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Witness:	Donald E. Johnstone
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Kansas City Power and Light
Greater Missouri Operations
Steam Business
HC-2012-0259
Consolidated with
HC-2010-0235

Supplemental Surrebuttal Testimony of

Donald E. Johnstone

on behalf of

AG PROCESSING INC, A COOPERATIVE

July 2013

Competitive Energy
DYNAMICS

HC-2012-0259
And
HC-2010-0235

Supplemental Surrebuttal Testimony of Donald E. Johnstone

TABLE OF CONTENTS

AG PROCESSING INC, A COOPERATIVE, Complainant,
v.
KCP&L Greater Missouri Operations Company, Respondent

HC-2012-0259
and
HC-2010-0235

Supplemental Surrebuttal Testimony of Donald E. Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049. My qualifications and experience are attached to my earlier direct testimony (Hearing Exhibit 1) in this matter.

Q ON WHOSE BEHALF ARE YOU APPEARING?

A I am appearing on behalf of AG PROCESSING INC A COOPERATIVE ("AGP"). AGP is one of several steam customers of KCP&L, Greater Missouri Operations Company (GMO) in the St. Joseph District.

PURPOSE OF THIS SUPPLEMENTAL SURREBUTTAL TESTIMONY

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A I will respond to the GMO rebuttal testimonies of Mr. Blunk, Mr. Nelson, and Dr.

Sanders filed June 14, 2013. In these testimonies there is an attempt by Mr. Blunk to narrow the issues to a matter of hedge costs under the assumption of "perfect" forecasts versus the reality of imperfect forecasts. On the other hand, Dr. Sanders, among other things, testifies regarding on the prudence of the hedge program at its inception. Mr. Nelson addresses forecast matters. These testimonies cover the gamut of the case and virtually everything is on the table to be revisited. Since much of my response would be repetitive I will not burden the record by reiterating past testimony. Hence, silence on any aspect of these testimonies is not to be construed as agreement.

Q WHAT IS THE STATUS OF THE COMMISSION'S SEPTEMBER 28, 2011 REPORT AND ORDER IN DOCKET HC-2010-0235?

A It is my understanding that the Report and Order has been vacated by the Commission. There is some dispute regarding whether the Commission complied with the mandate of the reviewing court, but for the purposes of this testimony I will assume that the Report and Order has been vacated. This assumption should not, however, be construed as a legal position on the merits of the matter.

Q WHAT IS YOUR UNDERSTANDING OF THE IMPLICATIONS OF THE REPORT AND ORDER BEING VACATED?

A Pursuant to the assumption that the Report and Order has been vacated, it is my understanding that the Report and Order in its entirety, including discussion, findings of fact, and conclusions of law in effect disappears from these cases. As such, any citations to the Report and Order by myself or any other witness are meaningless to the extent that they rely on the Report and Order that was once entered, but is now vacated and exists no more as far as having any weight in these proceedings.

GMO REBUTTAL TOPICS THAT WILL BE ADDRESSED

Q WHAT TOPICS WERE ADDRESSED IN THE JUNE 14 GMO TESTIMONY OF DR. SANDERS?

A In the testimony of Dr. Sanders GMO reaches back to again address the initial prudence of the decision of Aquila to implement a hedge program. Dr. Sanders quotes a hedge program description and opines that Aquila's decision to engage in the program so described was prudent.

Dr. Sanders also offers testimony regarding Aquila/GMO forecasts of natural gas requirements. She testifies that the forecasts were so excellent that "Asking for less conservative and more accurate forecasts under these circumstances is asking for heroics." However, she also explains that there are potential issues with customer supplied information and suggests an analogy to "the prisoner's dilemma" in economic game theory.

Q WHAT IS THE SUBJECT OF THE JUNE 14 TESTIMONY OF GMO WITNESS NELSON?

A The subject is forecasts. He addresses the steam volume requirements of customers and Aquila/GMO forecasts of natural gas requirements. He notes that he offered testimony earlier, a point that I misstated in my May 15 testimony and hereby correct. He testifies that forecasts that he prepared included six steps, starting with customer steam usage and ending with forecasts of fuel usage, including natural gas. He defends his work as prudent.

Q WHAT MATTERS ARE ADDRESSED IN THE JUNE 14 REBUTTAL TESTIMONY OF GMO WITNESS BLUNK?

A Mr. Blunk states "In responding to Mr. Johnstone's testimony, I apply the findings from the Commission's September 28, 2011 Report and Order in HC-2010-0235 . . ." (Blunk Additional Rebuttal, p. 1) Thus his testimony relies upon and proceeds from the order

that was vacated by the Commission.

From this starting point Mr. Blunk proceeds to narrowly define the issue of the case as follows: hedge costs assuming "perfect forecasts" versus hedge costs incurred as a result of the actual forecasts. He ignores all issues of prudence in the creation and administration of the hedge program. For example, even assuming perfect forecasts, many other issues remain beginning with whether or not there should have been a hedge program at all. Matters such as no clear statement of the hedge program goals, no testing of alternative strategies against program goals, the selection of the hedge instruments, the timing of the purchases of the selected hedge instruments all at once instead of being spread out to average the costs, the degree of price risk to be mitigated versus the cost of the instruments, and of course the missed opportunity to cash out in the money to extinguish the 2009 costs are at issue.

AQUILA'S HISTORY WITH HEDGING

Q DID AQUILA HAVE A HISTORY OF HEDGING THAT PREDATED ITS BRIEF FORAY INTO A HEDGE PROGRAM FOR THE STEAM BUSINESS?

A No as to its steam business; yes as to its electric and gas utility businesses.

Q DID AQUILA HAVE HEDGE EXPERIENCE IN KANSAS?

A Yes. In Kansas Aquila had proposed a program for its LDC business and presented it for review by the Kansas Corporation Commission (KCC), before implementation. The Kansas Staff offered favorable commentary and KCC approved the plan. In the commentary it is noted that the program was implemented on behalf of residential and commercial customers. While GMO cites the KCC, it is a fact that the Kansas hedge program was not applicable to industrial customers. It was and is apparent that

the need in Kansas was perceived to be different for industrial customers. To my knowledge, there was no hedge program for industrial customers.

Q WAS THERE ALSO INTEREST IN HEDGING IN MISSOURI?

A Yes. There was a rulemaking and rules were developed for application to the Missouri natural gas local distribution companies (LDCs). Mr. Blunk cites an action that was requested by OPC and granted. OPC of course has in practice focused much of its attention on residential and commercial consumers, so there again appears to be a motivation that did not stem from an industrial perspective. Also, gas is the sole fuel for an LDC so the impact of price volatility is greater than it would be in the steam business, all else equal. As will be addressed, all else was not equal.

Q WHY IS A RULE THAT WAS DEVELOPED FOR LDCS BEING DISCUSSED IN A STEAM CASE WHERE THE ONLY CUSTOMERS ARE A HANDFUL OF INDUSTRIALS?

A GMO suggests that hedge programs were being encouraged by the Commission. The rule speaks to natural gas companies. However, there are different considerations for a steam utility with only a handful of industrial customers.

The whole story, as it relates to the steam business, cuts several ways. I agree that the Commission's rule 4 CSR 240-40.018 Natural Gas Price Volatility Mitigation[1], in effect, laid the ground work and encouraged LDCs to develop hedge programs as a matter of policy. Whether that encouragement was intended to extend to the steam business of Aquila serving a handful of industrial customers is another matter. GMO offers nothing to support such assertion. One important difference is that coal is the

[1] 4 CSR 240-40.018 Natural Gas Price Volatility Mitigation
PURPOSE: This rule represents a statement of commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate upward natural gas price volatility and secure adequate natural gas supplies for their customers.

predominant fuel in the steam business while natural gas is the only energy source for an LDC. An analogous purpose in the steam business would be mitigation of upward steam fuel price volatility since it is steam, not gas that is provided to customers. On the other hand, to the extent that Aquila was considering implementation of a hedge program, the framework of the LDC rule provided some relevant guidance as to important considerations for evaluations. The need for the identification and evaluation of alternative strategies would have been equally applicable for the steam business, but it was missing.

GMO'S DEVELOPMENT OF THE NATURAL GAS HEDGE PROGRAM FOR THE STEAM BUSINESS

Q IS IT A SIMPLE MATTER TO DEVELOP AND ADMINISTER A HEDGE PROGRAM?

A In my opinion it is not a simple matter if done properly. Before implementing a hedge program in Kansas for its residential and commercial LDC customers, Aquila made a filing and had the program vetted and approved. In Missouri there is the rule for LDCs and it provides important guidelines. The point is that programs are complex and oversight ahead of implementation was provided to Aquila's customers in Kansas. In Missouri there are the detailed requirements of the rule. Missouri provided a framework that could have been followed by Aquila. It was not.

Q DID AQUILA PROVIDE THE MISSOURI COMMISSION, THE STAFF OR ITS STEAM CUSTOMERS AN OPPORTUNITY FOR REVIEW BEFORE IMPLEMENTING THE NATURAL GAS HEDGING FOR THE STEAM BUSINESS IN MISSOURI?

A There are facts and circumstances that surround this question according to GMO. First, GMO observes that steam customers suggested that a hedge program be considered and provides cites to customer sponsored testimony. While an assumption

of prudent management is implicit, I will be explicit and state that customers expect prudent management in all aspects of the business. That said, an interest in hedging was stated and Aquila responded.

As far as it goes a response would seem to be good, although the particulars of the response must effectively address the need and must be prudent. However, the QCA had been created between the time of the request and Aquila's unilateral decision to proceed. The timing is important, because there were relevant changed circumstances that affected the potential usefulness of a hedge program for the natural gas inputs to the steam system.

COMPARE AND CONTRAST THE EFFECTS OF THE QCA AND THE HEDGE PROGRAM

Q DID THE SETTLEMENT OF THE HR-2005-0450 RATE CASE INCLUDE A FUEL RIDER THAT WAS APPROVED FOR IMPLEMENTATION?

A Yes.

Q DURING THE RATE CASE PROCEEDING HAD AGP DETERMINED TO DISCUSS A FUEL RIDER WITH AQUILA?

A Yes. And I was asked to work with Aquila to develop a mechanism that would pass through some of the fuel cost variations to customers both while maintaining incentives for Aquila to achieve a low cost result and maintaining stable rates, to the extent practicable. It was recognized by AGP that these were competing objectives. Another AGP goal was to reduce the frequency of steam rate cases and the related expense.

Q DID THE FUEL RIDER HAVE ANYTHING TO DO WITH THE NEED FOR A HEDGE PROGRAM?

A Yes. The QCA was designed with the several objectives just mentioned. It accumulates costs by quarter, adjusts up to a required minimum level of low cost coal fuel input according to a coal performance standard, and then provides for 80% tracking of cost variations (the tracking level changed to 85% in 2009). The cost variations accumulate by quarter but are collected over a 12-month period to mitigate the impact on steam rates charged to customers.

Most of the BTUs used for raising steam are supplied by coal, so an important element in steam price stability is the availability of the coal boiler, a consideration explicitly addressed in the QCA. This larger proportion of coal use also mitigates the impact of any gas price changes since it is total steam BTUs sold that are in the divisor for the rate. For purposes of the steam system, Aquila's hedging activities were limited to natural gas.

Stability is also addressed from the customer perspective with fuel cost tracking limited to 80% of the variation from the base.

The QCA further addresses stability because the mechanism takes the fuel cost variation from a single quarter and spreads the cost over four future quarters. 80% of any price spike in a single quarter would be reduced in impact by 75% due to its cost impact being spread over twelve months.

The mathematical effect of the QCA is fairly straightforward. For example, a $5.00 spike in the price of natural gas, assuming it was a prudently incurred cost that persisted for an entire quarter, would be tracked at 80%, so $4.00 of the increase would go into the pot of costs to be collected. Since it would be collected over four

quarters, the amount to go into each quarter would be ¼ or $1.00. 20% of the spike remains, but there is an additional mitigation effect because natural gas represents only part of the fuel cost; the remainder is almost entirely coal. Assuming very roughly for illustrative purposes half of the fuel BTUs are gas and half are coal, impact on the steam rate will be diluted by another 50% so the rate impact of a $5.00 gas price spike that persists for a full quarter would be reduced to very roughly $.50 per steam mmBTU spread over four quarters.

This 10 to 1 reduction in price impact occurs for two reasons. First, the QCA mechanism mitigates the impact. Second, coal, not natural gas, supplies most of the BTUs. As a result the problem of gas price spikes for the steam business is largely mitigated by operation of the QCA and because much of the steam is raised by the coal boiler. The impact of any spike in gas prices is therefore substantially mitigated without any of the risks and costs of a hedge program.

It is also worth noting that the goal of the hedge program was not to reduce gas costs, but rather to mitigate volatility in gas cost and in turn to mitigate volatility in customer rates. The problem of potential volatility in steam prices due to the creation of the fuel rider had been effectively solved by the design of the QCA in combination with the circumstances of the steam business. The problem had been solved before the hedge program was implemented. Any need or potential beneficial effect was, at most, very greatly diminished.

Q WHAT WERE THE COSTS AND RISKS IN THE QCA MECHANISM AS COMPARED TO THE USE OF A HEDGE PROGRAM TO ACHIEVE PRICE STABILITY?

A The carrying costs were agreed to be zero, consistent with the premise that costs would flow in both directions and balance out over time. There were none of the

typical risks of a hedge program that have been well described and illustrated in these dockets. There were no premiums to be paid and no critically important forecasts to be prepared. The QCA operates on actual volumes, so forecasts, even at the 100% level of error documented in some periods, did not create any extraordinary impacts or problems in the operation of the QCA.

The unneeded gas hedge program for the steam business, which was intended to stabilize rates, instead had the effect of raising steam rates and increasing rate volatility. In contrast, the QCA by all accounts worked as intended and even mitigated the adverse results of the Aquila natural gas hedge program.

Q DID AQUILA UNDERSTAND OF BENEFITS OF THE QCA DESIGN?

A I believe it is fair to say that they did not at the time. If they understand it now they have not made that admission in anything I have seen. GMO proclaims that the QCA is not a hedge program. True and thank goodness. It is a far more manageable alternative for the management of steam price volatility. Unfortunately, GMO seems to now have an incentive to not understand the beneficial implications of the QCA and that could be why any admission of the benefits of the QCA as an alternative to the hedge program has not been forthcoming.

Q SHOULD THE STABILIZING EFFECT OF THE QCA ON RETAIL INDUSTRIAL RATES BE CONSIDERED BY THE COMMISSION AS IT EVALUATES WHETHER OR NOT AQUILA WAS PRUDENT TO ENGAGE IN ITS NATURAL GAS HEDGE PROGRAM FOR THE STEAM BUSINESS?

A Yes. Aquila could have known and should have known of the stabilizing effect. To not be aware of the effect of the tariffed QCA rate mechanism is unreasonable. Had they sought up-front approval, agreement, or even comment, this would have been pointed

out to them. It is most unfortunate that Aquila rushed into a hedge program without first discussing it with customers. Given the opportunity I certainly I would have explained the beneficial effects of the operation of the QCA process that had been carefully developed and agreed to.

Q WAS THERE A REQUIREMENT FOR AQUILA TO SEEK AGREEMENT UP FRONT?

A Not to my knowledge. It was Aquila's choice to make.

Q DOES GMO NOW COMPLAIN THAT THESE PRUDENCE REVIEWS/COMPLAINTS ARE BEING DONE WITH HINDSIGHT?

A Yes. It is ironic in that Aquila alone had the ability to present the program beforehand. It did so in Kansas; it elected not do so in Missouri. Now after the fact Aquila belatedly attempts to use the Kansas approval of a hedge program for residential and commercial customers to prove contemporaneous prudence of a program solely for industrial steam customers in Missouri. There is no doubt that at least one customer, AGP, would have had meaningful comments. While it is impossible to say precisely what would have been the result, there are many possibilities; it is fair to conclude that the hedge program could have had the benefit of at least customer and Staff review. I would have brought the QCA perspective to the table. Staff no doubt would have made its concerns known. Based on all things known or knowable at the time I think the Aquila hedge program for its steam business should not have gone forward and would not have gone forward if Aquila had simply sought comment, review, or approval before implementation. GMO asserts that contemporaneous prudence review is the proper standard. Aquila alone had the ability to pursue what they claim is proper and did not do so. GMO complaints cannot be heard with effect when Aquila's actions precluded the approach they belatedly

prefer. GMO's corporate parent chose to purchase the Aquila steam system and, as acknowledged by GMO witnesses in depositions, little time was spent in performing "due diligence" on the steam business.

PRUDENCE OF THE INITIAL IMPLEMENTATION OF THE HEDGE PROGRAM

Q PLEASE SUMMARIZE MATTERS RELATED TO THE PRUDENCE OF AQUILA ACTIONS PRIOR TO THE IMPLEMENTATION OF THE NATURAL GAS HEDGE PROGRAM FOR ITS INDUSTRIAL STEAM CUSTOMERS.

A As with any dispute, there are multiple perspectives. I would recommend that the Commission consider the following:

- Aquila, in designing the hedge program, performed none of the analyses identified by the Commission's hedge rule for LDCs.
- Aquila, while expressing a desire for contemporaneous review instead of after the fact, did not at the time even discuss the design of the natural gas hedge program for its steam business with its six steam customers (all industrials), or the Commission or Staff.
- Aquila, although it had participated in the design, negotiation and approval process for the QCA did not appreciate its effectiveness in stabilizing retail steam prices without the expense and risk of a hedge program based on derivative financial instruments.
- Neither Mr. Blunk nor Dr. Sanders participated in the decision process leading to the hedge program and have provided no analyses or documentation that in any way suggests that Aquila management had any understanding of the manner in which the QCA mitigated steam price volatility.

- The rate stabilizing effects of the QCA are robust, and are free of extra costs due to forecast errors, thereby eliminating an important cost risk.
- It is unreasonable for GMO to suggest that the Commission, Staff, or customers, should have had the clairvoyance that would have been necessary to have been aware of Aquila's pending implementation of the natural gas hedge program for steam based on presentations in other venues and for other utility businesses.
- Instead, it is revealed that Aquila decided unilaterally to proceed with its design and implementation of the hedge program, and to thereby risk the after the fact prudence review addressed in the QCA rate schedule.
- In spite of repeated requests from AGP and Staff, the Aquila manager that made the decision to proceed with the QCA has not testified.
- In spite of having produced all relevant documents, there is not one which has an evaluation of any alternative strategies or that displays any understanding of the effectiveness of the QCA in stabilizing retail prices. The absence of such studies was itself imprudent and led to an uninformed decision.
- Aquila did not understand the effects of the QCA and combined with its decision to go forward unilaterally, the result, unfortunately, was an imprudent hedge program.

Q IS THERE ANY REASON TO FIND THAT AQUILA COULD HAVE AND SHOULD HAVE OPERATED ITS STEAM BUSINESS WHILE INCURRING NO COST WHATSOEVER FOR A HEDGE PROGRAM?

A Yes. Prior to February 2006 there was no hedge program and no hedge program costs for the steam business. There was also no fuel rider so steam rate cases were the venue for rate increases.

The hedge program for the steam business was active only from February 2006 through October 2007. At the suggestion and request of AGP, Aquila/GMO suspended the operation of the hedge program effective November 2007. Hedge costs booked during and after November 2007 are simply the aftermath of the earlier hedge program. Since November 2007 there have been no hedges placed under an active hedge program.

There has been no new hedge program since November 2007 and no new hedge program costs. There has been no suggestion that reliability has suffered in any way. These facts are undisputed. In fact reliability was never a consideration except as an inaccurate and ineffective argument raised in after-the-fact GMO testimony.

There has been no suggestion of imprudent excessive natural gas costs due to the lack of a hedge program. All of these facts illustrate that a hedge program was unnecessary before February 2006, and was unnecessary after November 2007. It is only the period of 21 months in between where GMO attempts to justify a program as necessary and its costs as prudent.

In February 2006 at the front of this short window there was an apparent rush to create a program that ignored prudent steps in defining goals, testing alternative approaches, and seek review. The program was imprudent at inception for lack of proper analysis and foundation.

GMO had an opportunity to make a correction in 2009. Costs that should not have been incurred could have later been avoided because GMO had the opportunity to cashout in the money. It could have extinguished the costs and should have done so. Instead, the natural gas steam hedge program costs were imprudently allowed to continue.

HEDGE PROGRAM COSTS

Q IS THERE DISAGREEMENT WITH THE AMOUNT OF HEDGE PROGRAM COSTS THAT WERE IMPRUDENTLY INCURRED?

A Yes and No. Up until the June 14 GMO rebuttal there had been no dispute. AGP and GMO, agreed on the cost and monies were refunded pursuant to a GMO rate filing. Mr. Blunk now raises a disagreement with the amount refunded pursuant to the GMO rate filing.

Q PLEASE EXPLAIN THE SOURCE OF THE PROBLEM.

A The QCA has the coal performance standard that has been discussed. To the extent that the coal boiler did not perform up to the standard, the QCA required additional coal use to be imputed and a corresponding amount gas usage to be backed out of the QCA calculations. In effect, the coal performance standard, besides protecting customers from excessive gas consumption because of substandard coal plant performance, also had the effect of removing some of the hedge program costs from recovery. It is necessary to account for this effect.

Q ARE THE COSTS INCURRED DUE TO THE HEDGE PROGRAM NOW CHANGED?

A No.

Q WHAT SHOULD BE CHANGED?

A While the hedging costs that had been incurred had been correctly identified, the impact of the substandard coal plant performance on the recovery of hedge program costs had been overlooked, by all parties, myself included. Thus there must be an additional calculation to determine the amount of the hedge program costs actually collected from customers.

Q WHAT AMOUNTS OF IMPRUDENT HEDGE COSTS WERE COLLECTED FROM CUSTOMERS IN THE 2006, 2007 AND 2009 REVIEW PERIODS?

A The amount for 2006 was $715,926.

The amount for 2007 was $1,231,181.

The amount for 2009 was $1,016,382.

In each year the amount exceeds the 10% threshold in the tariff. If any additional hedge program costs for any these years are subsequently passed through the QCA these numbers will change.

RESPONSE TO DR. SANDERS

Q DO YOU HAVE ANY DISAGREEMENT WITH THE OPINIONS OF DR. SANDERS?

A Yes. She cites a description of the hedge program that is inconsistent with the program as implemented. That is a problem. She also describes problems with customer supplied forecasts in situations where there is, in essence, no perceived penalty for a high side forecast. She characterizes the situation as analogous to "the prisoner's dilemma" in economic game theory. At a minimum, there is a tension between the testimony she offers as the basis for her conclusions and the opinions she offers as conclusions. She, in effect, offers an academic forecast perspective that helps to explain why customer supplied usage information came with important limitations that should have been understood by Aquila/GMO.

In plain language, the customers should have been told of all of the uses and ramifications of their usage information that was being collected by Mr. Fangman. However, as it stands, Aquila/GMO was inviting high side forecasts because there were discussions of load growth and capacity expansion. The customer supplied information

was fraught with uncertainty and should have been recognized as such, but was not, Customers, due to the capacity discussion, would be incented to provide high side numbers to ensure adequate capacity availability. Naturally there would be an aversion to lower usage projections that could lead to capacity shortages and unreliability. That would be a concern for both Aquila and the steam customers.

Dr. Sanders talks in terms of "the prisoner's dilemma." Indeed, but who was the prisoner? Instead of revealing its plan for a hedge program Aquila instead withheld information important to customers and important to the preparation of a prudent forecast for use with the hedge program. I have previously expressed concern with the Aquila's untempered use of the customer information. Mr. Rush explained to Judge Dippell that historically such information was unreliable. Dr. Sanders adds another insight as to why customer supplied usage information, while intended to be helpful, can be problematic.

Of course in the situation at issue in these dockets there was and is the potential of a very real penalty, and Aquila/GMO withheld that information from customers. Mr. Fangman, solicitor of steam usage information from customers, was himself in the dark as to its relationship to a hedge program he knew nothing about at the time.

The "penalty" is one of the subjects of these complaints. Given that even Mr. Fangman, the Aquila representative did not know about the hedge program and could not have told customers about it when soliciting usage information; customers were misinformed by Aquila and GMO about the use and consequences of their estimates of future use. Aquila bears responsibility for the high side nature of the customer forecasts solicited in one context, but then used in a quite different context.

Q DID DR. SANDERS OPINE ON PRUDENCE?

A Dr. Sanders testifies that the hedge program was prudent. She describes a program that is different than the one implemented. For example, the program that she testifies would have been prudent provided for updates at least quarterly. Mr. Nelson's testimony filed contemporaneously admits that updates were only annual. Of course there is also the matter of the "prisoner's dilemma" she raised. Among other issues, there were problems with forecasts in part for reasons she raises and problems with administration based on admitted facts. She also fails to address important matters such as whether it would be prudent to go all in for the first year in February 2006, in conflict with the supposed premise of spreading price risk by spreading purchases over time. Dr. Sanders' analysis of prudence, by all appearances, suffers from important limitations. And of course there is the matter of the QCA that mitigates and spreads the effects of changes in natural gas prices. I disagree with aspects of the analysis and with the conclusion of prudence.

Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A Yes.

BEFORE THE

PUBLIC SERVICE COMMISSION OF MISSOURI

Ag Processing, Inc., a Cooperative, Complainant,	)	
v. KCP&L,	)	HC-2012-0259
Greater Operations Company, Respondent	)	

Affidavit of Donald E. Johnstone

State of Missouri)
) SS
County of ST. LOUIS)

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by AG PROCESSING INC, A COOPERATIVE.

2. Attached hereto and made a part hereof for all purposes is my testimony in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my testimony is true and correct and shows the matters and things it purports to show.

Donald E. Johnstone

Subscribed and sworn to this 18TH day of July, 2013

Notary Public

TREVOR SCOTT MCCULLOUGH
Notary Public-Notary Seal
State of Missouri, St Louis County
Commission # 11754172
My Commission Expires Apr 26, 2015