

PUBLIC VERSION

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Certain Schedules Attached to This Testimony Designated
“Confidential” Also Contain Confidential Information And Have 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 2015 ACTUAL COST ADJUSTMENT (“ACA”)**

DOCKET NO. 16-KCPE-____-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 or energy market risk management strategies. That includes overseeing the development
4 of the Company's 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. Since then I have completed additional graduate coursework in forecasting
10 theory and applications at the University of Missouri in Kansas City. In addition to those
11 academic credentials, the Global Association of Risk Professionals has certified me as an
12 Energy Risk Professional.

13 Before graduating from the University of Missouri, I joined the John Deere
14 Company from 1977 through 1981 and performed various marketing, marketing research,
15 and dealer management tasks. In 1981, I joined KCP&L as Transportation/Special
16 Projects Analyst. My responsibilities included fuel price forecasting, fuel planning and
17 other analyses relevant to negotiation and/or litigation with railroads and coal companies.
18 I was promoted to the position of Supervisor, Fuel Planning in 1984. In 2007, my
19 position was upgraded to Manager, Fuel Planning. In 2009, my position was changed to
20 Supply Planning Manager. In 2013, it was changed to Generation Planning Manager.
21 While in these positions I have been responsible for developing risk management and
22 hedging programs. I was also responsible for the development of our fuel expense model
23 which underlies the Company's ECA projections.

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 19, 2014, March 20, 2015, June 19, 2015, and September 18,
12 2015, in Docket No. 08-KCPE-677-CPL, KCP&L’s ECA tariff compliance
13 docket;
- 14 ▪ A comparison of KCP&L’s projected 2015 ECA to its actual 2015 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 costs 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 **Q: Have there been any changes to how KCP&L projects those ECA factors?**

9 A: Yes. As part of KCP&L’s most recent rate case, Docket No. 15-KCPE-116-RTS, the
10 Commission approved implementation of a Transmission Delivery Charge (“TDC”)
11 Rider for KCP&L which took affect beginning October 1, 2015. The TDC Rider was
12 designed to collect retail transmission costs and fees from its Kansas customers.
13 Beginning with the October 2015 projected ECA factor, all retail transmission costs and
14 fees were excluded from our calculation of the projected monthly ECA factors.

15 **II. Projected 2015 ECA Versus Actual 2015 ECA**

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

17 A: In this section of my testimony I will give a high level comparison of projected 2015
18 ECA to actual 2015 ECA. I will also give high level explanations of why actual values
19 varied from projected values. KCP&L witness Ms. Elizabeth Herrington provides
20 additional detail on the variances.

21 **Q: How does the actual ECA revenue requirement for 2015 compare to the projected**
22 **ECA revenue requirement?**

23 A: The actual ECA revenue requirement for 2015 is about eight percent more than the

1 projection submitted in December 2014. It is about the same as the projections submitted
2 in March and June 2015, and about three percent less than the projection submitted in
3 September 2015.

4 **Q: How did the projected ECA revenue requirement change over the course of 2015?**

5 A: When the Company made its ECA submission in December 2014 with its projected
6 values for 2015, it estimated the Net Kansas Allocation of net energy costs for 2015 to be
7 \$126.4 million. The March update reflected an 8.7 percent increase to \$137.4 million. In
8 June, the revenue requirement estimate decreased about 0.6 percent to \$136.5 million.
9 Then in September, the projected revenue requirement decreased 3.3 percent to
10 \$132.0 million. These key values for each of the quarterly submissions are the Estimated
11 Net Kansas Allocation presented in confidential Schedule WEB-1.

12 **Q: What were the main reasons why the actual revenue requirement varied from the**
13 **projections submitted to the Commission in December 2014, March, June and**
14 **September 2015?**

15 A: The key drivers for the variance in the Company's projected filings were changes in fuel
16 expense, purchased power expense, transmission expense and bulk power sales revenue.
17 While the numbers varied through the year, we finished 2015 with Total Fuel and the
18 total Net Value of ECA Accounts about ** [REDACTED] ** less than projected in
19 December 2014. The increases in Total Purchased Power and Total Transmission and
20 Fees were essentially offset by the increase in Total Bulk Power Sales Revenue.

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

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

23 A: In this section of my testimony I will provide a brief summary of KCP&L's fuel

1 procurement practices.

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

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

8 **Q: What did that ladder portfolio look like for 2015?**

9 A: At the beginning of 2015, KCP&L had contractual commitments for about
10 **[REDACTED]** percent of its expected coal requirements for 2015. It also had commitments for
11 about **[REDACTED]** percent for 2016 and about **[REDACTED]** percent for 2017.

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

14 A: Yes. KCP&L routinely reviews fuel market conditions and market drivers. We monitor
15 market data, industry publications and consultant reports in an effort to avoid high prices
16 and to take advantage of lower prices.

17 **Q: How has this strategy performed for KCP&L?**

18 A: KCPL has employed a strategy of maintaining a portfolio of coal supply contracts with
19 various expirations for many years. In the early 2000s the Company moved toward
20 targeting a four- or five-year horizon and later started referring to its strategy as a
21 ladder portfolio. Since 2001 the Company's coal procurement strategy has resulted in
22 an annual average mine price for PRB coal of **[REDACTED]**. That compares
23 favorably to an annual average market price for coal to be delivered in the next calendar

1 year over the same time horizon of **[REDACTED]**. At current usage rates, that
2 would be equivalent to a savings of about **[REDACTED]** per year.

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

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

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

13 A: When natural gas is required the Company solicits multiple offers, compares those offers
14 to its view of the market, if an offer is significantly higher than the Company's view of
15 the market it may challenge the offer, and finally select the lowest offer.

16 **Q: Has the implementation of Southwest Power Pool's ("SPP") Integrated Market**
17 **("IM") changed how KCP&L buys natural gas?**

18 A: Yes. Prior to the implementation of the IM, KCP&L typically purchased gas before the
19 day of delivery based on published daily gas prices for gas to be delivered the next day.
20 With SPP dispatching units in the IM, the Company's natural gas units are typically not
21 dispatched until after the next day gas market has stopped trading. Consequently the
22 Company now purchases most of its natural gas requirements on an intra-day basis.

1 **Q: Has this change in natural gas purchase strategy affected the prices KCP&L pays**
2 **for natural gas purchases relative to the market?**

3 A: Yes. We generally pay a small premium for intra-day gas.

4 **Q: How does KCP&L use fuel oil?**

5 A: KCP&L uses fuel oil primarily for two purposes. It is used as a peaking fuel at Northeast
6 station and it is used for start-up and flame management at Iatan, La Cygne, and
7 Montrose. Montrose can also use oil duct burners to preheat certain air flows. Like
8 natural gas, fuel oil usage for a given day or hour is typically unpredictable.

9 **Q: How does KCP&L's use of fuel oil affect how it purchases fuel oil?**

10 A: Somewhat like natural gas, fuel oil is also purchased on an as-required basis. Unlike
11 natural gas, KCP&L has fuel oil storage. Therefore the requirement is more to replenish
12 the station's inventory or stock up in anticipation of an event. For example, the Company
13 may add to inventory in anticipation of winter weather that might make it difficult for oil
14 to be delivered to a station.

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

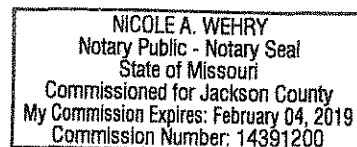
16 A: Wolf Creek Nuclear Operating Corporation ("Wolf Creek") purchases uranium and has it
17 processed for use as fuel in its reactor. This process involves conversion of uranium
18 concentrates to uranium hexafluoride, enrichment of uranium hexafluoride and
19 fabrication of nuclear fuel assemblies. The owners of Wolf Creek have on hand or under
20 contract all of the uranium and conversion services needed to operate Wolf Creek
21 through March 2018 and approximately 37% after that date through September 2022.

1 The owners also have under contract all of the uranium enrichment and fabrication
2 required to operate Wolf Creek through March 2027 and September 2025, respectively.¹

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

4 A: Yes, it does.

¹ This information was made public with the filing of the Company's filing of its Annual Report Form 10-K.



KANSAS CITY POWER & LIGHT COMPANY
ENERGY COST ADJUSTMENT (SCHEDULE ECA)
SUMMARY TOTAL 2015 KCP&L VALUES

Description	Submittal Date	December 20, 2014		March 20, 2015		June 20, 2015		September 20, 2015		March 1, 2016/ACA Filing January - December 2015 Actual	
		Retail, SalesforResale, BPSnotinOSSM		Retail, SalesforResale, BPSnotinOSSM		Retail, SalesforResale, BPSnotinOSSM		Retail, SalesforResale, BPSnotinOSSM		Retail, SalesforResale, BPSnotinOSSM	
		OSSM (Wholesale Amount)		OSSM (Wholesale Amount)		OSSM (Wholesale Amount)		OSSM (Wholesale Amount)		OSSM (Wholesale Amount)	
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		\$ 126,379,394		\$ 137,372,501		\$ 136,523,428		\$ 131,983,702		\$ 137,565,946	
Projected ECA Revenue (excluding true-up)		\$ 126,374,094		\$ 136,505,508		\$ 134,809,506		\$ 131,670,861		\$ 130,925,576	
Estimated Over (Under) Collection		\$ (5,301)		\$ (866,993)		\$ (1,713,923)		\$ (312,841)		\$ (6,640,371)	