

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the First Prudence Review of     )  
Costs Subject to the Commission-Approved Fuel     )  
Adjustment Clause of Aquila, Inc., d/b/a KCP&L     )     Case No. EO-2009-  
Greater Missouri Operations Company.                     )

**STAFF’S NOTICE OF START OF PRUDENCE AUDIT**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, and for its Notice of Start of Prudence Audit, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

1.     The tariff of Aquila, Inc., d/b/a KCP&L Greater Missouri Operations Company (“KCP&L-GMO”) provides that as part of its fuel adjustment clause there “shall be prudence reviews of costs” and that “[p]rudence reviews shall occur no less frequently than at 18 month intervals.”<sup>1</sup> This tracks the language of both Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp 2007.

2.     In its last general rate case (when Aquila was doing business as Aquila Networks-MPS and Aquila Networks-L&P), Case No. ER-2007-0004, the Commission approved KCP&L-GMO’s fuel adjustment clause tariff sheets numbered 124 – 127 to become effective on July 5, 2007.<sup>2</sup> Tariff sheet number 127 provides for six-month accumulation periods through May 31, 2011 as follows: June-November and December-May.

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<sup>1</sup> Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company, Tariff Sheet, P.S.C. MO. No. 1, Original Sheet No. 126.

<sup>2</sup> *In the Matter of Aquila, Inc. to Implement a General Rate Increase for Retail Electric Service to Customers in its Aquila Networks-MPS and Aquila Networks-L&P Missouri Service Areas*, Case No. ER-2007-0004, *Order Granting Expedited Treatment and Approving Tariff Sheets*, issued June 29 and effective July 5, 2007.

3. The Staff plans to conduct a prudence review of the costs associated with KCP&L-GMO's fuel adjustment clause for an audit period of June 1, 2007 through May 31, 2008.<sup>3</sup>

4. Rule 4 CSR 240-20.090(7)(B), in part, provides: "The Staff shall file notice within ten (10) days of starting its prudence audit." It also establishes the following schedule of dates by which certain events are to take place keyed off of the date the Staff initiates its prudence audit:

<b>Time from Staff prudence audit initiation within which event is to occur</b>	<b>Event</b>
180 days after	Submission of Staff recommendation to Commission regarding Staff's examination and analysis
190 days after	Request for hearing
210 days after	Commission Order, if no hearing requested

5. The Staff initiated its prudence audit of the costs subject to KCP&L-GMO's commission-approved fuel adjustment clause on September 23, 2008, and the Staff plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by December 1, 2008 by filing that recommendation in this case.

6. The Staff notes that this is the first prudence audit that it has undertaken of a fuel and purchased power adjustment mechanism authorized by § 386.266 RSMo Supp. 2007 and, therefore, in particular, the Staff may, and in all likelihood will, change its audit approach during this audit, and in future prudence audits as well, based on the particular utility and the particular conditions prevailing at the time of the audit. The Staff is in the process of assembling an Energy Resource Analysis Group, which, among other things, has the responsibility for the

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<sup>3</sup> The Staff notes rate adjustments based on the June-November 2007 and the December 2007 to May 2008 accumulation periods were the subjects of Case Nos. EO-2008-0216 and EO-2008-0415, respectively.

Staff's implementation of 4 CSR 240-3.161 and 4 CSR 240-20.090. That fact, coupled with the cases pending before the Commission, has already affected the scope and commencement of this prudence audit. At this time, the Staff plans to file a Staff recommendation at the conclusion of its prudence audit that covers the topics in the following outline:

### **Section 1 - Standard of Prudence**

A. Standard requires documentation and includes other Commission principles as appropriate, such as the Commission's Affiliate Transactions Rules, which also requires documentation

### **Section - 2 Audit Scope**

A. Presently Known Areas To Review

1. 210 MW of Generation Capacity Not Built
2. C.W. Mining Coal Costs
3. Financial Hedges
4. SO2 Allowances
5. BioMass TestEnvironmental
6. Work at Sibley/Jeffrey
7. Affiliate Transactions/Crossroads
8. Off-System Sales
9. Steam/Divisional Allocations

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

1. Comparison of Base Fuel Components and Amounts to Claimed  
Cost Components and Amounts

2. Joint/Economic Dispatch
3. Plant Outages
4. Fuel, Freight and Transportation / Purchase Power Contracts

**WHEREFORE**, the Staff of the Missouri Public Service Commission hereby provides notice that it started its prudence audit of the costs subject to KCP&L-GMO's Commission-approved fuel adjustment clause on September 23, 2008 for the period June 1, 2007 through May 31, 2008 and that it plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by December 1, 2008 by filing that recommendation in this case.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams  
Deputy General Counsel  
Missouri Bar No. 35512

Attorney for the Staff of the  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 751-8702 (Telephone)  
(573) 751-9285 (Fax)  
nathan.williams@psc.mo.gov (e-mail)

### **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 26<sup>th</sup> day of September, 2008.

/s/ Nathan Williams