Exhibit No.:	
Issue:	Fuel Adjustment Clause, Hedging
Witness:	Wm. Edward Blunk
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2016-0285
Date Testimony Prepared:	January 27, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

SURREBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2016

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OF

WM. EDWARD BLUNK

Case No. ER-2016-0285

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 Testimony and Rebuttal Testimony in this matter on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company")?

A: Yes.

Q: What is the purpose of your testimony?

A: I will support including fuel handling expenses in the cost of fuel included in the fuel adjustment clause ("FAC").

Q: Whose Rebuttal Testimony will you be responding to?

A: My Surrebuttal Testimony responds to the Rebuttal Testimony of Missouri Public Service Commission Staff ("Staff") witness Mr. David C. Roos and the Office of the Public Counsel ("OPC") witness Ms. Lena M. Mantle.

Q: Given that your Surrebuttal Testimony addresses fuel cost, do you have experience that is especially relevant to this discussion?

A: Yes. For the past 35 years, most of my career has been focused on minimizing total cost of fuel while managing its associated risks for KCP&L and its customers. In the course of that time, I have either personally identified or worked on teams that have identified and implemented strategies that have saved over $1 billion in fuel cost. For most of that time, up until a few years ago, I was actively involved in research focused on fuel strategy and risk management. I was awarded the first EPRI Technology Transfer Recognition Award conferred by Utility Planning Methods Center for leadership in use of and value created by ERPI's fuel planning products. I have also been recognized as an EPRI Innovator for advancing new technology in fuel planning. On a less formal basis, I have personally reviewed the Company's major strategic decisions that resulted in significantly lower fuel costs to identify the factors contributing to those ideas and their successful implementation.

I. <u>Response to Mr. Roos</u>

Q: What is Staff's position regarding fuel handling expense?

A: At page 3 of Mr. Roos Rebuttal Testimony, Staff claims to have identified fuel handling costs that are not related to fuel or purchased power. Staff also claims that those costs do not meet the Commission's criteria for inclusion in an FAC.

Q: What are fuel handling expenses?

A: Typically the majority of fuel handling expenses are the cost of operating equipment at the power plant to physically move coal from rail cars or trucks to the boiler-house bunker. To a lesser extent are the costs of purchasing fuel and transportation, including preparing forecasts related to fuel requirements, availability, and pricing, negotiating contracts, scheduling, managing inventories, monitoring, analyzing performance, identifying and implementing operating efficiencies related to fuel handling. FERC's

Uniform System of Accounts ("USoA") classifies all of these costs as fuel to be recorded in Account 501 Fuel. For the FAC, we are excluding KCP&L labor from these costs.

Q: What are the criteria Mr. Roos is referring to?

A: Mr. Roos referenced the Commission's Report and Order from the Union Electric Company d/b/a AmerenUE general rate case No. ER-2008-0318, wherein the Commission listed three criteria for determining whether a fuel and purchased power cost or revenue should be included in a utility's FAC. Those criteria are:

1. Substantial enough to have a material impact upon the revenue requirements and the financial performance of the business between rate cases;
2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels; and
3. Volatile in amount, causing significant swings in income and cash flows if not tracked.

Q: Are these fuel and purchased power costs substantial enough to have a material impact upon the revenue requirements and the financial performance of the utility between rate cases?

A: Yes. Although normally these costs run about $4-5 million per year and we have reason to believe they may trend lower, they have the potential to spike much higher than that.

Q: Are these costs beyond the control of the management because KCP&L has little influence over the cost level?

A: Yes. Parts of these costs are tied to the markets for power and fuel which management has little influence over. For example, the cost of diesel fuel necessary to run fuel yard equipment is a function of the market price for diesel fuel and the volume of coal that must be moved. The volume of coal that must be moved is driven by the power market which determines how much coal will be burned.

Q: Can these expenditures result in significant swings in cash flow?

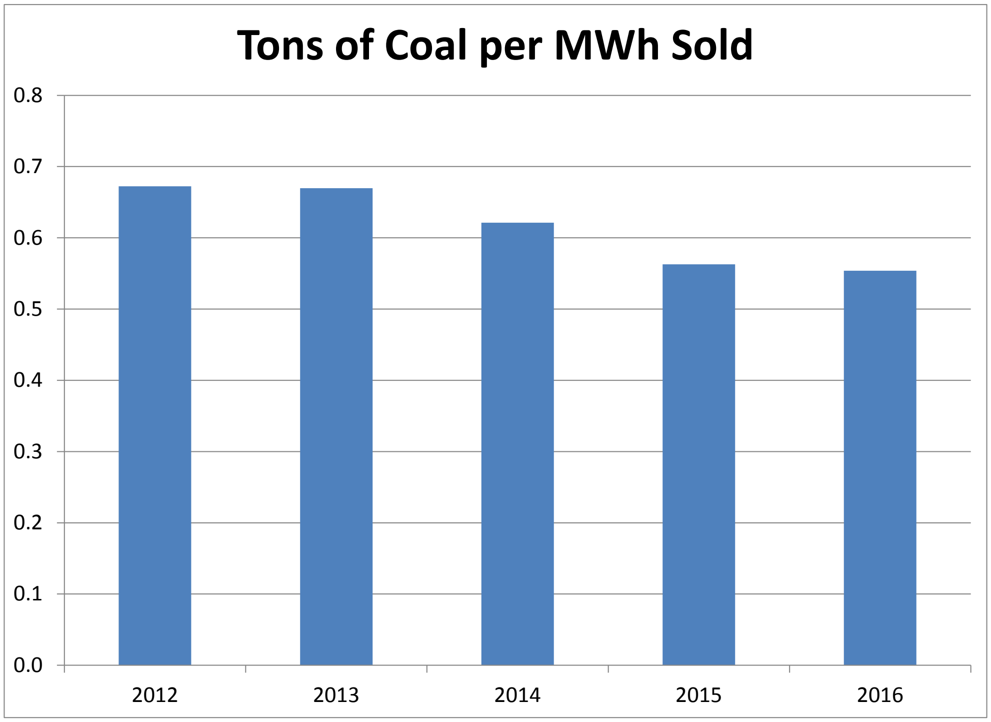
A: Yes. Both the costs and the value to the customer of these expenditures can result in significant swings in cash flow.

Q: Why are you advocating that Fuel Handling costs be included in the FAC?

A: There are two reasons why. First, excluding these costs from the FAC can result in higher costs for our customers. Second, it would be unfair for KCPL to bear all of the increases in costs that by definition are incurred in an effort lower fuel costs for customers.

Q: How can excluding Fuel Handling costs from the FAC result in higher costs for KCP&L's customers?

A: About two-thirds of fuel handling costs are the cost of operating equipment which moves fuel. The volume of fuel that we have to move is a major driver in the level of those costs. KCP&L expects to burn less coal for each kWh sold. To the extent fuel handling costs are driven by the volume of fuel moved, they will also decrease. However, excluding them from the FAC will not benefit our customers

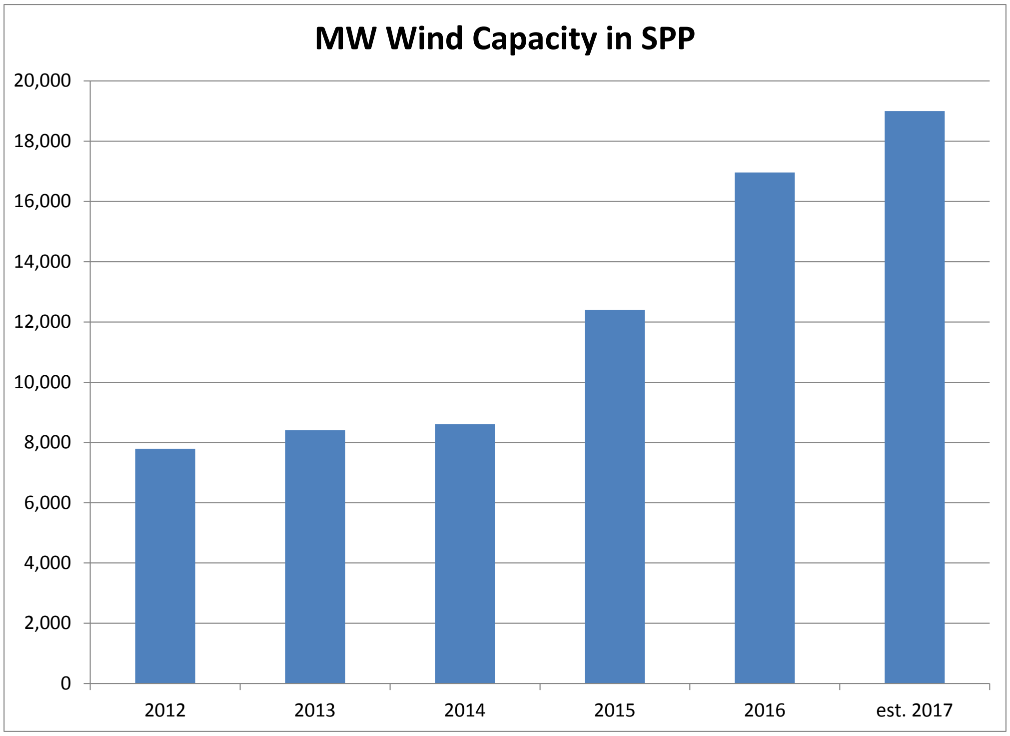


Q: Regarding the cost of operating equipment to move fuel, please explain why you believe the portion of each kWh that is supplied from coal will decrease.

A: The graph above shows on average how many tons of coal KCP&L burned for each MWh since 2012.

That decrease in the portion of each kWh supplied from coal is directly related to the dramatic increase in wind generation capacity within Southwest Power Pool ("SPP") as shown in the graph below. Perhaps more telling than capacity is that at times in 2016, wind generation in SPP approached 50% of total load[1]. That was a substantial increase from 34% in 2015 and 33% in 2014.

[1] https://www.hubs.com/power/explore/2016/08/the-southwest-power-pool-saw-big-wind-capacity-additions-in-2015, referenced 1/18/2017



Q: How does including fuel handing as a fuel cost in the FAC allow the 95%/5% sharing mechanism to lower fuel costs?

A: At page 31 of the *Report and Order* for the Company's last rate case, ER-2014-0370, the Commission determined that:

> "A 95%/5% sharing mechanism, where customers would be responsible for, or receive the benefit of, 95% of any deviation in fuel and purchased power costs would provide KCPL a sufficient opportunity to earn a fair return on equity while protecting KCPL's customers by providing the company an incentive to control costs."

Implied in the Commission's finding is the concept that the Company can do things that may impact the cost of fuel and power. When the Company takes such action, it costs money and those costs can vary from year to year. More than that, there can be a lag of several years between expenditure and impact on the cost of fuel or power. Sometimes these expenditures are expected to yield paybacks over many years. By putting these costs in the FAC the opportunity to earn a fair return increases because the Company is only retaining 5% of the cost for which customers may over time receive much more than 95% of the benefits.

Q: Mr. Roos said KCPL could recover these costs the same way it has in the past. Why won't a general rate case work for these costs?

A: Typically the cost of developing and implementing the strategies necessary to mitigate or pursue low fuel cost is subject to large spikes. For example, the last time KCP&L filed a complaint with the Surface Transportation Board ("STB") regarding a railroad rate was in October 2005. A railroad rate complaint case can easily cost $5-10 million to litigate for an uncertain outcome. Most of that money is spent over the course of about 12-18 months. In other words, the level of expenditure for managing railroad rates is uncertain, spikes to very high levels, and then drops back to very low levels. That spike in expenditures could easily miss a test year or true-up period. On the other hand, the benefits can extend for many years. For example, in our case the STB issued an order in May 2008 which prescribed a formula for railroad rates to Montrose retroactive to January 2006 and forward through the end of 2015.

Even if KCP&L doesn't file a railroad rate complaint case, we still see spikes in our costs as we spend more every few years on consulting in preparation for bidding or negotiating replacement contracts. Because the value of lower or even mitigated freight rate increases flow through the FAC, so should the costs that enable those benefits.

Q: At page 4, Mr. Roos lists various costs including cell phones and travel which he says are not fuel. Why are cell phones and travel part of fuel costs?

A: Not all cell phones are part of fuel costs. Only cell phones that primarily support the procurement or transportation of fuel. Likewise, not all travel costs are part of fuels, but only those costs of traveling to meet with a fuel vendor or railroad official, or to attend a fuel conference or hearing.

II. Response Ms. Lena Mantle

Q: At page 6 of her Rebuttal Ms. Mantle discusses costs that are dependent upon the volume of fuel and asserts that Section 386.266 only allows for the recovery of fuel commodity or the transportation of that commodity. Do you agree with Ms. Mantle's assertion?

A: No. Since 1994 the Commission has required every electrical corporation subject to its jurisdiction to keep all accounts in conformance with the USoA. Given that the Commission's rules at the time Senate Bill 179 was drafted in 2005 required every Missouri electrical corporation to conform to the USoA, those regulations were known by any member of Staff or OPC participating in the development of Senate Bill 179 or the Commission's regulations promulgated under Section 386.266. The USoA's chart of accounts at the time Senate Bill 179 was passed identified Account 501 as "Fuel" and described Account 501 as including the items that the Company is including in its FAC proposal.

Given the broad awareness of FERC's definition of "fuel" at the time Senate Bill 179 was enacted, if the legislature intended something other than the prevailing industry definition, it had the opportunity to make that clear. As it is, the statute makes no specific provision for defining "fuel" differently than FERC's USoA.

Q: Does Ms. Mantle contradict herself regarding FAC costs and revenues, taking opposite positions?

A: Yes. At page 4 of her Direct Testimony Ms. Mantle advocates that unusual revenues of "insurance recoveries, subrogation recoveries and settlement proceeds" as offset by the costs of insurance premiums, litigation expenses, and consulting fees which made the insurance recoveries possible be included in the FAC. On the other hand, at page 6 of her Rebuttal Testimony she takes the position that "[n]ot unless the cost is for the fuel commodity or the transportation of that commodity to KCPL's generation plants" should such costs be included in the FAC.

Q: At page 7, Ms. Mantle claims that putting fuel costs which facilitate efficient and cost-effective procurement in the FAC "removes the utilities' incentive to cap expenditures of these activities." What is your response to that assertion?

A: Every single penny that goes through the FAC is subject to review. Consequently any expenditure that could not be expected to yield a net benefit could be challenged as imprudent. I find it difficult to believe Ms. Mantle would want to cap expenditures that are expected to yield a net benefit of mitigated or lower total energy costs. If for every dollar I spend on fuel procurement services I could reduce fuel expense by $2, why wouldn't I want to keep spending on those services until I reached the point of achieving no additional net benefit?

Q: At page 7, Ms. Mantle claims that putting costs in the FAC "create[s] a disincentive to continuously strive for better practices" and then points back to her direct testimony as support for her position. Did you address Ms. Mantle's argument in your Rebuttal Testimony?

A: Yes. Starting at page 15 of my Rebuttal Testimony, I explain how Ms. Mantle's position is wrong and how the logical extension of her position actually leads to higher costs for our customers.

Q: At page 8 Ms. Mantle complains that recovering these other components of fuel through the FAC "complicates prudence reviews" and that "due to these difficulties, may result in giving KCPL a blank check for these expenses." Does including these components of fuel in the FAC unnecessarily complicate prudence audits?

A: No. Our Kansas Energy Charge Adjustment ("ECA") uses FERC's USoA to define fuel as:

> Actual total company cost of nuclear and fossil fuel consumed for the generation of electricity for the ECA year recorded in Account 501, Account 518 and Account 547, excluding any internal KCPL labor cost.

Our Kansas fuel clause has used that definition of fuel since 2008. I have met with and answered fuel related questions from Kansas Corporation Commission Staff auditors many times since then. I have never heard them complain that examining all of our fuel expenses made it too complicated to determine prudence. I have not read in their testimony where they believed including these other components of fuel in the rate adjustment mechanism gave the Company a "blank check."

Q: Ms. Mantle claims on page 8 of her rebuttal that an auditor would have to evaluate the number of bags taken on a trip to determine the prudence of airline baggage fees. How could an auditor determine the prudence of airline baggage fees included in the FAC?

A: Only those expenses that are part of the fuel procurement and management process can be charged to Account 501 - Fuel. Any $25 airline baggage fee charged to fuel was incurred during a trip to meet with a fuel vendor or railroad official, or to attend a fuel conference or hearing. During my 35 years of trying to lower or mitigate fuel cost or risk, I can state that the value of a fuel trip far exceeded a $25 airline baggage fee.

Ms. Mantle argues that it would be "unnecessarily complicating" for an auditor to determine whether baggage fees or other miscellaneous expenses were prudent in the course of a 6-month FAC prudence audit that only reviews a limited subset of costs included in an FAC. Such a claim has little basis in fact considering that during a general rate case *all* of a utility's revenues, expenses and operations are reviewed by auditors during the typical 4-to-5 month process reflected in procedural schedules ordered by the Commission.

It is my observation that the strategic decisions which resulted in significantly lower fuel costs often came from meetings or conferences. I have also seen that, relationships maintained through face-to-face meetings with a vendor resulted in significant value. It is safe to say we are still many millions of dollars ahead on net benefits over the cost of all of the fuel meetings and fuel conferences we have attended in my 35 years at KCP&L.

Q: At page 9 Ms. Mantle concludes that "Exclusion from the FAC does not mean that KCPL will not recover these costs. As long as these costs are included in the determination of revenue requirement for KCPL and it is earning a positive return, KCPL would be recovering these costs." Do you have any concerns with Ms. Mantle's conclusion?

A: Yes. First, these costs can be very spiked. That is, they can be large and infrequent. Consequently, they can easily miss a test year or true-up period and not be included in the revenue requirement. And as Ms. Mantle concedes on page 9, her position is only valid "[a]s long as these costs are included in the determination of revenue requirement for KCPL ...." On the other hand, if the test year happens to capture one of those times when costs are high, then fixed rates will result in over recovery and higher costs to customers until the next rate case.

Second, while I am not our rate of return witness, I am concerned that Ms. Mantle would assume that a near zero return is reasonable, so long as it is positive. That does not seem equitable given the primary purpose of these expenditures is to lower or mitigate costs for our customers.

Finally, as the customer of a Missouri electric utility, I am disappointed that when Ms. Mantle constructs a hypothetical example at page 17 of her Direct Testimony to show how "the utility would have an incentive to … realize $20 in savings which would either offset cost increase in other areas or increase shareholder earnings," she fails to recognize that such "savings" would come from reducing or eliminating those components of fuel expense which actually contribute to reducing my total bill.

III. **Recommendation**

Q: Do you have any recommendations for the Commission regarding the FAC?

A: Yes. The Company recommends that the FAC be structured with the objective of minimizing total net energy cost. However, OPC recommends that the Company minimize certain components of energy cost and separate them from their associated benefits. Because OPC creates artificial constraints by segregating these components, its FAC cannot achieve as low of total net energy cost as the Company's proposal while still conforming to Section 386.266.4(1)'s requirement that a FAC be reasonably designed to provide the utility with a sufficient opportunity to earn a fair return on equity. The Company's approach can yield lower total costs to the customer while still conforming to Section 386.266.4(1)'s requirement. A FAC like OPC's' that divorces production cost savings from the costs that made those savings possible would by design impair the Company's opportunity to earn a fair return on equity. .

Because I believe the total cost to our customers will in the long-run be lower, I recommend that the Commission define "fuel" consistent with FERC's USoA as total Company cost of fossil and nuclear fuel consumed for the generation of electricity, including fuel handling, as recorded in accounts 501, 518, and 547, except for the Company's internal labor coast.

Q: Does that conclude your testimony?

A: Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2016-0285

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 Generation Planning Manager.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of thirteen (13) 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 27th day of January 2017.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200