

PUBLIC VERSION

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Has Been Removed. Certain Schedules Attached to this
Testimony Designated "[REDACTED]" Also Contain
Confidential Information And Has Been Removed.**

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

WM. EDWARD BLUNK

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
FOR APPROVAL OF ITS 2013 ACTUAL COST ADJUSTMENT ("ACA")**

DOCKET NO. 14-KCPE-405-ACA

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

2 **A: My name is Wm. Edward Blunk. My business address is 1200 Main, Kansas City,**
3 **Missouri 64105-2122.**

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

5 **A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as**
6 **Generation Planning Manager.**

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

2 A: My primary responsibilities are to facilitate the development and implementation of fuel
3 management strategies. That includes overseeing the development of the Company's
4 Energy Cost Adjustment ("ECA") projections.

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

6 A: In 1978, I was awarded the degree of Bachelor of Science in Agriculture Cum Laude,
7 Honors Scholar in Agricultural Economics by the University of Missouri at Columbia.
8 The University of Missouri awarded the Master of Business Administration degree to me
9 in 1980. I have also completed additional graduate courses in forecasting theory and
10 applications and have been certified by the Global Association of Risk Professionals as
11 an Energy Risk Professional.

12 Before graduating from the University of Missouri, I joined the John Deere
13 Company from 1977 through 1981 and performed various marketing, marketing research,
14 and dealer management tasks. In 1981, I joined KCP&L as Transportation/Special
15 Projects Analyst. My responsibilities included fuel price forecasting, fuel planning and
16 other analyses relevant to negotiation and/or litigation with railroads and coal companies.
17 I was promoted to the position of Supervisor, Fuel Planning in 1984. In 2007, my
18 position was upgraded to Manager, Fuel Planning. In 2009, my position was changed to
19 Supply Planning Manager. In 2013, it was changed to Generation Planning Manager.

1 **Q: Have you previously testified in a proceeding at the Kansas Corporation**
2 **Commission (“KCC” or “Commission”) or before any other utility regulatory**
3 **agency?**

4 A: I have previously testified before both the KCC and the Missouri Public Service
5 Commission in multiple cases on multiple issues regarding KCP&L’s fuel prices, fuel
6 price forecasts, strategies for managing fuel price risk, hedging, fuel-related costs, fuel
7 inventory, and the management of KCP&L’s SO₂ emission allowance inventory.

8 **Q: On what subjects will you be testifying?**

9 A: I will address three topics:

- 10 ▪ A summary of the information provided in KCP&L’s quarterly ECA submittals
11 made on December 20, 2012, March 20, 2013, June 20, 2013, and September 20,
12 2013, in Docket No. 08-KCPE-677-CPL, KCP&L’s ECA tariff compliance
13 docket;
- 14 ▪ A comparison of KCP&L’s projected 2013 ECA to its actual 2013 ECA; and
- 15 ▪ KCP&L’s fuel procurement planning and practices.

16 **I. Information Provided in Quarterly ECA Submittals**

17 **Q: What is the purpose of this portion of your testimony?**

18 A: In this section of my testimony I will briefly describe the information KCP&L submits
19 when it files its ECA factors with the Commission.

20 **Q: What information does KCP&L submit when it files its ECA factors each quarter?**

21 A: KCP&L’s ECA tariff (also known as Schedule 2 or Schedule ECA) identifies several
22 items that go into the calculation of the ECA factors including fuel and purchased power
23 costs, transmission and related fees, emission allowance costs and off-system sales

1 margins (“OSSM”). Starting in December 2007, on or before the 20th day of the last
2 month of each quarter, KCP&L submits to the Commission a report containing projected
3 monthly ECA factors on a dollars per kWh basis for each remaining month of the
4 effective ECA year. KCP&L also submits a report that shows by account the total costs,
5 revenues, and kWh used to calculate the dollars per kWh factors. Starting with the
6 March 2008 report, the Company also compares the original ECA revenue projections
7 and the then-current ECA year-end projections on a total revenue basis.

8 **II. Projected 2013 ECA Versus Actual 2013 ECA**

9 **Q: What is the purpose of this portion of your testimony?**

10 A: In this section of my testimony I will give a high level comparison of projected 2013
11 ECA to actual 2013 ECA. I will also give high level explanations of why actual values
12 varied from projected values. KCP&L witness Ryan Bresette provides additional detail
13 on the variances.

14 **Q: How does the actual ECA revenue requirement for 2013 compare to the projected**
15 **ECA revenue requirement?**

16 A: The actual ECA revenue requirement for 2013 is about 3-4 percent more than the
17 projections submitted in March, June and September of 2013, and about 5 percent more
18 than the projection submitted in December 2012.

19 **Q: How did the projected ECA revenue requirement change over the course of 2013?**

20 A: When the Company made its ECA submission in December 2012 with its projected
21 values for 2013, it projected the ECA revenue requirement for 2013 to be \$121.8 million.
22 The March update reflected a 2.4 percent increase to \$124.7 million. In June,
23 expectations held steady with an ECA revenue requirement of \$124.8 million. Then in

1 September, the projected revenue requirement decreased 1.2 percent to \$123.3 million.
2 These key values for each of the quarterly submissions are presented in confidential
3 Schedule WEB-1.

4 **Q: What were the main reasons why the actual revenue requirement varied from the**
5 **projections submitted to the Commission in December 2012, March, June and**
6 **September 2013?**

7 A: The key drivers for the variance from the Company's projected filings were increases in
8 fuel expense and transmission expense. Fuel expense was higher because total
9 generation was greater and generation from relative low cost nuclear and wind resources
10 was less than expected. A major driver increasing the Company's transmission expense
11 was Southwest Power Pool's ("SPP") conversion of the zonal component of its through-
12 and-out rate to one using the average of all zones. By order issued January 29, 2013,
13 FERC approved that change effective November 1, 2012. Mr. Bresette will discuss these
14 factors in greater detail.

15 **III. KCP&L's Fuel Procurement Practices**

16 **Q: What is the purpose of this portion of your testimony?**

17 A: In this section of my testimony I will provide a brief summary of KCP&L's fuel
18 procurement practices.

19 **Q: How are long-term fuel requirements determined?**

20 A: KCP&L uses Ventyx's MIDASTM model for its production cost model. This dispatch
21 simulation tool is used to develop the generation levels and the resulting fuel and
22 purchased power requirements necessary to meet load and satisfy sales requirements.

1 **Q: Please describe how KCP&L buys coal.**

2 A: KCP&L has been following a strategy of laddering into a portfolio of forward contracts
3 for Powder River Basin ("PRB") coal. That portfolio consists of forward contracts with
4 staggered terms so that a portion of the portfolio will rollover each year. When burn
5 projections increase, or actual burns prove to be higher than anticipated, supplemental
6 purchases of coal are made on the spot market.

7 **Q: What does that ladder portfolio look like?**

8 A: At the beginning of 2013, KCP&L had contractual commitments for about 95 percent of
9 its expected coal requirements for 2013. It also had commitments for about 80 percent
10 for 2014 and about 25 percent for 2015.

11 **Q: Does KCP&L update its fuel procurement and planning process to adjust for**
12 **changes in the marketplace?**

13 A: Yes. KCP&L routinely reviews fuel market conditions and market drivers. We monitor
14 market data, industry publications and consultant reports in an effort to avoid high prices
15 and to take advantage of lower prices. For example, in August 2005, KCP&L determined
16 that a major disruption in the PRB coal market would likely result in PRB coal prices
17 being above normal from fourth quarter 2005 through at least May 2007. In other words,
18 we expected prices to be high **[REDACTED]**. That warranted a
19 modification to the ladder portfolio strategy in an effort to avoid those high prices. In
20 September 2005, we solicited bids for the coal we would have otherwise purchased in
21 that later time period and finished locking in more of our anticipated requirements
22 through 2007 than we otherwise would have.

1 **Q: How did this strategy perform for KCP&L?**

2 A: Since its implementation some years ago, this strategy helped us avoid much of the coal
3 market volatility. It has also helped us avoid locking in to the market highs. Using this
4 strategy we have achieved weighted average prices that are below what we would have
5 had to pay if all of our coal had been purchased in the calendar year before use. For
6 **[REDACTED]** out of the last ten years KCP&L's weighted average mine price for PRB coal
7 was less than CME ClearPort's prompt year strip for 8800 Btu/lb PRB coal averaged for
8 all settlement dates for the year before delivery.

9 **Q: How does KCP&L use natural gas?**

10 A: KCP&L uses natural gas for multiple purposes. First, KCP&L uses natural gas as the
11 ignition fuel and a supplemental fuel for maintaining flame stability in Hawthorn Unit 5.
12 Second, KCP&L uses natural gas-fueled combustion turbines. It also uses natural gas to
13 fuel its combined-cycle plant. Finally, KCP&L uses natural gas to increase the peaking
14 capacity of Hawthorn Unit 9 by direct combustion in its heat recovery steam generator.
15 Though the incremental thermal efficiency of direct combustion is lower than that of the
16 base combined-cycle plant, the incremental cost can be lower than the market price for
17 power and the additional electrical output can be valuable during peak load periods.

18 **Q: How does KCP&L's use of natural gas affect how it purchases natural gas?**

19 A: Natural gas-fired generation is among the most expensive generation on KCP&L's
20 system. Consequently it is typically the last to be used and the first to be released. That
21 results in significant day-to-day uncertainty in requirements. To buy all of KCP&L's gas
22 on a monthly basis as "baseload" would be problematic.

1 **Q: Please describe how KCP&L buys natural gas.**

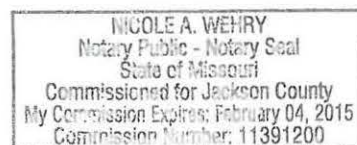
2 A: Generally KCP&L purchases natural gas as required on a daily basis. Typically the price
3 for that gas is based on a published index such as *Gas Daily*. If the Company anticipates
4 burning a significant quantity across most of a month, it may purchase a limited quantity
5 of “baseload” gas. Typically the price for that gas would be based on a monthly index
6 such as *Inside FERC*.

7 **Q: Please describe how KCP&L buys nuclear fuel.**

8 A: Wolf Creek Nuclear Operating Corporation (“Wolf Creek”) purchases uranium and has it
9 processed for use as fuel in its reactor. This process involves conversion of uranium
10 concentrates to uranium hexafluoride, enrichment of uranium hexafluoride and
11 fabrication of nuclear fuel assemblies. The owners of Wolf Creek have on hand or under
12 contract all of the uranium and conversion services needed to operate Wolf Creek
13 through September 2016 and approximately 70 percent after that date through March
14 2021. The owners also have under contract all of the uranium enrichment and fabrication
15 required to support reactor operation through March 2027 and September 2025,
16 respectively.

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

18 A: Yes, it does.



KANSAS CITY POWER & LIGHT COMPANY
ENERGY COST ADJUSTMENT (SCHEDULE ECA)
SUMMARY TOTAL 2013 KCP&L VALUES

Description	Account	Submittal Date	December 20, 2012	March 20, 2013	June 20, 2013	September 20, 2013	March 1, 2014/ACA Filing
			January - March 2013	January - June 2013	January - September 2013	January - December 2013	January - December 2013 Actual
			<u>Retail</u> <u>SalesforResale</u> <u>BPSnotinOSSM</u>	<u>Retail</u> <u>SalesforResale</u> <u>BPSnotinOSSM</u>	<u>Retail</u> <u>SalesforResale</u> <u>BPSnotinOSSM</u>	<u>Retail</u> <u>SalesforResale</u> <u>BPSnotinOSSM</u>	<u>Retail</u> <u>SalesforResale</u> <u>BPSnotinOSSM</u>
			<u>OSSM (Wholesale Amount)</u>	<u>OSSM (Wholesale Amount)</u>	<u>OSSM (Wholesale Amount)</u>	<u>OSSM (Wholesale Amount)</u>	<u>OSSM (Wholesale Amount)</u>
Fuel							
Fuel - Steam Generation (Coal)	501						
Fuel - Nuclear Generation	518						
Fuel - Other Generation (Oil / Gas)	547						
Total Fuel							
Purchased Power							
Capacity	555						
Energy	555						
Total Purchased Power							
Emissions	509						
Transmission and Fees							
Transmission by Others	565						
SPP Transmission Base Plan Funding	565						
Transmission Fees							
SPP RTO Administrative Fees	561/575						
Other Fees							
FERC Assessment - MISO and SPP	928003						
NERC Fees	561						
Total Other Fees							
Total Transmission and Fees							
Bulk Power Sales Revenue							
Capacity	447						
Energy	447						
Miscellaneous Fixed Costs	447						
FERC Required Netting of Sales/Purchase	447						
Total Bulk Power Sales Revenue							
Cost for Non Asset Based Sales							
Net Value of ECA Accounts							
Estimated Kansas Allocation							
Estimated Net Kansas Allocation			\$ 121,755,576	\$ 124,698,232	\$ 124,811,124	\$ 123,296,870	\$ 128,068,787
Projected ECA Revenue (excluding true-up)			121,773,792	122,634,159	119,784,379	117,714,493	118,601,870
Estimated Over (Under) Collection			\$ 18,216	\$ (2,064,073)	\$ (5,026,744)	\$ (5,582,378)	\$ (9,466,917)