Exhibit No.:
Issue: Crossroads and Fuel and Purchased Power
Witness: Wm. Edward Blunk
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0175
Date Testimony Prepared: October 10, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

# SURREBUTTAL TESTIMONY

# OF

# WM. EDWARD BLUNK

# ON BEHALF OF

# KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri**
**October 2012**

**"**[redacted]**" Designates "Highly Confidential" Information Has Been Removed.**
**Certain Schedules Attached To This Testimony Designated "Highly Confidential" Have Been Removed Pursuant To 4 CSR 240-2.135.**

**SURREBUTTAL TESTIMONY**

**OF**

**WM. EDWARD BLUNK**

**Case No. ER-2012-0175**

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

A: My name is Wm. Edward Blunk. My business address is 1200 Main Street, Kansas City, Missouri 64105.

**Q: Are you the same Wm. Edward Blunk who pre-filed Direct and Rebuttal Testimony in this matter?**

A: Yes, I am.

**Q: On whose behalf are you testifying?**

A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or the "Company") for St. Joseph Light & Power ("L&P") and Missouri Public Service ("MPS") territories.

**Q: What is the purpose of your Surrebuttal Testimony?**

A: I will refute certain parts of Missouri Public Service Commission Staff ("Staff") witness Cary G. Featherstone's Rebuttal Testimony regarding Crossroads Energy Center natural gas transportation costs. I will also show that when taken in context, a single question and answer taken from my testimony in another case has a very different meaning than that suggested in the Rebuttal Testimony of Staff Witness V. William Harris. Finally, I will explain why sales between Kansas City Power & Light Company ("KCP&L") and GMO have increased significantly since Great Plains Energy Incorporated ("GPE") acquired Aquila in 2008 and how that has benefited GMO.

## I. Crossroads Energy Center Natural Gas Transportation Costs

**Q: Why does GMO have firm natural gas transportation for its various natural gas-fired facilities?**

A: Southwest Power Pool's *CRITERIA* Section 2.4.2 Fuel Supply says:

> Assurance of having desired generating capacity depends, in part, on the availability of an adequate and reliable fuel supply. Where contractual or physical arrangements permit curtailment or interruption of the normal fuel supply, sufficient quantities of standby fuel shall be provided. Due to the dependence of hydroelectric plants on seasonal water flows, this factor shall be taken into consideration when calculating capacity for capacity margin requirements.[1]

**Q: At page 43 of Mr. Featherstone's Rebuttal Testimony, he said that several of GMO's natural gas-fired units do not have firm transportation. Why don't those units have firm natural gas transportation?**

A: Greenwood and Lake Road do not need firm natural gas transportation because they have oil back-up. At 71 MWs Ralph Green is the smallest of GMO's natural gas-fired facilities. Ralph Green is small enough we have been able to get released capacity to provide firm transportation to it.

**Q: Do Goose Creek and Raccoon Creek have oil back-up?**

A: No. Like the 317 MW South Harper facility, the 684 MW Goose Creek Energy Center and the 456 MW Raccoon Creek Energy Center[2] do not have oil back-up.

**Q: Would the lack of oil storage and dual fuel capability at Goose Creek and Raccoon Creek affect the value of those plants?**

A: Yes.

[1] Southwest Power Pool, *CRITERIA*, pp. 2-5, http://www.spp.org/publications/SPP%20Criteria%20and%20Appendices%20Jan.%202012.pdf

[2] VENTYX, Velocity Suite, Power Plant Report Analyst, Goose Creek Energy Center and Raccoon Creek Energy Center nameplate capacity.

**Q: How would you expect the lack oil storage and dual fuel capability at Goose Creek and Raccoon Creek to affect the value of those plants?**

A: If Goose Creek and Raccoon Creek had oil storage and duel fuel capability they would not need firm natural gas transportation. As I discussed in my Rebuttal Testimony at pages 2 and 3, pipeline reservation charges to support a 300 MW natural gas-fired facility like Crossroads at the Goose Creek site would be $9.1 million per year and $8.8 million per year for the Raccoon Creek site. Those costs would affect the total value of the plants because they represent an annual cost difference of about **[redacted]** between Crossroads and either Goose Creek or Raccoon Creek.

**Q: At pages 43-44 of Mr. Featherstone's Rebuttal Testimony it appears that he is claiming that the construction date of a power plant may affect the cost of natural gas transportation service to that plant. Do either Southern Star Central Gas Pipeline ("SSCGP") or Panhandle Eastern Pipeline ("PEPL") have adjustments in their tariffs for natural gas transportation service based on the construction date of a plant?**

A: No. The construction date of a power plant does not affect either SSCGP or PEPL's tariff rates for natural gas transportation service.

Q: **Also at pages 43-44 Mr. Featherstone suggests that cost of supplying natural gas to Sedalia may be substantially less than the costs you reported for expanding South Harper. What would you expect natural gas transportation costs to be if Crossroads either had been or could be relocated to Sedalia like Mr. Featherstone suggests?**

A: The annual reservation charges for a 300 MW natural gas-fired facility at Sedalia would be at least as much as the **[redacted]** in my example for South Harper.

Q: **Why would the annual reservation charges to Sedalia be at least as much as the **[redacted]** in your example for the South Harper site?**

A: Attached as Schedule WEB-3 is a letter from SSCGP which shows SSCGP's estimated cost to provide incremental firm transportation service to power plant facilities in Sedalia, MO. The **[redacted]** cost estimate for adding the necessary capacity to SSCGP's system is **[redacted]** the **[redacted]** informal estimate from SSCGP I used when estimating the costs for the South Harper site.

Q: **What would be the annual pipeline capacity charges for locating 300 MW of natural gas-fired units like Crossroads in Sedalia, MO?**

A: Using the rate estimate from SSCGP shown in Schedule WEB-3, the annual pipeline capacity charge for locating natural gas-fired capacity like Crossroads in Sedalia, MO would be **[redacted]**

Q: **Is that another example of the "location, location, location" aphorism you referenced in your Rebuttal Testimony?**

A: Yes. Location is a major factor in fuel transportation costs and as I discussed in my Rebuttal Testimony that must be considered with the value of a power plant.

Specifically, a power plant with lower cost fuel transportation options is worth more than a plant with higher fuel transportation costs.

**Q: At page 44 Mr. Featherstone said that it is not certain whether an expansion at South Harper would require year-round firm transportation for natural gas. How likely is it that year-round firm transportation would be required?**

A: The requirement for year-round service is not merely a function of GMO's needs. SSCGP does not offer seasonal firm transportation. PEPL does offer seasonal service assuming there is capacity available, but as I discussed at page 26 of my Direct Testimony neither SSCGP nor PEPL have the forward haul capacity necessary to serve any additional units at South Harper.

**Q: At page 44 Mr. Featherstone argues that the cost estimates in your Direct Testimony are speculative. Are the pipeline capacity costs you have testified to reasonable?**

A: I have testified to many different pipeline capacity costs in this case. The $9.1 million and $8.8 million annual pipeline reservation charges for Goose Creek and Raccoon Creek respectively were calculated using the published tariff rates for Trunkline Gas Co. ("Trunkline") and Natural Gas Pipeline Company ("NGPL"). The Trunkline and NGPL Federal Energy Regulatory Commission ("FERC") approved published tariffs are not speculative.

The **[redacted]** annual cost estimate for service to the South Harper site via SSCGP is very close to SSCGP's current tariff rate for firm service from the production area to the plant. Using those FERC approved published tariff rates the annual capacity charge would be $10.3 million. SSCGP's FERC approved published tariff rates are not speculative.

**Q: At page 45 Mr. Featherstone says "it is likely that other customers on the pipeline would benefit from such upgrades" and the pipelines "may make allowances to what costs GMO would actually have to pay for the upgrades." Would the pipelines make allowances to the costs GMO would have to pay for any upgrades that benefited other customers?**

A: We would expect that the pipelines would offer to include any customer that was willing to pay for their share of an expansion in the expansion project. Assuming there are economies of scale that would benefit all of the parties that committed to pay for the upgrade. Since those other customers can at any time pursue an upgrade independent of GMO, it is speculative to think their need would coincide with GMO's. I doubt there are any customers just waiting and hoping they would be able to share in the economies of scale from joining in a larger expansion project.

**Q: At page 45 Mr. Featherstone says the point of your testimony on the pipeline costs is "to show what a bargain Crossroads is." He goes on to say "the Commission should be leery of such presentation when it considers the Crossroads valuation and related costs." Do you think the Commission should be "leery"?**

A: No, as shown above, the arguments in my testimony are fully supported by tariffs or cost estimates provided by a pipeline.

## II. GMO Off-System Sales ("OSS")

**Q: At pages 6-7 of Mr. Harris' Rebuttal Testimony, he attempts to use your testimony from Case No. EO-2011-0390 as evidence that GMO lacks incentive to make OSS margin. Did Mr. Harris take your testimony out of context?**

A: Yes. The single question and answer quoted by Mr. Harris were taken out of context. When taken in context they have a very different meaning.

**Q: Given that the issue in Case No. EO-2011-0390 was hedging and not fuel or power purchases, how would you characterize that part of your testimony which Mr. Harris quoted in light of his allegation at page 6 that it demonstrates a lack of incentive for GMO to make OSS margin?**

A: Mr. Harris quoted the following dialogue from my testimony:

> **Q. From the shareholder perspective, assuming that you have an FAC in place, do you care if a Katrina hits?**
>
> A. As a share – well, from the company's perspective, its risk goes through the fuel clause, so no. As a ratepayer, I'm a GMO ratepayer, I do care.[3]

That dialogue was part of a lengthy discussion about GMO's hedging program. These questions in particular dealt with hedging against a natural disaster that induced a spike in the price of natural gas like the one caused by Hurricane Katrina. My answer was explaining how such market price risk is managed for both the Company and ratepayers.

I had just reviewed an example of how a hedge acted as insurance against skyrocketing prices. I was explaining how the Company's exposure to market price risk is managed by having a fuel adjustment clause ("FAC") in place, but without a hedge

[3] Tr. Vol. 4, p. 130, ll. 9-16, Case No. EO-2011-0390.

program, the ratepayer's risk would not be managed. I addressed this issue in my Rebuttal at pages 4-8.

**Q: Does GMO have a hedge program to manage market price risk for its customers?**

A: Yes. GMO hedges fuel and purchased power to manage market price risk for its customers. I discuss those programs at length in my Direct at pages 7-17.

**Q: Why have GMO's OSS decreased since GPE acquired Aquila?**

A: The primary reason is that **[redacted]**

**Q: Does that mean **[redacted]****

A: **[redacted]**

**Q: Mr. Harris noted at page 8 and elsewhere in his Rebuttal Testimony that sales between KCP&L and GMO have increased significantly since GPE acquired Aquila. Why has the amount of power GMO purchases from KCP&L increased since GPE's acquisition of GMO?**

A: At the time of the acquisition, KCP&L began purchasing power on behalf of GMO. When KCP&L purchases power on behalf of GMO the transaction is recorded first as a purchase by KCP&L, then a sale by KCP&L, and finally a purchase by GMO.

**Q: Does KCP&L make a profit when it buys power on behalf of GMO?**

A: No. KCP&L does not make a profit on the transactions in which it is acting as GMO's agent in the market. KCP&L does make a profit on sales it makes to GMO from KCP&L's generation assets.

**Q: Why does KCP&L act on behalf of GMO when purchasing power in the day-ahead and real-time markets?**

A: It benefits GMO without harming KCP&L.

**Q: How does KCP&L acting on behalf of GMO in the day-ahead and real-time markets benefit GMO?**

A: **[redacted]**

**Q: Why is KCP&L acting on behalf of GMO to buy power **[redacted]****

A: **[redacted]

[redacted]**

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

A: Yes, it does.

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

| | | |
|---|---|---|
| In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement General Rate Increase for Electric Service | ) ) ) | Case No. ER-2012-0175 |

**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 Supply Planning Manager.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of ten (10) 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 and state 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 before me this 10th day of October, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200

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