Exhibit No.:	
Issue:	Fuel Adjustment Clause
Witness:	Tim M. Rush
Type of Exhibit:	Direct Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	EO-2011-0390
Date Testimony Prepared:	February 22, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2011-0390

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
February 2012

DIRECT TESTIMONY

OF

TIM M. RUSH

Case No. EO-2011-0390

Q: Please state your name and business address.

A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L") as Director, Regulatory Affairs.

Q: On whose behalf are you testifying?

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

Q: What are your responsibilities?

A: My general responsibilities include overseeing the preparation of the rate case, class cost of service and rate design of both KCP&L and GMO. I am also responsible for overseeing the regulatory reporting and general activities as they relate to the Missouri Public Service Commission ("MPSC" or "Commission").

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

A: I received a Master of Business Administration degree from Northwest Missouri State University in Maryville, Missouri. I did my undergraduate study at both the University of Kansas in Lawrence and the University of Missouri in Columbia. I received a

Bachelor of Science degree in Business Administration with a concentration in Accounting from the University of Missouri in Columbia.

Q: Please provide your work experience.

A: I was hired by KCP&L in 2001 as the Director, Regulatory Affairs. Prior to my employment with KCP&L, I was employed by St. Joseph Light & Power Company ("Light & Power") for over 24 years. At Light & Power, I was Manager of Customer Operations from 1996 to 2001, where I had responsibility for the regulatory area, as well as marketing, energy consultant and customer services area. Customer services included the call center and collections areas. Prior to that, I held various positions in the Rates and Market Research Department from 1977 until 1996. I was the manager of that department for fifteen years.

Q: Have you previously testified in a proceeding before the MPSC or before any other utility regulatory agency?

A: I have testified on several occasions before the MPSC on a variety of issues affecting regulated public utilities. I have additionally testified at the Federal Energy Regulatory Commission ("FERC") and the Kansas Corporation Commission.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to introduce the issues and witnesses to the case. I will also provide evidence relating to GMO's Fuel Adjustment Clause ("FAC") tariffs that will dispel the notion presented in the MPSC Staff's ("Staff") Report that natural gas hedging costs incurred to mitigate the risk of purchased power price volatility should be excluded from recovery in the FAC. In addition, I will provide several corrections to the Staff Report.

Q: Who are the witnesses the Company is presenting in this case and what is the purpose behind each witness?

A: There are four witnesses that the Company is presenting in this prudence review.

Tim M. Rush - To address the components of the FAC tariffs in support for inclusion of the natural gas hedging costs to mitigate risk. To correct some errors made in the Staff Report.

Wm. Edward Blunk - To refute certain statements the Staff made in its prudence review reports. To address Staff's allegation that it was imprudent for GMO to link natural gas futures purchase contracts with spot market purchases for purchased power during the review period.

Scott H. Heidtbrink - To provide the history of the GMO, formally Aquila, hedging program.

Dr. C.K. Woo - To explain cross hedging in an electric utility's risk management of procurement costs; and respond to certain statements made by Staff in its prudence review reports.

Q: What time frame was audited in this prudence review?

A: The accumulation periods for this prudence review cover June 1, 2009 through November 30, 2010. Each accumulation period is six months, and these represent accumulation periods five, six, and seven since the initial FAC began.

Q: Was the Staff aware that hedging costs were included in the FAC?

A: Yes, the Order Clarifying Report and Order for Rate Case No. ER-2007-0004 which established the original FAC tariffs, states the following on p. 1:

> The treatment of hedging costs was addressed by the parties in the Stipulation and Agreement as to Certain Issues (Stipulation and

> Agreement). On April 12, 2007, the Commission approved the Stipulation and Agreement. Under the Stipulation and Agreement, prudently incurred hedging costs will flow through the fuel adjustment clause… The Stipulation and Agreement further provides that the ultimate settlement values of Aquila's hedge contracts in place on March 27, 2007, will not be subject to prudence review.

In addition, the Direct Testimony of Company witness Scott H. Heidtbrink as well as the Direct Testimony of Company witness Wm. Edward Blunk establishes that GMO began hedging natural gas for fuel to burn as well as natural gas to mitigate the risk associated with price volatility relating to purchased power in 2004.

Q: Did the tariff pages relating to the GMO FAC change within this period of time?

A: Yes, tariff pages Sheet Nos. 124 – 127 were the first GMO FAC tariff sheets and were effective through August 31, 2009. Tariff Sheet Nos. 127.1 – 127.5 were applicable to service provided September 1, 2009 through June 30, 2011.

Q: Do the changes made to the tariffs have an impact in the case?

A: Yes, I believe they do. First, Schedule TMR-1 is a copy of the FAC tariff pages which were in effect at the start of the period under audit as these tariffs ran from the beginning of the FAC through September 1, 2009. On Sheet No. 125, for items F and P, the descriptions of the costs to be included are very brief and to the point. Included in the FAC are variable fuel and purchased power costs in Accounts 501, 547, and 555.

Second, Schedule TMR-2 is a copy of the FAC tariff pages which became effective September 1, 2009, and remained effective throughout the rest of the period under audit. The description of total energy costs to be included in the FAC changed. This change was not caused by the Company adding significantly more costs to the equation. This change was made at the request of the Staff in order to attempt to list the costs that would be included in the FAC.

Q: Were the settlement gains and losses for GMO's hedge program recorded in the same account under both tariffs?

A: Yes. Since Case No. ER-2005-0436 the settlement costs (both gains and losses) attributable to natural gas hedges for gas to be burned in its generating facilities as well as natural gas hedges made to mitigate the risk of peak purchased power price volatility have been recorded in Account 547.

Q: Have the settlement gains and losses been recorded in the same account since the inception of the hedging program?

A: No. Prior to Case ER-2005-0436 the settlement costs were recorded below-the-line in Account 430.17. In Case No. ER-2005-0436, the Company agreed to a Stipulation and Agreement approved by the Commission to record the settlement costs associated with its hedge program to Accounts 547 or 555 and include those costs in its retail revenue requirement.

Q: Was there a FAC in place during the ER-2005-0436 case?

A: No. The Nonunanimous Stipulation and Agreement approved by the Commission in that case provided for an Accounting Authority Order ("AAO") to record as part of fuel cost and purchased power cost, hedge settlements, both positive and negative, and related costs (e.g. option premiums, interest on margin accounts, and carrying cost on option premiums) directly related to natural gas generation and on-peak purchases power transactions made under a formal Aquila Networks – MPS hedging plan when the hedge arrangement was settled.

Q: How were the settlement amounts handled in the next rate case, Case No. ER-2007-0004?

A: In Case No. ER-2007-0004, where GMO's first FAC was established, (also the first FAC in the state of Missouri) the hedge costs were included in the FAC. In addition, the ultimate settlement values of the hedge contracts in place on March 27, 2007 were not to be subject to challenge as to a prudence disallowance.

Q: Has the Company changed how it records the settlement costs since the beginning of the FAC?

A: No.

Q: Where does the Company record the hedging gains and losses?

A: In Account 547.

Q: Why are these costs charged to account 547?

A: The costs are recorded to Account 547 based upon the FERC Code of Federal Regulation, Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act which provides rules for how costs should be recorded. Account 547 is to be used for other generation (generation not produced from steam or nuclear reaction). Since GMO only hedges natural gas for use in its peaking units (other generation) plus the equivalent mmBtu of natural gas for its peaking purchased power needs (to be used when less expensive energy is available in comparison to running its other generation), the settlement of these hedges are recorded in Account 547 as they have been since the 2005 rate case and throughout the entire period GMO has had an FAC in effect.

Q: Are the Company's books and records audited by an outside accounting firm?

A: Yes. Annually the books and records are audited by Deloitte & Touche LLP, and no issue has been noted relating to the FAC during the period under review.

Q: Does the particular account impact the recoverability of the costs in the FAC?

A: It should not. As I indicated above, the FAC tariff changed in Rate Case No. ER-2009-0090 to add more clarity to the components contained in the FAC. The purpose of this was to attempt to address what costs should be included in the FAC. As such, if specific costs are not included in the descriptions, they may be subject to exclusion from recovery.

Q: The Staff has indicated that even if it were prudent to hedge natural gas to mitigate the risk of purchased power price volatility, the costs are not properly included in the FAC because the hedge costs have not been placed in the correct account. On what basis do they come to this conclusion?

A: In the Staff Report, Staff takes the position that gas hedging settlements costs should be separated between Accounts 547 and 555, depending on whether the hedge is for natural gas used for purchased power expenses or for natural gas to fuel peaking units. The Company does not agree with that position because it believes that the proper accounting would indicate that hedge costs of natural gas should be included in Account 547. However, I can only speculate, that Staff believes that because the word hedging is not included in the description of 555 costs on tariff Sheet No. 127.3, then it would somehow indicate that hedge costs that can be linked to purchased power should not be recoverable in the FAC.

Q: Do you agree with this?

A: Absolutely not. Since the Company has been recording the settlement gains or losses associated with its hedging program to Account 547 since the 2005 rate case, and since these costs were expressly included in the FAC in Case No. ER-2007-0004, the tariff listed hedging costs in the description of FAC includable costs in Account 547. The Company, and apparently the Staff, did not see the need to explicitly include the word hedging in the description of Account 555. This is because the settlement costs have been booked to Account 547 since the Company was ordered to record those costs above the line in Case No. ER-2005-0436.

Q: Are you suggesting that the Staff and the Company were both responsible for not including the words referencing hedge costs in Account 555?

A: Yes. Based upon the following, it is clear that the Staff was aware that natural gas hedges were used by GMO to mitigate risk associated with purchased power price volatility and that the settlement costs were included in the FAC:

- The Nonunanimous Stipulation and Agreement from Case No. ER-2005-0436 authorizes an AAO for hedge settlement costs. These costs were to be considered part of the fuel and purchased power costs recorded in FERC Account 547 or Account 555 when the hedge arrangement settled.
- The Order Clarifying Report and Order from Case No ER-2007-0004 determined the disposition of the costs deferred in the AAO. The order confirmed that the Stipulation and Agreement allowed prudently incurred hedging costs to flow through the FAC, it excluded a certain amount of past hedge losses, and it

determined that the ultimate settlement values of hedge contracts in place on March 27, 2007, were not to be subject to prudence review.

- The Company and Staff worked together in re-writing the FAC tariff sheets in Case No. ER-2009-0090.
- The tariffs developed in ER-2009-0090 apply to the majority of the time frame under audit (15 months from 9/1/2009 – 11/30/2010).
- At no time during the 2009 case were the hedging practices addressed by the Staff other than to request the information described in the next bullet.
- The Non-unanimous Stipulation and Agreement approved in ER-2009-0090 includes a reporting requirement relating to GMO's hedging program documentation. These requirements were added as specified in the Stipulation and Agreement, "To aid in FAC tariff, prudence and true-up reviews."(p. 10) The hedging program documentation has consistently included information about GMO's hedging of natural gas to mitigate the purchased power price volatility risk.
- Only minor changes were made to the wording of the FAC tariffs in the ER-2010-0356 case.
- GMO has remained consistent in its recording of hedge settlement costs throughout the FAC process.
- The Staff of the Commission has reviewed four prior adjustment periods in two prudence audits and found no imprudence. In all adjustment periods, hedge costs were included in Account 547.

- The Company has completed four rate cases since the inception of its hedging practice.

Until this most recent audit, GMO has had no indication from Staff that it disagreed with the inclusion of hedge settlement costs in the FAC.

Q: What would happen if the Commission required GMO to split the settlement gains and losses between 547 and 555?

A: Although the Company disagrees that this is appropriate according to the FERC chart of accounts, if the Commission were to order that a percentage split should be made and a portion of the settlements should be recorded to Account 555 – Purchased power costs, then the hedge settlements would still be appropriate FAC costs. Those costs would then, based upon the Commission order, be considered purchased power costs as they are a portion of the variable cost to acquire the purchased power for peak load needs. The cost is incurred to protect against significant prices swings that could be detrimental to the customer.

Q: Has the Commission Staff recommended any other refunds to customers from past FAC prudence reviews?

A: None of the past prudence reviews have indicated any issue of imprudence. However, this is not the first time the Staff has tried to change the rules after the fact. Although GMO's first prudence review produced no finding of imprudence, its first true-up filing in Case No. EO-2009-0431 produced a recommendation from Staff to require GMO to refund an amount equivalent to all off-system sales revenues that had been earned during the true-up period. When the FAC was established in ER-2007-0004, off-system sales revenues had not been included in the calculation of base rates and were not intended to be passed through the FAC. Staff had been very involved in the setting of the base FAC rates. The Company spent a significant amount of time and effort accumulating documentation to prove that off-system sales revenues had not been included in the original FAC. Staff revised its recommendation, agreeing that off-system sales revenues (or expenses for that matter) were not intended to be included in the original FAC.

Q: How did the Company address Staff's concern about the off-system sales revenue?

A: In Rate Case No. ER-2009-0090 GMO changed its tariffs to include off-system sales revenues and costs in the FAC.

Q: Should hedging costs be excluded from the FAC recovery process?

A: No. Hedging costs have been included in the GMO FAC since its inception. The Company moved to its current hedging program based upon Staff concern with its former hedging program. Since the initiation of its first hedging program the Company has made it plain that it hedges natural gas to mitigate the price risk associated with peak purchased power. The Company has been consistent in its recording of the hedging costs and it was understood amongst the parties involved, including the Staff, that hedging costs were included in the FAC. The FAC has been audited a number of times in the interim, within the confines of prudence reviews, as part of the audits associated with each filing of an FAC rate change, as well as within true-up filing reviews. At no time has the inclusion of hedging settlement costs been an issue. The costs are prudent costs incurred to protect the Company and the customer from volatile price changes in the natural gas and purchased power market. The FAC tariffs include hedging costs as prudently recoverable costs under the FAC.

Q: You mentioned a need to correct the Staff Report. What information needs to be corrected?

A: Each of the following relate to the "Prudence Review of Costs Related to the Fuel Adjustment Clause for the Electric Operations of KCP&L Greater Missouri Operation Company June 1, 2009 through November 30, 2010 Missouri Public Service Commission Staff Report" dated November 28, 2011.

- Page 1, Line 5 of the Executive Summary – the acquisition became effective July 14, 2008 not 2007.
- Page 3, Table 1, tariff changes became effective in the middle of this accumulation period on September 1, 2009. Except for the True-up amount for MPS, which is correct, and the true-up amount for L&P which has a typo, this table only represents the last three months of the accumulation period. The correct information is as follows:

Table 1		
Fuel Adjustment: AP5 File No. EO-2010-0191		
True-Up: RP2 Case No. EO-2008-0415		
Rate Cases: Case Nos. ER-2007-0004 and ER-2009-0090		
Calendar Period: June 1, 2009 - November 30, 2009		
	Rate District	
Cost Component	MPS	L&P
95% Net Fuel Cost	$ 21,359,948	$ 1,336,289
True-Up	$ 804,362	$ 175,393
Interest	$ 419,988	$ 46,524
Total	$ 22,584,297	$ 1,558,207

- Mr. Wm. Edward Blunk explains how the alleged over collection also needs to be corrected.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF TIM M. RUSH

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

Tim M. Rush, being first duly sworn on his oath, states:

1. My name is Tim M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of thirteen (13) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.

Tim M. Rush

Subscribed and sworn before me this 22nd day of February, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

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

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC

$$FAC_{Sec} = \{[95\% * (F + P + E - B)] * \{(S_{ASec} * L_{Sec}) / [(S_{ASec} * L_{Sec}) + (S_{APrim} * L_{Prim})]\}\} + C_{Sec}$$

$$FAC_{Prim} = \{[95\% * (F + P + E - B)] * \{(S_{APrim} * L_{Prim}) / [(S_{ASec} * L_{Sec}) + (S_{APrim} * L_{Prim})]\}\} + C_{Prim}$$

The Cost Adjustment Factor (CAF) is as follows:

Single Accumulation Period Secondary Voltage CAF = FAC_{Sec} / S_{RSec}

Single Accumulation Period Primary Voltage CAF = FAC_{Prim} / S_{RPrim}

Annual Secondary Voltage CAF =
Aggregation of the Single Accumulation Period Secondary Voltage CAFs still to be recovered

Annual Primary Voltage CAF =
Aggregation of the Single Accumulation Period Primary Voltage CAFs still to be recovered

Where:
FAC_{Sec} = Secondary Voltage FAC
FAC_{Prim} = Primary Voltage FAC
95% = Customer responsibility for fuel variance from base level
F = Actual variable cost of fuel in FERC Accounts 501 & 547
P = Actual cost of purchased energy in FERC Account 555
E = Actual emission allowance cost in FERC Account 509
B = Base variable fuel costs, purchased energy, and emission allowances are calculated as shown below:
Aquila Networks – L&P S_A x $0.01799
Aquila Networks – MPS S_A x $0.02538
C = Under / Over recovery determined in the true-up of prior recovery period cost, including accumulated interest, and modifications due to prudence reviews
C_{Sec} = Lower than Primary Voltage Customers
C_{Prim} = Primary and Higher Voltage Customers
S_A = Actual sales (kWh) for the accumulation period
S_{ASec} = Lower than Primary Voltage Customers
S_{APrim} = Primary and Higher Voltage Customers
S_R = Estimated sales (kWh) for the recovery period
S_{RSec} = Lower than Primary Voltage Customers
S_{RPrim} = Primary and Higher Voltage Customers
L = Loss factor by voltage level
L_{Sec} = Lower than Primary Customers
L_{Prim} = Primary and Higher Customers

ER-2009-0090
CANCELED BY RATE YE-2010-0026
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FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

FORMULAS AND DEFINITIONS OF COMPONENTS

FPA = 95% * ((TEC – B) * J) + C + I

CAF = FPA/RNSI

Single Accumulation Period Secondary Voltage CAF_{Sec} = CAF * XF_{Sec}

Single Accumulation Period Primary Voltage CAF_{Prim} = CAF * XF_{Prim}

Annual Secondary Voltage CAF =
Aggregation of the Single Accumulation Period Secondary Voltage CAFs still to be recovered

Annual Primary Voltage CAF =
Aggregation of the Single Accumulation Period Primary Voltage CAFs still to be recovered

Where:

FPA = Fuel and Purchased Power Adjustment

CAF = Cost Adjustment Factor

95% = Customer responsibility for fuel variance from base level.

TEC = Total Energy Cost = (FC + EC + PP - OSSR):

FC = Fuel Costs Incurred to Support Sales:

- The following costs reflected in Federal Energy Regulatory Commission (FERC) Account Numbers 501 & 502: coal commodity and railroad transportation, switching and demurrage charges, applicable taxes, natural gas costs, alternative fuel (i.e. tires and bio-fuel), fuel additives, quality adjustments assessed by coal suppliers, fuel hedging cost (hedging is defined as realized losses and cost minus realized gains associated with mitigating volatility in the Company's cost of fuel, including but not limited to, the Company's use of futures, options and over-the-counter derivatives including, without limitation, futures contracts, puts, calls, caps, floors, collars, and swaps), fuel oil adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, ash disposal revenues and expenses, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses in Account 501.

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

- The following costs reflected in FERC Account Number 547: natural gas generation costs related to commodity, oil, transportation, storage, fuel losses, hedging costs, fuel additives, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, broker commissions and fees in Account 547.

EC = Net Emissions Costs:
- The following costs reflected in FERC Account Number 509 or any other account FERC may designate for emissions expenses in the future: Emission allowances costs and revenues from the sale of SO2 emission allowances.

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.

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

B = Base energy costs are costs as defined in the description of TEC (Total Energy Cost). Base Energy costs will be calculated as shown below:
L&P NSI x Applicable Base Energy Cost
MPS NSI x Applicable Base Energy Cost

J = Energy retail ratio = Retail kWh sales/total system kWh
Where: total system kWh equals retail and full and partial requirements sales associated with GMO.

C = Under / Over recovery determined in the true-up of prior recovery period cost, including accumulated interest, and modifications due to prudence reviews

I = Interest on deferred electric energy costs calculated at a rate equal to the weighted average interest paid on short-term debt applied to the month-end balance of deferred electric energy costs

CANCELED BY RATE ER-2010-0356
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FILED
Missouri Public
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Schedule TMR-2