

Ag Processing, Inc.,  
Complainant,  
  
v.  
  
KCP&L Greater Missouri Operations Company,  
Respondent.

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estimates of steam loads supplied by the steam customers that consistently were over-stated

2. GMO was imprudent in its failure to have liquidated or unwound the hedging positions entered into prior to the discontinuance of the hedging program for steam operations when the economic conditions existed in 2008 were such that GMO could have realized gains, regardless of whether Ag Processing requested GMO not to liquidate the hedging positions as GMO now alleges. Ag Processing refers to the liquidation of the hedging positions as “cashed out.” (see Ag Processing witness Donald direct, page 4, line 38)
3. Although GMO claims Ag Processing instructed GMO not to liquidate the hedging positions, it was and remains the responsibility of GMO to make prudent management decisions regarding all aspects of its operations—steam and electric. GMO had the obligation to operate and make prudent business decisions in what is the best interest of its customers and the Company’s financial condition regardless of the desires of its customers. While GMO should consult its customers, especially one that makes up the majority of the steam business like Ag Processing, it is ultimately GMO who has the public utility certificate and it is GMO who has the responsibility to operate the steam business—not Ag Processing.
4. The Commission should encourage the parties to attempt to mediate the dispute, whether through a technical conference or a formal mediation for the parties to reach a fair resolution of the dispute between the steam customers and GMO.
5. If the parties do not reach a resolution, to be consistent with Case No. HC-2010-0235, the Commission should order a refund of the hedging costs to all Steam customers, or such other reasonable result as the Complainants and GMO may reach through negotiations.
6. GMO should continue to not engage in hedging in the existing market conditions for the purchase of natural gas as a boiler fuel at Lake Road for the steam operations. Also, GMO should not reinstitute its hedging program

without consultation with Ag Processing and GMO's other steam customers, including Triumph Foods, L.L.C. and Staff.

7. GMO and its steam customers should work together to develop better procedures regarding projection of steam loads to ensure a proper level of natural gas is purchased to operate the steam business with the understanding that it is ultimately GMO's sole responsibility to procure natural gas and any other commodity or material necessary for the safe and reliable operations of steam service.

**WHEREFORE**, Staff submits its Report and Recommendation in this matter.

Respectfully submitted,

**/s/ Sarah Kliethermes**

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Tanya K. Alm MBE 62721

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### **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 21<sup>st</sup> day of August, 2012.

**/s/ Sarah Kliethermes**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. HC-2012-0259  
KCP&L Greater Missouri Operations Company

FROM: Cary Featherstone, Utility Services - Auditor V

/s/ Cary Featherstone 8/21/2012  
Auditing Unit / Date

/s/ Sarah Kliethermes 8/21/2012  
Staff Counsel Office / Date

SUBJECT: Staff Report and Recommendation

DATE: August 21, 2012

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Ag Processing filed a complaint on January 28, 2010, designated as Case No. HC-2010-0235. In that complaint, Ag Processing identified losses for the hedging program for years 2006 and 2007 under Case Nos. HR-2007-0028 and HR-2007-0399, respectively. Aquila's total hedging program costs for 2006 was \$1,164,960 and for 2007 was \$2,244,861, or a total of \$3,606,821. Under the terms of the QCA, only 80% of these costs are charged to customers. Therefore the net hedging program costs for 2006 was \$931,968 and for 2007 was \$1,953,488 a total of \$2,885,456 for both years. The Commission issued an Order on September 28, 2011, requiring Aquila to refund to all the steam customers \$931,968 for 2006 and \$1,953,488 for 2007 through the QCA. GMO has started making these refunds to its steam customers.

On January 29, 2012, Ag Processing, Inc., ("AGP" or "Ag Processing") filed a pleading entitled: "Prudence Challenge by Ag Processing Inc a Cooperative In the Form of A Complaint Concerning Recoveries From Steam Customers of Imprudently Incurred Amounts by Aquila, Inc. and Its Successors Including KCP&L Greater Missouri Operations Co." This action is this instant case, docketed as File No. HC-2012-0259.

After review of the initially filed 2012 AGP Complaint, as well as the Direct and Rebuttal testimonies of AGP and GMO, respectively, Staff makes the following conclusions and recommendations:

1. GMO was imprudent in managing its hedging program because it over-hedged its purchases of natural gas used as a boiler fuel to produce steam for the GMO's Lake Road Generating Station ("Lake Road") based unreasonably on estimates of steam loads supplied by the steam customers that consistently were over-stated.
2. GMO was imprudent in its failure to have liquidated or unwound the hedging positions entered into prior to the discontinuance of the hedging program for steam operations when the economic conditions existed in 2008 were such that GMO could have realized gains, regardless of whether Ag Processing requested GMO not to liquidate the hedging positions as GMO now alleges. Ag Processing refers to the liquidation of the hedging positions as "cashed out." (see Ag Processing witness Donald direct, page 4, line 38)
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6. GMO should continue to not engage in hedging in the existing market conditions for the purchase of natural gas as a boiler fuel at Lake Road for the steam operations. Also, GMO should not reinstitute its hedging program without

MO PSC CASE NO. HC-2012-0259  
OFFICIAL CASE FILE MEMORANDUM

consultation with Ag Processing and GMO's other steam customers, including Triumph Foods, L.L.C. ("Triumph") and Staff.

7. GMO and its steam customers should work together to develop better procedures regarding projection of steam loads to ensure a proper level of natural gas is purchased to operate the steam business with the understanding that it is ultimately GMO's sole responsibility to procure natural gas and any other commodity or material necessary for the safe and reliable operations of steam service.

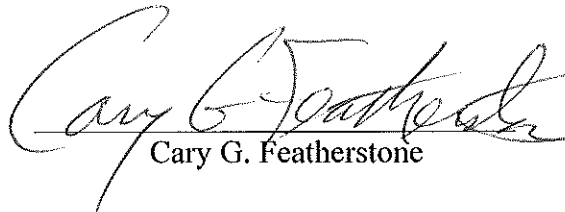
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

AG Processing, Inc., Complainant v. )  
KCP&L Greater Missouri Operations ) Case No. HC-2012-0259  
Company, Respondent )

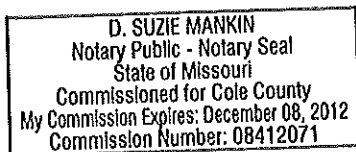
AFFIDAVIT OF CARY G. FEATHERSTONE

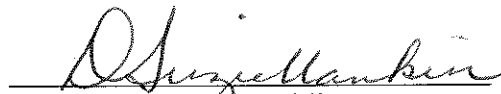
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

  
Cary G. Featherstone

Subscribed and sworn to before me this 21<sup>st</sup> day of August, 2012.



  
Notary Public