

**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) Case No. EO-2011-
Operations Company.)

STAFF’S NOTICE OF START OF THIRD PRUDENCE AUDIT

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and for its Notice of Start of Third Prudence Audit, respectfully states to the Missouri Public Service Commission (“Commission”) as follows:

1. The tariff of KCP&L Greater Missouri Operations Company (“GMO”)¹ provides that as part of its fuel adjustment clause (“FAC”) there “shall be prudence reviews of costs” that “shall occur no less frequently than at 18 month intervals.”² This tracks the language of both Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp. 2010.

2. In GMO’s 2006 general electric rate case (when GMO was doing business as Aquila Networks-MPS and Aquila Networks-L&P), Case No. ER-2007-0004, the Commission first approved GMO’s FAC with original tariff sheets numbered 124 – 127 that became effective on July 5, 2007.³ Original tariff sheet number 124 provided for two six-month accumulation periods each year through May 31, 2011 as follows: June-November and December-May. In its next general electric rate case, Case No. ER-2009-0090, the Commission approved modifications to GMO’s FAC effective September 1, 2009, but, while changes were made to costs and

¹ Formerly Aquila, Inc.

² KCP&L Greater Missouri Operations Company Tariff P.S.C. MO. No. 1, 1st revised Sheet No. 126.

³ *In the Matter of Aquila, Inc. to Implement a General Rate Increase for Retail Electric Service to Customers in its Aquila Networks-MPS and Aquila Networks-L&P Missouri Service Areas*, Case No. ER-2007-0004, *Order Granting Expedited Treatment and Approving Tariff Sheets*, issued June 29 effective July 5, 2007.

revenues included in the FAC effective September 1, 2009, the six-month accumulation periods remained the same.⁴

3. The Commission's decision on GMO's FAC tariff sheets is pending in its current general rate increase case, File No. ER-2010-0356; however, based on its May 4, 2011, *Report and Order*, as clarified and modified by its May 27, 2011 *Order of Clarification and Modification*, the six-month accumulation periods will remain the same.

4. The Staff plans to conduct a prudence review of the costs and revenues associated with GMO's FAC for the period June 1, 2009 to November 30, 2010.⁵

5. Rule 4 CSR 240-20.090(7)(B), in part, provides: "The Staff shall file notice within ten (10) days of starting its prudence audit." It also establishes the following schedule by which certain events are to take place based on the date the Staff starts its prudence audit:

| Time from start of Staff prudence audit to event | Event |
|---|---|
| Within 180 days | Submission of Staff recommendation to Commission regarding Staff's examination and analysis |
| Within 190 days | Request for hearing |
| Within 210 days | Commission Order, if no hearing requested |

6. The Staff initiated its prudence audit of the costs and revenues associated with GMO's commission-approved FAC on June 1, 2011. The Staff plans to file its recommendation to the Commission regarding the Staff's examination and analysis in this case by November 28, 2011.

7. As it has said before for prior prudence audits, the Staff may change its audit approach during this audit, and in future prudence audits as well, based on the particular

⁴ KCP&L Greater Missouri Operations Company Tariff P.S.C. MO. No. 1, 1st revised Sheet No. 124 and Original Sheet No. 127.1.

⁵ The Staff notes rate adjustments based on the June 2008 to November 2008 and December 2008 to May 2009 accumulation periods were the subjects of Case Nos. EO-2009-0254 and EO-2010-0002, respectively.

circumstances existing at the time of the audit. The Staff's Energy Resource Analysis Section, among other things, is responsible for the Staff's roles in Rules 4 CSR 240-3.161 and 4 CSR 240-20.090. The Staff plans to include in its recommendation the following:

Section 1 - Standard of Prudence

A. The standard requires documentation and includes other Commission principles as appropriate, such as the Commission's Affiliate Transactions Rules, which also require documentation.

Section - 2 Audit Scope

- A. Presently Known Areas To Review
 - 1. GMO's Total Book Costs of Fuel Consumed in GMO's Generating Units
 - 2. Costs Associated with GMO's Fuel Hedging Program
 - 3. Purchased Power Energy Charges, Including Applicable Transmission Fees
 - 4. Southwest Power Pool Variable Costs
 - 5. Emission Allowance Costs and Revenues
 - 6. Off System Sales
- B. Tests/Investigations to Address/Discover Other Significant Items Impacting Fuel and Purchased Power Cost Recovery Amount
 - 1. Comparison of Base Fuel Components and Amounts to Claimed Cost Components and Amounts
 - 2. Plant Outages
 - 3. Fuel, Freight and Transportation / Purchase Power Contracts

WHEREFORE, the Staff of the Missouri Public Service Commission hereby provides notice that it started its prudence audit of the costs and revenues associated with GMO's Commission-approved fuel adjustment clause on June 1, 2011, for the audit period of June 1, 2009, through November 30, 2010, and that it plans to file its recommendation regarding the Staff's examination and analysis in this case by November 28, 2011.

Respectfully submitted,

/s/ Nathan Williams

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 9th day of June, 2011.

/s/ Nathan Williams