

Exhibit No.:
Issue: Hedging Program
Witness: H. Davis Rooney
Type of Exhibit: Direct Testimony
Sponsoring Party: Aquila, Inc. dba KCP&L Greater
Missouri Operations Company
Case No.: HR-2009-____
Date Testimony Prepared: August 1, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2009-____

DIRECT TESTIMONY

OF

H. DAVIS ROONEY

ON BEHALF OF

**AQUILA, INC. dba
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
September 2008**

**Certain Schedules Attached To This Testimony Designated “(HC)”
Have Been Removed
Pursuant To 4 CSR 240-2.135.**

DIRECT TESTIMONY

OF

H. DAVIS ROONEY

Case No. HR-2009-_____

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

2 A. My name is Davis Rooney. My business address is 1201 Walnut, Kansas City, Missouri
3 64106.

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

5 A. I am employed by Kansas City Power & Light Company (“KCP&L”) as Manager, CEP
6 Business Operations.

7 **Q. What are your responsibilities?**

8 A. My responsibilities include business planning and analysis concerning infrastructure
9 investment projects for KCP&L and Aquila, Inc. dba KCP&L Greater Missouri
10 Operations Company (“GMO” or the “Company”).

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

12 A. I graduated from the University of Kansas. I received a B.A., with distinction, in
13 Mathematics (1982), and a B.S., with distinction, in Business (1983), with majors in
14 Accounting and Business Administration and a concentration in Computer Science. I
15 obtained my Certified Public Accountant certificate in 1983 and practiced in public
16 accounting from 1983 to 1992. In 1992 I joined Aquila, Inc. as Controller of its
17 WestPlains Energy division and held several positions focused on financial management
18 and analysis including Director of Accounting and Finance for the Missouri Electric

1 divisions of Aquila Networks. My last position at Aquila was as Director of Resource
2 Planning and Commodity Analysis.

3 **Q. Have you previously testified in a proceeding at the Missouri Public Service
4 Commission or before any other utility regulatory agency?**

5 A. Yes. I have testified before the Missouri Public Service Commission and Colorado
6 Public Utilities Commission.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to support the gas hedge adjustment for GMO as it
9 relates to the industrial steam operation (“GMO-Steam”).

10 **EXECUTIVE SUMMARY**

11 **Q. Please provide a brief summary of your testimony.**

12 A. Schedule HDR-1 HC shows the impact of GMO-Steam’s hedge positions that were in
13 place at December 31, 2007. In arriving at this adjustment, it is important to use the same
14 underlying cost of natural gas commodity as is used in the other normalizing adjustments
15 for energy costs.

16
17 **IV. IMPACT OF HEDGING PROGRAM**

18 **Q. What is the purpose of the hedging program?**

19 A. The purpose of the hedging program is to reduce the impact of gas price volatility.
20 Reducing volatility does not necessarily mean reducing cost. When prices are rising the
21 hedge program might reduce costs by producing offsetting gains. When prices are
22 falling, the hedge program might produce costs, offsetting fuel cost reductions from the
23 falling prices.

1 **Q. Briefly describe GMO-STEAM's hedge program.**

2 A. Subsequent to the stipulation in Case No. HR-2005-0450, GMO-Steam initiated a natural
3 gas hedging program for the steam operations. The steam hedging program was separate
4 from, but followed the same format as, the electric hedging program. Basically, GMO-
5 Steam estimated the annual gas burn for the steam operations. One-third of these
6 volumes were hedged with futures swaps. One third of the volume estimate was hedged
7 with options. The remaining one third was not hedged. This structure is intended to fix
8 the price on one-third of the volumes, cap the price on another one-third of the volumes
9 by paying a premium, and allow one-third of the volumes to track the spot market price.
10 In a scenario where there is a significant upward price move, the price on two-thirds of
11 the volumes will be capped. In a scenario where there is a significant downward price
12 move, the price on two-thirds of the volumes will decline with the market. If gas prices
13 matched the prices in the underlying hedges, an additional cost would be recognized
14 equal to the cost of the option premiums paid.

15 **Q. What is the timing of hedge purchases?**

16 A. Under the hedge program, the goal is to have all targeted hedges in place by October
17 preceding the calendar year. Allowing for minimum contract size, a portion of the
18 targeted hedges are purchased in each month for each month of the next three budgeted
19 calendar years. Over time, this will produce an approximately 30-month average of the
20 futures prices. Adjustments to the targeted volumes are generally reflected over the
21 remaining months of the hedge acquisition period.

22 **Q. What is the current status of the hedge program?**

1 A. Hedges have been acquired for portions of the targeted volumes through calendar year
2 2010. Additions to the hedges under this program were discontinued after October 2007.

3 **Q. Why were additions to the hedges discontinued?**

4 A. Commission Staff and steam customer representatives met to discuss and review the
5 steam quarterly cost adjustment. The customer representatives requested that we
6 discontinue the existing hedge program while alternative approaches were considered.

7 **Q. How is the impact of the hedge program determined?**

8 A. By comparing the hedge contract prices to the current cost of the underlying commodity
9 the current value of the hedge program can be determined. When natural gas prices are
10 higher, the hedge program might produce offsetting gains. When natural gas prices are
11 lower, the hedge program might produce offsetting costs. In this way the volatility from
12 price fluctuations can be partially mitigated.

13 **Q. How are the natural gas prices determined?**

14 A. The Direct Testimony of Company witness Tim Nelson discusses the prices used for
15 natural gas.

16 **Q. Do the natural gas prices used by Tim Nelson reflect the hedge program impacts?**

17 A. No. The impact of the hedge program is reflected separately in adjustment FPP-10
18 included in Schedule RAK-4, which is included in the Direct Testimony of Company
19 witness Ronald Klote.

20 **Q. What is the hedge program impact reflected in this case?**

21 A. Schedule HDR-1(HC) shows the impact of the hedging program using the same
22 commodity prices as used for steam production. For each month of 2009, the hedges
23 were valued against the current commodity price for that month. If a different view of

1 the current price were determined, the hedges would have a different value. To be
2 consistent and accurately reflect the impact of hedging, the same prices must be used to
3 value the hedges and to price fuel used for steam production.

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Aquila, Inc. dba)
 KCP&L Greater Missouri Operations Company to) Case No. HR-2009-____
 Modify Its Steam Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF H. DAVIS ROONEY

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

H. Davis Rooney, being first duly sworn on his oath, states:

- 1. My name is H. Davis Rooney. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Manager, CEP Business Operations.
- 2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Aquila, Inc. dba KCP&L Greater Missouri Operations Company consisting of five (5) 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.

H. Davis Rooney

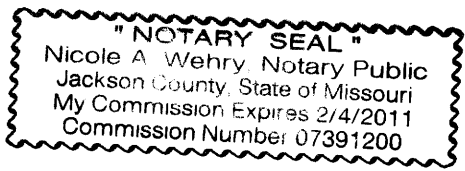
 H. Davis Rooney

Subscribed and sworn before me this 5th day of ~~August~~ September 2008.

Nicole A. Wehry

 Notary Public

My commission expires: Feb. 4, 2011



SCHEDULE HDR-1

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