The second change is a significant increase in accessorial service charges. Accessorial service charges are for such things as switching a car in or out of service or diverting trains to alternate origins or destinations. Some of the railroads' current posted accessorial charges are **[redacted]** the rates in our expiring contract.

II. HEDGING FUEL MARKET RISK

Q: What is the purpose of this section of your testimony?

A: The purpose of this section is to discuss KCP&L's use of hedging programs to mitigate fuel price risk.

A. Natural Gas Price Hedging

Q: Does KCP&L have a program for managing the price risk of natural gas?

A: Yes. In 2001, KCP&L implemented a Natural Gas Price Risk Hedging Policy approved by the KCP&L Risk Management Committee.

Q: Please describe KCP&L's natural gas price hedging program.

A: In 2001, KCP&L retained Kase and Company, Inc. ("Kase"), a risk management and trading technology firm, to assist in establishing a risk management program, which employs a disciplined, methodical approach to hedging. KCP&L's program is oriented toward finding a balance between the need to protect against high prices while not unreasonably limiting opportunities to purchase gas at low prices. This balance is sought through the use of Kase's HedgeModel. The objective of KCP&L's price risk management program is to reduce the price risk inherent with floating with the market.

KCP&L's program allows the Company to take advantage of attractive low prices. When prices are sufficiently low, hedges are placed in increasing volume in a logical, mechanical manner, provided the odds are moderately well balanced in favor of the hedge benefiting the Company. This is balanced with a price protection strategy oriented toward avoiding high prices.

The approach in this program is to identify statistically favorable points at which to hedge. The strategy can be thought of as a three-zone strategy comprised of high price, normal price and low price zones. The high price zone identifies prices that are threatening to move upward. In this price zone actions are taken to protect against unfavorable high price levels, mostly through the use of options-related tactics. The normal price zone identifies prices that are in a "normal" range, neither high enough to warrant protecting price, nor low enough to be considered "opportunities." No action is taken whenever prices are deemed to be in the normal price range. The low price zone identifies prices that are statistically low. In this zone, actions are taken to capture favorable forward prices as those prices move into a range where the probability of prices remaining at or below these levels is decreasing. While the main focus in the high price zone is defensive, to set a maximum or ceiling on prices, in the low price zone the focus is on capturing attractive prices.

Q: How does KCP&L determine the amount of natural gas to hedge under its price risk management program?

A: Within the context of our hedge program, we refer to the sum of natural gas requirements for the Missouri jurisdictional share of native load, firm wholesale sales, and fuel loss reimbursement as the projected usage. **[redacted]

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[redacted]**

Q: How often does KCP&L use the HedgeModel?

A: KCP&L monitors the HedgeModel daily. **[redacted]**

Q: How well has this program performed for KCP&L?

A: **[redacted]**

B. Coal Price Hedging

Q: Does KCP&L have a program for managing the price risk of coal?

A: Yes, it does.