



Exhibit No.:
Issue: *Fuel Adjustment Clause*
- Hedging
Witness: *Dana E. Eaves*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2016-0156*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

ENERGY RESOURCES DEPARTMENT

REBUTTAL TESTIMONY

OF

DANA E. EAVES

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
August 2016

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

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **DANA E. EAVES**

4 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

5 **CASE NO. ER-2016-0156**

6 Q. What is your name and business address?

7 A. My name is Dana E. Eaves and my business address is Missouri Public Service
8 Commission, P.O. Box 360, Jefferson City, MO 65102.

9 Q. What is your position at the Commission?

10 A. I am a Utility Regulatory Auditor IV with the Commission Staff, in the Energy
11 Resources Department.

12 Q. Are you the same Dana E. Eaves that contributed to Staff's Revenue
13 Requirement Cost of Service Report ("COS report") filed on July 15, 2016 and to Staff's Rate
14 Design Report filed July 29, 2016?

15 A. Yes, I am.

16 Q. What is the purpose of your rebuttal testimony?

17 A. The purpose of my rebuttal testimony is to address GMO witness Mr. Wm.
18 Edward Blunk's Fuel Adjustment Clause ("FAC") direct testimony in which he requests the
19 continuation of the Company's fuel and energy hedging practices. I provide rebuttal
20 testimony to support Staff's position that portions of GMO's current hedging practices are not
21 providing cost effective energy price risk reduction for its customers and Staff's
22 recommendation to the Commission that those portions which are not providing adequate risk
23 reduction to customers be suspended.

1 **GMO's Fuel and Energy Hedging Practices**

2 Q. Which portions of GMO's hedging practices is Staff recommending the
3 Commission suspend?

4 A. Staff is recommending the Commission order GMO to suspend the trading of
5 all NYMEX natural gas futures contracts and options used to hedge natural gas prices for its:
6 1) natural gas fuel in electric generating plants and 2) electricity energy purchases,
7 *i.e.*, hedging for energy or cross hedging. Staff is not recommending any changes to GMO's
8 hedging practices of coal, oil, fuel additives¹ or fuel adders.²

9 Q. Why is Staff recommending a suspension of these specific hedging practices
10 and not discontinuation of GMO's hedging practices all together?

11 A. Allowing Staff's proposed changes to GMO's FAC tariff sheets will allow
12 GMO to resume its hedging practices for natural gas fuel for electric generating plants
13 without the need for a general rate case³ should circumstances change. Allowing Staff's
14 proposed language could limit future exposure GMO's customers might face if the energy
15 market conditions were to suddenly change.

16 Q. Do you agree with Mr. Blunk that GMO's natural gas hedging program has
17 reduced GMO's natural gas cost by ** ____ ** in the last five years⁴?

18 A. No, for the last five years, 2011 – 2015, GMO has reported total hedging losses
19 associated with NYMEX futures trading of ** _____ **. These losses associated with

¹ Fuel additives include but not limited to limestone, ammonia, powder activated carbon and urea which are used to control emission from GMO's generation of electricity.

² Fuel adders include but not limited to transportation fees, transportation equipment and chemicals.

³ 4 CSR 240-20.090(2) Applications to Establish, Continue or Modify a RAM. Pursuant to the provisions of this rule, 4 CSR 240-2.060 and section 386.266, RSMo, only an electric utility in a general rate proceeding may file an application with the commission to establish, continue or modify a RAM by filing tariff schedules.

⁴ WM. Edward Blunk Direct Testimony, page 29, lines 19 – 20.

1 GMO's natural gas hedging program only added additional fuel costs, and GMO's customers
2 have paid 95% of these additional costs through GMO's FAC charges on their bills.

3 Q. Do GMO's cross hedging practices have any effect on the price of energy it
4 offers into or buys from Southwest Power Pool ("SPP")?

5 A. No, specifically since March 2014, SPP replaced the Energy Imbalance
6 Service market with the day ahead Integrated Marketplace ("IM"). When GMO offers in its
7 natural gas generation resources it ** _____

8 _____ **. Under the old paradigm a utility could gain
9 a competitive price advantage over other utilities by reducing its fuel cost and offering its
10 generated energy at a lower price. However, that is simply not how the current IM market
11 operates, because the highest cost unit dispatched sets the energy portion of the LMP⁵ and any
12 competitive advantage GMO might have had in setting energy prices in the past is now gone.
13 GMO's natural gas hedging program – if used - only affects the cost of fuel for its electric
14 generating plants.

15 Q. What is Staff's recommendation concerning GMO's natural gas hedging
16 activities?

17 A. Staff recommends the Commission order GMO to suspend its natural gas
18 hedging activities and approve Staff's proposed language for GMO's FAC which would allow
19 GMO to resume its natural gas hedging for fuel it uses in its generators to produce energy
20 should energy market conditions change and warrant such a resumption.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes it does.

⁵ Locational Marginal Price = Marginal Energy Component + Marginal Congestion Component + Marginal Loss Component.

