

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**

**FILED<sup>4</sup>**

**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 KF



**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 ("SO<sub>2</sub>") emission allowance inventory. I  
10 also manage KCPL's SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> emission allowance trading;
- 17 2. Explain the goals and objectives of KCPL's SO<sub>2</sub> Emission Allowance  
18 Management Policy ("SEAMP"); and
- 19 3. Discuss the Highly Confidential aspects of the initial SO<sub>2</sub> Plan, which is effective  
20 through March 31, 2007.

21 **Q. What is the purpose of SO<sub>2</sub> 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

1 an integrated set of rules and guidance. The Acid Rain Program employs a market-based  
2 approach to environmental management designed to reduce acid rain in the United States.  
3 Under this program, the EPA allocates utilities allowances to emit SO<sub>2</sub>. On March 1<sup>st</sup>  
4 each year, each utility must hold sufficient allowances to offset its SO<sub>2</sub> emissions from  
5 the prior calendar year. The Acid Rain Program also established a set of low-cost rules  
6 for exchanging allowances and thereby created the allowance trading system.

7 Allowances may be banked, bought, sold, or merely transferred. Anyone may acquire  
8 allowances and participate in the trading system. In essence, the SO<sub>2</sub> emission  
9 allowances created by the CAAA are a tradable commodity. Consequently, some utilities  
10 may find acquiring allowances is an attractive alternative to installing environmental  
11 control equipment, while other utilities may find installing such equipment and selling  
12 allowances is an attractive alternative. In either case, the program allows affected  
13 utilities to combine these and other options in ways they see fit in order to tailor their  
14 compliance plans to the unique needs of each unit or system.

15 **Q. What are the goals and objectives of KCPL SO<sub>2</sub> Emission Allowance Management**  
16 **Policy?**

17 A. KCPL finds itself in a position where it has an inventory of past, current and future  
18 vintage SO<sub>2</sub> emission allowances. The SEAMP includes procedures that KCPL will  
19 follow to manage its allowance inventory in order to benefit KCPL and its customers and  
20 to provide the Staff of the MPSC (“Staff”) and the Office of the Public Counsel (“OPC”)  
21 with information relevant to the MPSC’s oversight of such activities. Specifically, the  
22 SEAMP is structured to achieve the following three objectives:

1 1. Manage “banked” (past), current and future vintage SO<sub>2</sub> emission allowances in a  
2 manner that will minimize the expected present value of long-run revenue requirements  
3 while fulfilling obligations to provide adequate service at reasonable rates through  
4 transactions of allowances.

5 2. Provide structure and procedure for the review of SO<sub>2</sub> emission allowance  
6 transactions.

7 3. Provide structure and procedure for the authorization of SO<sub>2</sub> emission allowance  
8 transactions taking place subsequent to the effective date of a final order in Case No. EO-  
9 2005-0329 and authorization of the initial SO<sub>2</sub> Plan.

10 **Q. Please describe the initial SO<sub>2</sub> Plan**

11 A. The initial SO<sub>2</sub> Plan was based on analysis submitted to Staff and OPC on January 23,  
12 2005 as part of KCPL’s proposed Missouri regulatory plan. That analysis included an  
13 assessment of the short-term to long-term allowance cost risk for compliance with current  
14 and anticipated environmental regulations at various KCPL generating facilities.

15 The initial SO<sub>2</sub> Plan considered several factors including the following:

- 16 • KCPL has accumulated past vintage allowances in its SO<sub>2</sub> allowance “bank.”
- 17 • The Clean Air Interstate Rule will impact future SO<sub>2</sub> emission allowance  
18 requirements.
- 19 • New SO<sub>2</sub> emission regulations are anticipated to have the impact of requiring two  
20 allowances for each ton of SO<sub>2</sub> emitted beginning with vintage 2010, and three  
21 allowances for each ton emitted beginning with vintage 2015.
- 22 • KCPL has the option to install air quality control equipment that would lower the  
23 SO<sub>2</sub> 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 SO<sub>2</sub> emission allowances well in excess of  
6 requirements given implementation of comprehensive environmental retrofits as  
7 scheduled in the Regulatory Plan.

8 The initial SO<sub>2</sub> Plan is effective through March 31, 2007.

9 **Q. What is KCPL's initial SO<sub>2</sub> 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 SO<sub>2</sub>**  
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.