

Exhibit No.:
Issue: Sulfur Dioxide Management
Witness: Wm Edward Blunk
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: EO-2005-0329
Date Testimony Prepared: April 7, 2005

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2005-0329

FILED⁴

JUL 13 2005

**Missouri Public
Service Commission**

DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
April 2005**

*** _____ ** Designates "Highly Confidential" Information.
Such Information Should Be Treated Confidentially
Pursuant To The Protective Order In This Proceeding

Exhibit No. 4
Case No(s) EO-2005-0329
Date 6-23-05 Rptr KP

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

In the Matter of a Proposed Experimental Regulatory)
Plan of Kansas City Power & Light Company) Case No. EO-2005-0329

AFFIDAVIT OF WILLIAM EDWARD BLUNK

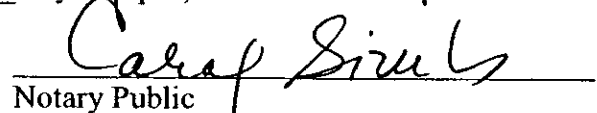
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

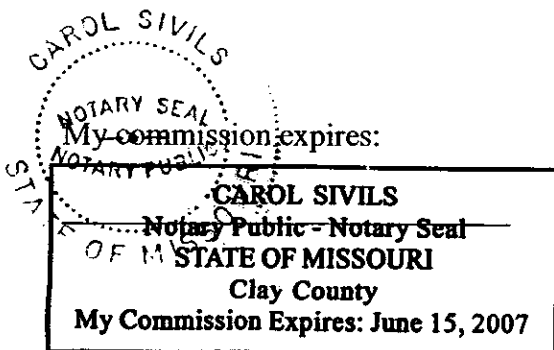
William Edward Blunk, appearing before me, affirms and states:

1. My name is William Edward Blunk. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Supervisor, Fuel Planning.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of five (5) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


WILLIAM EDWARD BLUNK

Subscribed and affirmed to before me this 8th day of April, 2005.


Notary Public



DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

Case No. EO-2005-0329

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

2 A: Wm. Edward Blunk. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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

4 A: I am employed by Kansas City Power & Light Company ("KCPL") as Supervisor, Fuel
5 Planning.

6 **Q. What are your responsibilities?**

7 A. My primary responsibilities are to develop fuel forecasts and strategies for fuel
8 procurement and the management of fuel inventory, which includes the development of
9 strategies for managing KCPL's sulfur dioxide ("SO₂") emission allowance inventory. I
10 also manage KCPL's SO₂ emission allowance inventory.

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

12 A. In 1978, I was awarded the degree of Bachelor of Science in Agriculture Cum Laude,
13 Honors Scholar in Agricultural Economics by the University of Missouri at Columbia.
14 The University of Missouri awarded the Master of Business Administration degree to me
15 in 1980. I have also completed additional graduate courses in forecasting theory and
16 applications.

17 Before graduating from the University of Missouri, I joined John Deere Company from
18 1977 through 1981 and performed various marketing, marketing research, and dealer

1 management tasks. In 1981, I joined KCPL as Transportation/Special Projects Analyst.
2 My responsibilities included fuel price forecasting, fuel planning and other analyses
3 relevant to negotiation and/or litigation with railroads and coal companies. I was
4 promoted to my present position in 1984.

5 **Q. Have you previously testified in a proceeding at the Missouri Public Service**
6 **Commission or before any other utility regulatory agency?**

7 A. I have previously testified before both the Missouri Public Service Commission,
8 ("MPSC") and the Kansas Corporation Commission ("KCC") on multiple issues
9 regarding KCPL's fuel prices and fuel price forecasts, KCPL's decision to settle the
10 Pittsburg & Midway lawsuit, and the competitive market for natural gas transportation. I
11 have also actively participated in the development of the Stipulations and Agreements in
12 Case Nos.: EO-95-184, EO-2000-357, and this case, EO-2005-0329, as they regarded the
13 authorization for KCPL to manage its SO₂ emission allowance inventory.

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of my testimony is to:

- 16 1. Explain the purpose of SO₂ emission allowance trading;
- 17 2. Explain the goals and objectives of KCPL's SO₂ Emission Allowance
18 Management Policy ("SEAMP"); and
- 19 3. Discuss the Highly Confidential aspects of the initial SO₂ Plan, which is effective
20 through March 31, 2007.

21 **Q. What is the purpose of SO₂ allowance trading?**

22 A. To implement Title IV of the Clean Air Act Amendments of 1990 ("CAAA"), the U.S.
23 Environmental Protection Agency ("EPA") created the Acid Rain Program through

an integrated set of rules and guidance. The Acid Rain Program employs a market-based approach to environmental management designed to reduce acid rain in the United States. Under this program, the EPA allocates utilities allowances to emit SO₂. On March 1st each year, each utility must hold sufficient allowances to offset its SO₂ emissions from the prior calendar year. The Acid Rain Program also established a set of low-cost rules for exchanging allowances and thereby created the allowance trading system. Allowances may be banked, bought, sold, or merely transferred. Anyone may acquire allowances and participate in the trading system. In essence, the SO₂ emission allowances created by the CAAA are a tradable commodity. Consequently, some utilities may find acquiring allowances is an attractive alternative to installing environmental control equipment, while other utilities may find installing such equipment and selling allowances is an attractive alternative. In either case, the program allows affected utilities to combine these and other options in ways they see fit in order to tailor their compliance plans to the unique needs of each unit or system.

Q. What are the goals and objectives of KCPL SO₂ Emission Allowance Management Policy?

A. KCPL finds itself in a position where it has an inventory of past, current and future vintage SO₂ emission allowances. The SEAMP includes procedures that KCPL will follow to manage its allowance inventory in order to benefit KCPL and its customers and to provide the Staff of the MPSC ("Staff") and the Office of the Public Counsel ("OPC") with information relevant to the MPSC's oversight of such activities. Specifically, the SEAMP is structured to achieve the following three objectives:

1. Manage “banked” (past), current and future vintage SO₂ emission allowances in a manner that will minimize the expected present value of long-run revenue requirements while fulfilling obligations to provide adequate service at reasonable rates through transactions of allowances.
2. Provide structure and procedure for the review of SO₂ emission allowance transactions.
3. Provide structure and procedure for the authorization of SO₂ emission allowance transactions taking place subsequent to the effective date of a final order in Case No. EO-2005-0329 and authorization of the initial SO₂ Plan.

Q. Please describe the initial SO₂ Plan

A. The initial SO₂ Plan was based on analysis submitted to Staff and OPC on January 23, 2005 as part of KCPL’s proposed Missouri regulatory plan. That analysis included an assessment of the short-term to long-term allowance cost risk for compliance with current and anticipated environmental regulations at various KCPL generating facilities.

The initial SO₂ Plan considered several factors including the following:

- KCPL has accumulated past vintage allowances in its SO₂ allowance “bank.”
- The Clean Air Interstate Rule will impact future SO₂ emission allowance requirements.
- New SO₂ emission regulations are anticipated to have the impact of requiring two allowances for each ton of SO₂ emitted beginning with vintage 2010, and three allowances for each ton emitted beginning with vintage 2015.
- KCPL has the option to install air quality control equipment that would lower the SO₂ emission rates of its system.

- 1 • KCPL's strategic initiative for implementing environmental upgrades aligns
2 timing of such upgrades with changes in allowance requirements noted in the
3 preceding bullet point.
- 4 • If no sales strategy is implemented as part of the Missouri Regulatory Plan, KCPL
5 will maintain an inventory of SO₂ emission allowances well in excess of
6 requirements given implementation of comprehensive environmental retrofits as
7 scheduled in the Regulatory Plan.

8 The initial SO₂ Plan is effective through March 31, 2007.

9 **Q. What is KCPL's initial SO₂ Plan?**

10 *** [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED] **

15 **Q. Does KCPL request authorization from the MPSC to implement KCPL's initial SO₂**
16 **Plan as part of this case?**

17 **A.** Yes. We believe it is a reasonable and prudent plan and request approval of it in this
18 proceeding.

19 **Q. Does that conclude your testimony?**

20 **A.** Yes, it does.