Exhibit No.:	
Issue:	Fuel Prices, Fuel Hedging, Fuel Related Commodities, Future Fuel and Fuel Related Commodities, Inventory, and Emission Allowances including SO2
Witness:	Wm Edward Blunk
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2010-____
Date Testimony Prepared:	June 4, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-____

DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
June 2010

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

TABLE OF CONTENTS

DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

Case No. ER-2010-____

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: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCP&L" or the "Company") as Supply Planning Manager.

Q: What are your responsibilities?

A: My primary responsibilities are to facilitate the development and implementation of fuel purchase and risk management strategies.

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

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

Before graduating from the University of Missouri, I joined the John Deere Company in 1977 and through 1981 performed various marketing, marketing research, and dealer management tasks. In 1981, I joined KCP&L as Transportation/Special

Projects Analyst. My responsibilities included fuel price forecasting, fuel planning and other analyses relevant to negotiation and/or litigation with railroads and coal companies. I was promoted to the position of Supervisor, Fuel Planning in 1984. In 2007, my position was upgraded to Manager, Fuel Planning. In 2009 my position was changed to Supply Planning Manager.

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

A: I have previously testified before both the Missouri Public Service Commission ("MPSC") and the Kansas Corporation Commission ("KCC") in multiple cases on multiple issues regarding KCP&L's fuel prices, fuel price forecasts, strategies for managing fuel price risk, fuel-related costs, fuel inventory, and the management of KCP&L's SO_2 emission allowance inventory.

Q: On what subjects will you be testifying?

A: I will be testifying on changes in the fuel markets, fuel and fuel-related costs, fuel inventory, and KCP&L's SO_2 Emission Allowance Management Program. I will explain how KCP&L forecasts the fuel prices and fuel related costs used in the Cost of Service ("COS"). I will also discuss KCP&L's expectations regarding new rail transportation arrangements that will take effect between now and the time rates established by this proceeding will be effective.

I. CHANGES IN FUEL MARKETS and FUEL COSTS

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

A: The purpose of this portion of my testimony is to discuss historical changes in coal and natural gas fuel markets and the impact of those changes on KCP&L's COS.

Q: How do changes in fuel markets affect KCP&L's COS?

A: Changes in fuel markets affect KCP&L's COS in multiple ways. The first and most obvious impact is the effect of changes in fuel prices and their direct effect on fuel expense. Changes in fuel prices also affect off-system sales prices. KCP&L witness Michael M. Schnitzer discusses the impact of gas price uncertainty on off-system sales in his direct testimony.

A. <u>Energy Commodities</u>

Q: How have fuel prices changed since the Regulatory Plan Stipulation and Agreement was approved by the Commission in Case No. EO-2005-0329?

A: Schedule WEB2010-1 shows how fuel prices have changed dramatically over the past few years. While much attention has been focused on oil's dramatic rise, natural gas and coal have also been demonstrating significant price movement. Natural gas in December 2004 was about $6.83/MMBtu. In December 2005 it reached a peak of $15.38 then dropped to $4.20 in September 2006. Those moves represented a climb of 125% followed by a decline of 73%. By July 2008 natural gas had returned to $13.58 but then dropped 82% to $2.51, a price level it had not seen since March 2002. By the end of March 2010 natural gas was trading near $4.00.

Coal has generally followed a pattern similar to natural gas until earlier this year. From December 2004 to December 2005 the mine price for Powder River Basin ("PRB") coal increased 258% from $0.34/MMBtu to $1.23/MMBtu. By January 2007 it dropped 72% to $0.34. Over the next 13 months it climbed 192% before dropping 55% to $0.44 in September 2009. By the end of March 2010 it had returned to about $0.71 which represents another 60% run up.

Q: What changes have you seen in gas price basis differentials over this time period?

A: Basis differentials are the difference between one pricing point and another. Since Henry Hub is the most liquid natural gas point, basis differentials are often in comparison to it. Natural gas basis differentials from Henry Hub to Mid-Continent for 2005 and 2006 averaged about minus $1.25/MMBtu. It tightened to minus $0.80 in 2007, then more than doubled to minus $1.80 in 2008 before retracting to minus $0.70 in 2009. Now we are expecting basis for 2010 to be about minus $0.20-0.25. This reduction in basis has been primarily driven by three factors.

The foreseen factor was construction of the Rockies Express Pipeline ("REX"). REX is a 1,679 mile long natural gas pipeline system from the Rocky Mountains, Colorado to eastern Ohio. REX began service to Missouri in May 2008. That combined with high natural gas prices in summer 2008 stretched the Mid-Continent basis to its widest sustained spread. The basis narrowed as the price of natural gas declined from $13 to $4/MMBtu. In November 2009, REX extended its service to eastern Ohio and the Rocky Mountain gas that was depressing our regional price started moving farther east.

At the same time REX was under construction, the Marcellus Shale field in the Appalachians began producing natural gas. That put significant downward pressure on eastern gas prices.

The third factor which is squeezing Mid-Continent basis is the overall lower price of natural gas which is a function of lower demand due to the decline in the economy and increased production from shale.

Q: How has shale changed the fundamental outlook for natural gas?

A: The main change has been the tremendous increase in natural gas reserves that are now perceived as economically recoverable. Natural gas proved reserves increased 12.6% from 2006 to 2007. Since 1950, that is double the next largest year over year increase of 6.3% in 1956. From 2004 to 2007 natural gas proved reserves increased 23.5%. That compares to the next largest 3 year increase since 1950 of only 16.5% set from 1954 to 1957.

As recently as 2002, the United States Geological Survey in its Assessment of Undiscovered Oil and Gas Resources of the Appalachian Basin Province calculated that the Marcellus Shale field contained an estimated undiscovered resource of about 1.9 trillion cubic feet of gas. In early 2008, Terry Englander, a geoscience professor at Pennsylvania State University, and Gary Lash, a geology professor at the State University of New York at Fredonia, estimated that the Marcellus Shale field might contain more than 500 trillion cubic feet of natural gas. That is 250 times the 2002 estimate!

In June 2009 the Potential Gas Committee, a widely recognized and knowledgeable non-profit organization affiliated with the Colorado School of Mines, released the results of its latest biennial assessment of the nation's natural gas resources, indicating that the United States possesses a total resource base of 1,836 trillion cubic feet. That is a 39% increase over the 2006 assessment and is the highest resource evaluation in the Committee's 44-year history. Most of the increase from the previous assessment arose from re-evaluation of shale-gas plays in the Appalachian basin and in the Mid-Continent, Gulf Coast and Rocky Mountain areas. Shale now accounts for about 33% of the total resource base.

B. Rail Rates

Q: How have rail rates changed in the past few years?

A: In the past few years the railroads serving the Powder River Basin ("PRB") have adopted new pricing policies. Those new pricing policies have significantly increased the cost of shipping coal.

Q: What are the railroads' new pricing policies?

A: The new pricing policies are best described in the railroads' own words. Union Pacific Corporation Chairman and Chief Executive Officer Dick Davidson stated the following in his letter to shareholders in the company's 2004 Annual Report:

> Unprecedented levels of demand have created a very strong pricing environment that we are working diligently to convert into higher returns on investment. Across all business groups, **we are obtaining solid price increases** in the marketplace. At the same time, we are working to reduce the complexity and inflexibility of long-term contracts so that we can respond more quickly to changing market conditions. One clear example is in our coal business where we have instituted **new coal pricing mechanisms for all shipments from the Southern Powder River Basin (SPRB) in Wyoming**, as well as spot movements out of Colorado and Utah. We have simplified the way we do business with our customers by clearly communicating the revenue we need in order to reinvest in our coal business, while sharply reducing the administrative burden of dozens of separate contracts. In total, 322 million tons of coal moved out of the SPRB [South Gillette and Wright areas] in 2004, and that is expected to grow to over 500 million tons by 2013. Our goal is to participate in meeting that growing demand, **but only if the financial returns are sufficient to justify the necessary investment**. (Emphasis added)

Q: What do those "new coal pricing mechanisms" look like in practice?

A: Union Pacific ("UP") instituted "Circulars" and Burlington Northern Sante Fe ("BNSF") instituted "Pricing Authorities." To avoid antitrust violation from public price disclosure, both railroads argued that those pricing mechanisms were tariffs subject to review by the Surface Transportation Board ("STB"). Since about 2006 the railroads have shifted to using contracts which incorporate tariffs.

Q. How have the rates changed?

A. New western rail rates are much higher today than they were even just a few years ago. Prior to the railroad's shift to these new coal pricing mechanisms, they were bidding 8 to 9 mills/ton-mile for typical SPRB moves. Now they are charging rates that are more than double those levels and adding a fuel surcharge on top of that.

Q: Why are the railroads charging such higher rates?

A: The April 2010 issue of *Trains* magazine had an interesting article discussing changes in the market for coal freight that addresses that question. It summarized the situation as follows:

> On August 25, 1984, the Chicago & North Western railroad moved its first load of coal out of the Powder River Basin changing the Burlington Northern monopoly into a duopoly. With the entry of the North Western and UP into the market, BN cut its rates 40 percent. …
>
> For roughly two decades after 1984, those utilities that could played BN off against North Western (and later BNSF Railway against Union Pacific). As contracts came up for renegotiations, it wasn't whether the utility would get a lower rate from one or another of the railroads, but how much lower a rate. Finally, half a dozen years ago, Jack Koraleski, UP's executive vice president of marketing and sales, remarked that so little profit was left in the coal business that given the choice of running a grain train or coal train over his capacity-constrained railroad, he'd choose the grain.
>
> Starting in 2004, as their networks filled up, railroads regained some of their pricing power. They briefly toyed with abandoning long-term contracts and instead publishing tariffs – here's what we charge between X and Y, take it or leave it. And they ceased to reflexively try to steal each other's business at every opportunity.

Q: Are these rate increases unprecedented?

A: No. For example, Arkansas Power & Light in 1979 was charged a rate of $12.78/ton to White Bluff, Arkansas. In 1982 it was charged $22.62 for a similar distance move to Newark, Arkansas. That was a 77% increase.

Q: **Will KCP&L know the new freight rates for its moves by the true-up date in this proceeding?**

A: Yes. We are currently in negotiations with the BNSF, Kansas City Southern Railway ("KCS"), and UP and expect to complete those negotiations by early fourth quarter this year. The new rates will be effective in fourth quarter 2010 and we will begin shipping under those new rates after our existing contract is exhausted or it expires on December 31, 2010, which ever is earlier.

Q: **When do you expect the existing contract to be exhausted?**

A: KCP&L's current contract provides for the annual shipment of up to **[redacted]**. We currently expect to exhaust that shipment volume in **[redacted]**

Q: **Besides these much higher freight rates, are the railroads assessing other charges that increase the total cost of rail transportation?**

A: Yes. We have observed two other major changes in the market for rail services. The first change has been the addition of a fuel surcharge on top of the major rate increases I discussed earlier. The fuel surcharges are not only a significant increase in the cost of rail transportation, but they also add a significant measure of uncertainty to the cost of rail transportation. Since the current fuel surcharge rules went into effect February 2006, BNSF's fuel surcharge has ranged from $0.15 to $0.58/loaded car-mile. From PRB to Kansas City is about 800 miles. KCP&L's railcars carry 120 tons of coal which means that if BNSF's fuel surcharge had been assessed against KCP&L's traffic it would have ranged from about $1.00/ton to almost $3.90/ton. That would amount to $11 - $42 million per year if we include tonnage for Iatan 2.

The second change is a significant increase in accessorial service charges. Accessorial service charges are for such things as switching a car in or out of service or diverting trains to alternate origins or destinations. Some of the railroads' current posted accessorial charges are **[redacted]** the rates in our expiring contract.

II. HEDGING FUEL MARKET RISK

Q: What is the purpose of this section of your testimony?

A: The purpose of this section is to discuss KCP&L's use of hedging programs to mitigate fuel price risk.

A. Natural Gas Price Hedging

Q: Does KCP&L have a program for managing the price risk of natural gas?

A: Yes. In 2001, KCP&L implemented a Natural Gas Price Risk Hedging Policy approved by the KCP&L Risk Management Committee.

Q: Please describe KCP&L's natural gas price hedging program.

A: In 2001, KCP&L retained Kase and Company, Inc. ("Kase"), a risk management and trading technology firm, to assist in establishing a risk management program, which employs a disciplined, methodical approach to hedging. KCP&L's program is oriented toward finding a balance between the need to protect against high prices while not unreasonably limiting opportunities to purchase gas at low prices. This balance is sought through the use of Kase's HedgeModel. The objective of KCP&L's price risk management program is to reduce the price risk inherent with floating with the market.

KCP&L's program allows the Company to take advantage of attractive low prices. When prices are sufficiently low, hedges are placed in increasing volume in a logical, mechanical manner, provided the odds are moderately well balanced in favor of the hedge benefiting the Company. This is balanced with a price protection strategy oriented toward avoiding high prices.

The approach in this program is to identify statistically favorable points at which to hedge. The strategy can be thought of as a three-zone strategy comprised of high price, normal price and low price zones. The high price zone identifies prices that are threatening to move upward. In this price zone actions are taken to protect against unfavorable high price levels, mostly through the use of options-related tactics. The normal price zone identifies prices that are in a "normal" range, neither high enough to warrant protecting price, nor low enough to be considered "opportunities." No action is taken whenever prices are deemed to be in the normal price range. The low price zone identifies prices that are statistically low. In this zone, actions are taken to capture favorable forward prices as those prices move into a range where the probability of prices remaining at or below these levels is decreasing. While the main focus in the high price zone is defensive, to set a maximum or ceiling on prices, in the low price zone the focus is on capturing attractive prices.

Q: How does KCP&L determine the amount of natural gas to hedge under its price risk management program?

A: Within the context of our hedge program, we refer to the sum of natural gas requirements for the Missouri jurisdictional share of native load, firm wholesale sales, and fuel loss reimbursement as the projected usage. **[redacted]

[redacted]**

Q: How often does KCP&L use the HedgeModel?

A: KCP&L monitors the HedgeModel daily. **[redacted]**

Q: How well has this program performed for KCP&L?

A: **[redacted]**

B. <u>Coal Price Hedging</u>

Q: Does KCP&L have a program for managing the price risk of coal?

A: Yes, it does.

HIGHLY CONFIDENTIAL

Q: **Please describe KCP&L's coal price hedging program.**

A: **[redacted]**

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

A: This strategy has helped us avoid much of the coal market's volatility. It has also helped us avoid locking in to the market highs. Using this strategy we have achieved weighted average prices that are below what we would have had to pay if all of our coal had been purchased on the spot market. **[redacted]

[redacted]** In other words, KCP&L's purchases have averaged about 10% lower than if all of the coal had been purchased on the spot market.

III. FUEL IN COST OF SERVICE

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

A: The purpose of this part of my testimony is to explain how prices for fuel and fuel related commodities were forecast to project fuel expense for the COS.

A. Fuel Price Forecast

Q: What fuel prices did KCP&L use to develop its COS?

A: I provided KCP&L witness Burton Crawford projected fuel prices that he used to develop the annualized fuel expense included in COS that resulted in adjustment CS-24, "Annualize Fuel Expense at contract prices for net system input normalized for weather and annualized for customer growth" included in Schedule JPW2010-2 of the direct testimony of KCP&L witness John P. Weisensee. We expect to true-up these projected prices to actual prices during the course of this proceeding.

Q: How did you forecast the natural gas prices?

A: Natural gas prices for the 12 months from January 2010 through December 2010 were used to develop the cost of natural gas in the COS. Natural gas prices for January 2010 through March 2010 were based on the first of the month index price published in Platt's *Inside FERC*. Monthly natural gas prices for April 2010 through December 2010 were based on the average of the six (6) business days from March 9 through March 16, 2010, for the NYMEX closing prices for the April 2010 through December 2010 Henry Hub natural gas futures contracts. These monthly Henry Hub prices were then adjusted for basis using the CME Group's ClearPort Panhandle Basis Swap futures contracts. These basis-adjusted values for April 2010 through December 2010 and the *Inside FERC* first of the month index prices for January 2010 through March 2010 were used to develop the cost of natural gas in the COS. We expect to true-up the 2010 natural gas prices for the COS to actual during the course of this proceeding.

Q: How did you forecast the oil prices?

A: Oil prices are handled differently than natural gas because KCP&L uses oil differently. Oil is used primarily for flame stability and start-up at our Iatan, LaCygne, and Montrose coal units. The price of oil used for flame stability and start-up was based on the average of the six (6) business days from March 9 through March 16, 2010, for the NYMEX closing prices for the December 2010 heating oil futures contract. The heating oil futures contract price was adjusted for basis and transportation to determine the station specific delivered cost. KCP&L's Northeast unit, on the other hand, uses oil as a primary fuel. For modeling purposes, Northeast was dispatched using replacement fuel prices like those used for flame stability and start-up, however, fuel expense was determined using Northeast's projected average inventory value. We expect to true-up oil prices for the COS to actual during the course of this proceeding.

Q: How did you forecast the coal prices?

A: The January 2011 delivered prices of PRB coal were forecast as the sum of mine price and transportation rate. **[redacted]

[redacted]**

The contracts that construct their price from a market index were forecast following the contractually defined mechanism and the average of the six (6) business days from March 9 through March 16, 2010 of Evolution Markets Inc.'s settlement price for 8800 PRB coal for calendar 2011 for the COS.

For 2011 about seventy-five (75) percent of KCP&L's expected coal requirements have been committed. The price for that twenty-five (25) percent of those expected coal purchases that are not currently under contract was simply forecast to equal the price of the market-based contract I described earlier.

The January 2011 price for KCP&L's long-term bituminous coal contract was the contractually specified price for 2011. I used that 2011 base price as the forecast value for 2011.

We expect to true-up coal prices and freight rates to actual during the course of this proceeding.

Q: How did you develop projections of the freight rates that will replace the existing contracts?

A: **[redacted]

[redacted]**

B. <u>Fuel Adders and Fuel Additives</u>

Q: Are there costs related to fuel and included in adjustment CS-24 that are not included in the price of fuel?

A: Yes. Generally those costs fall into two categories: "fuel adders" and "fuel additives." The fuel adders include unit train lease expense, unit train maintenance, unit train property tax, unit train depreciation, coal dust mitigation, natural gas hedging costs, and costs associated with transporting natural gas. Fuel additives include ammonia, lime, limestone, powder activated carbon ("PAC"), and sulfur which are used to control emissions. We expect to true-up these costs during the course of this proceeding.

Q: Please describe the unit train-related expenses.

A: Unit-train related expenses included in adjustment CS-24 are as follows:

- Unit train lease expense which is disaggregated into two components:

  Long-term unit train lease expense; and

  Short-term unit train lease expense.

- Unit train maintenance expense consisting of:

Foreign car repair;

Shared expenses; and

Maintenance and repair of KCP&L's railcar fleet.

Long-Term Unit Train Lease Expense: The amount presented here for unit train lease expense reflects KCP&L's share of the long-term lease payments that will be made for unit trains that will be in KCP&L's service in 2010.

Short-Term Unit Train Lease Expense: Short-term unit train lease expense has two subcomponents. The first reflects our estimate of KCP&L's net lease expense under our unit train exchange agreement. That agreement allows us to exchange trainsets among the different plants within our system, recognizing that ownership interests in the Iatan and LaCygne units are different from those of Hawthorn and Montrose. The other subcomponent is our estimate of railcar capacity that will be acquired through the short-term railcar lease market to move KCP&L's coal requirements.

Foreign Car Repair: This represents the cost of repairing railcars that are running in service for KCP&L but are not owned by or under a long-term lease to KCP&L.

Shared Expenses: These are costs for things like Association of American Railroads publications, Universal Machine Language Equipment Register fees, and railcar management software fees that cannot be assigned to an individual car.

Maintenance and Repair of KCP&L's Railcar Fleet: These repair values reflect KCP&L's projection for 2010 given the age and makeup of the railcar fleet.

Q: Are there unit train-related expenses that are not equipment related?

A: Yes. In May 2009 BNSF issued new loading rules (Publication 6041-B) to be effective November 1, 2009. Those rules set limits on the volume of coal dust that may come off a coal train over certain units of track. **[redacted]** I used that estimate under the assumption we will replace it with actual prices at true-up.

Q: **What is the status of BNSF's coal dust rule?**

A: On October 22, 2009, a coal shipper petitioned the STB to open a declaratory order proceeding regarding BNSF's coal dust rules. This request was supported by WCTL, of which KCP&L is a member. On December 1, 2009, the STB granted the request. BNSF suspended the effectiveness of its coal dust tariff until August 1, 2010.

Q: **Are there unit train-related expenses that are not included in adjustment CS-24?**

A: Yes, unit-train related expenses for ad valorem private car line taxes and railcar depreciation are not included in adjustment CS-24. Ad valorem private car line taxes are included in adjustment CS-126. Depreciation for railcars is included in adjustment CS-120.

Q: **How did you determine the natural gas hedging costs?**

A: The natural gas hedging costs are the actual premium costs incurred to hedge natural gas for summer 2010.

Q: **How did you determine the settlement values for the natural gas hedge program?**

A: The natural gas hedge program settlement values were calculated assuming our existing natural gas hedge portfolio had settled in early April.

Q: **What are the costs associated with transporting natural gas?**

A: The costs for transporting natural gas fall into two categories. The first category is those costs which are relatively fixed. That includes reservation or demand charges, meter charges, and access charges. The second category of transportation costs is those which are volumetric. They include: commodity costs, commodity balancing fees, transportation charges, mileage charges, fuel and loss reimbursement, Federal Energy Regulatory Commission ("FERC") annual charge adjustment, storage fees, and parking fees.

Q: How did you determine the costs associated with transporting natural gas?

A: I disaggregated the costs of transporting natural gas into its various components. For those items specifically defined by tariff or contract, I used the defined mechanism. I estimated parking fees based on prior period actuals. Those subcomponents were then aggregated and added to the specific tariff costs to determine the total cost of transportation. These costs are included in KCP&L's COS as fuel adders.

Q: What are fuel additives?

A: Fuel additives, which include pollution control reagents, are commodities that are consumed in addition to the fuel either through combustion or chemical reaction. For example, ammonia is added to a stream of flue gas where it reacts with NOx as the gases pass through a catalyst chamber. Lime or limestone is added to the flue gas stream in a flue gas desulfurization ("FGD") module to "scrub" SO_2. Sulfur is added to the flue gas stream to act as a conditioning agent which reduces the resistivity of the fly ash enabling electrostatic precipitators to operate at higher power levels enhancing collection of the fly ash and reduction of opacity.

Q: With the addition of new environmental controls at Iatan, are there new fuel additives?

A: Yes. The new environmental controls at Iatan use ammonia and limestone which are already being used in our system. They also use PAC as a sorbent for controlling mercury emissions. The use of PAC for controlling mercury emissions is new to KCP&L.

Q: How is PAC used to control mercury?

A: It is injected into the flue gas upstream of the particulate control system to act as a sorbent. The gas phase mercury in the flue gas contacts the activated carbon and attaches to its surface. The activated carbon with the mercury attached is then collected by the particulate control system. While this process enhances the capture of mercury, the activated carbon that is now mixed with the fly ash interferes with chemicals used in making concrete which is the primary market for beneficial reuse of fly ash. Consequently, the fly ash is no longer salable for use in concrete. We have adjusted the test period revenue from fly ash sales to zero to reflect this change.

Q: How did you determine the cost of the fuel additives?

A: The cost was determined as the quantity times price where price was the value projected for the true-up and quantity was normalized based on historical usage. For additives that lack historical data we estimated normal usage. We expect to true-up these costs to actual during the course of this proceeding.

Q: What is "adjustment CS-103 STB Litigation" as shown in the Summary of Adjustments in Schedule JPW2010-2, attached to the direct testimony of KCP&L witness John P. Weisensee?

A: The Company filed a rate complaint case on October 12, 2005, with the STB. In that rate complaint, KCP&L charged that UP's rates for the movement of coal from origins in the PRB of Wyoming to KCP&L's Montrose Generating Station were unreasonably high. KCP&L witness John P. Weisensee discusses the operating income effects included in adjustment CS-103 in his direct testimony.

Q: Why did KCP&L file a rate complaint with the STB?

A: KCP&L's Montrose Station is captive to UP; that is, UP is the only railroad that can provide coal delivery service from the SPRB to the Montrose Station. In anticipation of the need for unit train coal service to Montrose Station after 2005, KCP&L expressed to UP its desire to negotiate an extension of the 1995-2005 contract or a new contract. Consistent with the public pronouncements made at the unveiling of its Circular 111 (tariff) program in March 2004, UP insisted that it would only transport SPRB coal to Montrose Station after December 31, 2005, under rates and terms set forth in Circular 111. According to UP's 2004 Annual Report, this tariff was intended to be a "new coal pricing mechanism for all shipments from SPRB in Wyoming ...." In the absence of a successor agreement to its existing contract, KCP&L had no means to procure SPRB coal delivery service to the Montrose Station other than under the terms of UP's Circular 111, even though KCP&L did not consider the rates and service terms in the Circular to be equitable or reasonable. KCP&L accepted the terms of UP's Circular

111 under duress and subsequently filed a rate complaint with the STB, the federal agency that governs captive shipper rail rates.

Q: What is the status of the STB case?

A: On May 19, 2008, the STB found that the rates for Montrose exceeded 180% of the variable cost of providing service, which is the statutory floor for regulatory relief set forth in 49 U.S.C. 10707. Upon finding that the challenged rates exceeded the regulatory floor, the STB prescribed the rate where the revenue-to-variable-cost ratio ("R/VC ratio") equals 180% until the end of 2015. In addition, UP was ordered to reimburse KCP&L for amounts previously collected above that level, plus interest.

Q: **[redacted]**

A: **[redacted]**

Q: **[redacted]**

A: **[redacted]**

Q: Do you expect to true-up all emission allowance, fuel, fuel additive, fuel adder and transportation related costs during the course of this proceeding?

A: Yes.

IV. FUTURE FUEL and FUEL RELATED COMMODITIES

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

A: The purpose of this part of my testimony is to explain how prices for fuel and fuel related commodities were forecast to project fuel expense beyond the test period that may be addressed, if an Interim Energy Charge ("IEC") were determined to be an appropriate vehicle to recover fuel and fuel related commodities in this case after the anticipated effective date of tariffs. This also gives the Commission insight into what direction fuel and fuel related commodities are expected to move.

A. Fuel Price Forecast

Q: How did you forecast the natural gas prices that could be used to develop an IEC?

A: Natural gas prices for the 12 months from January 2011 through December 2011 were used to develop the cost of natural gas. Monthly natural gas prices for January 2011 through December 2011 were based on the average of the six (6) business days from March 9 through March 16, 2010, for the NYMEX closing prices for the January 2011 through December 2011 Henry Hub natural gas futures contracts. These monthly Henry Hub prices were then adjusted for basis using the CME Group's ClearPort Panhandle

HIGHLY CONFIDENTIAL

Basis Swap futures contracts. These basis-adjusted values were used to develop the cost of natural gas.

Q: How did you forecast the oil prices?

A: The price of oil used for flame stability and start-up was based on the average of the six (6) business days from March 9 through March 16, 2010, for the NYMEX closing prices for the December 2011 heating oil futures contract. The heating oil futures contract price was adjusted for basis and transportation to determine the station specific delivered cost for the units that use oil for these purposes. Northeast, on the other hand, uses oil as a primary fuel. For modeling purposes, Northeast was dispatched using replacement fuel prices like those used for flame stability and start-up. Northeast fuel expense, however, was determined using Northeast's projected average inventory value.

Q: How did you forecast the coal prices?

A: The January 2012 delivered prices of PRB coal were forecast as the sum of mine price and transportation rate. About half of KCP&L's expected coal requirements for 2012 currently are under contract. I forecast the 2012 contract prices like the 2011 contract prices I described earlier. The prices for the half of expected coal purchases that are not currently under contract were simply forecast to equal the price of the market-based contract I described earlier for the 2011 prices. The January 2012 price for KCP&L's long-term bituminous coal contract was assumed to equal the contractually specified price for 2011.

Q: How did you develop projections of the freight rates?

A: For the January 2012 freight rates, **[redacted]**

For those shipments under a contract that extends beyond 2011, I used the mechanism defined in that contract. Where those contracts or proposals called for an index, I constructed the index from data forecast by Moody's Analytics.

B. Fuel Adders and Fuel Additives

Q: How did you develop projections of fuel adders and additives?

A: We included those adders and additives that are volumetric in nature or have price uncertainty. That included coal dust mitigation, natural gas hedging costs, volumetric costs associated with transporting natural gas, ammonia, lime, limestone, PAC, and sulfur.

C. Rate Volatility Mitigation Features

Q: What rate volatility mitigation features are designed in the proposed IEC?

A: As discussed above, KCP&L uses hedging programs for coal and natural gas to mitigate the impacts of market price volatility.

D. Emission Allowance Purchases and Sales

Q: Would emissions allowance costs or sales margins be included in an IEC?

A: Yes, but as discussed above, KCP&L has enough "free" emission allowances to cover its native load. Generation for off-system sales will require the purchase of NOx allowances. The cost for those NOx allowances is being recognized as a variable cost of providing off-system sales and is reflected in KCP&L witness Michael M. Schnitzer's off-system contribution margin calculations.

Q: What are KCP&L's forecasted allowance purchases and sales?

A: ** [redacted]

[redacted]** This position may change with changes in the laws, rules, or regulations governing emission allowances.

Q: Based on this analysis, what is the expected annual increase in fuel and fuel related expenses for KCP&L Missouri Operations that would be reflected in an IEC?

A: **[redacted]**

V. FUEL INVENTORY

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

A: The purpose of this portion of my testimony is to explain the process by which KCP&L determines the amount of fuel inventory to keep on hand and how the level of fuel inventory impacts KCP&L's COS.

Q: Why does KCP&L hold fuel inventory?

A: KCP&L holds fuel inventory because of the uncertainty inherent in both fuel requirements and fuel deliveries. Both fuel requirements and deliveries can be impacted by weather. Fuel requirements can also be impacted by unit availability, both the availability of the unit holding the inventory and the availability of other units in KCP&L's system. Fuel deliveries can also be impacted by breakdowns at a mine or in the transportation system. Events like the flood of 1993 and the 2005 joint line derailments in the SPRB interrupt the delivery of coal to KCP&L's plants. Fuel inventories are insurance against events that interrupt the delivery of fuel or unexpectedly increase the demand for fuel. All of these factors vary randomly. Fuel inventories act like a "shock absorber" when fuel deliveries do not exactly match fuel requirements. They are the working stock that enables KCP&L to continue generating electricity between fuel shipments.

Q: How does KCP&L manage its fuel inventory?

A: Managing fuel inventory involves ordering fuel, receiving fuel into inventory, and burning fuel out of inventory. KCP&L controls inventory levels primarily through our fuel ordering policy. That is, we set fuel inventory targets and then order fuel to achieve those targets. We define inventory targets as the inventory level that we aim to maintain on average during "normal" times. In addition to fuel ordering policy, plant dispatch policy can be used to control inventories. For example, KCP&L might reduce the operation of a plant that is low on fuel to conserve inventory. Of course, this might require other plants in the system to operate more and to use more fuel than they normally would, or it might require either curtailing generation or purchasing power in the market. One can view this as a transfer of fuel "by wire" to the plant with low inventory. To determine the best inventory level, KCP&L balances the cost of holding fuel against the expected cost of running out of fuel.

Q: What are the costs associated with holding fuel inventory?

A: Holding costs reflect cost of capital and operating costs. Holding inventories requires an investment in working capital, which requires providing investors and lenders those returns that meet their expectations. It also includes the income taxes associated with providing the cost of capital. The operating costs of holding inventory include costs other than the cost of the capital tied up in the inventories. For example, we treat property tax as an operating cost.

Q: Please explain what you mean by the expected cost of running out of fuel?

A: The cost of running out of fuel at a power plant is the additional cost incurred when KCP&L must use replacement power instead of operating the plant. If the plant runs out of fuel and replacement power is unavailable, KCP&L could fail to meet customer demand for electricity. The cost of replacement power depends on the circumstances under which the power is obtained. We would expect replacement power (and the opportunity cost of forgone sales) to cost less at night than during the day and less on weekends than during the week. In other words, replacement power costs (and opportunity costs of forgone sales) are cyclical. A varying replacement power cost (or opportunity cost of forgone sales) translates directly into a varying shortage cost. As a result, if KCP&L was running low on fuel, it could mitigate the shortage cost by selectively reducing burn when the cost of replacement power is lowest. During any significant period of disruption, we would expect many replacement power cost cycles.

Q: How does KCP&L determine the best inventory level, *i.e.*, the level that balances the cost of holding fuel against the expected cost of running out?

A: KCP&L uses the Electric Power Research Institute's ("EPRI") Utility Fuel Inventory Model ("UFIM") to identify those inventory levels with the lowest expected cost. UFIM identifies an inventory target as a concise way to express the following fuel ordering rule:

Current Month Order = (Inventory Target – Current Inventory)
+ Expected Burn this Month
+ Expected Supply Shortfall.

That is, UFIM's target assumes all fuel on hand is available to meet expected burn. "Basemat" is added to the available target developed with UFIM to determine KCP&L's inventory target. Generally, and in the rest of my testimony, references to inventory targets mean the sum of fuel readily available to meet burn plus basemat.

Q: What is basemat?

A: Basemat is the quantity of coal occupying the bottom eighteen inches of our coal stockpiles footprint. It may or may not be useable due to contamination from water, soil, clay, or fill material on which the coal is placed. Because of this uncertainty about the quality of the coal, basemat is not considered readily available. However, because it is dynamic and it can be burned (although with difficulty), it is not written off or considered sunk. Eighteen inches was identified in previous KCP&L cases as being the error range for placement of a dozer blade or scraper on a coal pile and the appropriate depth for basemat. To determine basemat under our compacted stockpiles, we only consider the area of a pile that is thicker than nine inches. The area of the coal piles that covers either a hopper or concrete slab is not included in the calculation of basemat. The basemat values presented here for all inventory locations except Iatan Unit 2 are premised on work performed by MIKON Corporation, a consulting engineering firm that specializes in coal stockpile inventories and related services for utilities nationwide.

Q: How were the basemat values determined for Iatan Unit 2?

A: Much like the Iatan Unit 2 plant still under construction, the coal inventory designated for the unit is being accumulated to bring it up to the target level. The Iatan Unit 2 basemat values were calculated from the available target identified by UFIM and applying the ratio of basemat to available target for Iatan Unit 1.

Q: How does the UFIM model work?

A: The fundamental purpose of UFIM is to develop least-cost ordering policies, *i.e.*, targets, for fuel inventory. UFIM does this by dividing time into "normal" periods and "disruption" periods where a disruption is an event of limited duration with an uncertain occurrence. It develops inventory targets for normal times and disruption management policies. The inventory target that UFIM develops is that level of inventory that balances the cost of holding inventory with the cost of running out of fuel.

Q: What are the primary inputs to UFIM?

A: The key inputs are: holding costs, fuel supply cost curves, costs of running out of fuel, fuel requirement distributions, "normal" supply uncertainty distributions, and disruption characteristics.

Q: What are the holding costs you used to develop coal inventory levels for this case?

A: KCP&L based the holding costs it used to develop fuel inventory levels for this case on the cost of capital proposed and described in the direct testimony of KCP&L witness Dr. Samuel C. Hadaway.

Q: What do you mean by "fuel supply cost curves"?

A: A fuel supply cost curve recognizes that the delivered cost of fuel may vary depending on the quantity of fuel purchased in a given month. For example, our fuel supply cost curves for PRB coal recognize that when monthly purchases exceed normal levels, we may need to lease additional train sets. Those lease costs cause the marginal cost of fuel above normal levels to be slightly higher than the normal cost of fuel.

Q: What was the normal cost of fuel?

A: The normal fuel prices underlying all of the fuel supply cost curves were the January 1, 2011 delivered fuel prices used to develop the Company's cost of service for this filing.

Q: What did you use for the costs of running out of fuel?

A: There are several components to the cost of running out of fuel. The first cost is the opportunity cost of forgone non-firm off-system power sales. I developed that cost by constructing a price duration curve derived from the distribution of monthly non-firm off-system megawatt-hour ("MWh") transactions for January 2006 through December 2009. I supplemented those points with estimates for purchasing additional energy and using oil-fired generation. The last point on the price duration curve is the socio-economic cost of failing to meet load for which I used KCP&L's assumed cost for unserved load. These price duration curves are referred to in UFIM as burn reduction cost curves. These burn reduction cost curves can vary by inventory, location and disruption.

Q: What fuel requirement distributions did you use?

A: For all units except Iatan Unit 2, I used distributions based on historical fuel requirements from January 2006 through December 2009. The Iatan Unit 2 requirements were based on projected requirements for 2011 through 2014. All of these distributions included fuel to serve off-system sales.

Q: What do you mean by "normal" supply uncertainty?

A: We normally experience random variations between fuel burned and fuel received in any given month. These supply shortfalls or overages are assumed to be independent from period to period and are not expected to significantly affect inventory policy. To determine these normal variations, I developed probability distributions of receipt uncertainty based on the difference between historical burn and receipts.

Q: What are disruptions?

A: A disruption is any change in circumstances that persists for a finite duration and significantly affects inventory policy. A supply disruption might entail a complete cut-off of fuel deliveries, a reduction in deliveries, or an increase in the variability of receipts. A demand disruption might consist of an increase in expected burn or an increase in the variability of burn. Other disruptions might involve temporary increases in the cost of fuel or the cost of replacement power. Different disruptions have different probabilities of occurring and different expected durations.

Q: What disruptions did KCP&L use in developing its inventory targets?

A: KCP&L recognized three types of disruptions in development of its inventory targets:

- PRB capacity constraints;
- Fuel yard failures; and
- Major floods.

Q: Please explain what you mean by disruptions related to PRB capacity constraints.

A: Supply capacity is the ultimate quantity of coal that can be produced, loaded, and shipped out of the PRB in a given time period. Constraints to supply capacity can come from either the railroads or from the mines, but regardless of which of these is the constraint source, the quantity of coal that can be delivered is restricted. A constrained supply caused by railroad capacity constraints can come from an inability of the railroad to ship a greater volume of coal from the PRB. A scenario such as this can arise from not having enough slack capacity to place more trains in service. It can also come from an infrastructure failure such as the May 2005 derailments on the joint line in the SPRB. A variety of mine issues can constrain supply, such as there not being enough available load-outs, not enough space to stage empty trains, reaching the productive limits of equipment such as shovels, draglines, conveyors, and trucks, or the mine reaching the production limits specified in its environmental quality permits.

Q: Please explain what you mean by disruptions related to fuel yard failures.

A: KCP&L and other utilities have experienced major failures in the equipment used to receive fuel. Perhaps KCP&L's most significant fuel yard failure occurred in 1986 when a conveyor belt caught fire at Hawthorn. The ensuing fire destroyed Hawthorn's normal facilities for unloading coal received by train. As used here, "disruption" is designed to cover a variety of circumstances that could result in a significant constraint on a plant's ability to receive fuel.

Q: Please explain what you mean by "major flood" disruptions.

A: This disruption was modeled after the 1993 flood which affected the entire Missouri River Valley. Such a large flood can lengthen railroad cycle times and curtail the deliveries of coal to generating stations. For example, at Iatan Station the average standard deviation in cycle time for the flood year is nearly double the standard deviation for the year before or after the flood, and during the months most affected by flooding, the differences are even more substantial.

Q: How does KCP&L manage disruptions?

A: The target inventory levels presented here assume KCP&L will actively manage its fuel inventory. That is, the Company would take whatever actions were deemed appropriate to ensure an adequate supply of fuel was kept on hand for generating energy necessary to serve native load. If KCP&L runs low on fuel, it might choose to curtail generation and reduce burn. KCP&L would manage the cost of any such disruption to take advantage of replacement power cost cycles. This assumption allows us to operate with lower inventory targets.

Q: What are the coal inventory targets used in this case?

A: The coal inventory targets resulting from application of UFIM and their associated value for incorporation into rate base are shown in the attached Schedule WEB2010-2 **(Highly Confidential)** and are the values used to determine adjustment RB-74, "Adjust Fossil Fuel Inventories to required levels" included in the Summary of Adjustments in Schedule JPW2010-2 of the direct testimony of KCP&L witness John P. Weisensee. Since these coal inventory targets are a function of fuel prices, cost of capital and other factors that may be adjusted in the course of this proceeding, we would expect to adjust the coal inventory targets as necessary.

Q: Does that mean it would be appropriate to update coal inventory levels included in rate base to reflect information known at true-up?

A: Yes. It would be appropriate to update the coal inventory levels for changes in fuel prices and cost of capital. A change in either the delivered cost of coal or cost of capital may result in different coal inventory levels. For example, lower fuel prices or a lower rate of return than the Company has requested would result in higher inventory requirements.

Q: How were the inventory values for activated carbon, ammonia, lime, and limestone, determined?

A: With the exception of activated carbon for Iatan Units 1 and 2, inventory values for ammonia, lime and limestone were calculated as the average month-end quantity on hand for the 13-month period March 2009 through March 2010 multiplied by the projected

January 2011 per unit value. November 2009 was the first month activated carbon was used at Iatan so I used the average month-end quantity on hand from November 2009 through March 2010 multiplied by the projected January 2011 per unit value to determine its value. The inventory values for activated carbon, ammonia, lime, and limestone are shown in Schedule WEB2010-2 **(Highly Confidential)** and were included in the derivation of adjustment RB-74.

Q: How were the inventory values for oil determined?

A: Inventory values for oil were calculated as the average month-end quantity on hand for the 13-month period March 2009 through March 2010 multiplied by the projected December 2010 per unit value. The inventory values for oil are shown in Schedule WEB2010-2 **(Highly Confidential)** and were included in the derivation of adjustment RB-74.

VI. SO_2 EMISSION ALLOWANCE MANAGEMENT PROGRAM

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

A: The purpose of this portion of my testimony is to describe how KCP&L's SO_2 Emission Allowance Management Program impacts KCP&L's COS and rate base, to review the actions KCP&L has taken under its SO_2 Plan, and to describe KCP&L's SO_2 Plan for 2010.

Q: How does this program impact KCP&L's COS and rate base?

A: KCP&L was first authorized to manage its SO_2 emission allowance inventory, including the sales of such allowances, under the Stipulation and Agreement in Case No. EO-95-184. That Stipulation and Agreement and a similar Stipulation and Agreement under Case No. EO-2000-357, allowed KCP&L to record all SO_2 emission allowance sales proceeds as a regulatory liability in Account 254, Other Regulatory Liabilities. The Stipulation and Agreement concerning KCP&L's Regulatory Plan, which was approved in 2005 by the Commission in Case No. EO-2005-0329 ("Regulatory Plan Stipulation and Agreement") included a SO_2 Emission Allowance Management Policy ("SEAMP"), which provided for KCP&L to sell SO_2 emission allowances in accordance with the initial SO_2 Plan submitted to the Commission Staff, the Office of the Public Counsel ("OPC") and other parties in January 2005. While the Regulatory Plan Stipulation and Agreement also requires KCP&L to record all SO_2 emission allowance sales proceeds as a regulatory liability in Account 254, it further provides that KCP&L may recommend an appropriate amortization period for SO_2 emission allowance sales proceeds that have been booked to Account 254 to be included in the 2009 rate case revenue requirement. Company witness John Weisensee discusses the Company's proposed amortization method in his direct testimony in his discussion of adjustment CS-22.

Q: In the SEAMP included in the Regulatory Plan Stipulation and Agreement, KCP&L agreed to provide Staff and OPC an SO_2 Plan by December 31 each year. Did KCP&L submit a new SO_2 Plan prior to December 31, 2009?

A: Yes, we did. We submitted a "SO_2 Plan for 2010" to Staff and OPC in December 2009.

Q: Describe how you developed the SO_2 Plan for 2010 that KCP&L submitted in December 2009.

A: To determine the optimal number of allowances to sell and the timing of those sales, KCP&L developed a decision and risk model to explicitly consider the various uncertainties discussed in the report. The SO_2 Plan considered those uncertainties in the identification of transactions intended to minimize the expected present value of long-run utility revenue requirements, while ensuring that the operation of KCP&L generators would not be restricted due to a deficiency of available SO_2 emission allowances. Those risk considerations included:

- changes in the price of allowances,
- cost and/or effectiveness of emission control technologies,
- changes in environmental regulations or proposed environmental regulations,
- changes in other energy market conditions, and
- market opportunities.

Q: Does the methodology you used to develop the SO_2 Plan for 2010 meet the requirements defined in the SEAMP?

A: Yes, it does.

Q: Describe the proposed actions to be taken in 2010 by the SO_2 Plan for 2010.

A: **[redacted]**

Q: When was the SO_2 Plan for 2010 effective?

A: The SEAMP states that the annual SO_2 Plan will be submitted by December 31 of each calendar year to be effective for the period commencing April 1 of the following year and ending March 31 of the next subsequent year. Consequently, the SO_2 Plan for 2010 became effective April 1, 2010 and will expire March 31, 2011.

Q: How were the proceeds from the SO_2 Plan for 2010 reflected in the COS?

A: **[redacted]** The projected EPA auction proceeds, and the SO_2 coal premium credits as authorized in Case No. EO-2005-0329 are included in adjustment RB-55 "Deferred Gain on Emission Allowance Sales" in the Summary of Adjustments schedule attached to KCP&L witness John P. Weisensee's direct testimony as Schedule JPW2010-2.

Q: Please explain how adjustment RB-55, "Deferred Gain on Emission Allowance Sales" was determined.

A: This adjustment has two components involving the roll-forward of the December 31, 2009 balance in Account 254, Regulatory Liability to December 31, 2010. The first component, an increase in the 254 balance of **[redacted]** reflects projected total company proceeds from EPA Auction sales. The second component, a decrease in the 254 balance of **[redacted]** reflects projected total company SO_2 coal premium costs. The sum of these two components is a **[redacted]** in the 254 balance.

Q: Are costs for emission allowances included in the COS calculation?

A: Yes, but as it relates to native load those costs are zero. KCP&L has enough "free" SO_2 allowances to cover all of its needs under the current rules and enough "free" NOx allowances to cover native load. Generation for off-system sales will require the purchase of NOx allowances. The cost for those NOx allowances is being recognized as

HIGHLY CONFIDENTIAL

a variable cost of providing off-system sales and is reflected in KCP&L witness Michael M. Schnitzer's off-system contribution margin calculations.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Docket No. ER-2010-____

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 Direct Testimony on behalf of Kansas City Power & Light Company consisting of thirty-nine (39) 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 28th day of May, 2010.

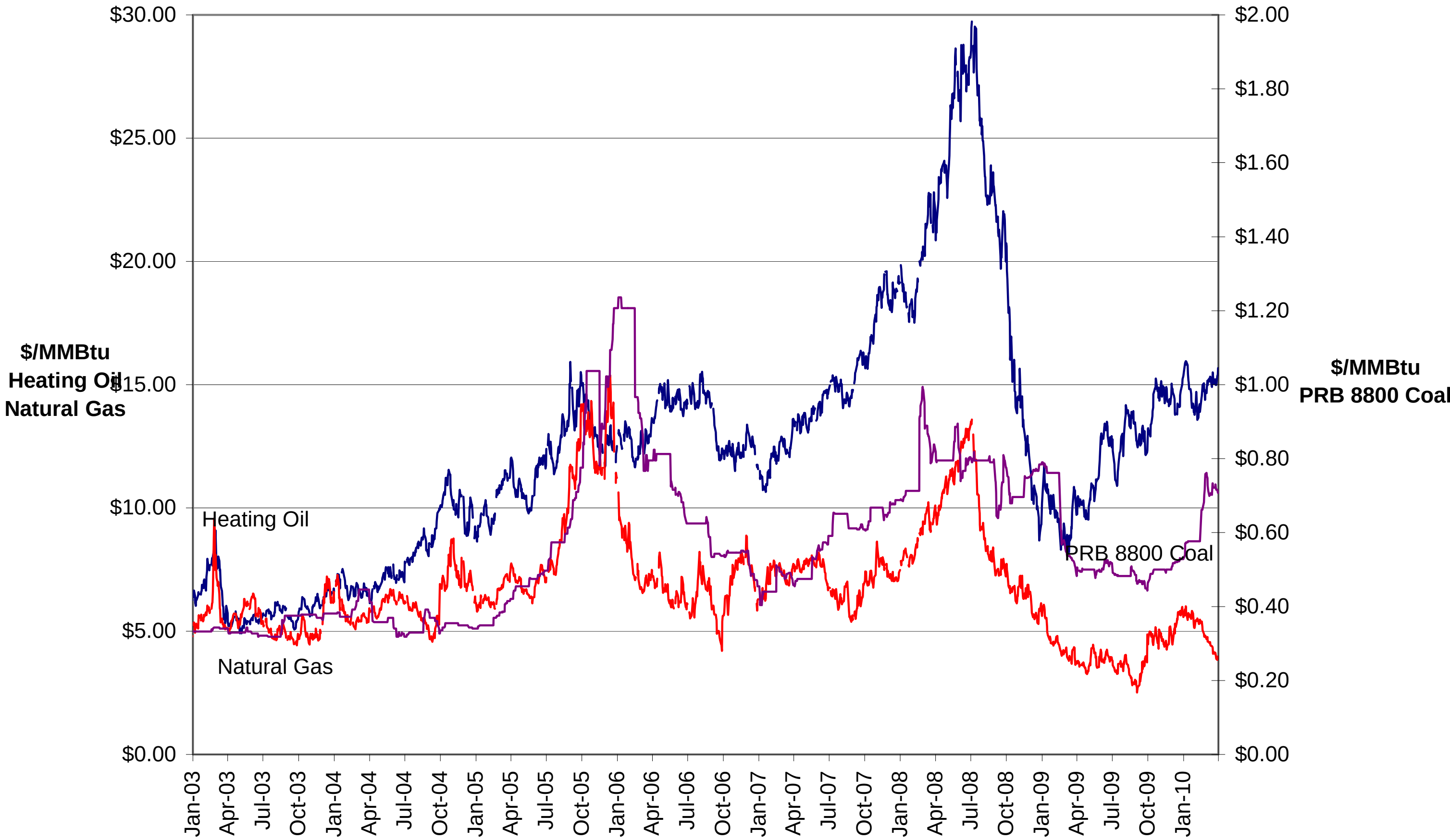
Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

Schedule WEB2010-1
shows how fuel prices have changed over the past few years

Market Price of Fossil Fuels



Sources: ProphetX, *Evolution Markets*

SCHEDULE WEB2010-2

THIS DOCUMENT CONTAINS HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC