

**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)
Adjustment Clause of KCP&L Greater Missouri)
Operations Company.)

File No. EO-2011-0390

**STAFF'S THIRD PRUDENCE REVIEW REPORT
AND RECOMMENDATION ON
KCP&L GREATER MISSOURI OPERATIONS COMPANY'S FAC**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its Report on Staff's Prudence Review of Costs Related to the Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company ("GMO") for the third review period of June 1, 2009, through November 30, 2010, and recommendation thereon,¹ states to the Missouri Public Service Commission ("Commission"):

1. Staff initiated this prudence review on June 1, 2011. It filed notice on June 9, 2011, that it had started its prudence review. That notice filing initiated this File No. EO-2011-0390. In its notice Staff informed the Commission the review period is June 1, 2009, through November 30, 2010. This is Staff's third prudence review of costs subject to GMO's fuel and purchased power adjustment clause ("FAC"). These prudence reviews are required to take place at least every eighteen months.²

¹ Adjustments to the Cost Adjustment Factor based on the June 1, 2009 to November 30, 2009, December 1, 2009 to May 31, 2010 and June 1, 2010 to November 30, 2010, accumulation periods were the subjects of File Nos. ER-2010-0191, ER-2010-0385 and ER-2011-0179, respectively.

² KCP&L Greater Missouri Operations Company Tariff P.S.C. MO. No. 1, 1st revised Sheet No. 126 (for service provided prior to September 1, 2009); KCP&L Greater Missouri Operations Company Tariff P.S.C. MO. No. 1, 1st revised Sheet No. 127.4 (for service provided September 1, 2009 through June 30, 2011); Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp. 2009 .

2. GMO's FAC tariff sheets numbered 124-126 that became effective on September 1, 2009, apply to service provided before September 1, 2009,³ and GMO's FAC tariff sheets numbered 127.1-127.4 that became effective on July 1, 2011,⁴ apply to service provided from September 1, 2009 through June 30, 2011. These tariff sheets, and tariff sheets nos. 127⁵ and 127.5,⁶ are in effect and govern the prudence review in this filing.

3. As indicated in its notice, Staff conducted its audit using the following audit scope:

Section - 2 Audit Scope

A. Presently Known Areas To Review

1. GMO's Total Book Costs of Fuel Consumed in GMO's Generating Units
2. Costs Associated with GMO's Fuel Hedging Program
3. Purchased Power Energy Charges, Including Applicable Transmission Fees
4. Southwest Power Pool Variable Costs
5. Emission Allowance Costs and Revenues
6. Off System Sales

B. Tests/Investigations to Address/Discover Other Significant Items Impacting Fuel and Purchased Power Cost Recovery Amount

³ Approved by the Commission in *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*, Case No. ER-2009-0090.

⁴ Approved by the Commission in *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*, File No. ER-2010-0356.

⁵ Approved by the Commission in *In the Matter of the Tariff Schedules Filed to Adjust the Fuel Adjustment Clause Rate of KCP&L Greater Missouri Operations Company*, File No. EO-2010-0002.

⁶ Approved by the Commission in *In the Matter of KCP&L Greater Missouri Operations Company for Authority to Implement Rate Adjustments Required by 4 CSR 240-2.090(4) and the Company's Approved Fuel and Purchased Power Cost Recovery Mechanism*, File No. ER-2011-0419.

1. Comparison of Base Fuel Components and Amounts to Claimed Cost Components and Amounts
2. Plant Outages
3. Fuel, Freight and Transportation / Purchase Power Contracts

4. As explained in its report filed herewith, based on its review, Staff has concluded GMO was imprudent for including costs and revenues associated with its buying options to purchase natural gas at fixed prices in the future as a hedge against its future purchases of electricity in the spot market for two reasons. The first is that GMO's FAC does not provide for these hedging costs and revenues to flow through it. The second is that a reasonable person would not buy options to purchase natural gas at fixed prices in the future to hedge against future purchases of electricity in the spot market because there is no direct link between these two markets sufficient upon which to base such "hedging."

5. When the costs and revenues associated with GMO's hedging future purchases of spot market power by buying options to purchase natural gas for the period June 1, 2009, to November 30, 2010, are excluded in calculating GMO's FAC charges, GMO has sought to over-collect from its customers an aggregate sum such that it should refund to its customers, in aggregate, **_____** plus interest accrued at GMO's short-term interest rate until refunded.

6. Staff recommends to the Commission this **_____**, plus interest accrued at GMO's short-term interest rate until refunded, should be included as customer refund adjustments made contemporaneously with the next available true-up adjustment following a Commission Order in this case. GMO's next CAF change is scheduled to occur in January 2012.

7. Staff does not assert GMO has acted imprudently with regard to its MPower program—a demand-side resource program GMO stopped promoting in August 2009. However, in its report Staff points out GMO’s demand-side resource MPower program could again become a least-cost resource, and encourages GMO to robustly maintain the program so that it would provide adequate demand response resources when they are a least cost resource.

8. The Commission should be mindful of the schedule of events that are to take place based on when the Staff starts its prudence audit. Rule 4 CSR 240-20.090(7)(B) establishes the following schedule:

Time from start of Staff prudence audit to event	Event
Within 180 days	Submission of Staff recommendation to Commission regarding Staff’s examination and analysis
Within 190 days	Request for hearing
Within 210 days	Commission Order, if no hearing requested

WHEREFORE, the Staff of the Missouri Public Service Commission hereby submits its report on its prudence review of the costs and revenues associated with GMO’s Commission-approved fuel adjustment clause for the period June 1, 2009, through November 30, 2010, and recommends the Commission find GMO imprudent for including costs and revenues associated with GMO’s hedging future purchases of spot market power by buying options to purchase natural gas during that period in determining the associated FAC charges both because such costs and revenues are not within the scope of GMO’s FAC and because such “hedging” is in and of itself imprudent, and order GMO to refund to its customers, in aggregate, **_____ ** plus interest accrued at GMO’s short-term interest rate until refunded by an adjustment to its FAC charge.

Respectfully submitted,

/s/ Nathan Williams

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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 29th day of November 2011.

/s/ Nathan Williams