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Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
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HC-2010-0235
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MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES -AUDITING**

ADDITIONAL SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. HC-2012-0259 Consolidated with Case No. HC-2010-0235

**Jefferson City, Missouri
July 2013**

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CARY G. FEATHERSTONE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. HC-2012-0259 Consolidated with Case No. HC-2010-0235

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1 **ADDITIONAL SURREBUTTAL TESTIMONY**

2 **OF**

3 **CARY G. FEATHERSTONE**

4 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

5 **CASE NO. HC-2012-0259 Consolidated with Case No. HC-2010-0235**

6 Q. Please state your name and business address.

7 A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th
8 Street, Kansas City, Missouri.

9 Q. By whom are you employed and in what capacity?

10 A. I am a Regulatory Auditor with the Missouri Public Service
11 Commission (Commission).

12 Q. What is the purpose of this additional surrebuttal testimony?

13 A. On March 27, 2013, the Commission issued an Order Establishing
14 A Procedural Schedule indicating that all parties to the consolidated complaint cases
15 (HC-2010-0235 and HC-2012-0259 – the “Consolidated Complaint Cases”) could file
16 additional surrebuttal testimony. Both of the Consolidated Complaint Cases were filed by
17 Ag Processing, Inc., a Cooperative (“Ag Processing” or “AGP”). This additional surrebuttal
18 testimony responds to the rebuttal testimony filed by KCP&L Greater Missouri Operations
19 Company (“GMO”) on June 14, 2013. Specifically, I will respond to certain aspects of the
20 additional rebuttal testimonies of GMO witnesses Timothy M. Nelson and Nada R. Sanders
21 regarding the use of forecasts for the hedge program implemented by Aquila, Inc. (“Aquila”)
22 and later GMO.

1 Another GMO witness, Wm. Edward Blunk, primarily addresses certain aspects of
2 Ag Processing's witness Donald E. Johnstone's Supplemental Direct testimony. As such, I
3 am not specifically responding to Mr. Blunk's additional rebuttal testimony.

4 **INTRODUCTION**

5 Q. Are you familiar with GMO's steam Quarterly Cost Adjustment mechanism?

6 A. Yes. Staff has participated in the review of the Quarterly Cost Adjustment
7 ("QCA") agreed to and approved by the Commission in Case No. HR-2005-0450 and the
8 subsequent quarterly filings made by GMO since its initial implementation in 2006 when it
9 was called Aquila. Staff participated in the prudency reviews of these QCA filings made by
10 Aquila, and later GMO, starting in late spring of 2007 and continuing through the last QCA
11 filings made for calendar year 2012. Staff examined the tariff filings made pursuant to the
12 QCA to ensure compliance with the tariff and the Commission-approved *Stipulation and*
13 *Agreement* (the "2005 Stipulation") from Case No. HR-2005-0450, and the subsequent
14 Commission-approved *Stipulation* in Case No. HR-2009-0092 (the "2009 Stipulation") that
15 modified the original 2005 agreement. Each of these quarterly filings were reviewed for
16 compliance as well as accuracy of the various calculations made by GMO. In addition, there
17 was a prudency phase of the review process that allowed Staff and the steam customers to
18 examine the actual results of the QCA from a prudency perspective as long as certain
19 threshold measurements were met. I was personally involved in the prudency phase of the
20 QCA process.

21 I reviewed the quarterly filings and the summarized annual information along with
22 supporting documentation, had follow-up discussions with GMO as needed and fully
23 participated in the majority of the meetings with GMO's officials and its largest

1 steam customer, Ag Processing. Staff reviewed the complaint filed by Ag Processing on
2 January 29, 2012, designated as Case No. HC-2012-0259, which is the complaint for QCA
3 calendar year period 2009 (“the 2009 QCA”); and Ag Processing’s complaint filed on
4 January 28, 2010, designated as Case No. HC-2010-0235, which is the complaint for QCA
5 calendar year periods 2006 (actually a partial year) and 2007 (“the 2006/2007 QCA”).

6 I participated in GMO’s 2005 rate cases for its electric and steam operations, Case
7 Nos. ER-2005-436 and HR-2005-0450. I coordinated the fuel area in those rate cases and
8 was involved with the fuel clause for the steam operations, the QCA. While the QCA was
9 negotiated between Ag Processing and GMO, Staff did sign onto the Stipulation and
10 Agreement in the case that established this fuel recovery mechanism.

11 **CREDENTIALS**

12 Q. Please describe your educational background.

13 A. I graduated from the University of Missouri at Kansas City in December 1978
14 with a Bachelor of Arts degree in Economics. My course work included study in the field of
15 Accounting and Auditing.

16 Q. What job duties have you had with the Commission?

17 A. I have assisted, conducted, and supervised audits and examinations of the
18 books and records of public utility companies operating within the state of Missouri. I have
19 participated in examinations of utility requests and applications of electric, industrial steam,
20 natural gas, water, sewer, and telecommunication companies. I have been involved in cases
21 concerning proposed rate increases, earnings investigations, and complaints; and cases
22 relating to mergers, acquisitions, and certifications.

1 Q. Have you previously testified before this Commission?

2 A. Yes. Schedule CGF-1, attached to this testimony, contains a list of rate cases
3 in which I have submitted testimony. In addition, I also identify in Schedule CGF-1 other
4 cases where I directly supervised and assisted Commission Staff (“Staff”) in audits of public
5 utilities, but where I did not file testimony.

6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes. I filed rebuttal testimony and recommendations on August 21, 2012, in
8 Case No. HC-2012-0259.

9 Q. What was the purpose of your rebuttal testimony in Case No. HC-2012-0259?

10 A. On January 29, 2012, Ag Processing filed a complaint with respect to
11 the prudence of costs incurred by GMO relating to GMO’s QCA. On January 30, 2012,
12 the Commission separated the complaint from the QCA filing identified as Case No.
13 HR-2010-0028 and designated the complaint as Case No. HC-2012-0259. I filed
14 recommendations and rebuttal testimony on August 21, 2012, responding to various aspects
15 of the complaint, specifically the testimony of GMO witnesses filed on July 2, 2012, and the
16 testimony of Ag Processing witness Donald E. Johnstone filed on June 1, 2012.

17 On April 18, 2012, Triumph filed for intervention in this complaint case, and
18 the Commission granted intervention on May 1, 2012. On June 1, 2012, Triumph filed a
19 motion with the Commission that endorsed and adopted the June 1, 2012, direct testimony of
20 Ag Processing.

21 Q. Where does GMO operate its utility services in Missouri?

22 A. GMO operates two rate districts: one in the western and central part of the
23 state, called MPS, that provides electric services and one in the northwestern part of the state

1 in the area around the City of St. Joseph, called L&P, that provides electric and steam
2 services -- both of these systems previously served under the name Aquila.

3 Q. What knowledge, skill, experience, training, and education do you have with
4 regard to the subject of Case No. HC-2012-0259?

5 A. For the complaint case, I reviewed GMO's QCA filings, testimony, work
6 papers, and responses to data requests from GMO and Ag Processing concerning the QCA
7 for the year 2009, and prior QCA filings for the years 2006 through 2008, 2010, 2011 and
8 2012. I have also reviewed documents such as data request responses and work papers in
9 prior cases involving rates for the electric and steam operations, to the extent relevant, for
10 GMO's rate districts MPS and L&P. I conducted and participated in interviews of GMO
11 personnel, relating to previous rate cases involving fuel costs. I have performed extensive
12 discovery, concerning aspects of the construction and operation of GMO's steam and electric
13 operations over the course of many rate cases and review of steam quarterly cost
14 adjustments. Over the years, I have had many discussions with GMO regarding its quarterly
15 cost adjustments, fuel and purchased power costs, fuel supply procurement including the
16 purchases of natural gas and the Company's hedging policies, procedures and activities, rate
17 case and regulatory activities, earnings reviews, merger, acquisition, and sales transactions.

18 With respect to GMO and its affiliate, Kansas City Power & Light Company
19 ("KCPL"), I identified at pages 5 through 10 of my rebuttal testimony filed August 21, 2012,
20 in this proceeding the knowledge of the ratemaking and regulatory process I have gained
21 through participation of various cases filed before the Commission since 1980.

22 **OVERVIEW OF AG PROCESSING'S COMPLAINT CASE**

23 Q. Can you provide an overview of Ag Processing's complaint case?

1 A. Ag Processing filed a complaint case designated as Case No. HC-2012-0259
2 on January 29, 2012 (“the 2012 Complaint”). Thereafter, responding to the direct testimony
3 of Ag Processing witness Donald E. Johnstone, which was filed June 1, 2012, GMO filed
4 rebuttal testimony for six of its witnesses on July 2, 2012.

5 Ag Processing states in its January 29, 2012, complaint that:

6 Aquila failed to prudently administer its hedge program for natural gas
7 and incurred hedge obligations it did not need and that it could have
8 reasonably foreseen that it would not need for the 2009 QCA Period

9 The Aquila Steam Hedging Program costs incurred by Aquila with
10 respect to the 2009 QCA Period and recovered from Aquila steam
11 customers in St. Joseph were imprudently incurred.

12 [Complaint paragraphs 69 and 70—page 11].

13 The complaint case filed as Case No. HC-2012-0259 addresses the QCA for the
14 calendar year 2009. The complaint identifies \$1.2 million that relates to hedging losses
15 during the calendar year 2009.

16 Mr. Johnstone filed Supplemental Direct on May 15, 2013, and GMO
17 filed Additional Rebuttal testimony of three witnesses on June 14, 2013, for Case No.
18 HC-2012-0259, consolidated with HC-2010-0235. Ag Processing’s complaint in Case No.
19 HC-2012-0259 relates to the quarterly cost adjustment for 2009 and Case No. HC-2010-0235
20 relates to the 2006 and 2007 time periods.

21 Q. Is the Ag Processing complaint the first complaint filed with the Commission
22 regarding the steam QCA?

23 A. No. Ag Processing filed a complaint on January 28, 2010, designated as Case
24 No. HC-2010-0235, (herein referred to as the “2010 Complaint Case”). In that complaint,
25 Ag Processing identified losses for the hedging program for years 2006 and 2007 under

1 Case Nos. HR-2007-0028 and HR-2007-0399, respectively. Aquila's total hedging program
2 costs for 2006 was \$1,164,960 and for 2007 was \$2,244,861, or a combined total for the two
3 years of \$3,606,821. Under the terms of the QCA, only 80% of these costs are charged to
4 customers. Therefore the net hedging program costs for 2006 was \$931,968 and for 2007
5 was \$1,953,488, a total of \$2,885,456 for both years.

6 Q. How did the Commission decide the 2010 Complaint Case?

7 A. The Commission issued an Order on September 28, 2011, requiring Aquila to
8 refund to its steam customers \$931,968 for 2006 and \$1,953,488 for 2007 through the QCA.
9 GMO made refunds to its steam customers for these amounts, completing the refunds as of
10 November 12, 2012. GMO appealed the Commission's September 28, 2011, decision to the
11 Missouri Court of Appeals for the Western District, designated as Case WD74601. On
12 October 23, 2012, that court reversed the Commission's September 28, 2011, decision in
13 Case No. HC-2010-0235. It is my understanding the Commission has ordered the refunds
14 GMO made to its steam customers be returned the Company until these two complaint cases
15 are resolved.

16 **GMO USE OF CUSTOMERS' FORECASTS FOR HEDGING**

17 Q. What has GMO presented in its Additional Rebuttal testimony relating to the
18 hedging program implemented by Aquila and later GMO?

19 A. All three GMO witnesses attempt to shift the blame for any over hedging in
20 the purchase of natural gas used to produce steam to serve the industrial steam customers in
21 past years to the customers themselves. GMO witness Blunk states at page 25 of his
22 Additional Rebuttal, "Aquila could only project usage based on the information provided by
23 its steam customers, who are in the best position to forecast their needs." GMO witness

1 Nelson states at page 7 of his Additional Rebuttal, "...GMO relies upon its customers'
2 projections of their demand in creating the forecast, as customers are in the best position
3 to know what their demand will be." GMO witness Sanders states at page 2 of her
4 Additional Rebuttal, "...it was the responsibility of AGP and the other steam customers to
5 provide accurate estimates of their steam demand to their supplier." According to GMO, it
6 was the fault of the steam customers that Aquila and GMO personnel relied on inflated steam
7 load forecasts.

8 Q. Are forecasts accurate?

9 A. For purposes of determining budgets, forecasts can be accurate enough to
10 sufficiently manage organizations such as utilities. GMO witness Sanders addresses
11 forecasting in her Additional Rebuttal at page 3 wherein she states, "forecasts are rarely
12 perfect. Forecasting the future involves uncertainty. Therefore, it is almost impossible to
13 make a perfect prediction." Dr. Sanders further states at page 13 of her testimony "a
14 fundamental principle of forecasting is that forecasts are almost never perfect because of
15 natural variations in any data set." I agree with Dr. Sanders in this instance—forecasts
16 cannot be perfect in predicting future events. It is for this reason that state utility
17 commissions like the Missouri Public Service Commission typically do not rely on forecasts
18 to determine rates. While forecasts and projections have to be used in the important
19 budgeting process providing management oversight, this type of information is not used to
20 determine the rates charged utility customers, at least in this state. When forecasted
21 information is used to set rates, typically some type of true-up mechanism or tracker is used
22 to ensure that under or over collections do not take place.

1 Q. Is forecasted information used for ratemaking purposes?

2 A. Generally, no. In the fuel expense area, for example, actual fuel prices are
3 used instead of forecasted or projected prices. These prices are generally based on contracted
4 amounts for the fuel commodity as well as the delivery costs—the transportation or freight
5 costs. Utility rates are not set using forecasted coal prices but rather actual contracted prices.
6 For natural gas costs, rates are typically set using actual historical costs—prices. Actual
7 outages of power plants are used in lieu of budgeted (forecasted) information. Because
8 forecasts can be inaccurate, there is a reluctance to rely on this information when developing
9 the prices to charge customers for utility services.

10 Q. Is it the responsibility of utility customers to determine how much fuel should
11 be purchased to meet the needs of those customers?

12 A. No. I addressed this at pages 17 through 21 of my August 21, 2012, Rebuttal
13 testimony. Clearly, it is the ultimate responsibility of the utility—in this instance GMO—to
14 ensure it has adequate supplies of any needed resources to meet its obligations to provide
15 utility services to its customers—in GMO's case, to its electric and steam customers.

16 Customers simply are not in the position to manage, or in this case, procure sufficient
17 quantities of any fuel source such as natural gas to meet the steam loads of a utility system.
18 While the customers had the responsibility to supply GMO with information that was as
19 accurate as possible so GMO could operate the steam system efficiently and effectively,
20 the steam customers cannot be held accountable for the inaccuracy of the steam loads year
21 after year. Sooner or later Aquila and now GMO, had to identify the problem in
22 implementing the hedging program using forecasts that consistently overstated the need for
23 hedging instruments.

1 In Mr. Blunk's Additional Rebuttal (page 4), he quoted page 19 of the Commission's
2 September 28, 2011, Order in Case No. HC-2010-0235: stating "Aquila hedged the purchase
3 price of far more natural gas than it actually needed to use to produce steam to serve its
4 customers." Aquila, and later GMO, needed to recognize that it was necessary to purchase
5 the correct amounts of natural gas and any related hedging impacts to produce the steam
6 demanded by its steam customers making any adjustments required to the steam customers'
7 load forecasts to avoid purchasing too much of this very expensive commodity.

8 Q. Does GMO recognize its responsibility for purchasing natural gas volumes
9 based on the customers' forecasts?

10 A. No. GMO's witness Nelson seems to indicate the Company should not be
11 criticized for its purchasing decisions of natural gas because of its reliance of the steam
12 customers' forecasts of steam load volumes. Mr. Nelson states that GMO does not have
13 sufficient information to determine the natural gas purchases without the steam customers.
14 Mr. Nelson states at page 8 of his Additional Rebuttal:

15 Q. Should GMO have foreseen that the steam customers'
16 projected steam demand would not be realized?

17 A. No. GMO did not have the necessary information to do
18 so. Without access to the detailed confidential information
19 about the steam customers' business plans, products, or their
20 customers, it would be impossible to make such projections or
21 for GMO to second guess the judgments of its steam
22 customers. Any criticism of GMO now occurs with the benefit
23 of hindsight. GMO properly relied on its steam customers'
24 projections of their demand in creating its forecasts, as those
25 projections were what was known and knowable at the relevant
26 point in time.

27 Dr. Sanders discusses at page 4 of her Additional Rebuttal the importance forecasting
28 plays in budgeting:

1 Q. Does forecasting play a proper role in Aquila's fuel
2 budget design?

3 A. Yes. The ability to accurately forecast future demands
4 has always been an important organizational capability for
5 suppliers such as Aquila. In current business environments,
6 supply chains are characterized by high uncertainty and short
7 response times, making forecasting a more critical function
8 than ever for suppliers. Today forecasts drive entire supply
9 chains and enterprise resource planning systems. Increasing
10 the accuracy of forecasting requires the use of composite
11 methodologies that incorporate a range of information from
12 multiple sources. Forecasting according to industry best
13 practices played a key role in Aquila's preparation of fuel
14 budget estimates and the design of its hedging program to
15 dampen the price volatility of natural gas.

16 Aquila and GMO are experienced in developing budgets—operational budgets and
17 fuel budgets—and know, or should know, that forecasts are subject to imperfection and that
18 it is “almost impossible to make a perfect prediction” (page 3 of Dr. Sanders Additional
19 Rebuttal). Even though Aquila, and later GMO, knew that “forecasts are rarely perfect”
20 (page 3 of Dr. Sanders Additional Rebuttal), Aquila and later GMO relied on the imperfect
21 forecasts of each of the steam customers. More importantly, Aquila and later GMO had the
22 benefit of actual knowledge that the steam customers' forecasts were inaccurate. Yet, Aquila
23 and GMO did not modify or change their purchasing approach for natural gas volumes
24 for the steam operations.

25 Because of the complaint cases, GMO now expects the inaccuracy of the steam
26 customers' forecasts to hold the Company harmless in the losses accumulated in 2006, 2007
27 and 2009 for hedges used to purchase natural gas for the steam operations.

28 Q. What are the actual steam loads that GMO supplied to its steam customers?

29 A. The following table shows the levels of forecasted steam loads in budgeted
30 mmbtu's compared to actual:

Additional Surrebuttal Testimony of
Cary G. Featherstone

1 Period of Hedging:

2	<u>Year</u>	<u>Actual mmbtu</u>	<u>Budget mmbtu</u>	<u>% of actual to budget</u>
3	2005	1,855,745	2,067,648	89.7%
4	2006	2,157,127	2,909,780	74.1%
5	2007	2,456,440	3,139,431	78.2%
6	2008	2,601,375	2,741,731	94.9%
7	2009	2,538,610	2,978,954	85.2%

8 [source: October 1, 2009 email for 2005-2009 from Linda Haynes and Data Request
9 12, Case No. HC-2012-0259]

10 Period of no Hedging:

11	<u>Year</u>	<u>Actual mmbtu</u>	<u>Budget mmbtu</u>	<u>% of actual to budget</u>
12	2010	2,558,163	2,488,625	102.8%
13	2011	2,508,205	2,546,870	98.5%
14	2012	2,606,278	2,570,704	101.4%

15 [source: July 16, 2013 email for 2010 – 2012 from Linda Haynes and Data
16 Request 12, Case No. HC-2012-0259]

17 Q. Were the annual forecasts developed by Aquila and later GMO accurate?

18 A. No. For various reasons the forecasts used by Aquila and later GMO did not
19 accurately project the steam usage which made it difficult know the volumes of natural gas to
20 purchase and the amount of natural gas to hedge. During the time Aquila purchased hedges
21 prior to the discontinuance of the program on October 30, 2007, the Company purchased
22 more hedges than it needed for its steam operations. The Commission addressed this
23 problem in its September 28, 2011, Order in Case No. HC-2010-0235 (page 16 of Order):

24 Aquila would place the blame for its inaccurate forecasts squarely on
25 its customers, arguing that as the sole available supplier of steam, it

1 has an obligation to plan to meet all the needs of its customers. While
2 certainly Aquila had an obligation to meet the needs of its customers,
3 it was Aquila's responsibility to determine the reasonableness of its
4 customer's estimates. **Aquila knew that those customers estimates**
5 **were not reliable and had an obligation to structure its hedging**
6 **program to account for the uncertainty of volumes of gas,** yet there
7 is nothing in the record to indicate that it did so. **Aquila has not met**
8 **its burden of proving that it operated its hedging program in a**
9 **prudent manner.**

10 [Emphasis added; Footnote omitted]

11 This formed the basis for the Commission ordering a refund of the hedging costs incurred
12 for 2006 and 2007—the QCA periods addressed in Case No. HC-2010-0235.

13 Q. Did Aquila have early indications that the forecasted steam loads presented by
14 the steam customers were inaccurate?

15 A. Yes. Yet despite these early signs of inaccurate steam loads, the Company
16 continued with its hedging program—a program that Ag Processing indicated they did not
17 want as early as October 30, 2007-- using the steam customers' forecasted steam loads to
18 determine the level of natural gas volumes to purchase. I address this in more detail in my
19 rebuttal testimony filed August 21, 2012, at pages 19 and 20.

20 Just as Mr. Blunk (page 25), Mr. Nelson (page 7) and Dr. Sanders (page 2) of their
21 respective Additional Rebuttal testimonies filed June 14, 2013, Mr. Gottsch (pages 11-16),
22 Mr. Fangman (pages 6-7) and Mr. Nelson (page 8) all identified in their respective Rebuttal
23 testimonies filed July 2012 how Aquila and later GMO relied on the steam customers'
24 forecasts in developing purchasing of natural gas. The projected steam loads were overstated
25 each year. At some point Aquila should not have continued to rely on the steam customers'
26 estimates or at the very least should have modified (i.e., reduced) the natural gas hedge
27 positions more significantly than it did to compensate for these reduced steam volumes.

1 Q. What would have been the prudent course of action for Aquila and later GMO
2 to have undertaken regarding the hedging program for its steam operations?

3 A. As soon as the right market condition presented itself, Aquila and later GMO
4 should have unwound the hedges for its steam operations, mitigating any losses and taking
5 advantage of any gains opportunities. Both the Company and its customers would have
6 greatly benefited from such action.

7 Q. Does GMO suggest not having accurate steam customer forecasts would cause
8 a disruption to the Company's ability to supply steam service?

9 A. Yes. At page 10 of Dr. Sanders' Additional Rebuttal she states "Aquila
10 prudently accepted its customers' estimates at face value rather than discounting their steam
11 demand projections and risking an interruption to their business." Also at page 14,
12 Dr. Sanders states "because of the risk of business interruption resulting from insufficient
13 steam supply, it was more prudent for Aquila to err on the side of caution, even if this meant
14 assuring gas supply at a greater volume or cost than what was actually required by its
15 customers." This is best illustrated by the statement at page 5 of Dr. Sanders' Additional
16 Rebuttal testimony wherein she states "...the only prudent course for the supplier in such a
17 situation is to make certain that there is sufficient supply, while mitigating price volatility, to
18 ensure that none of its customers experiences a costly supply disruption. Whatever costs are
19 associated with assuring the supply of gas may be considered an investment into the
20 avoidance of business interruption resulting from insufficient supply at an un-hedged or
21 under-hedged price."

22 GMO is indicating that without a hedging program in place using accurate customer
23 forecasts, the Company will not be able to produce sufficient steam to supply its customers.

1 Having or not having a hedge program may impact fuel costs, but the reality is having a
2 hedging program has little to do with the procurement of natural gas supplies and the actual
3 quantities of natural gas purchased. Not having a hedge program certainly has nothing to do
4 with the Company's ability to provide steam service to its customers. Dr. Sanders ignores
5 the utility's obligation to serve its customers with the necessary steam service. Dr. Sanders
6 recognizes this obligation to supply steam service to GMO's customers at pages 14 and 15 of
7 her testimony which references page 11 of the Direct testimony of Mr. Tim Rush in the Case
8 No. HC-2010-0235 wherein he states "customers do not have an alternative if the Company
9 is unable to meet their needs." But Dr. Sanders confuses the need to have adequate supply of
10 fuel to meet the demands of the steam customers with the impacts of the customers' forecast
11 on the hedging program. Regardless of the accuracy of the steam customers' forecast or
12 having or not having a hedging program, the Company continued to have a requirement to
13 meet the steam load demands. To my knowledge, Aquila, and later GMO, met its obligation
14 to supply the necessary steam loads when it had a hedging program and when it did not have
15 such a program to purchase natural gas. To the extent there were any interruptions in steam
16 service it was not because the Company did not have adequate supply of fuel to produce the
17 necessary steam demanded by its customers.

18 Because of the requirement by GMO to produce the needed steam service demanded
19 by those customers, the Company must have necessary fuel sources, including adequate
20 natural gas supply to meet the steam loads regardless of having or not having a hedging
21 program in place. Since 2005, Aquila, and later GMO has supplied an ever increasing steam
22 demand and since 2010 without a hedging program for its steam service. In reality, hedging
23 is not necessary to secure an adequate supply of natural gas. Even though the Company is no

1 | longer engaging in a hedging program, GMO has not had difficulty procuring sufficient fuel
2 | sources to produce the demanded steam loads.

3 | Q. When did Aquila discontinue its hedging program?

4 | A. October 2007, at the request of its major steam customer, Ag Processing. At a
5 | meeting I attended along with representatives of Ag Processing, Aquila personnel informed
6 | us the Company was to start a new approach to hedging natural gas. During the discussion,
7 | Aquila asked if Ag Processing wanted to continue the practice of hedging natural gas and Ag
8 | Processing said it did not. Even though it discontinued the hedging program for the steam
9 | operations in 2007, the Company had a portion of the remaining steam loads hedged for
10 | 2007, 2008 and 2009. Because GMO did not unwind the hedges when it had the opportunity
11 | in 2008 when the hedging program would have produced gains, the hedges for 2009
12 | experienced net losses.

13 | Q. Does this conclude your additional surrebuttal testimony?

14 | A. Yes, it does.

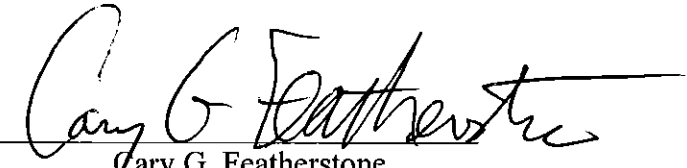
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

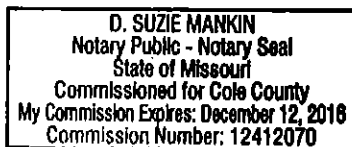
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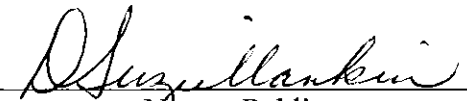
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Additional Surrebuttal Testimony in question and answer form, consisting of 16 pages to be presented in the above case; that the answers in the foregoing Additional Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; 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 18th day of July 2013.




Notary Public

CARY G. FEATHERSTONE
SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2012	HC-2012-0259 Consolidated with HC-2010-0235 Coordinated	KCP&L Greater Missouri Operations Company Ag Processing complaint against GMO's Quarterly Cost Adjustment (industrial steam fuel clause)	Report and Rebuttal	Pending
2007 2008	HR-2007-0028, HR-2007-0399 and HR-2008-0340	Aquila, Inc., d/b/a Aquila Networks- L&P (industrial steam fuel clause review)		
2010	HC-2010-0235	Ag Processing complaint against GMO's Quarterly Cost Adjustment (industrial steam fuel clause)	Deposition	Contested
2012	ER-2012-0175 Coordinated	KCPL Greater Missouri Operations Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy; plant valuation; capacity planning; Jurisdictional Allocation Factors; Rebuttal- capacity planning Surrebuttal- plant valuation; capacity True-up Direct	Contested

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2012	ER-2012-0174 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy; Additional Amortizations Regulatory Plan; Jurisdictional Allocation Factors; Iatan 2 Advanced Coal Credits; Rate Analysis Rebuttal- Iatan 2 Advanced Coal Credits	Contested
2011	SA-2010-0219 and SC-2010-0161 Coordinated	Canyon Treatment Facility LLC (sewer certificate and complaint case)	Recommendation Memorandum	Stipulated
2011	HR-2011-0241 Coordinated	Veolia Energy Kansas City Company (former Trigen Kansas City Energy Company) (steam rate increase)	Direct- sponsor Utility Services Cost of Service Report	Stipulated
2010	ER-2010-0356 Coordinated	KCP&L Greater Missouri Operations Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy; plant valuation; capacity planning; jurisdictional allocations; Rebuttal- capacity planning Surrebuttal- plant valuation; capacity True-up Direct True-up Rebuttal	Contested

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2010	ER-2010-0355 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy; Additional Amortizations Regulatory Plan; Jurisdictional Allocations Rate Analysis Rebuttal- jurisdictional allocation Surrebuttal- True-up Direct True-up Rebuttal	Contested
2010	SR-2010-0110 and WR-2010-0111 Coordinated	Lake Region Water and Sewer Company (water & sewer rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal True-up Direct Reports to Commission	Contested
2009	HR-2009-0092 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (industrial steam rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy	Stipulated
2009	ER-2009-0090 Coordinated	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy Surrebuttal-plant valuation; capacity planning	Stipulated

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<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2009	ER-2009-0089 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report; policy; Additional Amortizations and Iatan 1 construction Rebuttal- jurisdictional allocations Surrebuttal- allocations	Stipulated
2008	HR-2008-0300 Coordinated	Trigen Kansas City Energy (steam rate increase)	Direct - sponsor Utility Services portion of the Cost of Service Report, overview of rate case, plant review and plant additions, fuel and income taxes	Stipulated
2007	HO-2007-0419 Coordinated	Trigen Kansas City Energy [sale of coal purchase contract] (steam)	Recommendation Memorandum	Stipulated
2007	ER-2007-0004 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct-fuel clause, fuel, capacity planning Rebuttal Surrebuttal- fuel clause	Contested
2006	WR-2006-0425 Coordinated	Algonquin Water Resources (water & sewer rate increases)	Rebuttal- unrecorded plant; contributions in aid of construction Surrebuttal unrecorded plant; contributions in aid of construction	Contested

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2006	ER-2006-0314 Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct-construction audits Rebuttal- allocations Surrebuttal- allocations	Contested
2005	HR-2005-0450 Coordinated	Aquila, Inc., d/b/a Aquila Networks- L&P (industrial steam rate increase)	Direct	Stipulated
2005	ER-2005-0436 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct- interim energy charge; fuel; plant construction; plant commercial in-service; capacity planning, plant valuation Rebuttal Surrebuttal	Stipulated
2005	EO-2005-0156 Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS (electric- South Harper Generating Station asset valuation case)	Rebuttal- plant valuation Surrebuttal- plant valuation	Stipulated
2005	HC-2005-0331 Coordinated	Trigen Kansas City Energy [Jackson County Complaint relocation of plant for Sprint Arena] (steam complaint case)	Cross examination- relocation of plant assets	Contested
2004	GR-2004-0072 Coordinated	Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P (natural gas rate increase)	Direct- acquisition adjustment; merger savings tracking Rebuttal	Stipulated

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2004	HM-2004-0618 Coordinated	Trigen- Kansas City Energy purchase by Thermal North America (steam - sale of assets)	Supervised Case— Did not file testimony	Stipulated
2003	ER-2004-0034 and HR-2004-0024 (Consolidated) Coordinated	Aquila, Inc., (formerly UtiliCorp United Inc) d/b/a Aquila Networks-MPS and Aquila Networks-L&P (electric & industrial steam rate increases)	Direct- acquisition adjustment; merger savings tracking Rebuttal Surrebuttal Deposition	Stipulated
2002	ER-2002-424 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel-interim energy charge Surrebuttal	Stipulated
2001	ER-2001-672 and EC-2002-265 Coordinated	UtiliCorp United Inc./Missouri Public Service Company (electric rate increase)	Verified Statement Direct- capacity purchased power agreement; plant recovery Rebuttal Surrebuttal	Stipulated
2001	ER-2001-299 Coordinated	Empire District Electric Company (electric rate increase)	Direct- income taxes; cost of removal; plant construction costs; fuel- interim energy charge Surrebuttal True-Up Direct	Contested
2000	EM-2000-369 Coordinated	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger eventually terminated)
2000	EM-2000-292 Coordinated	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested (Merger closed)

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1999	EM-97-515 Coordinated	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated (Merger eventually terminated)
1998	GR-98-140 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Testimony in Support of Stipulation And Agreement	Contested
1997	EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal- plant assets & purchased power agreements	Withdrawn
1997	ER-97-394 and EC-98-126 Coordinated	UtiliCorp United Inc./Missouri Public Service (electric rate increase and rate complaint case)	Direct- fuel & purchased power; fuel inventories; re- organizational costs Rebuttal Surrebuttal	Contested
1997	EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric rate complaint case)	Direct- - fuel & purchased power; fuel inventories Verified Statement	Contested Commission Denied Motion
1997	GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1996	ER-97-82	Empire District Electric Company (electric-- interim rate increase case)	Rebuttal- fuel & purchased power	Contested
1996	GR-96-285 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Direct- merger savings recovery; property taxes Rebuttal Surrebuttal	Contested

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1996	EM-96-149 Coordinated	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1996	GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1995	ER-95-279 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel & purchased power; fuel inventories	Stipulated
1995	GR-95-160 Coordinated	United Cities Gas Company (natural gas rate increase)	Direct- affiliated transactions; plant	Contested
1994	GA-94-325 Coordinated	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1994	GM-94-252 Coordinated	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal- acquisition of assets case	Contested
1994	ER-94-194	Empire District Electric Company (electric rate increase)	Supervised Case— Did not file testimony	
1993	GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated
1993	TR-93-181	United Telephone Company of Missouri (telephone rate increase)	Direct- directory advertising Surrebuttal	Contested
1993	TC-93-224 and TO-93-192 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Rebuttal Surrebuttal	Contested

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SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1991	EM-91-290	UtiliCorp United Inc./ Missouri Public Service and Centel acquisition (electric – acquisition/ merger case)	Recommendation Memorandum	Stipulated
1991	GO-91-359 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (natural gas-- accounting authority order)	Memorandum Recommendation- Service Line Replacement Program cost recovery deferral	Stipulated
1991	EO-91-358 and EO-91-360 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal- plant construction cost deferral recovery; purchased power cost recovery deferral	Contested
1991	EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested
1990	GR-90-152	Associated Natural Gas Company (natural gas rate increase)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1990	GR-90-198 Coordinated	UtiliCorp United, Inc., Missouri Public Service Division (natural gas rate increase)	Direct- Corporate Costs and Merger & Acquisition Costs	Stipulated
1990	ER-90-101 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric rate increase- Sibley Generating Station Life Extension Case)	Direct- Corporate Costs and Merger & Acquisition Costs Surrebuttal	Contested
1990	GR-90-50 Coordinated	Kansas Power & Light - Gas Service Division (natural gas rate increase)	Direct- prudence review of natural gas explosions	Stipulated

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<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1989	TR-89-182 and TC-90-75	GTE North, Incorporated (telephone rate increase)	Direct- directory advertising Rebuttal Surrebuttal	Contested Decided Feb 9, 1990
1988	TC-89-14 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory Surrebuttal advertising Surrebuttal Deposition	Contested
1988	GR-88-115 Coordinated	St. Joseph Light & Power Company (natural gas rate increase)	Supervised Case-- Did not file testimony Deposition	Stipulated
1988	HR-88-116	St. Joseph Light & Power Company (industrial steam rate increase)	Supervised Case-- Did not file testimony Deposition	Stipulated
1987	HO-86-139 Coordinated	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility and rate increase)	Direct- policy testimony on abandonment of steam service Rebuttal Surrebuttal	Contested
1986	TR-86-117 Coordinated	United Telephone Company of Missouri (telephone rate increase)	Withdrawn prior to filing	Withdrawn
1986	GR-86-76 Coordinated	KPL-Gas Service Company (natural gas rate increase)	Withdrawn prior to filing	Withdrawn
1986	TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)	Supervised Case-- Did not file testimony	Stipulated

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<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1986	TR-86-63 Coordinated	Webster County Telephone Company (telephone rate increase)	Supervised Case-- Did not file testimony	Stipulated
1986	TR-86-14 Coordinated	ALLTEL Missouri, Inc. (telephone rate increase)	Supervised Case— Did not file testimony	Stipulated
1985	ER-85-128 and EO-85-185 Coordinated	Kansas City Power & Light Company (electric rate increase- Wolf Creek Nuclear Generating Unit Case)	Supervised Case-- Direct- fuel inventories; coordinated Wolf Creek Nuclear construction audit	Contested
1984	EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	TR-83-253	Southwestern Bell Telephone Company (telephone rate increase - ATT Divestiture Case)	Direct- revenues & directory advertising	Contested
1983	ER-83-49	Kansas City Power & Light Company (electric rate increase)	Direct- fuel & fuel inventories Rebuttal Surrebuttal	Contested
1983	EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1982	TR-82-199	Southwestern Bell Telephone Company (telephone rate increase)	Direct- revenues & directory advertising	Contested

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<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1982	ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating rate increase)	Direct- fuel & purchased power; fuel inventories Rebuttal Surrebuttal	Contested
1981	TO-82-3	Southwestern Bell Telephone Company Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct- construction work in progress	Contested
1981	TR-81-302	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress	Stipulated
1981	TR-81-208	Southwestern Bell Telephone Company (telephone rate increase)	Direct-cash working capital; construction work in progress; income taxes-flow- through Rebuttal Surrebuttal	Contested
1981	ER-81-42	Kansas City Power & Light Company (electric rate increase)	Direct-payroll & payroll related benefits; cash working capital Rebuttal	Contested
1980	TR-80-235	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress Rebuttal	Contested
1980	GR-80-249 Coordinated	Rich Hill-Hume Gas Company (natural gas rate increase)	No Testimony filed- revenues & rate base	Stipulated
1980	GR-80-173	The Gas Service Company (natural gas rate increase)	Direct Deposition	Stipulated
1980	HR-80-55	St. Joseph Light & Power Company (industrial steam rate increase)	Direct	Stipulated

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<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1980	OR-80-54	St. Joseph Light & Power Company (transit rate increase)	Direct	Stipulated
1980	ER-80-53	St. Joseph Light & Power Company (electric rate increase)	Direct	Stipulated

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SUMMARY OF RATE CASE INVOLVEMENT
CASES SUPERVISED AND ASSISTED:

2013	SC-2013-0332	West 16 th Street (Public Counsel complaint case)	Supervised Case-	Stipulated
2013	WR-2013-0326	Woodland Manor	Supervised Case-	Stipulated
2013	SR-2013-0053	WPC Sewer	Supervise Case-	Stipulated
2013	WM-2013-0329	Bilyean Ridge Water	Supervise Case-	Stipulated
2012	WR-2012-0163	Tandy County (water informal rate increase)	Supervised Case- Recommendation Memorandum	Stipulated
2011	WO-2022-0328	Algonquin Liberty Water purchase of Noel Water	Supervised Case- Recommendation Memorandum	Stipulated
2010	SR-2010-0320 Coordinated	Timber Creek Sewer Company	Supervised Case—Did Not File Testimony	Pending
2010	WR-2010-0202	Stockton Water Company	Recommendation Memorandum	Stipulated
2010	EO-2010-0211	KCP&L Greater Missouri Operations---- Liberty service center sale	Recommendation Memorandum	Stipulated
2009	EO-2010-0060	KCP&L Greater Missouri Operations----- Blue Springs service center sale	Recommendation Memorandum	Withdrawn
2009	WR-2010-0139 SR-2010-0140	Valley Woods Water Company	Recommendation Memorandum	Stipulated

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SUMMARY OF RATE CASE INVOLVEMENT
CASES SUPERVISED AND ASSISTED:

2008	QW-2008-0003	Spokane Highlands Water Company (water- informal rate increase)	Recommendation Memorandum	Stipulated
2007	SR-2008-0080 QS-2007-0008	Timber Creek (sewer- informal rate increase)	Recommendation Memorandum	Stipulated
2006	HA-2006-0294 Coordinated	Trigen Kansas City Energy (steam- expansion of service area)	Recommendation Memorandum & Testimony	Contested
2005	Case No. WO-2005-0206 Coordinated	Silverleaf sale to Algonquin (water & sewer- sale of assets)	Supervised Case—Did not file testimony	Stipulated
2005	GM-2005-0136 Coordinated	Partnership interest of DTE Enterprises, Inc. and DTE Ozark, Inc in Southern Gas Company purchase by Sendero SMGC LP (natural gas -- sale of assets)	Recommendation Memorandum	Stipulated
2003	QW-2003-016 QS-2003-015	Tandy County (water & sewer informal rate increase)	Recommendation Memorandum	Stipulated