

**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	)	<b><u>Case No. EO-2011-0390</u></b>
Adjustment Clause of KCP&L Greater Missouri	)	
Operations Company.	)	

**STAFF'S POSITION STATEMENT**

**COMES NOW** the Staff of the Missouri Public Service Commission and, for its *Position Statement*, states as follows:

1. Has Staff raised a serious doubt as to the prudence of GMO's use of natural gas hedges to mitigate the price risk associated with spot purchased power?

**Staff's Position:**

*Yes. GMO was imprudent in that it relied on an overly-rigid, market-insensitive cross-hedging strategy, resulting in the loss of \$14.9 million during the review period.*

2. Was GMO imprudent in its use of natural gas cross-hedges to mitigate the price risk associated with spot purchased power during the FAC audit period?

**Staff's Position:**

*Yes. GMO was imprudent in that it relied on an overly-rigid, market-insensitive cross-hedging strategy, resulting in the loss of \$14.9 million during the review period.*

3. If so, must GMO refund to ratepayers some amount plus interest through GMO's FAC mechanism? What is the amount that should be refunded, if any?

**Staff's Position:**

*GMO must refund \$14.9 million, with interest at its short-term borrowing rate, to ratepayers through its FAC mechanism.*

4. Did GMO properly account for its hedging costs under the Uniform System of Accounts, previous stipulations and orders of the Commission? If not, what is the appropriate remedy?

**Staff's Position:**

*No. Purchased power hedge costs must be booked in Account 555, Purchased Power.*

5. Do GMO's FAC tariffs authorize purchased power hedging costs for spot purchased power to be passed on to ratepayers through the FAC mechanism?

**Staff's Position:**

*No. GMO's FAC tariffs are silent as to purchased power hedge costs and, therefore, must be construed to prohibit passing on these costs.*

6. Does the Commission want GMO to stop hedging using natural gas futures contracts to mitigate the price risk associated with spot purchased power?

**Staff's Position:**

*This issue is not properly before the Commission in this FAC prudence review proceeding under § 386.266.4(4), RSMo, and no party has filed testimony addressing it. The scope of this proceeding is limited to the prudence or imprudence of the review period costs subject to GMO's adjustment mechanism.*

7. Should the Commission establish a policy which addresses the appropriateness of the use of derivative based hedges by electric utilities?

**Staff's Position:**

*This issue is not properly before the Commission in this FAC prudence review proceeding under § 386.266.4(4), RSMo, and no party has filed testimony addressing it. The scope of this proceeding is limited to the prudence or imprudence of the review period costs subject to GMO's adjustment mechanism.*

**WHEREFORE**, Staff prays that the Commission will accept its *Position Statement*.

Respectfully submitted,

**s/ Kevin A. Thompson**  
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### **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served, either electronically or by First Class United States Mail, postage prepaid, on this **25<sup>th</sup> day of May, 2012**, to the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case, a copy of which is attached hereto and incorporated herein by reference.

**s/ Kevin A. Thompson**