

Exhibit No.:
Issue: Fuel Adjustment Clause
Witness: Wm. Edward Blunk
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2012-0175
Date Testimony Prepared: November 13, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0175

TRUE-UP REBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
November 2012**

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

TRUE-UP REBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

Case No. ER-2012-0175

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

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

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

6 A: Yes.

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

8 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company (“GMO” or
9 the “Company”) and its St. Joseph Light & Power (“L&P”) and Missouri Public Service
10 (“MPS”) service territories.

11 **Q: What is the purpose of your True-Up Rebuttal Testimony?**

12 A: My testimony responds to Staff witness V. William Harris’s True-Up Direct Testimony
13 and refutes his assertion on page 2 that “KCPL (acting as GMO’s ‘agent’) has the
14 opportunity to realize retail profit margin on purchases it makes for GMO while passing
15 the cost of the purchases on to GMO.” Mr. Crawford responds to Staff’s assertions
16 regarding negative margins.

1 Q: Multiple times Mr. Harris has claimed that Great Plains Energy Incorporated
2 (“GPE”) or Kanas City Power & Light Company (“KCP&L”) has the opportunity
3 to profit from GMO’s fuel adjustment clause (“FAC”). Is GPE using GMO’s FAC
4 to maximize profits as suggested by Mr. Harris?

5 A: No. GPE is not engaged in the unethical misuse of GMO’s FAC as conjectured by Mr.
6 Harris. Years ago the Company put in place policies or procedures to prevent either the
7 deliberate or inadvertent misuse of GMO’s FAC that Mr. Harris speculates about.

8 Q: What are the policies or procedures that GPE has in place which prevent the
9 potential misuse of GMO’s FAC that Mr. Harris speculated about?

10 A: There are primarily three different energy markets: real-time, day-ahead, and long-term.
11 GPE’s procedures vary depending upon which energy market GMO is buying power in.

12 In the real-time market KCP&L purchases real-time power for its own use and on
13 behalf of GMO. For hours that GMO needs power, it is charged the weighted average
14 price of the transactions¹ in those hours. ** [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]**

18 In the day-ahead market KCP&L purchases power on behalf of GMO. When
19 KCP&L enters the market to purchase day-ahead power for GMO, the trader knows
20 which company needs the power and records the specific transaction to the company
21 needing the power. The decision about whether the transaction will be assigned to
22 KCP&L or GMO is made before the trader approaches the market. When GMO

1 purchases day-ahead power, it conducts market surveys using Instant Messenger, phone,
2 and electronic trading platforms such as the Intercontinental Exchange (ICE). ** [REDACTED]

3 [REDACTED]
4 [REDACTED]**
5 GMO evaluates a KCP&L offer with the other offerings in the market survey. Once
6 GMO determines the asking prices for energy and the available sources and sinks, it
7 evaluates transmission availability, congestion risk and the diversification of its portfolio.
8 System reliability weighs heavily in selecting a winning counterparty and, depending on
9 system conditions, may be the deciding factor.

10 In the capacity and longer term forward power markets, requests for proposals
11 (“RFP”) are issued in the name of GMO. When KCP&L responds to one of GMO’s
12 RFPs, it makes a concerted effort to submit its proposal to GMO within 24 hours with the
13 intent of being the first to respond to the RFP. This is done in a deliberate effort to
14 establish KCP&L’s price before any other proposals are received so anyone would know
15 that KCP&L did not use information from competing proposals to underbid competitors
16 or otherwise construct a more favorable proposal.

17 **Q: Why doesn’t KCP&L act as “agent” and purchase GMO’s power in the capacity
18 and longer term power markets?**

19 **A:** In the capacity and longer term power markets there is more time to analyze issues such
20 as lack of transmission which may be associated with some options. Furthermore, the
21 benefits that I previously identified when KCP&L acts as agent for GMO are not as

¹ As described in Schedule WEB-4 (**Highly Confidential**), the weighted average is constructed from transactions that are similar in hour and duration. They do not include long-term transactions nor do they include transactions from call options or capacity with energy that can be scheduled.

1 significant when the parties to such transactions have more time to work through these
2 issues.

3 **Q: When KCP&L is acting as GMO's "agent" by purchasing power on the open
4 market and then makes sales to GMO at market rates is KCP&L able to profit?**

5 A: No. GPE procedures prevent KCP&L from profiting when it is acting as agent for GMO.
6 In the day-ahead market, KCP&L buys and sells to GMO the power that GMO expects to
7 need for the next day. GMO is charged the same price that KCP&L pays for that power.
8 KCP&L makes zero profit on those sales. A different approach is followed in the real-
9 time market, but the result is the same in that KCP&L does not profit when acting as
10 GMO's "agent."² Those procedures are attached as Schedule WEB-4 (**Highly**
11 **Confidential**), which is a copy of our response to Data Request No. 0487 in Case No.
12 ER-2012-0174.

13 **Q: Do those same procedures keep KCP&L from "keep[ing] the 'prime' piece of the
14 power and pass[ing] the less desirable part on to GMO," as Mr. Harris claims at
15 page 4 of his True-Up Direct testimony?**

16 A: Yes. GPE procedures not only keep that from happening, but they benefit GMO without
17 harming KCP&L. In addition to the various other benefits that GMO receives when
18 KCP&L acts as GMO's agent, as I identified in my October 10, 2012 Surrebuttal
19 Testimony at pages 9-10, the averaging process effectively gives GMO the benefit of a
20 larger portfolio of purchases.

² As explained in Ryan Bresette's True-Up Rebuttal Testimony at page 4, there may be an immaterial amount of profit or loss due to the mathematics of the averaging process used for real-time pricing.

1 Q: Did Mr. Harris provide any examples of where GPE was profiting from GMO's
2 FAC?

3 A: No. Mr. Harris claims to have provided an example, but what he cites does not represent
4 the unethical misuse of GMO's FAC that he suggests. In fact, his example illustrates just
5 the opposite.

6 Q: How does GMO's practice of buying blocks of power benefit its customers?

7 A: As Mr. Harris explained, GMO will purchase blocks of power in pursuit of better pricing
8 than buying spot power real-time over the peak hours. A "5x16" block covers the 16
9 hours of 6:00 a.m. through 10:00 p.m. for the five weekdays. When GMO buys 5x16
10 blocks, they are typically purchased using the RFP process that I described above for
11 longer term power markets. Those purchases may be made several months before the
12 delivery month. It avoids "putting all of our eggs in one basket" and waiting to buy all of
13 the expected power requirements in the spot market with its inherent risk of price
14 volatility. It is in part how the Companies manage power delivery and price risk, and is
15 an important part of maintaining system reliability.

16 Q: Does that mean that the ** [REDACTED] ** negative OSS margin Mr. Harris identified
17 would be better characterized as part of GMO's purchased power expense?

18 A: Yes. While not technically correct from an accounting perspective, the ** [REDACTED] **
19 negative OSS margin Mr. Harris identified would be better thought of as part of GMO's
20 purchased power expense. GMO incurred those losses in the pursuit of less volatile and
21 lower purchased power costs.

1 Q: **Could GMO avoid the negative OSS margins?**

2 A: Yes, but that would expose GMO and its customers to more price volatility in the real-
3 time market, increased power delivery risk, and increased risk to system reliability.

4 Q: **What else does Mr. Harris ignore in his analysis?**

5 A: ** [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]**

11 Q: **What do you recommend?**

12 A: Staff's theories regarding KCP&L's "opportunity to realize retail profit margin" from
13 GMO's FAC are not only unfounded, but are contrary to the facts. Therefore, I
14 recommend that the Commission reject Staff's baseless speculation, and instead find that
15 KCP&L's actions were designed to prevent the inadvertent or deliberate misuse of
16 GMO's FAC and that its conduct when it acted as GMO's agent was proper.

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

18 A: Yes.

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

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

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.

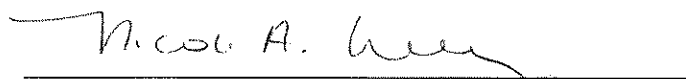
2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of Six (6) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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 13th day of November, 2012.



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

SCHEDULE WEB-4
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