BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Costs Subject to Commission- Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations	))))	**Case No. EO-2010-0167**

STAFF REPORT

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), by and through counsel, and submits its *Staff Report*. The Staff has found no imprudence by KCP&L Greater Missouri Operations (GMO) for the items examined.

1. On December 1, 2009, the Staff filed its Notice of Start of Prudence Audit of the costs subject to GMO's commission-approved fuel adjustment clause for the period June 1, 2008 to May 31, 2009.

2. GMO's Fuel Adjustment Clause (FAC) was modified in Case No. ER-2009-0090. The original FAC tariff, however, approved in Case No. ER-2007-0004, was in effect during the June 1, 2008 to May 31, 2009 time period the Staff analyzed.

3. Commission Rule 4 CSR 240-20.20.090(7) and § 386.266.4(4) RSMo (Supp. 2009) require prudence reviews of an electric utility's FAC be made no less frequently than at 18-month intervals.

4. As detailed in the attached Staff Report, the Staff analyzed a wide variety of items in examining whether GMO prudently incurred fuel and purchased power costs associated with its FAC. The Staff has found no imprudence by GMO for the items examined.

WHEREFORE, the Staff submits its Report regarding its examination and analysis regarding its prudence audit of the costs subject to GMO's Commission-approved fuel adjustment clause for the period June 1, 2008 to May 31, 2009.

Respectfully submitted,

/s/ Samuel D. Ritchie

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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 28th day of May 2010.

/s/ Samuel D. Ritchie

PRUDENCE REVIEW OF COSTS
RELATED TO THE FUEL ADJUSTMENT CLAUSE
FOR THE ELECTRIC OPERATIONS
OF
KCP&L
GREATER MISSOURI OPERATIONS COMPANY

June 1, 2008 through May 31, 2009

MISSOURI PUBLIC SERVICE COMMISSION
STAFF REPORT

CASE NO. EO-2010-0167

Jefferson City, Missouri
May 28, 2010

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

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Prudence Review of Costs Report

I. Executive Summary

The Missouri Public Service Commission (Commission) authorized a Fuel Adjustment Clause (FAC) for Aquila, Inc. in Case No. ER-2007-0004. The Commission approved the acquisition of Aquila, Inc. subsequently renamed KCP&L Greater Missouri Operations Company (GMO or Company), by Great Plains Energy effective July 14, 2007. GMO's FAC was modified in Case No. ER-2009-0090. However, the original FAC tariff as approved in Case No. ER-2007-0004 was in effect during the time reviewed by the Missouri Public Service Commission Staff (Staff) for this report.

Missouri statute, Section 386.266.4.(4) RSMo (Supp. 2009), requires prudence reviews of an electric utility's FAC no less frequently than at eighteen-month intervals. In this prudence review, Staff analyzed items affecting total fuel and purchased power costs[1] for the third and fourth six-month accumulation periods of GMO'S FAC. The period reviewed in this prudence review is from June 1, 2008 to May 31, 2009[2].

In evaluating prudence, Staff reviews whether a reasonable person making the same decision would have found both the information the decision-maker relied on and the process the decision-maker employed reasonable based on the circumstances at the time when the decision was made, i.e., without the benefit of hindsight. Staff disregards the decision made and evaluates instead the adequacy of the information relied on and the decision-making process employed. If the Staff determines the choice of information relied upon or the decision-making process was imprudent, then Staff examines whether the imprudent choice of information or decision caused any harm to ratepayers. If so, then, and only then, Staff will make a recommendation for a disallowance adjustment.

Staff analyzed a wide variety of items in examining whether GMO prudently incurred fuel and purchased power costs associated with its FAC. Staff has found no evidence of imprudence by GMO for the items it examined.

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1 For ease of reference, when the term "fuel and purchased power cost" is used in this report, it also includes revenues from off-system sales and SO2 allowance sales

2 Much of GMO's fuel and purchased power costs reviewed for this report were also reviewed in Case No. ER-2009-0090.

II. Introduction

A. General Description of GMO's FAC

The FAC approved by the Commission allows GMO to recover from its ratepayers 95% of its prudently incurred variable fuel and purchased power costs above a base amount, and to return to ratepayers 95% of any reduction of those costs below the base amount. GMO accumulates costs during six-month accumulation periods. Each six-month accumulation period is followed by a 12-month recovery period where the over- or under-recovery during the six-month accumulation period relative to the base amount is flowed through to ratepayers by an increase or decrease in the Cost Adjustment Factor (CAF). Adjustments to the CAF are designed to offset that over- or under-recovery by the end of the 12-month recovery period. GMO's FAC is also designed to true-up any over- or under-recoveries during recovery periods. Any disallowance the Commission makes due to prudence reviews will be accounted for as a true-up item. GMO's true-up adjustment for Recovery Period 1 was included as a part of the CAF for Recovery Period 4.

GMO's third six-month accumulation period began on June 1, 2008 and ended November 30, 2009. The Company's fuel and purchased power costs were $25.166 million higher in the third accumulation period than the base fuel and purchased power cost in the FAC, so the CAF was adjusted to collect additional revenue during the Recovery Period 3. The fourth accumulation period began December 1, 2009, and ended May 31, 2009. The Company's fuel and purchased power costs were $20.467 million higher in the fourth accumulation period than the base fuel and purchased power cost in the FAC, so the CAF was again adjusted to collect additional revenue during the Recovery Period 4.

B. Prudence

1. Definition

The Commission has previously cited with approval a New York Public Service Commission statement regarding prudence:

> ... the company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on

> hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.[3]

2. Burden(s) of Convincing the Commission on the Issue of Prudence

In an October 2, 2007 Report and Order for Case Nos. GR-2003-0330 and GR-2002-0348, the Commission wrote:

> The Commission established a standard for prudence in a 1985 case involving costs incurred by Union Electric Company when constructing its Callaway nuclear plant. In determining how much of those costs were to be included in Union Electric's rate base, the Commission adopted a standard for determining the prudence of costs that had been established by the United States Court of Appeals, District of Columbia, in a 1981 case. The standard adopted by the Commission recognizes that a utility's costs are presumed to be prudently incurred, and that a utility need not demonstrate in its case-in-chief that all expenditures are prudent. "However, where some other participant in the proceeding creates a serious doubt as to the prudence of an expenditure, then the applicant has the burden of dispelling those doubts and proving the questioned expenditures to have been prudent."

The Commission, in the Union Electric case, further recognized that the prudence standard is not based upon a reasonableness standard. The Commission cited with approval of a statement of the New York Public Service Commission that:

> … the company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.

Since its adoption, the Commission's prudence standard has been recognized by reviewing courts.

3. Basis for Disallowance

Imprudence alone is not treated as a basis for a disallowance. However, when imprudence is coupled with harm to a utility's ratepayers, Staff has previously recommended disallowances based on the following standard, as enunciated by the Commission in its adoption of the standard in the area of natural gas local distribution company regulation:

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[3] *Union Electric*, at 194, quoting *Consolidated Edison Company of New York, Inc.*, 45 P.U.R. 4th 331 (1982). <taken from GR-2003-0330 Report and Order>

> ANG is not alone in suggesting that, in order to disallow a utility's recovery of costs from its ratepayers, a regulatory agency must find both that (1) the utility acted imprudently (2) such imprudence resulted in harm to the utility's ratepayers.

State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo., 954 S.W.2d 520, 530 (Mo.App. W.D., 1997)

4. Quantification of Financial Impact

The Commission has required a quantification of the financial impact to ratepayers caused by an imprudent action. This standard has also been enunciated in the context of a natural gas local distribution company:

> A prudence review of this type must focus primarily on the cause(s) of the *allegedly excessive gas costs*. Put another way, the proponent of a gas cost adjustment must raise a serious doubt with the Commission as to the prudence of the decision (or failure to make a decision) that caused what the proponent views as *excessive gas costs*. ... In addition, evidence about the particular controversial expenditures is needed for the Commission to determine the amount of the adjustment. ... In addition, it is helpful for the Commission to have evidence as to the *amount that the expenditures would have been if the local distribution company had acted in a prudent manner*. The critical matter of proof is the prudence or imprudence of the decision from which expenses result. ... *The amount of the proposed adjustment must be based on excessive expenditures incurred during the particular ACA period involved*. (Emphasis added.)

Id.

The Staff reviewed for prudence the areas listed below for GMO's third and fourth accumulation periods.

III. Fuel and Purchased Power Costs

The cost of fuel and purchased power for the purpose of the FAC is comprised of four major components; Fuel, Purchased Power, Off-System Sales and Net Emission Allowances.

A. Generation Capacity

1. Description

GMO generates much of its own power. The following generating stations provide base load energy to GMO: Sibley 1, 2, and 3; Lake Road 4/6, Jeffrey Energy Center[4] 1, 2, and 3; and Iatan[5] 1. GMO's remaining units which provide intermediate and peak energy are

[4] GMO is joint owner (8%) of the Jeffrey Energy Center units.
[5] GMO is joint owner (18%) of Iatan 1.

Greenwood 1, 2, 3 and 4; South Harper 1, 2, and 3; Ralph Green 3; Lake Road 1, 2, 3, 5 and 7; Nevada, and KCI units 1 and 2.

In addition to the units that it owns, GMO receives energy and capacity through three long-term purchased power agreements (PPA). It has two baseload PPAs with the Nebraska Public Power District and a wind energy PPA with Gray County Wind Farm. In the time period reviewed for this report, GMO also had a short-term PPA for energy and capacity from Crossroads Energy Center (Crossroads). Crossroads is a generating facility consisting of four combustion turbines (CTs), with a total capacity of approximately 308 MW's, located in Clarksdale, Mississippi, that was built by Aquila Merchant Services Inc. as a merchant plant. This PPA was in effect when Great Plains Energy acquired Aquila.

2. Summary of Cost Implications

Staff reviewed the generation assets of GMO and how GMO met its required load and reserve margin. If GMO had been imprudently managing its generation capacity, e.g. using its peaking units as base load units, ratepayer harm could result from an increase in fuel costs recovered through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO for dispatch of its units and its use of energy and capacity contracts.

4. Documents Reviewed

a. Staff Report for Cost of Service in Case No. ER-2009-0090
b. Surrebuttal of Cary Featherstone in Case No. ER-2009-0090
c Stipulation and Agreement in Case No. ER-2009-0090
d. KCP&L-GMO response to Staff Data Requests 0024, 0016, 0015, 0017, 009
e Monthly generation data submitted by GMO in compliance with 4 CSR 240-3.190

Staff Expert: Leon C. Bender

B. Affiliate Transactions/Crossroads

1. Description

In the course of determining whether or not costs reflected in the FAC were prudent, Staff investigated the possibility of subsidization of an affiliate regarding purchased power from the Crossroads plant in Mississippi which GMO was contractually obligated during part of the review period.

2. Summary of Cost Implications

If it was found that GMO had been imprudent in its affiliated transactions, e.g., it paid more for energy than it would have had it bought from the market or generated from similar units built by GMO in the Southwest Power Pool (SPP), ratepayer harm could result from an increase in fuel cost recovered through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO in its decisions relating to its purchase of energy from Crossroads. Staff reviewed hourly fuel and purchased power information and determined that, because the energy received through the Crossroads PPA was at or below market price or the cost of generating by natural gas fired CTs, the impact of GMO having a PPA with Crossroads did not materially affect GMO's fuel and purchased power costs.

4. Documents Reviewed Costs

a. KCP&L-GMO information submitted to meet the Monthly Reports 4 CSR 240-3.161(5)(J)
b. KCP&L-GMO response to Staff Data Request 0021
c. Staff's Cost of Service Report in case no. ER-2009-0090

Staff Expert: Leon C. Bender

C. Financial Hedges of Natural Gas

1. Description

According to the website www.investopedia.com, financial hedges can be described as:

> Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract. An example of a hedge would be if you owned a stock, then sold a futures contract stating that you will sell your stock at a set price, therefore avoiding market fluctuations. Investors use this strategy when they are unsure of what the market will do. A perfect hedge reduces your risk to nothing (except for the cost of the hedge).

In this case, the Company attempts to hedge not only the long-term least cost for natural gas for its units, but also against the fluctuations of natural gas prices.

2. Summary of Cost Implications

The Company had a net gain, i.e., it was able to purchase natural gas at a price lower than the market price, through its natural gas hedging program of approximately ** __ ______ ** for the June 1, 2008 to May 31, 2009 time period of this audit. The program had a gain or increase of approximately ** _________ ** through the months of June 1, 2008 through December 31, 2008 – the first seven months of the prudence review period. In the last five months of the prudence review period, the company's hedging program produced a loss or decrease of approximately ** ________ **. Because the company's financial hedging program is used to avoid market fluctuations in natural gas prices, there will be times that GMO benefits and times that they do not. If it was found that GMO had been imprudent in its financial hedges and natural gas fuel purchases, ratepayer harm could result from an increase in fuel costs recovered through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO in regards to costs associated with natural gas hedging contracts for the time period June 1, 2008 through May 31, 2009.

4. Documents Reviewed

a. GMO responses to Staff data requests related to GMO's hedging of natural gas prices during June 1, 2008 through May 31, 2009.
b. GMO monthly reports for the time period June 1, 2008 through May 31, 2009 as required by 4 CSR 240-3.161(7).

Staff Expert: Matthew J. Barnes

D. Coal Costs

1. Description

Coal is the primary fuel for source for generation at the Sibley units, GMO's portion of the Jeffrey Energy Center coal units, the Lake Road Unit 4/6 and GMO's portion of the Iatan coal unit; therefore, the cost of coal is a major component to overall fuel costs. Changes in the costs for coal may have a major impact on fuel costs recovered from the FAC.

2. Summary of Cost Implications

The Company purchased approximately ** __________ ** of coal of which ** _________ ** was purchased for use by its Sibley units and GMO's portion of the Jeffrey Energy Center coal units, and ** __________ ** for its Lake Road Unit 4/6 and GMO's portion of the Iatan coal unit. If it was found that GMO had been imprudent in its coal expenses, ratepayer harm could result from an increase in fuel costs recovered from the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO in regards to costs associated with coal expense for the time period June 1, 2008 through May 31, 2009.

4. Documents Reviewed.

a. GMO monthly reports for the time period June 1, 2008 through May 31, 2009 as required by 4 CSR 240-3.161(7).

Staff Expert: Matthew J. Barnes

E. Oil Costs

1. Description

GMO uses oil (fuel oil, diesel fuel) during the start up of units at Jeffrey Energy Center, Greenwood and Nevada. Oil is not a primary source of fuel used in generation for GMO, therefore the costs associated with this type of fuel is nominal.

2. Summary of Cost Implications

For the period 12 months ending May 31, 2009, used for the Staff prudence review, GMO's fuel expense used for generation included approximately ** __________ ** of oil costs. If it was found that GMO had been imprudent in its fuel oil and diesel fuel purchases, ratepayer harm could result from an increase in fuel costs recovered in the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO for costs associated with oil for the time period June 1, 2008 through May 31, 2009.

4. Documents Reviewed

a. Company response to Staff's Data Request 0001.

Staff Expert: Dana Eaves

F. Alternative Fuels

1. Description

At GMO's Sibley Generating Station, which has cyclone-fired units, two types of alternative fuel were burned during the period: tire-derived fuel (TDF) and biomass. Sibley Unit 3 has been burning TDF since 1997 and is considered part of the normal fuel supply. TDF is a higher energy fuel than the bituminous coal used at the Sibley plant. TDF increases the overall heat input to the boiler. Cyclone-fired units require a certain amount of ash content in the fuel to maintain a slag layer in the cyclone unit. TDF is low in ash and therefore limits the amount of TDF that can be blended with coal. Prior to the installation of the Selective Catalytic Reducer (SCR) to Sibley Unit 3 in late 2008, the maximum blend ratio was 5%. The cost of TDF includes material, transportation, labor and equipment for material handling at the plant including personnel to manage and load TDF during normal weekday hours.

At the Lake Road Unit 4/6 Generating Station, TDF is the only type of alternative fuel that was burned during the period audited. Lake Road Unit 4/6 has been burning TDF since 2004.

At Sibley Units 1 and 2, agricultural biomass was tested during the prudence review period. The equipment and boilers of these units were not designed to burn biomass, so this material was tested for material handling characteristics and boiler performance. The testing occurred late in 2009 and the results are currently being analyzed.

2. Summary of Cost Implications

If it was found that GMO had been imprudent in its use of alternative fuels, ratepayer harm could result from an increase in fuel costs recovered in the FAC. For the 12-month period ending May 31, 2009 used for the Staff review, GMO's alternate fuel expense used for generation was approximately ** ____________ ** of alternate fuel costs.

3. Conclusion

Staff found no indication of imprudence by GMO for the use of alternate fuels for the time period June 1, 2008 through May 31, 2009.

4. Documents Reviewed.

a. Company response to Staff's Data Requests 0001, 0047
b. Staff workpapers ER-2009-0090.

Staff Expert: David C. Roos

G. SO_2 Allowances

1. Description

The U.S. sulfur dioxide (SO_2) emission allowance trading program was established by Title IV of the 1990 Clean Air Act Amendments (CAAA). The program is intended to reduce environmental and human health impacts associated with the release of sulfur emissions from coal-fired electric power plants. It requires electric utilities to reduce their SO_2 emissions by about 50% from the 1980 levels or purchase allowances to meet this standard.

Power plants are allocated a 30-year stream of tradable allowances, each worth one ton of SO_2 emissions. The allocations are based on an average capacity factor from the period 1985 to 1987. Allowances are awarded by the Environmental Protection Agency (EPA) every year and are designated by vintage year. The vintage year denotes the first year the allowances are usable for compliance. Unused allowances can be sold or banked for use in subsequent years.

Since the 1980's, the Sibley and Lake Road plant capacities have more than doubled; the Iatan unit had a slight increase in capacity while the Jeffrey Energy Center had a slight decrease in capacity. In addition, GMO's purchased power contract with the Nebraska Public Power District Gerald Gentleman power plant requires GMO to supply SO_2 allowances. The net effect is that GMO is not allocated enough allowances to cover it emissions requirements and must purchase additional SO_2 allowances.

To meet its needs, GMO has established an SO_2 inventory. This inventory is tracked in Account 158100 Emissions Allowance Inventory. The cost for SO_2 allowances is tracked in FERC account 509. A true-up for account 509 coincides with the EPA yearly award of additional allowances.

2. Summary of Cost Implications

For the 12 month period ending May 31, 2009 used for the Staff prudence review, GMO's SO_2 allowance expenses were approximately ** ___________ **. If it was found that GMO had been imprudent in its use, purchasing or banking of SO_2 allowances, ratepayer harm could result from an increase in SO_2 allowance costs recovered in the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO in the purchase, banking and usage of SO_2 allowances. Based on the documents reviewed, it appears that the variations from the baseline are caused by the change in price per SO_2 allowance and the number of allowances used during the accumulation periods. The number of allowances used is a function of the tons of coal burned during the accumulation periods and the sulfur content of the coal.

4. Documents Reviewed

a. Company response to Staff's Data Requests 0001, 0012, 0038, 0040, 0041, 0042
b. KCP&L-GMO monthly reports for the time period June 1, 2008 through May 31, 2009 as required by 4 CSR 240-3.161(7).

Staff Expert: David C. Roos

H. Environmental Work at Sibley / Jeffrey

1. Description

Several regulatory driven air pollution control projects were in various phases of construction during the 12-month period ending May 31, 2009. These projects include:

Sibley Unit 3:	SCR (completed late 2008)
Sibley Unit 1 and 2:	Selective Non-Catalytic Reducer (SNCR)
Jeffrey Energy Center:	Replacing / rebuilding three scrubbers

One unit, the SCR for Sibley Unit 3 became operational in late 2008, while the other air pollution control projects remained under construction during the time period audited. The FAC does not allow for the recovery of construction or operational costs for these environmental projects and no expenses from these projects have passed through the FAC.

2. Summary of Cost Implications

Staff found no indication that any costs associated with the environmental projects at the Sibley Plant and the Jeffrey Energy Center were passed through the FAC during the two accumulation periods from June 1, 2008 through May 31, 2009. If it was found that GMO had been imprudent in its accounting of the environmental work at Sibley and Jeffrey, ratepayer harm could result from an increase in fuel costs recovered through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO, with regard to its FAC, for the air pollution control projects at Sibley and Jeffrey Energy Center during the two six-month accumulation periods from June 1, 2008 through May 31, 2009.

4. Documents Reviewed

a. KCP&L GMO response to Staff Data requests 001, 0012, 0047,
b. KCP&L-GMO monthly reports for the time period June 1, 2008 through May 31, 2009 as required by 4 CSR 240-3.161(7).

Staff Expert: David C. Roos

I. Off-System Sales Margin

1. Description

If there is opportunity to earn a profit through off-system sales, it is prudent for a utility to pursue such opportunities. Profit from off-system sales is a component of GMO's FAC, specifically FERC Account 555, or "P", the "actual cost of purchase energy", listed on GMO Tariff No. 1 Original Sheet No. 125.

The market price for off-system sales is beyond GMO's control and there is a direct link between the amount of off-system sales (MWh) and the price. Staff reviewed the off system sales quantity (MWh) and revenues over the prudence review period. Staff compared the quantity and revenues to historical information regarding GMO's off-system sales.

2. Summary of Cost Implications

If it was found that GMO had been imprudent in its off-system sales, ratepayer harm could result from an increase in costs to be collected in the FAC. GMO's pursuit of off-system sales at a profit results in lower net fuel and purchased power costs.

3. Conclusion

Staff found no evidence of GMO imprudence with regard to off-system sales margin.

4. Documents Reviewed

a. Monthly reports submitted in compliance with 4 CSR 240-3.161(5)
b. Workpapers filed with GMO's tariff filings adjusting its CAF
c. GMO response to Staff Data Request 0021
d. Monthly Outage data submitted by GMO in compliance with 4 CSR 240-3.190

Staff Expert: Leon C. Bender

J. C. W. Mining Cost

1. Description

This issue involves any settlement payments for a breached coal contract between GMO and C.W. Mining and the effect any settlement payments may have on FAC related costs. The following is a brief summary of events related to this issue. A more detailed description of this issue is provided in the previous Staff prudence report for GMO in Case No. EO-2009-0115.

GMO entered into a coal supply contract with C. W. Mining in January 2004 to supply coal for the Sibley and Lake Road power plants. In the early portion of the contract, C.W. Mining was unable to supply the quantity of coal indicated in the contract, and ultimately the contract was breached. This resulted in GMO having to burn higher cost coal at these two power plants. GMO is currently involved in litigation to recover the higher costs that it incurred as a result of the termination of the C. W. Mining coal contract.

The Stipulation and Agreement as to Certain Issues approved by the Commission in its Order Approving Stipulation and Agreement as to Certain Issues in ER-2007-0004 effective on April 22, 2007 (Stipulation And Agreement), stated, that settlement payments were to flow back to customers, net of certain GMO costs.

Since the Commission approved a FAC for GMO in its Report and Order in the same case (ER-2007-0004), customers are to receive 95% of the C. W. Mining litigation proceeds, net of applicable legal and collection fees and costs as agreed to in the Stipulation and Agreement as to Certain Issues.

No garnishments or settlements from C. W. Mining have been applied to the FAC as of May 31, 2009. Total garnishments received through this audit period (approximately ** ________ **) do not exceed the legal expenses incurred by Aquila. Once all legal expenses have been recovered, 95% of any future settlements received will be refunded to Missouri customers.

2. Summary of Cost Implications

There are no cost implications to the FAC from the C. W. Mining litigation during the 12-month period ending May 31, 2009. Since the C.W. Mining contract was set up to provide coal to both the Sibley and Lake Road plants, in its last FAC Prudence report in Case No. EO-2009-0115, Staff recommended, and GMO concurred in its response to Staff Data Request 0055, that any net settlement payments be split: 81% for Missouri Public Service Company (MPS) ratepayers and 19% for St. Joseph Light & Power (L&P) ratepayers. If it was found that GMO had been imprudent in applying the C. W. Mining settlements to the FAC, ratepayer harm could result from the ratepayers not receiving any of the net settlement payments.

3. Conclusion

Staff found no indication of imprudence by GMO regarding the C. W. Mining settlements to the FAC. Staff will continue to monitor this issue in future GMO FAC prudence audits.

4. Documents Reviewed

a. Direct Testimony of Staff witness Cary Featherstone in Case No. ER-2007-0004
b. Stipulation and Agreement as to Certain Issues filed April 4, 2007 in Case No. ER-2007-0004
c. Order Approving Stipulation and Agreement as to Certain Issues in Case No. ER-2007-0004 effective April 27, 2007
d. GMO Monthly and Quarterly Reports submitted in compliance to 4 CSR 240-3.161(5) and (6)
e. GMO responses to Staff Data Requests 0052 and 0055

Staff Expert: David C. Roos

K. Purchased Power Contracts

1. Description

GMO has met some of its capacity and energy needs through long-term and short-term contracts. Staff reviewed these purchased power contracts held by GMO during the prudence review period. In addition to the four PPAs already described in Section III. A. of this document, GMO had short-term PPAs for energy and capacity with Mid American Energy Company, and Public Service Company of Colorado, for the period of this review.

2. Summary of Cost Implications

Even if it was found that GMO had been imprudent by purchasing additional power or capacity to meet its demand, evidence of imprudence regarding the resulting purchased energy would only be found if the cost of the PGAs energy was greater than the cost of generating the energy with additional GMO generating capacity or purchasing energy on the spot market. If it was found that GMO had been imprudent in its purchased power contracts, ratepayer harm could result from an increase in costs to be collected through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO for entering into long-term purchased power contracts.

4. Documents Reviewed

a. GMO Responses to Staff Data Requests, 0012, 0014, 0018, 0019, 0020, 0021, 0024 and 0036
b. Monthly purchases and sales data submitted by GMO in compliance with 4 CSR 240-3.190

Staff Expert: Leon C. Bender

L. Plant Outages

1. Description

Outages taken at any of the generating units can have an impact on how much GMO will pay for fuel and purchased power and could result in the Company asking for more fuel cost than is necessary. Outages can be either planned or unplanned. Staff examined the outages and the timing of these outages to determine if these outages were prudently taken. An example of an imprudent outage would be planning an outage of a large coal unit during a peak demand period.

2. Summary of Cost Implications

An imprudent outage could result in GMO purchasing expensive spot power or running its more expensive gas units to meet demand. Thus, the Company would purchase more natural gas than necessary and consequently incur higher fuel costs. If it was found that

GMO had been imprudent in its plant outages, ratepayer harm could result from an increase in fuel costs to be collected through the FAC.

3. Conclusion

Staff found no indication of imprudence by GMO for plant outages during the time period examined in this prudence review.

4. Documents Reviewed

a. GMO responses to Staff Data Requests 0003, 0004, and 0005
b. Monthly Outage data submitted by GMO in compliance with 4 CSR 240-3.190

Staff Expert: Leon C. Bender

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OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company.	)))))	Case No. EO-2010-0167

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Matthew J. Barnes, employee of the Staff of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that he has participated in the preparation of the accompanying Staff Report on pages 6–8, and the facts therein are true and correct to the best of his knowledge and belief.

Matthew J. Barnes
Matthew J. Barnes

Subscribed and sworn to before me this 28th day of May, 2010.

Susan L. Sundermeyer
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company.	)))))	Case No. EO-2010-0167

AFFIDAVIT OF LEON C. BENDER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Leon C. Bender, employee of the Staff of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that he has participated in the preparation of the accompanying Staff Report on pages 4-6 & 12-16, and the facts therein are true and correct to the best of his knowledge and belief.

Leon C Bender

Leon C. Bender

Subscribed and sworn to before me this 28th day of May, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L Sundermeyer
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company.	)))))	Case No. EO-2010-0167

AFFIDAVIT OF DAVID C. ROOS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

David C. Roos, employee of the Staff of the Missouri Public Service Commission, being of lawful age and after being duly sworn, states that he has participated in the preparation of the accompanying Staff Report on pages 9 — 14, and the facts therein are true and correct to the best of his knowledge and belief.

David C. Roos

David C. Roos

Subscribed and sworn to before me this 28th day of May, 2010.

Susan L Sundermeyer

Notary Public

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086