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Witness: Wm. Edward Blunk
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Sponsoring Party: Aquila, Inc. dba KCP&L Greater
Missouri Operations Company
Case No.: ER-2009-____
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-____

DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

**AQUILA, INC. dba
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
September 2008**

**Certain Schedules Attached To This Testimony Designated “(HC)”
Have Been Removed
Pursuant To 4 CSR 240-2.135.**

DIRECT TESTIMONY

OF

WM. EDWARD BLUNK

Case No. ER-2009-_____

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

2 A. My name is Wm. Edward Blunk. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106-2124.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am employed by Kansas City Power & Light Company (“KCP&L” or “Company”) as
6 Manager, Fuel Planning.

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

8 A. My primary responsibilities are to develop fuel price forecasts and strategies for fuel
9 procurement and fuel inventory, which includes the development of strategies for and the
10 management of the sulfur dioxide (“SO₂”) emission allowance inventory of KCP&L and
11 Aquila, Inc. dba KCP&L Greater Missouri Operations Company (“Company” or
12 “GMO”).

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

14 A. In 1978, I was awarded the degree of Bachelor of Science in Agriculture Cum Laude,
15 Honors Scholar in Agricultural Economics by the University of Missouri at Columbia.
16 The University of Missouri awarded my Master of Business Administration degree in
17 1980. I have also completed additional graduate courses in forecasting theory and
18 applications.

1 Before graduating from the University of Missouri, I joined the John Deere
2 Company from 1977 through 1981 and performed various marketing, marketing research,
3 and dealer management tasks. In 1981, I joined KCP&L as Transportation/Special
4 Projects Analyst. My responsibilities included fuel price forecasting, fuel planning and
5 other analyses relevant to negotiation and/or litigation with railroads and coal companies.
6 I was promoted to the position of Supervisor, Fuel Planning in 1984. In 2007, my
7 position was upgraded to Manager, Fuel Planning.

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

10 A. I have previously testified before both the Missouri Public Service Commission
11 (“MPSC”) and the Kansas Corporation Commission (“KCC”) in multiple cases on
12 multiple issues regarding KCP&L’s fuel prices, fuel price forecasts, strategies for
13 managing fuel price risk, fuel-related costs, fuel inventory, and the management of
14 KCP&L’s SO₂ emission allowance inventory.

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

16 A. I will describe the regulatory requirements for the Environmental Protection Agency’s
17 (“EPA”) Acid Rain Program SO₂ reduction requirements. I will also discuss how GMO
18 is complying with this regulation while maintaining the lowest cost compliance
19 alternative which, at this time, dictates buying SO₂ allowances.

20 **Q. What is the Acid Rain Program?**

21 A. The Acid Rain Program was a response to increased acidification of soils and lakes
22 primarily in the eastern United States. It is believed that power plant SO₂ and nitrogen
23 oxides emissions were contributing to increased acidification of lakes and soil. The 1990

1 Clean Air Act Amendment was passed which included provisions to reduce the
2 acidification. Congress delegated the EPA to implement the Acid Rain Program. The
3 program set a cap and trade system on nationwide SO₂ emissions. The cap was set to
4 achieve a 10 million ton reduction from 1980 SO₂ emission levels. Under the cap, most
5 electric utility generating units greater than 25 MW were allocated allowances. The
6 allowances were based on the average capacity factor, measured by heat input, of the
7 units from 1985 to 1987 times an emissions factor of 1.2 lb/million Btu for coal-fired
8 units. Similarly sized units that had high capacity factors during this time frame were
9 given more allowances than units with a lower capacity factors.

10 **Q. How did the SO₂ reduction requirements of the Acid Rain Program affect GMO?**

11 A. GMO has had to take actions to offset emissions. Since the 1985 to 1987 base period for
12 determining allowance allocations, Sibley and Lake Road generating units' capacity
13 factors have more than doubled. Iatan Unit 1 has had a modest increase and Jeffrey
14 Energy Center has had a slight reduction. Because of the significant increase at Sibley
15 and Lake Road, GMO is not allocated enough allowances to cover the emissions
16 generated from its facilities. Also, GMO has a power purchase contract with Gerald
17 Gentleman station that requires GMO to supply SO₂ allowances. Since GMO does not
18 have an ownership position in Gerald Gentleman, it does not receive any allowances from
19 Gentleman's allocation. GMO's power purchase contract with Gerald Gentleman
20 requires GMO to buy approximately 2500 allowances per year.

21 **Q. How does GMO comply with the SO₂ reduction requirements of the Acid Rain**
22 **regulations?**

1 A. The Acid Rain Program allows a facility to meet its cap by either controlling emission
2 levels below the cap or to buy allowances from other sources, such as utilities that have
3 excess allowances. GMO has bought allowances to comply with the program.

4 **Q. Has GMO considered control technologies and, if so, why has it not installed**
5 **controls?**

6 A. GMO has considered placing either a dry or wet scrubber on some or all of its units.
7 Based on Sargent and Lundy's May 2006 study, the least cost SO₂ control will be around
8 \$3,200/ton. GMO's least cost alternative has been to buy allowances, which have ranged
9 in price from around \$200/ton from the mid 1990's to the end of December 2003 to about
10 \$1650/ton at the end of December 2005. Currently SO₂ allowances are trading for about
11 \$150/ton.

12 **Q. Given the recent volatility in allowance prices, does GMO have a plan to manage**
13 **allowance costs?**

14 A. Yes. KCP&L's Environmental Services Group works with KCP&L's Fuel Supply and
15 Power Supply Groups to develop a plan. The most recent plan (Schedule WEB-1 (HC))
16 was developed by Aquila, Inc. in the spring of 2008. The SO₂ plan is set up to have
17 between one and three years of allowances. This strategy is flexible and will allow GMO
18 to look for low cost allowances. Finally, the strategy gives GMO some time to install a
19 scrubber if it appears that long-term allowance prices are going to be higher than control
20 costs.

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

22 A. Yes, it does.

SCHEDULE WEB-1

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