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Issue:	2011 Missouri River Flood AAO
Witness:	Wm. Edward Blunk
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2012-0174
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

SURREBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
October 2012

"[redacted]**" Designates "Highly Confidential" Information**
Has Been Removed
Pursuant To 4 CSR 240-2.135.

SURREBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

Case No. ER-2012-0174

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, Supplemental Direct and Rebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: The purpose of my Surrebuttal Testimony is to address Missouri Public Service Commission Staff's ("Staff") recommendation regarding Kansas City Power & Light Company's ("KCP&L" or the "Company") request that costs and losses caused by the 2011 Missouri River flood ("2011 Flood") be deferred to a regulatory account and amortized over five years ("deferral"), as discussed in the Rebuttal Testimony of Staff witnesses Erin L. Maloney and Mark L. Oligschlaeger. I will show that Staff's recommendation ignores the Missouri Public Service Commission's ("Commission") Report and Order in Case No. ER-2010-0355 ("KCP&L 2010 Rate Case"). I will also show that Staff's recommendation is based on erroneous assumptions. Moreover, if those assumptions are followed to their logical conclusions, Staff would eliminate the off-system sales ("OSS") margin credit mechanism that has returned many millions to KCP&L's ratepayers.

My testimony combined with the Surrebuttal Testimony of Ryan Bresette refutes the assumptions and basis of testimony from Staff Witnesses Erin Maloney and Mark Oligschlaeger, Ted Robertson of Office of Public Counsel, Greg R. Meyer representing Missouri Industrial Energy Consumers and Midwest Energy Consumers Group, and Dwight D. Etheridge representing the U.S. Department of Energy regarding the Company's request to defer as a regulatory asset the off-system sales margin that was forfeited during the 2011 Flood to protect system reliability during the summer peak months of 2011. Together we show that the recommendations to reject the Company's request are unfounded.

Q: How is your testimony organized?

A: First I address Ms. Maloney's testimony following the order of her testimony. Likewise I address Mr. Oligschlaeger's testimony following his order. Finally I wrap up with my recommendation.

I. Rebuttal of Erin Maloney

Q: At page 3 of her Rebuttal Testimony, Erin Maloney said, "The fuel and purchased power costs that are established in a rate case are the best estimate of costs that would have occurred absent the flood." Is that correct?

A: No. The fuel and purchased power costs that are established in a rate case are not the best estimate of costs that would have occurred absent the flood. In fact, they can be a very poor estimate of costs that would have occurred absent the flood.

Q: Why is Ms. Maloney's assertion incorrect?

A: There are multiple reasons why Ms. Maloney's assertion is incorrect. First, the fuel and purchased power costs used in a rate case are based on prices that were known before rates became effective. Those prices can severely lag market prices during the time rates are effective. For example, KCP&L's rates that were effective during the 2011 Flood were based on prices from 2010, one year before the 2011 Flood. Southwest Power Pool's ("SPP") *2011 State of the Market Report* shows that the average price for electricity in the SPP for 2010 was $31.33 but for 2011 the average price was $29.28.[1] Those numbers suggest that power prices from 2010 would have resulted in a larger value for lost OSS margins than the Company included in its request for the 2011 Flood AAO.

Ms. Maloney identified the second reason her assertion is incorrect. She stated on page 3, line 18: "No particular year can be expected to be 'normal.'" This admission shows why her assertion that normalized data is a better estimate of actual costs than the actual data is wrong.

Q: Was the OSS margin projection included in KCP&L's 2010 rates based on normalized data?

A: No. As Michael M. Schnitzer explained page 16 of his Direct Testimony in Case No. ER-2010-0355:

> Third, I [Michael Schnitzer] calculated the total available capacity for each unit, taking into account both planned outages and scenario-specific forced outages as well as any long-term sales agreements and load obligations that could reduce the capacity available to serve KCPL's native load.

"Planned outages and scenario specific forced outages" are not the normalized outages Ms. Maloney refers to on line 17 of page 3 where she said, "These costs reflect normalized load, normalized outages, and are based on a 'normal' year's data."

[1] Southwest Power Pool, *2011 State of the Market Report*, Published July 9, 2012, p. 34 http://spp.org/publications/2011-State-of-the-Market-Report.pdf

Q: Did the OSS margin included in KCP&L's current rates include the risk of a flood?

A: No. Both Ms. Maloney at page 3 and Mark Oligschlaeger at page 12 of their respective Rebuttal Testimonies make statements to the effect "no party attempted to specifically incorporate the impact of a possible severe flood into any aspect of KCPL's 2010 rate case revenue requirement, including OSS margin amounts."[2]

Q: What is the basis for Ms. Maloney's recommendation to deny KCP&L's request to defer the incremental increase in fuel and purchased power costs?

A: Ms. Maloney grounds her recommendation to deny KCP&L's request to defer the incremental increase in fuel and purchased power costs in her assertions on pages 3-4 of her Rebuttal Testimony that expenses and revenues absent the 2011 Flood are speculative and cannot be reasonably quantified.

Q: On page 9 of your Supplemental Direct you explained how KCP&L used the Post Analysis ("PA") model to determine the increased purchased power expense and the changes in fuel and variable O&M expense due to the 2011 Flood. Is that the same PA model KCP&L uses to calculate the actual OSS margin?

A: Yes. We used the same model with the same data for the Loss Opportunity ("LOP") Study that we used for the calculating the actual OSS margins. To calculate the fuel, purchased power, and OSS margins absent the 2011 Flood we used that same data and model but removed the flood related constraints. That is, we allowed the model to operate the units up to their "cruise" ratings rather than constrain them as we had to conserve coal during the 2011 Flood. The LOP Study calculated the production cost

[2] Mark Oligschlaeger, Rebuttal Testimony, Case No. ER-2012-0174, p. 12

difference between how the system was operated during the 2011 Flood and how the system would have operated absent the 2011 Flood.

Q: Is KCP&L's calculation of the incremental cost of fuel and purchased power due to the 2011 Flood speculative and not reasonably quantified?

A: No. Both the actual costs that occurred during the flood and the costs that would have occurred absent the flood were calculated using the same actual fuel prices, actual power market prices, actual forced outages, actual load, and actual power transactions. Absent the flood, the Company would have purchased less power and more fuel. The coal the Company would have purchased was under contract so we knew the price we would have paid. We know what we paid for the power we purchased during the flood so PA was able to easily exclude the transactions we would not have made absent the flood.

Q: Ms. Maloney asserts that KCP&L assumed that it would make an unrealistic level of sales. What is the basis of her assertion?

A: It appears she is making that assertion on page 5 of her Rebuttal Testimony based on KCP&L's use of "cruise" ratings. As I read her testimony, it seems she is assuming that absent the 2011 Flood KCP&L specified that its units would operate at their cruise ratings. That would result in more generation available to make OSS than KCP&L believes is reasonable to assume.

Q: How did KCP&L use cruise ratings in its LOP Study of the 2011 Flood?

A: The cruise ratings were used to limit the output of the plants. Schedule WEB-4 of my Supplemental Direct Testimony clearly shows that KCP&L did not assume the units would operate at the cruise ratings as asserted by Ms. Maloney. We used the cruise ratings as a conservative limit on normal plant operations. By conservative, I mean lower than possible. The plants can operate higher than their cruise ratings.

Q: Could Ms. Maloney's apparent misunderstanding of how the cruise ratings were used have led her to her conclusion about the level of sales in the LOP Study?

A: Yes. Ms. Maloney's apparent misunderstanding of how the cruise ratings were used would have led her to an incorrect conclusion about the level of sales in the LOP Study.

Q: Was the level of sales in the LOP Study realistic?

A: Yes.

Q: How do you know that level of sales in the LOP Study realistic?

A: I compared the actual MWh sales from KCP&L generation resources adjusted for sales the LOP Study showed as forfeited during the 2011 Flood to the base load generation available after retail and firm wholesale were served. We derived that hypothetical base load generation available for sale from Staff's True-Up Run in Case No. ER-2010-0355. The adjusted total was about 25 percent less than the hypothetically available base load generation. I also compared the adjusted total to the level of OSS that Greg Meyer identified as representing the 40th percentile level of OSS included in rates pursuant to the order of Case No. ER-2010-0355. The adjusted total was within 15 percent of the sales level Mr. Meyer said was "very conservative" and afforded "an enhanced opportunity to meet and exceed".[3]

[3] Greg R. Meyer, True-Up Rebuttal Testimony, Case No. ER-2010-0174, p. 9.

Q: Ms. Maloney references a process dealing with Fuel Adjustment Clauses ("FAC") in footnote 1 at page 4 of her rebuttal in support of her position that the deferral should be denied on the grounds the costs are "...speculative, and cannot be reasonably quantified." Does KCP&L have a FAC?

A: No. KCP&L does not have a FAC. As explained by Mr. Bresette, the Company would not be seeking this AAO if it had a FAC because these costs including the lost OSS margin would have flowed through the FAC. Because the Company does not have an FAC, its fuel, purchased power, and OSS margins must be dealt with differently.

Q: What is OSS margin?

A: Staff Witness Mark Oligschlaeger defined OSS as follows:

> OSS are sales of electricity made at times when a utility has met all of its obligations to service its native load customers and firm sale customers, and has excess electricity it can sell to others. OSS transactions result in a net margin, or profit, to the selling utility. OSS transactions are typically made at market based rates. The "margin" associated with an OSS transaction is the difference between the selling price of the power and the cost of fuel/purchased power incurred by the utility to generate or provide the power sold.[4]

Q: How do market prices affect OSS margin?

A: Market prices affect the cost of fuel used to generate the electricity that is sold. Market prices for power also affect the price at which KCP&L is able to sell power off-system. Essentially market forces determine the average $/MWh margin that KCP&L is able to achieve.

[4] Mark L. Oligschlaeger, Rebuttal Testimony, Case No. ER-2012-0174, p. 7

Q: What was the average $/MWh margin resulting from actual market prices during the twelve month period of May 2011 through April 2012?

A: KCP&L actually sold **[redacted]** off-system and achieved a total OSS margin of **[redacted]** for the twelve month period of May 2011 through April 2012. That resulted in an average $/MWh margin of **[redacted]**

Q: Does KCP&L have the ability to control market prices?

A: No. KCP&L does not have the ability to control the market price for natural gas or power.

Q: What was the 40th percentile margin included in KCP&L's rates?

A: After the adjustments specified in the Report and Order for the 2010 Rate Case, the value included in rates **[redacted]**

Q: To achieve the 40th percentile margin included in KCP&L's rates, how many MWh would KCP&L have had to sell given the actual per unit margin afforded by the market?

A: To achieve the 40th percentile margin included in rates and given the actual per unit margin afforded by the market, KCP&L would have had to sell **[redacted]**

Q: How does that volume of sales required to achieve the OSS margin included in rates compare to the hypothetical base load generation available to sell derived from Staff's True-Up run in Case No. ER-2010-0355?

A: Given the actual market prices and resulting actual margin per MWh, KCP&L would have had to sell about 2.3 times the hypothetical available base load generation off-system to achieve the OSS margin included in rates.

Q: Given that the MWh sales required to make the level of OSS included in rates was unrealistic, what would have been a reasonable level of OSS?

A: At page 136, the Report and Order in KCP&L's 2010 Rate Case pointed to page 9 of Greg R. Meyer's True-Up Rebuttal Testimony as the basis for its determination that the 40th percentile was "conservative and easily achievable." On page 9 of that testimony Mr. Meyer identified **[redacted]** as representing the 40th percentile level of OSS that the Commission adopted for inclusion in rates. Multiplying the actual market driven $/MWh margin of **[redacted]** times the **[redacted]** Mr. Meyer identified would have yielded an OSS margin of **[redacted]** or about one-fourth the level that was included in rates.

Q: Does that mean that given actual per unit margin afforded by the market the level of sales required to meet the **[redacted] OSS margin projection for 2011 included in rates was more than 3.5 times what Mr. Meyer identified as representing the 40th percentile?**

A: Yes. Given the market prices of 2011, the **[redacted]** OSS margin projection for 2011 included in rates would have required selling more than 3.5 times the volume that Mr. Meyer presented to the Commission as reasonable.

Q: At page 4 of her Rebuttal Testimony, Ms. Maloney asserts that "KCPL assumed that it would make an unrealistic level of sales." Was the level of sales in KCP&L's modeling unrealistic?

A: No. KCP&L did not assume an unrealistic level of sales. KCP&L's LOP Study only included those sales which were economic given the normal limitations of its units, the actual load the Company served, and actual power prices.

Q: At page 5 Ms. Maloney said one of the reasons why KCP&L's level of sales in the LOP Study was unrealistic was that KCP&L did not consider transmission constraints. What transmission constraints did KCP&L incorporate in its LOP Study?

A: KCP&L included the same transmission constraints in its LOP Study that were included in the 40th percentile for OSS margin from Mr. Schnitzer's Direct Testimony analysis which was included in rates that were effective during the 2011 Flood.

Q: At page 6 Ms. Maloney said there is no available history on how Iatan 2 operates. How much operational history does KCP&L have about Iatan 2?

A: Iatan 2 went into service in August 2010. It had been in service for almost a year before the 2011 Flood. At the time Ms. Maloney filed her Rebuttal Testimony, Iatan 2 had been in service for about 24 months of which only 4 months were impacted by the 2011 Flood. That data was available for validating KCP&L's modeling.

Q: At page 6 Ms. Maloney expresses concern about including costs from the KCP&L's June 3, 2011 capacity contract with Westar Energy, Inc. ("Westar") in the deferral request relating to 2011 Flood costs which she refers to as the "Dogwood Capacity Contract." Why did KCP&L enter the June 3, 2011 capacity contract with Westar?

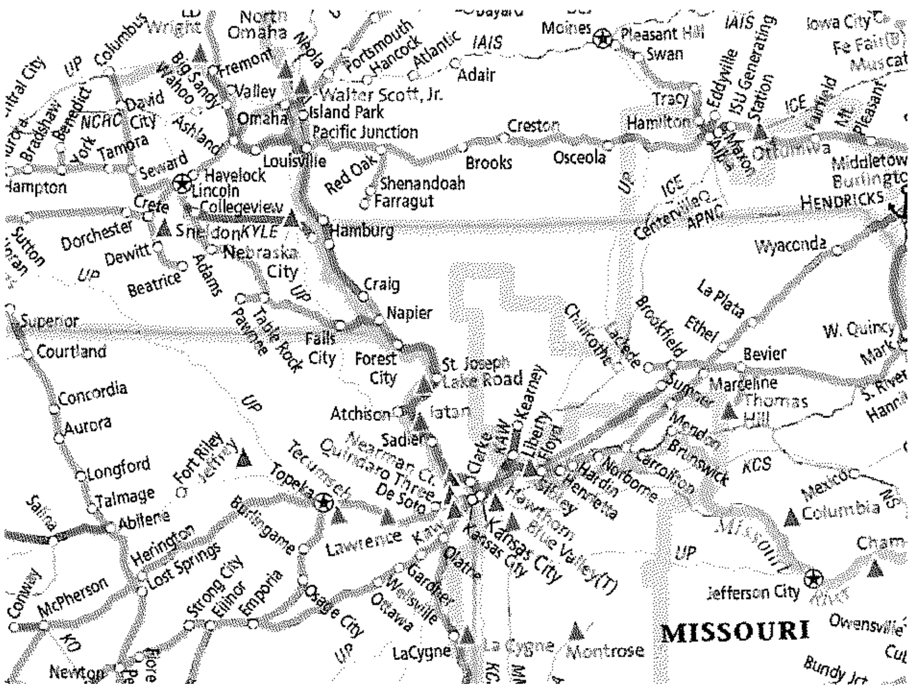
A: In late May 2011 KCP&L faced two major sequential uncertainties with potential material impact on the Company's ability to provide service. Below is a table showing how the Wolf Creek outages and the Missouri River Flood developed, leading KCP&L to purchase capacity in the summer of 2011.

Wolf Creek	Missouri River Flood
March 19 – Start of scheduled refueling outage. Expected completion May 7.	
	April 6 – U.S. Army Corps of Engineers ("USACE") raised forecast runoff to 136% of normal and announced river stages roughly 2 feet above normal but well with channel.
May 7 – Refueling outage extended to May 25.	May 6 – USACE announced expected releases out of Gavin's Point Dam to be 57,500 cfs.
May 22 – Start of forced outage due to ground in main generator rotating field. Event ended June 24.	May 23 – USACE announced expected releases out of Gavin's Point Dam to be 60,000 cfs and slowly ramping to 75,000 cfs in June unless conditions improved.
	May 27 – USACE announced Gavin's Point release rate to be 110,000 cfs by end of June
	May 28 – USACE announced Gavin's Point release rate to be 150,000 no later than mid-June.
June 3 - KCPL executed the "Dogwood Capacity Contract" with Westar due to uncertain operation of Wolf Creek expected for June and uncertain impact of impending Missouri River flood on coal deliveries.	

Q: Why did KCP&L believe it needed the June 3, 2011 Dogwood Energy, LLC ("Dogwood") Capacity Contract for the 2011 Flood?

A: As the map below shows, the Burlington Northern Santa Fe Railroad ("BNSF") mainline that serves Hawthorn, Iatan, and LaCygne runs parallel to the Missouri River from Iowa to Kansas City. A severe flood on the Missouri River would disrupt that traffic flow. In anticipation of the 2011 Flood, BNSF had already taken train sets out of service. A quick analysis of available generation, projected peak demand, and committed sales showed that with Hawthorn, Iatan, and LaCygne at minimum load, KCP&L expected to be **[redacted]** short in July and **[redacted]** short in August. If those units were unable to operate, KCP&L would have been **[redacted]** short in July and **[redacted]** short in August.

Map of Burlington Northern Santa Fe Railway Near Missouri River



Q: How did KCP&L split the costs associated with the June 3, 2011 Dogwood Capacity Contract between the Wolf Creek outage extensions and the 2011 Flood?

A: The two events were sequential. There was no overlap. The Wolf Creek outage extensions started in late May and ended near the end of June. The 2011 Flood forced KCP&L to curtail generation from July into October. The costs associated with the capacity purchase for June were assigned to the Wolf Creek outage. The costs for July and August were assigned to the 2011 Flood.

Q: Would KCP&L have purchased Dogwood capacity for July and August absent the 2011 Flood?

A: No. We may have still purchased capacity for the month of June but we would not have purchased the Dogwood capacity for July and August absent the impending flood.

Q: At page 7 Ms. Maloney asserts: "It is inappropriate to use the actual values that occurred during the flood because these actual values were not independent of the conditions which occurred during the flood." She goes on to argue that KCP&L should have used normalized data. Are there problems with using normalized data for the AAO as it relates to the forgone OSS margins?

A: Yes. As Michael M. Schnitzer explained page 16 of his Direct Testimony in Case No. ER-2010-0355:

> Third, I [Michael Schnitzer] calculated the total available capacity for each unit, taking into account both planned outages and scenario-specific forced outages as well as any long-term sales agreements and load obligations that could reduce the capacity available to serve KCPL's native load.

To use normalized data as suggested by Ms. Maloney would have been entirely inconsistent with how the OSS margin as incorporated in rates was projected in the first place.

Q: Would it be inconsistent with the purpose of this deferral request, which was initiated as a request for an accounting authority order (AAO), to use normalized data as suggested by Ms. Maloney?

A: Yes. As explained by Staff witness Oligschlaeger, "The most common example of AAOs in this jurisdiction are orders from the Commission allowing a company to defer on its books costs associated with 'extraordinary events,' such as natural disasters or so-called 'Acts of God.'"[5] The Company does not record normalized data in lieu of actual costs in its books.

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[5] Rebuttal Testimony of Mark L. Oligschlaeger, Case No. ER-2012-0174, p. 5.

Q: Also at page 7 Ms. Maloney said it was "inappropriate to look at just three months of data." Why did KCP&L only look at three months of data?

A: Actually, KCP&L's LOP Study looked at four months of data. KCP&L only included the four months during which generation was curtailed by coal conservation in its request.

Q: Later in that same paragraph on page 7 Ms. Maloney concludes that "sales made during the rest of the year should be considered as offsets to those that may not have been generated during the flood." Did KCP&L consider sales made during the rest of the year in its requested deferral?

A: Yes. As explained at page 4 of Mr. Rush's Supplemental Direct testimony,

> Therefore, KCP&L requests that the Commission authorize the Company to establish a separate Account 182.3 regulatory asset to which KCP&L would defer the lesser of the impact of the Missouri River flooding on OSS margins calculated in the Company's Coal Conservation Study (**[redacted]**, as discussed by Mr. Bresette) or the actual shortfall for the accumulation period (in other words, the actual margins versus the amounts included in base rates).

When Mr. Rush said "the lesser of," he included the sales from the rest of the year as an offset against the flood related loss.

Q: At page 7 Ms. Maloney discusses normalized plant dispatch and normalized outages. She concludes it was "inappropriate to pick and choose specific instances in which actual dispatch may have varied from 'normal' dispatch as requested by KCPL." Did KCP&L pick and choose specific instances in which actual dispatch may have varied from normal dispatch?

A: No. KCP&L used actual forced outages for the LOP Study period. That was shown in Schedule WEB-4, attached to my Supplemental Direct Testimony. Schedule WEB-4 compares the actual daily generation with the LOP Study generation for Hawthorn, Iatan, and LaCygne. The top line in each chart represents the LOP Study generation and the bottom line represents the actual generation. The sharp dips in the top line correspond with the sharp dips in the bottom line. Those sharp dips represent forced outages or forced derates. If a unit suffered a forced outage not caused by the 2011 Flood, we did not assume it would have been available while the 2011 Flood was adversely affecting the Company.

Q: At page 8, Ms. Maloney is suggesting that a portion of the June 3, 2011 Dogwood Capacity Contract was entered into for the benefit of KCP&L Greater Missouri Operations Company ("GMO"). Was the June 3, 2011 capacity contract entered into for the benefit of GMO?

A: No. Ms. Maloney apparently bases her allegation the use of the word "bulk" in a data request response which she quotes but fails to set forth the original question.

Q: What was the question that Ms. Maloney left out of her testimony that led KCP&L to discuss the capacity purchases for both KCP&L and GMO in the same reply?

A: Data Request No. 272 referenced a meeting with KCP&L, Office of Public Counsel and the Staff held on February 29, 2012 in Jefferson City. Item 7 asked:

> 7. Identify and explain all reasons why the 2011 Dogwood Capacity Agreement was assigned exclusively to KCPL and none of the costs were assigned to GMO.

Both KCP&L and GMO had contracts with Westar for capacity from Dogwood for the summer of 2011. Of the total Dogwood capacity purchased from Westar, the "bulk" of it was the KCP&L contract. Staff's Report in GMO's Rate Case No. ER-2012-0175 at page 175 provides a more precise description of the two contracts and shows how KCP&L represented the "bulk" of the capacity purchased from Dogwood.

On ** [redacted] ** because GMO was going to be short of capacity. GMO assigned ** [redacted] ** to meet GMO's capacity needs.

On ** [redacted] ** due to the Missouri River flood. ** [redacted] **

Q: Also at page 8 Ms. Maloney said, "... it is inappropriate to include capacity costs related to the Wolf Creek outage in a Flood AAO, as requested by KCPL." Did KCP&L include any of the capacity costs related to the Wolf Creek outage in the 2011 Flood AAO request?

A: No. KCP&L did not include any of the capacity costs related to the Wolf Creek outage in the 2011 Flood AAO.

Q: Ms. Maloney goes on to say at pages 8-9 of her rebuttal that it is not possible to reasonably assign capacity costs between the Wolf Creek outage and the 2011 Flood. Was there a clear and reasonable method for apportioning the capacity costs between the Wolf Creek outage and the 2011 Flood?

A: Yes. The Company used a simple and straight forward method to apportion the capacity costs between the Wolf Creek outage and the 2011 Flood. The Wolf Creek outage ended Thursday, June 30. Even though the BNSF declared a Force Majeure commencing June 6, KCP&L was not forced to curtail generation until Saturday July 2. KCP&L assigned the capacity costs for June to the Wolf Creek outage and the costs for July and August to the 2011 Flood.

Q: At page 9 Ms. Maloney argues that because KCP&L entered the capacity contract before the onset of the coal conservation measures, it can not reasonably assign those costs to the 2011 Flood. How do you respond to her argument?

A: Ms. Maloney fails to acknowledge the progression of the events related to the flood. Earlier I laid out in table form the rapid change in the USACE (Corps of Engineers) outlook regarding the 2011 Flood. Between April 6 and May 28 the USACE went from expecting a river stage roughly 2 feet above normal but well with the channel to sustained record releases yielding a major flood. One of the lessons KCP&L observed during the 1993 Missouri River flood was that mitigation resources such as additional capacity are sold to the first buyer. In the words of an English proverb, "he who hesitates is lost." KCP&L was concerned that as the primary summer peak months approached had it waited the Dogwood capacity would not be available.

Q: Also at page 9 Ms. Maloney references data submitted by the Company pursuant to Commission Regulation 4 CSR 240-3.190 ("3.190 data") as evidence that KCP&L did not need the energy from Dogwood. Can the 3.190 data be used to support such an inference?

A: As explained by Mr. Bresette, the 3.190 data can not be used to support Ms. Maloney's position.

Q: Why does KCP&L act on behalf of GMO 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 ** [redacted] **

A: **[redacted]**

Q: Why is the average KCP&L/GMO sale price higher than the average Dogwood/KCP&L purchase price for energy?

A: The KCP&L/GMO sale price mainly represents transactions where KCP&L was acting on behalf of GMO. If we use the data reported in KCP&L's FERC Form 1, we can identify the true price for power that KCP&L sold to GMO from its own resources. The actual average price at which KCP&L sold to GMO is essentially the same as the price KCP&L sold to all other parties.

Q: What does the FERC Form 1 data tell us about the actual average price at which KCP&L sold to GMO is essentially the same as the price KCP&L sold to all other parties?

A: The FERC Form 1 data can be used to show that average price GMO pays KCP&L is very close to the price KCP&L receives from its other OSS. The table below recaps the sales KCP&L made to parties other than GMO and the sales KCP&L made to GMO from its resources and not acting on behalf of GMO.

	KCP&L OSS to Other than GMO			KCP&L Sales to GMO from KCP&L Resources		
Year	MWh	Value	$/MWh	MWh	Value	$/MWh
2010	5,769,963	$179,949,527	$31.19	280,984	$8,926,008	$31.77
2011	4,568,853	$141,640,837	$31.00	596,118	$17,801,107	$29.86

Mr. Bresette gives a more complete discussion of what the FERC Form 1 data shows about KCP&L's OSS transactions.

Q: Ms. Maloney concludes at page 10 of her rebuttal with a recommendation to deny KCP&L's request to defer its increase in fuel and purchased power expense, arguing that KCP&L's cost estimates are inaccurate and not the result of the 2011 Flood. Given your testimony above that the fuel and purchased power costs were caused by the 2011 Flood, why are the cost calculations presented by KCP&L sufficiently accurate and appropriate for determining the proper deferral of cost increases?

A: The modeling we used to calculate the fuel and purchased power cost increases is essentially the same modeling we use to calculate the OSS margin that is credited to our customers. Since the Commission has approved the method by which KCP&L calculates OSS margins to determine credits for its customers, such method and modeling must be reasonable and sufficiently accurate to determine the increases in fuel and purchased power expense due to the 2011 Flood.

Q: **Ms. Maloney's final recommendation at page 10 of her rebuttal is to "deny KCPL's request to defer and record to a regulatory asset account an amount they had hoped to make in OSS margin." Does KCP&L receive any benefit from OSS margin?**

A: No. All of the OSS margin that KCP&L makes is credited to its customers. Moreover, the OSS margin is typically credited to customers before KCP&L makes the margin.

Q: **What do you mean "the OSS margin is typically credited to customers before KCP&L makes the margin"?**

A: KCP&L's OSS margins are not equally distributed over the year. In the Rebuttal Testimony of V. William Harris, Schedule VWH-2 shows that typically the Company earns most OSS margins after August. The OSS margins included in rates were a projection for the first year rates were to be effective. For the 2010 Rate Case that was May 2011 through April 2012. That annual value was effectively divided by the retail sales volume to derive a cents per kwh credit or reduction in the retail rates the Company would have otherwise charged. That the current rates were effective May 2011 coupled with the fact that the Company's retail sales which credited with the OSS margins peak in July and August means the Company credited customers with a significant level of OSS margins before it was expected to be earned.

Q: **Do you have any issues with Ms. Maloney's reference to deferral of "an amount they had hoped to make in OSS margin"?**

A: Yes. The 40th percentile OSS margin value included in rates was determined by the Commission. The value included in rates did not represent KCP&L's recommendation.

KCP&L had recommended inclusion of the 25th percentile of OSS margin as determined at true-up. It was the 40th percentile OSS margin based on preliminary data in the Company's direct testimony filing that was included in rates.

Q: Do you have any other issues with Ms. Maloney's assertion that "they had hoped to make in OSS margin"?

A: Yes. If the 40th percentile OSS margin value included in rates is a "hoped" for number, then it could be viewed as speculative and unreasonable to include in rates. As it is, however, the Commission clearly did not have that opinion. The Commission found in KCP&L's last rate case: "The 40th percentile is also conservative and easily achievable in that it represents a point where KCP&L has a better than equal probability of meeting or exceeding expectations."[6]

Q: Does the Company make any money from OSS margins?

A: No. OSS margins are treated as a credit to retail customers and a reduction to retail rates.

Q: Are all of KCP&L's OSS margins credited to its customers?

A: Actually, more than all of the OSS margins are credited to retail customers. As noted by the Commission at page 133 of its Report and Order in the 2010 Rate Case, KCP&L credits customers with one dollar and five cents for every dollar it makes in OSS because of jurisdictional allocation issues between Missouri and Kansas. More specifically the Commission decided in that Report and Order at page 141:

> Decision – Off-system Sales
> The Commission finds this issue partially in favor of KCP&L and partially in favor of the Industrials and Staff. KCP&L's rates shall be set at the 40th percentile of non-firm off-system sales margin as projected by KCP&L, as listed in KCP&L witness Schnitzer's Direct Testimony. Margins above the 40th percentile shall be returned to ratepayers in a subsequent rate case or cases. The adjustments to the projection as recommended by KCP&L

[6] Report and Order, Case No. ER-2010-0355, p. 136.

> witness Crawford shall be included as components of the off system sales margins.

In other words, all of the OSS margin is either included in rates or to be returned in future rates.

II. Rebuttal of Mark Oligschlaeger

Q: Did either Mr. Oligschlaeger or Ms. Maloney recognize the likely interruptions of service that would have occurred had KCP&L lost Iatan, LaCygne, and Hawthorn simultaneously during the summer peak months of July and August?

A: Neither Mr. Oligschlaeger nor Ms. Malone recognized the potentially dire consequences of the simultaneous loss of Iatan, LaCygne, and Hawthorn during the summer peak months of July and August.

Q: Did KCP&L run out of coal at any of its plants because of the 2011 Flood?

A: No. KCP&L effectively managed the 2011 Flood primarily by curtailing or forgoing OSS and purchasing power.

Q: Does that mean KCP&L deliberately did not make OSS?

A: Yes. KCP&L chose to forgo OSS and conserve coal at its facilities in order to avoid depleting its coal supply at Iatan, LaCygne and probably Hawthorn. If KCP&L had run out of coal at all of those plants, the consequences would have been extremely severe and expensive. KCP&L does not have the firm transmission resources necessary to replace all of those units simultaneously. It is very likely that KCP&L's customers would have suffered interruptions of service.

Q: Mr. Oligschlaeger states on page 11 of his rebuttal that the OSS margin deferral should be denied because it did not negatively affect the Company's "ability to provide safe and adequate service to its customers." Do you believe that the OSS

margin deferral request is related to the Company's "ability to provide safe and adequate service to its customers?"

A: Yes. KCP&L chose to constrain OSS in order to conserve coal so that its generation fleet would be able to provide safe and adequate service to its customers during the hot summer peak months of July and August.

Q: Does the Staff recommendation appear to say that KCP&L should be penalized because it tried to protect its customers from service interruptions?

A: That is the way I read Staff's testimony. Staff is recommending that KCP&L be penalized because it took the actions necessary to provide safe and adequate service to its retail customers during a time of extraordinary events presented by the 2011 Flood.

Q: At page 12 Mr. Oligschlaeger stated: "Staff asserts that the 2011 flooding event should not affect the allocation of OSS risk in the least." Is the Company asking the Commission to change the allocation of OSS risk that was included in KCP&L's 2010 Rate Case revenue requirement?

A: No. As Mr. Bresette states on page 12 of his Surrebuttal Testimony,

> the Company is simply asking the Commission to recognize what Mr. Oligschlaeger has acknowledged, i.e., no party to KCP&L's 2010 Rate Case specifically incorporated the risk of a severe flood in the OSS margin included in KCP&L's 2010 Rate Case revenue requirement. Certainly the Commission did not do so in its decision.

III. Recommendation

Q: What is your recommendation regarding KCP&L's 2011 Flood deferral request?

A: I recommend the following:

1. The Commission reject Staff's recommendation to deny the Company's request to defer the incremental increase in fuel and purchased power expenses caused by the 2011 Flood.

2. The Commission reject Staff's recommendation to deny the Company's request to defer the OSS margins lost caused by the 2011 Flood.

3. The Commission grant KCP&L authority to defer the non-fuel operations and maintenance costs associated with the 2011 Flood and amortize such costs over five years.

4. The Commission grant KCP&L authority to defer the incremental increase in fuel and purchased power expenses caused by the 2011 Flood and amortize such costs over five years.

5. The Commission grant KCP&L authority to defer the OSS margins lost caused by the 2011 Flood and amortize such costs over five years.

Q: Does that conclude your testimony?

A: Yes, it does.

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-2012-0174

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 Kansas City Power & Light Company consisting of twenty-four (24) 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 8th 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