2 allowances for each ton of SO_2 emitted.

Since the 1980's, the Sibley and Lake Road plants' capacities have more than doubled; Iatan 1 had a slight increase in capacity, while the Jeffrey Energy Center had a slight decrease in capacity. In addition, GMO's purchased power contract with the Nebraska Public Power District's Gerald Gentleman power plant requires GMO to supply SO_2 allowances. The net effect is that GMO does not have enough allowances to cover its SO_2 emissions requirements, and must purchase SO_2 allowances.

To comply with CAIR, GMO has established an SO_2 inventory. This inventory is tracked in Account 158100 Emissions Allowance Inventory. The cost for SO_2 allowances is tracked in FERC account 509. A true-up for account 509 coincides with the EPA yearly award of additional SO_2allowances.

For the 18 months of the prudence review period ending May 31, 2012, GMO's SO_2 allowance expense was approximately ** _____ **.

2. Summary of Cost Implications

If GMO imprudently used, purchased or banked it SO_2 allowances, ratepayer harm could result from an increase in GMO's FAC charges.

3. Conclusion

Staff found no indication GMO was imprudent in its purchases, banking or usage of SO_2 allowances. Based on the documents reviewed, it appears that the variations from the baseline set in the rate case are caused by changes in the price per SO_2 allowance and the number of allowances used during the accumulation periods. The number of allowances used is a function of the tons of coal burned during the accumulation periods and the sulfur content of the coal.

4. Documents Reviewed

a. Company response to Staff's Data Request Nos. 0001.1, 0012.1, 0036.1, 0038.1, 0039.1 and 0041.1; and
b. GMO monthly reports for the time period December 1, 2010 through May 31, 2012, required by 4 CSR 240-3.161(7).

Staff Expert: David Roos

K. Environmental Work at Sibley and Jeffrey

1. Description

Several regulatory-driven air pollution control projects were in various phases of construction and operation during the 18-month prudence review period ending May 31, 2012. These projects include:

Sibley Unit 3:	Selective Catalytic Reducer ("SCR")
Sibley Units 1 and 2:	Selective Non-Catalytic Reducer ("SNCR")
Jeffrey Energy Center:	Replacing / rebuilding three scrubbers

The SCR for Sibley Unit 3 and the SNCR for Sibley Units 1 and 2 became operational in late 2008. The three scrubbers at the Jeffery Energy Center were completed November 24, 2008, January 6, 2009, and July 22, 2010. GMO's FAC does not allow for the

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recovery of construction or operational costs for these environmental projects and no expenses from these projects have passed through GMO's FAC.

2. Summary of Cost Implications

If GMO had included the costs of environmental work at Sibley and Jeffrey in its FAC, ratepayer harm would result from an increase in GMO's FAC charges.

3. Conclusion

Staff found no indication GMO included in its FAC any costs for the air pollution control projects at Sibley and Jeffrey Energy Center during the three six-month accumulation periods from December 1, 2010 through May 31, 2012.

4. Documents Reviewed

a. GMO responses to Staff Data Requests Nos. 001.1, and 0012.1; and

b. GMO monthly reports for the time period December 1, 2010 through May 31, 2012, required by 4 CSR 240-3.161(7).

Staff Expert: David Roos

L. Iatan 2 Fuel and Purchased Power Costs

1. Description

On August 18, 2010, the Commission approved the terms of a *Nonunanimous Stipulation and Agreement/Proposed Procedural Schedules* in File No. ER-2010-0356 in which GMO agreed to request an Accounting Authority Order to use construction accounting for Iatan 2 and Iatan Common Plant. Construction accounting is defined in the agreement as follows:

> The Signatory Parties agree that GMO should be allowed to treat the Iatan 2 project under "Construction Accounting" to the effective date of new rates in the 2010-11 Rate Case. Construction Accounting will be the same treatment for expenditures and credits consistent with the treatment for Iatan 2 prior to Iatan 2's commercial in service operation date. Construction Accounting will include treatment for test power and its valuation consistent with the treatment of such power prior to Iatan 2's commercial in service operation date with the exception that such power valuation will include off-system sales.

As required by the agreement, GMO requested, in File No. EU-2011-0034, authority to use construction accounting from the in-service date of Iatan 2 until the effective date of the

rates in Case No. ER-2010-0356, and the Commission issued an Accounting Authority Order granting GMO's request on October 8, 2010.

2. Summary of Cost Implications

Iatan 2 was deemed "in-service" August 26, 2010, during Accumulation Period 7 (June 1, 2010 through November 30, 2010). Under "Construction Accounting" the fuel costs for Iatan 2 are deferred to a regulatory asset account until June 25, 2011, the effective date of the rates the Commission approved in Case No. ER-2010-0356 by order issued May 4, 2011. For the period of this prudence review, GMO deferred approximately ** _____ ** of test fuel under "Construction Accounting" from December 1, 2010 through June 25, 2011; *i.e.* Iatan 2 has an additional approximately ** _____ ** that absent this special regulatory treatment of fuel cost, this amount would have been included in fuel costs for the prudence review period. On June 25, 2011, and thereafter, the fuel and purchased power costs related to Iatan 2 flowed through GMO's FAC in the amount of approximately ** _____ **.

3. Conclusion

Staff found no indication GMO was imprudent with regard to its fuel and purchased power associated with Iatan 2 for the eighth, ninth and tenth accumulation periods of GMO's FAC which cover the period December 1, 2010 to May 31, 2012.

4. Documents Reviewed

Staff reviewed the following documents and its attachments in data request 0051:

a. Nonunanimous Stipulation and Agreement/Proposed Procedural Schedules in Case No. EO-2005-0329;
b. Report and Order issued July 28, 2005 in File No. EO-2005-0329;
c. Application of KCP&L Greater Missouri Operations Company for Approval of An *Accounting Authority Order* in File No. EU-2011-0034;
d. Order Granting Accounting Authority Order issued September 28, 2010, in File No. EU-2011-0034;
e. Iatan Fuel Spreadsheet in response to Staff Data Request No. 0051;
f. Iatan 2 Test Energy White Paper authored by Roberta Hunter, with Great Plains Energy written June 15, 2010, in response to Staff Data Request 0051; and

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g. Iatan 2 Test Energy White Paper Amendment authored by Roberta Hunter written November 17, 2010, in response to Staff Data Request 0051.

Staff Expert: Matthew Barnes

M. Off-System Sales Revenue

1. Description

Off-system sales revenues ("OSSR") are a component in the calculation of GMO's FAC cost adjustment factors ("CAF") per kWh rates used to charge or refund fuel and purchased power costs to its customers. The appropriate tariff language for both tariff sheets in effect during the review period:

GMO's FAC Original Sheet No 127.3, effective September 1, 2009 through June 30, 2011 defines the "OSSR" components as:

> OSSR = Revenues from Off-system Sales:
>
> - Revenues from Off-system Sales shall exclude long-term full & partial requirements sales associated with GMO.

> GMO's FAC tariff Original Sheet No. 127.8 effective: July 1, 2011 and Thereafter, defines the "OSSR" components as:
>
> - OSSR = Revenues from Off-system Sales:
>   - Revenues from Off-system Sales shall exclude long-term full and partial requirements sales to Missouri municipalities that are associated with GMO.

For the prudence review period of December 1, 2010 to May 31, 2012, Staff found that GMO's off-system sales revenue was approximately ** _____ **.

Staff reviewed the off-system sales quantities and revenues over the prudence review period.

2. Summary of Cost Implications

GMO's revenues from off-system sales are an offset against total fuel and purchased power costs. This is because GMO's ratepayers pay for the sources used for that energy that GMO sells off of its system.[12] If GMO was imprudent either because it made sales at a price less than the cost to generate the power sold or did not make off-system sales, ratepayers could be harmed by such imprudence through by an increase in GMO's FAC charges.

[12] Serving those ratepayers (native load) is a higher priority than making an off-system sale.

3. Conclusion

Staff has determined that GMO did not act imprudently in its actions relating to its off-system sales during the review period.

4. Documents Reviewed

a. GMO's responses to Staff Data Request Nos. 1.1, 2.1, 6.1, 21.1, & 28.1; and

b. GMO's filings in this case and FAC tariff sheets.

Staff Expert: Dana Eaves

N. MPower Rider and Energy Optimizer/Demand Response Program

1. Description

There are two existing GMO demand response programs that GMO has utilized to curtail GMO's load during the summer months when peak electric demand occurs. MPower is a voluntary load curtailment program for large commercial and industrial customers and provides a payment to customers for curtailing their load when requested to do so by GMO. Energy Optimizer is an air conditioning cycling program for residential and small commercial customers that allows the Company to cycle program participants' air conditioners off and on when the Company provided thermostats receive a paging signal from GMO that calls for a load reduction. These programs are designed to reduce customer load during peak periods to help assure reliability of service and to defer future generation capacity additions and provide for improvements in energy supply.

GMO filed an application for approval of demand-side programs and for approval of a demand-side programs' investment mechanism under the Missouri Energy Efficiency and Investment Act ("MEEIA") and the Commission's MEEIA rules[13] on December 22, 2011, and included in its application its MPower and Energy Optimizer programs. A stipulation and agreement for this filing was filed on October 29, 2012, and the Commission issued an order approving the stipulation and agreement on November 15, 2012. The DSM programs are described in the 10th revision of Electric Tariff Schedule No. 1; Tariff Sheet No. R-63.09 for the Energy Optimizer Program and Tariff Sheet No. R-63.22 for the MPower program.

Staff has reviewed GMO's MPower and Energy Optimizer program details and promotional/marketing materials. Staff believes that demand response is a valuable resource

[13] 4 CSR240-3.163, 4 CSR 240-3.164, 4 CSR 240-20.093 and 4 CSR 240-20.094

and should always be considered as one of the options to reduce the peak loading and reduce the amount of generation and or purchased power required to service the native load. As a result of market fundamentals in SPP during the prudence review period, GMO may acquire capacity in the open market at a lower price than through the MPower program.

In addition, there are additional factors and considerations that include reliability, contingency planning and scenarios, reserve requirements, NERC/SPP guidelines and transmission congestion that impact the decision on the optimum mix of resources to utilize to meet the peak demand.

GMO is accepting applications for the MPower program[14]. Currently there are 23 GMO customers in addition to the existing contracted customers that are in queue for the 2013 season. The estimated MW reduction from these customers is 15.3MW and the 2013 MW reduction target is 18.1 MW[15]. The stipulation agreement in the MEEIA, File No. EO-2012-0009 indicates the following load curtailment goals.

Year	Budgeted Load Curtailment, (MW)
2013	14.308
2014	18.132
2015	21.637

For the Energy Optimizer program there are 694 customers to participate in the program that equates to approximately 763 kW. Currently there are 11,614 participants and 11,664 kW of demand response available.[16] The 2013-2015 curtailable load target is approximately 8 MW[17].

2. Summary of Cost Implications

Although Staff understands the current economic conditions and reduced load have generally depressed capacity prices and utilizing demand response may not be the least cost option for every peak load situation, these conditions can change. A robust MPower

[14] Company Response to Data Request No. 0051.
[15] Company Response to Data Request No. 0051.
[16] GMO's quarterly stakeholder meeting presentation on April 30, 2013.
[17] Company Response to Data Request No. 0051.

program to include the MW's currently in the MPower queue will position GMO to have this additional demand response resource available when selecting the least-cost resource options to meet NERC/SPP reliability requirements or, to satisfy peak load conditions for the benefit of all its customers.

Staff reviewed the 10 top load peak days for each year in the review period and notes that GMO issued an MPower Curtailment Notification on August 2, 2011. ** ___ _____ ** To meet the load peak of August 2, 2011, the Curtailment Notification and a large volume of wholesale power purchases were utilized to meet the native load requirements while maintaining some generation in reserve for system reliability purposes[18].

3. Conclusion

Staff's review did not find any imprudence with respect to GMO's decision process on using its MPower and Energy Optimizer demand response programs to meet peak demand during the prudence review period.

4. Documents Reviewed

a. GMO's responses to Staff Data Requests No. 46.1, 47, 50, 51, and 52;
b. Order Approving Stipulation and Agreement for GMO's MEEIA filing, File No. EO-2012-0009
c. GMO's filings in this case and FAC tariff sheets; and
d. Direct testimony of Allen D. Dennis, lines 15-16, page 8, GMO's MEEIA filing, File No. EO-2012-0009.

Staff Expert: Randy Gross

O. C. W. Mining Cost

1. Description

This issue involves any settlement payments for a breached coal contract between GMO and C.W. Mining, and the effect any settlement payments may have on FAC-related costs. A detailed description of this issue is provided in Staff's prudence review report for

[18] Company Response to Data Request No. 0047.

GMO in File No. EO-2009-0115. The following is a brief summary of the events related to this issue.

GMO entered into a coal supply contract with C. W. Mining in January 2004 to supply coal for the Sibley and Lake Road generating stations. In the early portion of the contract, C.W. Mining was unable to supply the contracted quantity of coal, ultimately breaching the contract. This resulted in GMO having to burn higher cost coal at these two generating stations. GMO is currently involved in litigation to recover the higher costs that it incurred as a result of the termination of the C. W. Mining coal contract.

The Stipulation and Agreement as to Certain Issues the Commission approved by its *Order Approving Stipulation and Agreement as to Certain Issues* in Case No. ER-2007-0004 effective on April 22, 2007, stated that settlement payments, net of certain GMO costs, were to flow back to customers through GMO's FAC if the Commission granted GMO a FAC. Since the Commission approved GMO's FAC with its *Report and Order* in Case No. ER-2007-0004, customers are to receive 95% of the C. W. Mining litigation proceeds, net of applicable legal and collection fees and costs as agreed to in the Stipulation and Agreement as to Certain Issues.

No garnishments or settlements from C. W. Mining have flowed through GMO's FAC as of May 31, 2012. Once all legal expenses have been recovered, 95% of any future settlements received will be refunded to customers through GMO's FAC.

2. Summary of Cost Implications

There are no cost implications to GMO's FAC from the C. W. Mining litigation during the 18-month period ending May 31, 2012. Since the C.W. Mining contract was set up to provide coal to both the Sibley and Lake Road stations, in a previous FAC Prudence Review Report (Case No. EO-2009-0115), Staff recommended, and GMO concurred in its response to Staff Data Request 0055, that any net settlement payments be split: 81% for ratepayers in the MPS rate district and 19% for ratepayers in the L&P rate district. If GMO imprudently flowed the C. W. Mining settlements through its FAC, or did not flow them through it, ratepayer harm could result from the ratepayers not receiving any of the benefit from the net settlement payments.

3. Conclusion

Staff found no indication GMO has acted imprudently regarding the C. W. Mining settlements with respect to its FAC. Staff will continue to monitor this issue in future GMO FAC prudence audits. If GMO receives any future settlement proceeds, the appropriate allocation of the settlement amount between MPS and L&P rate districts will be reviewed at the time the settlement proceeds are flowed through GMO's FAC.

4. Documents Reviewed

a. Direct Testimony of Staff witness Cary Featherstone in Case No. ER-2007-0004;

b. *Stipulation and Agreement as to Certain Issues* filed April 4, 2007, in Case No.ER-2007-0004;

c. *Order* Approving *Stipulation and Agreement as to Certain Issues* entered in Case No. ER-2007-0004, effective April 27, 2007;

d. GMO Monthly and Quarterly Reports submitted in compliance to 4 CSR 240-3.161(5) and (6); and

e. GMO responses to Staff Data Request, No. 0044.1.

Staff Expert: David Roos

P. Missouri River Flood and GMO's Independence from KCPL

1. Description

During the months of June 2011 through September 2011, Missouri River flooding disrupted the delivery of coal to GMO's Sibley and Lake Road and KCPL's Iatan 1 and Iatan 2[19] power plants causing the railroad companies to issue a Force Majeure[20]. As a result of the Force Majeure and the flooding at the Sibley, Lake Road, Iatan 1 and Iatan 2 power plants, GMO implemented coal conservation measures to preserve and ration its existing coal resources. Due to this extraordinary event, GMO purchased more energy from the spot ("Real-time") market to meet its native load. GMO and KCPL are two separate legal entities and two separate control areas[21] but are operated by KCPL as one company. KCPL's

[19] GMO has 18% ownership of Iatan 1 and of Iatan 2.

[20] *In the Matter of the Application of Kansas City Power & Light Company for the Issuance of an Accounting Authority Order relating to its Electrical Operations and for a Contingent Waiver of the Notice Requirement of 4 CSR 240-4.020(2).* Case Number EU-2012-0130.

[21] *Joint Operating Agreement between Kansas City Power & Light Company and Aquila, Inc. dba KCP&L Greater Missouri Operations Company Case No. EM-2007-0374*, dated October 10, 2008, states at the top of page 12: "KCP&L and KCP&L GMO will be operated and planned for as separate control areas with wholesale

managers are the same individuals that make decisions on GMO's behalf, i.e. GMO's agent. During the normal course of business, GMO is typically a buyer of energy while KCPL is typically a seller of energy. In the real-time market KCPL acts as an agent for GMO when GMO needs energy to meet its native load for any given hour. KCPL will go to the real-time market as GMO's agent and secure energy at a market price for GMO. KCPL believes that when it goes to the real-time market on GMO's behalf, it will get a more attractive price for energy for KCPL and for GMO. Staff's concerns focus on KCPL's independence from GMO when KCPL purchases energy from the real-time market for GMO. Staff had numerous discussions with KCPL and GMO and performed its own analysis from data requests received from GMO. Staff determined that KCPL did act independently of GMO when it purchased energy from the real-time market during the flood.

2. Summary of Cost Implications

If KCPL did not act independently from GMO when KCPL purchased energy from the real-time market, ratepayers could have been harmed.

3. Conclusion

Staff found no evidence that KCPL did not act independently from KCPL when KCPL purchased energy from the real-time market as GMO's agent.

4. Documents Reviewed

Company response to Staff Data Requests Nos. 0056, 0057, 0058, 0059, 0060, 0061, 0062, 0063, 0064.1, 0065, 0066, 0067, 0072, 0074, 0075, 0076.

Staff Expert: Matthew Barnes

IV. Interest

1. Description

During each accumulation period GMO is required to calculate a monthly interest amount based on GMO's short-term debt borrowing rate that is applied to the under-recovered or over-recovered fuel and purchased power costs. For the period in review, GMO's interest amount applied to the under-recovered or over-recovered fuel and purchased power

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transactions governed by applicable FERC tariffs and rules, until and unless otherwise determined by the parties and approved by all applicable regulatory bodies."

costs were $1,400,932 and $154,846 for MPS and L&P respectively. The interest amount is component "I" of the FAR.

2. Summary of Interest Implications

If GMO imprudently calculated the monthly interest amounts or used short-term debt borrowing rates that did not fairly represent the actual cost of GMO's short-term debt, ratepayers could be harmed by FAC charges that are too high.

3. Conclusion

Staff found no evidence GMO imprudently determined the monthly interest amount that was applied to the under-recovered or over-recovered fuel and purchased power costs.

4. Documents Reviewed

GMO's interest calculation work papers in support of the interest calculation amount on the under-recovered or over-recovered balance.

Staff Expert: Matthew Barnes

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company	)))))	Case No. EO-2013-0325

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Matthew J. Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 18-22, 25-26 and 32-34; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Matthew J. Barnes

Subscribed and sworn to before me this 29th day of May, 2013.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company	)))))	Case No. EO-2013-0325

AFFIDAVIT OF DANA E. EAVES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Dana E. Eaves, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 1-4, 9-16 and 27-28; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Dana E. Eaves

Subscribed and sworn to before me this 29th day of May, 2013.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company	)))))	Case No. EO-2013-0325

AFFIDAVIT OF RANDY S. GROSS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Randy S. Gross, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 4-9, 16-17 and 28-30; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Randy S. Gross

Subscribed and sworn to before me this 24th day of May, 2013.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company	)))))	Case No. EO-2013-0325

AFFIDAVIT OF DAVID C. ROOS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

David C. Roos, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 22-25 and 30-32; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

David C. Roos

Subscribed and sworn to before me this 29th day of May, 2013.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public