Company Name: KCPL GMO
Case Description: 2010 KCPL GMO FAC: Fuel Adjustment Clause
Case: EO-2011-0390

Response to Eaves Dana Interrogatories – Set MPSC_20111026
Date of Response:

Question No. :0058
1. Does GMO know if any other Missouri electric utility, investor-owned, municipal or rural electric cooperatives hedge its purchased power? If yes, please describe GMO's knowledge of these activities. 2. Has GMO inquired of any other Missouri electric utility, investor-owned, municipal or rural electric cooperative, to determine if it hedges its purchased power? 3. Why does GMO hedge its purchased power? 4. Why does GMO plan to continue to hedge its purchased power given the level of hedging costs that it has experienced over the last 18 months? 5. What is unique to GMO that it should hedge its purchased power? 6. Why does the management of KCPL/GMO believe it is appropriate for GMO to hedge purchased power and not appropriate for KCPL to hedge purchased power?

RESPONSE: (do not edit or delete this line or anything above this)

1. Does GMO know if any other Missouri electric utility, investor-owned, municipal or rual electric cooperatives hedge its purchased power? If yes, please describe GMO's knowledge of these activities.
Answer: GMO's knowledge of other electric utility hedging activities comes from those entities' FERC Form 1s. EDE uses fixed-price forward physical contracts to hedge purchased power. Ameren uses derivatives principally to manage the risk of changes in market prices. The goal of Ameren's hedging program is generally to mitigate financial risks while ensuring that sufficient volumes are available to meet requirements. Contracts Ameren enters into as part of their risk management program may be settled financially, settled by physical delivery, or net settled with the counterparty. Ameren reported that its Ameren Illinois Company (AIC) subsidiary experienced a hedge loss of $352 million in 2010 and $422 million loss in 2009 on power derivative contracts. In addition to those realized losses, at December 31, 2010, AIC had deferred $181 million of loss on power derivative contracts as a regulatory asset. In other words, while GMO lost $1.80/MWh of power purchased in 2010, AIC lost $18.15/MWh.

2. Has GMO inquired of any other Missouri electric utility, investor-owned, municipal or rural electric cooperative, to determine if it hedges its purchased power?
Answer: No.

Staff Exhibit No. 8
Date 6-05-12 Reporter KF
File No. EO-2011-0390

3. Why does GMO hedge its purchased power?

Answer: GMO's purchases 3.5 million – 3.9 million MWh of power to serve its load at a cost of $120-135 million/year. Those purchases represent about 40 percent of GMO's energy requirements. In other words, GMO has a significant exposure to movements in the market price for electricity. Generally electricity market prices in SPP-North are the product of natural gas prices and the "market heat rate" in a given period. The spot price of natural gas has experienced significant volatility for the past several years. Volatility in electricity prices has been even greater.

4. Why does GMO plan to continue to hedge its purchased power given the level of hedging costs that it has experienced over the last 18 months?
Answer: With over 40 percent of GMO's energy requirements being supplied through purchased power, GMO has a significant exposure to the volatility of the power market. While the 2009 and 2010 gas prices are about 40-50 percent lower than the 2007 and 2008 prices, in five of the last 12 years prices have exceeded 145 percent of the price three years prior, and four of the last 12 years prices have exceeded 160 percent of the price two years prior.

5. What is unique to GMO that it should hedge its purchased power?
Answer: GMO is heavily reliant on purchased power to serve its load. In 2010 GMO purchased more power than KCP&L and Union Electric combined. With fewer "non-requirements sales for resale" GMO purchased about twice as many MWhs as Empire District Electric. With over 40 percent of GMO's energy requirements being supplied through purchased power, GMO has a significant exposure to the volatility of the power market. KCP&L, Union Electric, and Empire District Electric combined only supplied about 7 percent of their total energy requirements with purchased power.

6. Why does the management of KCPL/GMO believe it is appropriate for GMO to hedge purchased power and not appropriate for KCPL to hedge purchased power?
Answer: GMO has much greater exposure to the natural gas and wholesale power markets than KCP&L. About half of GMO's non-wind generating capacity is natural gas. Less than 20% of KCP&L's non-wind capacity is natural gas. GMO has about 30% more natural gas fired capacity than KCP&L. GMO buys about 2.5 times as much power as KCP&L.

Attachment: Q0058 GMO Verification.pdf

ANSWERED BY: Ed Blunk, Supply Resources