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Issue:	
Witness:	Tim M. Rush
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Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	HC-2010-0235
Date Testimony Prepared:	October 22, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HC-2010-0235

DIRECT TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
October 2010

****NP****

21451755

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

AG PROCESSING INC., A COOPERATIVE,	)	
	)	
Complainant,	)	
v.	)	File No. HC-2010-0235
KCP&L GREATER MISSOURI OPERATIONS	)	
COMPANY,	)	
Respondent.	)	

AFFIDAVIT OF TIM RUSH

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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

1. My name is Tim 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 KCP&L Greater Missouri Operations Company consisting of eighteen (18) 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 Rush
Tim Rush

Subscribed and sworn before me this 21st day of October 2010.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

21450934

DIRECT TESTIMONY

OF

Tim M. Rush

Case No. HC-2010-0235

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: What are your responsibilities?

A: My general responsibilities include overseeing a variety of regulatory matters relating to rate cases, class cost of service and rate design studies, and other issues involving both KCP&L and KCP&L Greater Missouri Operations Company, formerly known as Aquila, Inc. ("GMO" or the "Company"). I am also responsible for overseeing the regulatory reporting and general activities of KCP&L and GMO as they relate to the Missouri Public Service Commission ("MPSC" or "Commission").

Q: Please describe your education.

A: I did my undergraduate study at both the University of Kansas in Lawrence and the University of Missouri in Columbia. I was awarded a Bachelor of Science Degree in Business Administration with a concentration in Accounting from the University of

Missouri in Columbia. I was awarded a Master's Degree in Business Administration from Northwest Missouri State University in Maryville, Missouri.

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 the marketing, energy consultant, and customer services areas. 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.

During my time at Light & Power, I became familiar with and was actively involved with that company's industrial steam operations at the Lake Road Generating Station in St. Joseph ("Lake Road Plant") and the business of serving its steam customers. As part of my duties and responsibilities, I met with the steam customers and their representatives on a regular basis, and was active in addressing Lake Road Plant and steam issues as they came before the Commission.

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

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

I. OVERVIEW

Q: What is the purpose of your testimony in this case?

A: The purpose of my testimony is to put the complaint filed by Ag Processing, Inc. ("AGP") in its proper context, given the long and complex relationship that the Company has had with AGP at the Lake Road Plant. Such proper context requires that I give an overview of the operations of the Lake Road Plant and an explanation of the Company's longstanding efforts to provide AGP and the other steam customers with highly reliable steam service, given their operational needs and their lack of alternative steam resources. I will also review the difficulties the Company has faced over the years in conducting the Lake Road Plant's steam operations as a profitable enterprise.

Q: What is the basis of the complaint filed by AGP as you understand it?

A: The complaint alleges that GMO's use of a natural gas hedging program to mitigate price volatility for its Lake Road Plant steam operations resulted in imprudent costs in 2006 and 2007, a portion of which was charged to customers during the Quarterly Cost Adjustment ("QCA") periods applicable to those years. The QCA was established pursuant to the 2005 Nonunanimous Stipulation and Agreement ("Stipulation") that settled Aquila's 2005 steam rate case, Case No. HR-2005-0450 ("2005 Steam Rate Case"). AGP seeks an order from the Commission requiring GMO to refund $1,164,960 (for 2006) and $2,441,860 (for 2007), with interest, to steam customers for whose benefit the hedging program was adopted in the 2006 and 2007 QCA periods.

Q: What are the specific allegations of AGP?

A: AGP's expert witness and consultant Donald E. Johnstone set forth allegations of imprudence in his Direct Testimony on page 5. They include his view that the QCA was sufficient to mitigate the effects of fuel cost volatility without a hedging program, that customers were not consulted, that forecasts received from customers were inaccurate, and that the hedging program was not properly administered.

Q: How does the Company respond to these opinions?

A: Former Aquila employee Gary Clemens explains in his direct testimony that a hedging program was an original part of the QCA mechanism, and was discussed with AGP, as well as others, when the 2005 Steam Rate Case was settled. Mr. Clemens will testify that he was personally present with AGP representatives when they talked about the hedge program. Mr. Clemens will also testify that the hedging program was something that AGP specifically wanted, that AGP wanted the hedging program that Aquila was currently using in its electric business, and that AGP agreed to include the hedging costs in the QCA.

KPC&L employee Joseph Fangman, who worked for Aquila and its predecessors, explains how forecasts and budgets were developed through close cooperation with the Lake Road Plant steam customers. He describes his regular communications with customers regarding their need for industrial steam and the Company's efforts to provide them with reliable service.

KCP&L employee Gary L. Gottsch, also a former Aquila employee, describes the structure and administration of the gas hedging program related to the Lake Road Plant's steam operations. He also rebuts Mr. Johnstone's allegations regarding the hedging program and explains why the actions taken were not only prudent, but completely consistent with a typical hedging program.

KCP&L employee Wm. Edward Blunk explains the purpose of hedging programs in general, and the specific circumstances that occurred in 2006 and 2007 regarding natural gas markets, including the effects of Hurricanes Rita and Katrina in 2005 and the extreme volatility of the gas markets in the years that followed. He also refutes Mr. Johnstone's opinions and states why the hedging program adopted by Aquila for the steam business in St. Joseph was both reasonable and prudent.

Q: Do you agree with AGP's allegation that the Company's hedging program was imprudent?

A: No. It is the purpose of my testimony and the testimony of the Company witnesses noted above to explain why the allegations presented by AGP are unsubstantiated and not based on fact. AGP fails to set forth any provision of a tariff, rule, or decision of the Commission that GMO has allegedly violated. The Company believes that AGP's claims should be denied under the terms of GMO's tariff since any prudence review should have been completed no later than 225 days after the end of each QCA year, pursuant to the specific terms of Paragraph 7, Original Sheet No. 6.4 of GMO's steam tariffs. This section states: "Such full prudence review, if pursued, shall be completed no later than 225 days after the end of each year." <u>See</u> Schedule TMR-1. In the present case, AGP waited for 1,123 days after the end of the 2006 QCA period and 758 days after the end of the 2007 QCA period to file this complaint.

No party except AGP has brought a formal complaint to this Commission regarding imprudence. While customers are not required to wait for a prudence review of the Staff of the Missouri Public Service Commission ("Staff") to bring a complaint under the QCA tariff provisions, I believe that the lack of a Staff prudence review does not relieve a customer like AGP from initiating its complaint in a timely manner so that the Commission can complete the prudence inquiry within the 225 days required by the QCA tariff. In this instance, AGP waited over three years (1,123 days) after the end of the 2006 QCA period and over two years (758 days) after the end of the 2007 QCA period to file its complaint.

Q: Do you have an opinion as to why AGP has filed the complaint at this time?

A: Yes. It is my opinion that AGP brought this complaint, at least in part, because in April 2010 GMO terminated the special contract that has been in effect between the Company and AGP since 2004. Previous to that contract, AGP had a special contract with the Company that dated back to 1995. Under both contracts, AGP enjoyed substantial discounts off of the standard industrial steam rates. While the special contracts did initially provide benefits to the Company and its Lake Road Plant, as operations changed at the plant the contracts became problematic. From AGP's perspective, the special contracts clearly helped AGP to maintain a competitive operation. But, over time, this came at a high cost to the Company, which had to absorb all of the costs of the agreements. Later in this testimony, I discuss these agreements.

II. LAKE ROAD PLANT OPERATIONS

Q: How many customers does the Lake Road Plant serve today?

A: Today there are five customers: AGP; Triumph Foods, LLC; Albaugh Chemical; Nestlé/Purina PetCare, and Land O' Lakes, Omnium Division, a chemical company.

Q: When did steam operations begin at the Lake Road Plant?

A: The industrial steam business began in the 1930's. Originally, the Lake Road Plant only produced industrial steam, serving the animal packing industry in the south side of St.

Joseph. Later, electric generators were installed and the plant provided both electricity and industrial steam from the same operations. As the packing industry declined, with the last pork processing plant moving out in the 1980's, the customer base changed. In the early 1980's AGP became a new steam customer, taking over one of the Farmland Industries plants, previously known as FAR-MAR-CO. Since that time, AGP has expanded its facilities at the site. An 850-PSI (pounds per square inch) line was added to the Lake Road Plant's boiler system so that AGP is able to receive both 150 PSI steam and 850 PSI steam to support its operations. The other four customers receive 150 PSI steam. Currently, AGP is the largest steam customer for GMO.

Triumph Foods, a large pork processing plant, is the system's newest industrial steam customer. It began full-scale operations in January 2006 and is now St. Joseph's largest employer.

Q: What are the current operations of the Lake Road Plant?

A: Today the Lake Road Plant generates electricity for the grid and supplies steam for its five industrial steam customers. For these customers, the plant maintains redundant steam generating capabilities because the existing customers rely so heavily on the steam supplied by the plant. Because steam supply reliability is critical to these customers, the Company strives to maintain 99.9% reliability.

Q: Is reliability critical to steam customers?

A: Reliability is one of the most critical factors for the steam customers. Based upon my interaction with steam customers, I understand that if the steam service is interrupted for any reason, even for a moment, it can cause significant problems for AGP operations, both in time and production costs. We are in regular contact with the operations personnel at AGP, addressing its reliability needs. Beyond the normal day-to-day contact with AGP, the Company and AGP meet semi-annually with operations, maintenance, and administrative personnel to address reliability and other issues and concerns. Reliability is critical to AGP.

Q: How does the Company achieve the level of service it provides?

A: The portion of the Lake Road Plant that supplies steam is a common-header system, referred to as the "low side" or the "900-PSI Plant." The 900-PSI Plant consists of six boilers, three steam turbine generators, the industrial steam distribution system, and related equipment as listed below.

Boiler No.	Year Installed	Capacity (lb/hr)	Steam Pressure (psig)	Steam Temp. (°F)	Fuel	Status
1	1961	85,000	900	900	Natural Gas; No. 2 Oil	Standby
2	1961	85,000	900	900	Natural Gas; No. 2 Oil	Standby
3	1938	140,000	750	900	Natural Gas	Standby
4	1950	200,000	900	900	Natural Gas; No. 2 Oil	Backup to 5 & 8
5	1957	250,000	900	900	Pulverized Coal; Natural Gas	Base Load
8	2006	250,000	750	750	Natural Gas; No. 2 Oil	Base Load

In addition to providing industrial steam to the five customers, the 900-PSI Plant can provide up to 60 MW of peaking electric capacity via the three steam turbine generators. Since all three turbines are powered by the boilers that produce steam for sale to the industrial steam customers, any increase in steam sales to steam customers reduces the amount of steam available to generate electricity.

Q: Has the Company continued to invest in the industrial steam business?

A: Yes. As a result of the growth in customer demand for steam, in 2006 the Company installed Boiler No. 8 to serve the steam load at a cost of over $7.3 million. In 2009, the Company invested nearly $6 million in Boiler No. 5, which included over $2 million in new controls and related equipment to help maintain and improve the boiler's performance. The Company continues to invest in the steam operations at the Lake Road Plant.

Q: How does the Lake Road Plant serve its current steam customers?

A: The Lake Road Plant is the sole source of steam for the five industrial steam customers. None of these customers has back-up boilers or an alternative energy supply for their operations. Therefore, the continuous reliability of the 900-PSI Plant is critical since steam is required for the proper functioning of each customer's business.

The table below sets forth the 2009 steam sales for each customer. There are a total of eight customer metering points, with the meters located on or close to the customers' property lines. Steam pressure is reduced to maintain a nominal pressure of 850 PSI and 150 PSI, respectively, at the metering points.

Customer Name	Meter Number	Steam Delivery Pressure	MMBtu Sales	MMBtu Maximum Demand
AGP	1	150	1,373,035	234
AGP	2	150	10,713	9
AGP	AGP-850	850	227,317	45
Triumph	N/A	150	600,352	131
Albaugh	1	150	25,473	8
Albaugh	2	150	126,252	46
Nestlé	N/A	150	114,793	31
Omnium	N/A	150	60,676	17

Customer demand and, accordingly, the Company's steam sales have grown significantly since 2005 with the addition of Triumph Foods and the expansion of the plant facilities of AGP, Albaugh, and Nestlé. Based on the projections provided by customers in 2005, steam load was expected to grow considerably in fewer than two years. Consequently, the Company quickly added Boiler No. 8 to the Lake Road Plant because the existing equipment would not have been able to reliably meet the forecasted increase in steam load while maintaining its required capacity for electric generation. As I noted above, reliability is critical to the steam customers and when the Company became aware that the steam load was going to increase based on what it learned from customers, the Company quickly responded. This is why customer input is so critical to the planning process of the Company. Joe Fangman describes this further in his direct testimony. See Fangman Direct at 5–10.

Q: How does the Company address the changing plans of customers in order to meet their steam requirements?

A: The Company has a robust planning process that it has utilized for years. The Company has a Key Account representative that has regular contact with the customers to address both customer needs and Company needs. Through this process, the Company representative gains an understanding of the plans for changes in customer usage. This goes into the budget and forecasting process that is a primary driver in the overall planning process of the Company. Periodic updates and revisions are incorporated into the plan as new information is made available.

Q: Was one of AGP's complaints in this case that the Company relied on information from customers in putting together its forecasts and that the forecasts were inaccurate?

A: Yes, AGP made that claim.

Q: Do you believe that the claim is valid?

A: No. The Company's Key Account representative spends a great deal of time with the customers in order to gain an understanding of their needs. If customers advise of an anticipated significant increase in their steam load and the Company does not meet it, all steam customers could suffer because the Company did not meet the needs of the system. Customers do not have an alternative if the Company is unable to serve their needs.

Q: Does the Company change its forecasts in response to information provided by customers?

A: Yes. As Joe Fangman explains in his direct testimony, budget information is updated at least annually as well as when new material information is obtained. These updates are then given to the Resource Planning group who implement the changes. See Fangman Direct at 3–4. Updates are then forwarded throughout the organization and used for operational and planning purposes. This would include the overall fuels areas, which includes natural gas hedge buying decisions.

III. RATE CASE HISTORY

Q: Please summarize the results of recent steam rate cases.

A: The following is a summary of recent industrial steam rate cases.

1. Case No. HR-94-177 (1993): $800,000 rate increase.
2. Case No. HR-99-245 (1999): $ 25,000 rate reduction.
   a. The Company requested an Energy Cost Adjustment (ECA), but the case was settled and the ECA was not in the final settlement.
3. Case No. HR-2004-0024 [consolidated with ER-2004-0034] (2004): $1.3 million increase for steam.
   a. The Company agreed to a special 5-year contract with AGP to provide a $35,000 monthly credit to AGP.
4. Case No. HR-2005-0450 (2006): $4.5 million increase.
   a. The Company agreed to extend the AGP contract until April 21, 2010.
   b. The Company implemented the Quarterly Cost Adjustment ("QCA") mechanism.
5. Case No. HR-2009-0092 (2010): $384,000 increase.
   a. The Company rebased the QCA, adjusted certain performance mechanisms associated with steam operations, and changed the sharing mechanism from 80/20 to 85/15.

Q: Were you involved in the last rate case, Case No. HR-2009-0092?

A: Yes. I was the lead witness and chief negotiator for the Company in that case.

Q: In that case, did Mr. Johnstone file testimony?

A: Yes. He was the lead witness for AGP in that case.

Q: Did Mr. Johnstone describe how the "*sharing mechanism*" of the QCA might bear on prudence considerations?

A: Yes. In the testimony of Mr. Johnstone, he described why AGP had not pursued a prudence adjustment in the QCA proceeding when he stated:

> "A part of the consideration has been the fact that cost tracking was already less than 100% due to the 80/20 and due to the coal performance standard. There is some sense of rough justice as a result." See Schedule WEB-8 at page 8, lines 10–13.

Q: What issues regarding the hedging program did Mr. Johnstone address in Case No. HR-2009-0092?

A: In his Direct Testimony in Case No. HR-2009-0092, Mr. Johnstone wrote about each of the main issues he has raised in this case. He addressed the "extraordinary" costs passed through the QCA. See Schedule WEB-8 at page 6, lines 1–5. He said "a particular problem was that too much gas was hedged relative to system needs." See Schedule WEB-8 at page 8, lines 1–9. He also raised his concerns about the design and implementation of the plan, and stated that "Aquila failed to consider that gas in the steam context was a swing fuel." See Schedule WEB-8 at page 5, lines 10–20.

Q: Was Mr. Johnstone addressing the hedge costs from the 2006 and 2007 period in his testimony in Case No. HR-2009-0092, which is also the same period he is addressing in this complaint case?

A: Yes. Mr. Johnstone is addressing the same period of time.

Q: Where all of the costs that AGP is now challenging known when Mr. Johnstone wrote that testimony in Case No. HR-2009-0092?

A: Yes.

Q: Was Case No. HR-2009-0092 a settled case, in which a stipulation and agreement was entered into among all the parties?

A: Yes. It was a settled case.

Q: Was AGP a signatory of the settlement?

A: Yes. AGP was a signatory of the stipulation and agreement in Case No. HR-2009-0092.

IV. SPECIAL CONTRACTS WITH AGP

Q: Have there been any other matters before this Commission in recent years concerning the steam business that have affected the Company's rates and revenue that it recovers?

A: Yes. In 1995 the Commission approved tariff Schedule 812 "Contract Steam Service" (Case No. HO-96-39 & HT-96-72). This tariff allowed the Company to enter into special contracts with steam customers under certain conditions. The Contract Steam Service provision may apply where the Company faces competition from an alternate supplier of industrial steam service, or faces the possibility of self-generation of steam by a customer. After the approval of the tariff in 1995, the Company entered into a special contract with AGP, resulting in a substantial reduction in the price that AGP paid for steam service.

Q: Why did the Company enter into the 1995 special contract with AGP?

A: The possibility existed that AGP might leave the system. AGP had purchased boilers as a first step to produce its own steam and possibly install a system whereby electricity was co-generated. If AGP had carried these plans to their conclusion, it could have led to the loss of AGP as both a steam and an electricity customer.

Q: Were there other reasons why the Company entered into the 1995 special contract with AGP?

A: Yes. First, if the Company had lost AGP as an industrial steam customer, it would have likely resulted in an increase in prices to other steam, electric, and natural gas customers. At that time, the Company operated a natural gas local distribution utility (which was later sold to another utility and became Empire District Gas Company). Because the industrial steam system operates from a joint plant that produces both electricity and industrial steam, as explained above, for ratemaking purposes there is an allocation of the common facilities and their expenses between the Company's electric and steam operations at Lake Road Plant. Given the close links between the electric and steam businesses, the loss of AGP as a steam customer would have caused a reallocation of plant and expenses, which would have resulted in an increase in the cost of, as well as the rates associated with, all of the Lake Road Plant operations.

Moreover, had AGP terminated its steam service and had prices increased for the remaining steam customers, those customers would have been forced to decide whether to pay higher rates, install their own boiler equipment (possibly including electric generation), or relocate their facilities outside the Company's service territory. If electric rates had also increased as a result of the loss of AGP as a steam customer, electricity customers would have faced decisions about other sources of energy or relocation. All of this would have had an extremely negative economic impact on the City of St. Joseph and northwest Missouri in general. The Company felt that the immediate financial consequences of entering into a special contract with AGP outweighed a number of more serious and far-reaching economic risks to both the Company and the community at large.

Q: Did the Company increase its steam rates to other customers to reflect the difference between the AGP contract price and the standard tariff rate?

A: No. The Company has absorbed the difference between the AGP contract price and the standard tariff rate since the effective date of the contract.

Q: Did the Company enter into another special contract with AGP after the 1995 special contract expired?

A: Yes. In Case No. HR-2004-0024, which was consolidated with Case No. ER-2004-0034, the Company entered into another special contract with AGP, in which **____

____

____**.

Q: What happened at the end of the contract period?

A: Prior to the end of the contract term, Aquila filed another rate case, Case No. HR-2005-0450, in which the Company agreed to extend the AGP special contract to 2010. This 2005 Steam Rate Case was where the Fuel Cost Customer/Utility Alignment Mechanism was established pursuant to which the QCA process and the natural gas hedging program for steam operations began.

Q: What was the outcome of the steam rate case filed by the Company in Case No. HR-2009-0092?

A: This case was settled in July 2009, pursuant to a stipulation and agreement whereby the Company was allowed (a) to increase its base rates by $384,000; (b) to rebase the fuel price in the QCA to a level more reflective of current prices; and (c) to revise the sharing mechanism to reflect an 85/15 sharing. Additionally, the coal performance standard was adjusted to be more reflective of recent coal performance standards.

Q: Has the special contract expired?

A: Yes. The Company notified AGP one year prior to April 2010 of its intent to terminate the agreement. The agreement expired on April 21, 2010. The notification of the termination of the agreement occurred while the rate case was pending.

V. QCA HISTORY

Q: How has the QCA operated since it began?

A: The QCA was first initiated in March, 2006, as an outcome of the 2005 Steam Rate Case, Case No. HR-2005-0450. Since its establishment, the Company has filed quarterly cost adjustments with the Commission for approval. None of the Company's proposals has been rejected or found deficient in any way. The cases in which the QCAs were filed are: HR-2007-0028; HR-2007-0399; HR-2008-0340; HR-2010-0028; HT-2010-0288.

Each filing by the Company has been reviewed by Staff with a recommendation for approval. The Commission has approved every request submitted by the Company.

Q: Has the Staff of the Commission performed audits of the QCAs?

A: Yes. The Staff has performed extensive audits regarding the overall QCA, including the actual mechanics of the QCA and the prudence of the costs incurred. The Staff has submitted and the Company has responded to numerous data requests investigating all aspects of the QCA and the QCA process.

Q: Has the Staff of the Commission submitted a report that complained of imprudence in any of these cases?

A: No. The Staff has not submitted any reports to the Commission alleging imprudence with regard to the QCA.

Q: Please summarize your testimony and position regarding AGP's allegation that the Company's hedging program was imprudent.

A: As I previously testified, I believe that AGP's claims are unsubstantiated and not based on fact. AGP fails to set forth any provision of a tariff, rule, or decision of the Commission that GMO has allegedly violated. I believe that the Company has proven that each of the claims made by AGP is not valid.

The Company believes that AGP's claims should be denied. AGP waited over three years after the end of the 2006 QCA period and two years after the end of the 2007 QCA period before filing this complaint. The QCA tariff provides that the prudence review is to be completed within 225 days after the end of the QCA period. No party except AGP has brought a formal complaint to this Commission regarding imprudence.

Q: Does that conclude your testimony?

A: Yes, it does.