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Witness: Ryan A. Bresette  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

**REBUTTAL TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
September 2012**

GMO Exhibit No. 105  
Date 10-29-12 Reporter XF  
File No. ER-2012-0175

**REBUTTAL TESTIMONY**

**OF**

**RYAN A. BRESETTE**

**Case No. ER-2012-0175**

1 **Q: Please state your name and business address.**

2 A: My name is Ryan A. Bresette. My business address is 1200 Main, Kansas City, Missouri  
3 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Assistant  
6 Controller.

7 **Q: What are your responsibilities?**

8 A: As Assistant Controller, I oversee margin accounting (revenue, fuel and purchased  
9 power), derivative accounting (hedging), the monthly accounting close process, accounts  
10 payable and accounting systems. In addition, I have responsibility for leading the  
11 Company’s monthly forecasting and annual budgeting process.

12 **Q: Please describe your education, experience and employment history.**

13 A: I graduated from Rockhurst University in Kansas City, Missouri in December 1994 with  
14 a Bachelor of Science in Business Administration with a major in Accounting. In 1997, I  
15 passed the Certified Public Accountant’s exam. In May 2010, I graduated from the  
16 University of Missouri-Kansas City with a Masters in Business Administration. I have  
17 previously worked with Sprint, Applebee’s International and Interstate Bakeries  
18 Corporation in a variety of accounting and finance roles prior to joining KCP&L in  
19 December 2004. I joined Great Plains Energy, Incorporated (“GPE”) as an Accounting

1 Policy Specialist and have also held the positions of Manager Corporate Accounting,  
2 Director Revenue and Energy Accounting, and Director Accounting before assuming my  
3 current position in May 2011.

4 **Q: What experience and expertise do you possess with regard to hedging and related**  
5 **financial instruments?**

6 A: For the last seven years at GPE, I have either prepared or approved the accounting  
7 designation for financial instruments and forward contracts such as natural gas, purchased  
8 power and coal contracts. Prior to GPE, I was responsible for derivative accounting,  
9 primarily natural gas hedges, for Interstate Bakeries Corporation.

10 **Q: Have you previously testified in a proceeding before the Missouri Public Service**  
11 **Commission (“MPSC” or “Commission”) or before any other utility regulatory**  
12 **agency?**

13 A: I have previously testified before the MPSC in Case No. ER-2011-0390. Also, I have  
14 provided Rebuttal Testimony in Case No. ER-2012-0174. In addition, I have provided  
15 written testimony to the Kansas Corporation Commission in support of KCP&L’s 2008,  
16 2009, 2010 and 2011 Actual Cost Adjustment factor filings related to our Energy Cost  
17 Adjustment.

18 **Q: On whose behalf are you testifying?**

19 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company (“GMO” or  
20 the “Company”) for St. Joseph Light & Power (“L&P”) and Missouri Public Service  
21 (“MPS”) territories.

1 **Q: What is the purpose of your Rebuttal Testimony?**

2 A: The purpose of my testimony is to rebut certain comments made by Staff Witness Charles  
3 R. Hyneman on pages 112-113 of the Staff Cost of Service Report related to Hedge  
4 Settlements. Mr. Hyneman is recommending that the hedging losses associated with  
5 GMO's hedging for purchased power costs not be charged to its regulated customers.

6 **Q: In Case No. EO-2011-0390, Staff recommended that hedge losses associated with**  
7 **GMO's hedging for purchased power costs should not be charged to its regulated**  
8 **customers, but retained by GMO's shareholder. Has the MPSC issued an Order**  
9 **regarding this case?**

10 A: Yes, it has. The MPSC issued a Report and Order on September 4, 2012, stating that  
11 Staff failed to provide substantial controverting evidence to rebut the presumption of the  
12 prudence of GMO's hedging practices. In addition, the Commission also stated that Staff  
13 failed to meet its burden, by a preponderance of the evidence, of proving GMO was  
14 imprudent with its hedging practices during the prudence review period of June 1, 2009  
15 through November 30, 2010. The Commission also ordered that all of GMO's prudently  
16 incurred hedging costs would be recovered through its fuel adjustment clause ("FAC").  
17 The Commission prescribed the accounting treatment for GMO's hedging costs by means  
18 of the Accounting Authority Order ("AAO") issued in Case No. ER-2005-0436 to ensure  
19 the physical and financial transactions would be connected and booked as fuel costs.<sup>1</sup>

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<sup>1</sup> Report and Order, September 4, 2012, page 64.

1 **Q: Staff witness Hyneman alleges GMO improperly accounted for a significant portion**  
2 **of hedging costs by booking them to FERC Account 547, Fuel, instead of FERC**  
3 **Account 555, Purchased Power. Staff witness Hyneman also made the same**  
4 **assertion in Case No. EO-2011-0390. Do you agree with Staff witness Hyneman?**

5 **A:** I do not agree with Staff witness Hyneman regarding improper accounting for hedging  
6 costs associated with purchased power. As I stated in my Surrebuttal Testimony in Case  
7 No. EO-2011-0390, the Commission approved the 2005 Stipulation and Agreement in  
8 Case No. ER-2005-0436 which states, “The Signatory Parties agree, for accounting and  
9 ratemaking purposes, that hedge settlements, both positive and negative, and related costs  
10 (e.g. option premiums, interest on margin accounts, and carrying cost on option  
11 premiums) directly related to natural gas generation and on-peak purchased power  
12 transactions under a formal Aquila Networks-MPS hedging plan will be considered part  
13 of the fuel cost and purchased power costs recorded in FERC Account 547 or Account  
14 555 when the hedge is settled.” GMO fully complied with this language by recording the  
15 hedge settlements for natural gas generation to FERC Account 547. In addition, natural  
16 gas hedge settlements to mitigate power price volatility were appropriately recorded to  
17 FERC Account 547.

18 **Q: Did the Commission address this issue in its September 4 Report and Order?**

19 **A:** Yes. The Commission found that Staff failed to meet its burden, by a preponderance of  
20 the evidence, of proving GMO engaged in improper accounting practices in violation of  
21 the Accounting Authority Order from File Number ER-2005-0436. The Commission

1 also found that, Staff failed to meet its burden, by a preponderance of the evidence, of  
2 proving that GMO violated the Uniform System of Accounts.<sup>2</sup>

3 **Q: Do the Company's external auditors express an opinion on the Company's FERC**  
4 **Form 1 filings?**

5 A: Yes. GMO's external auditors express an opinion on GMO's financial statements. Since  
6 GMO began hedging natural gas for fuel and purchased power, the Company's external  
7 auditors expressed an unqualified opinion on the Company's financial statements. The  
8 unqualified opinions of the external auditors for 2006-2011 were attached as Schedule  
9 RAB-2 in my Surrebuttal Testimony in Case No. EO-2011-0390. The fuel adjustment  
10 clause ("FAC") is a significant calculation to the materiality of GMO's financial  
11 statements. Since the external auditors did not express a qualified opinion, it is  
12 completely logical to assume the external auditors were comfortable with the Company's  
13 accounting for GMO's FAC.

14 **Q: What do the external auditors express an opinion on?**

15 A: The external auditors state in their opinion that they "have audited the balance sheet –  
16 regulatory basis of KCP&L Greater Missouri Operations Company ("the Company") as  
17 of December 31, 2010, and the related statements of income – regulatory basis; retained  
18 earnings – regulatory basis; and cash flows – regulatory basis, for the year ended  
19 December 31, 2010...of the accompanying Federal Energy Regulatory Commission  
20 Form 1." In the second to last paragraph of the audit opinion, the external auditors state,  
21 "such regulatory-basis financial statements present fairly, in all material respects, the  
22 assets, liabilities, and proprietary capital of the Company as of December 31, 2010, and  
23 the results of operations and its cash flows for the year ended December 31, 2010, in

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<sup>2</sup> Report and Order, September 4, 2012, page 65.

1 accordance with the accounting requirements of the Federal Energy Regulatory  
2 Commission as set forth in its applicable Uniform System of Accounts and published  
3 accounting releases.”

4 **Q: Would you agree that the Company’s external auditors are experts in GAAP and**  
5 **FERC accounting and are aware that the GMO FAC is a significant asset**  
6 **calculation to GMO’s financial statements?**

7 A: Yes.

8 **Q: Staff witness Hyneman made an adjustment to GMO’s test year by removing a**  
9 **portion of the hedging losses from FERC Account 547 and placing them in FERC**  
10 **Account 555. Finally, Staff made an adjustment to remove from the adjusted**  
11 **purchased power account balance all hedging gains and losses. Do you agree with**  
12 **Staff’s adjustment to reclass a portion of the natural gas hedging gains and losses**  
13 **from FERC Account 547 to FERC Account 555 and then exclude those costs from**  
14 **the revenue requirement calculation?**

15 A: No, I do not. As I mentioned above, GMO has properly accounted for the costs  
16 associated with these hedges. GMO has received an unqualified opinion from its external  
17 auditors since the inception of GMO’s fuel adjustment clause and the Commission agreed  
18 with GMO’s accounting for natural gas hedges.

19 **Q: What do you recommend the Commission do with Staff’s adjustment related to**  
20 **natural gas hedges?**

21 A: Consistent with its September 4, 2012 Order, the Commission should reject Staff’s  
22 adjustment to exclude the costs associated with natural gas hedges from GMO’s revenue  
23 requirement calculation.

1 **Q:** Does that conclude your testimony?

2 **A:** Yes, it does.



