Exhibit No.:	
Issue:	Natural Gas Prices for OSS Modeling
Witness:	Wm. Edward Blunk
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2009-0089
Date Testimony Prepared:	April 7, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

SURREBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2009

SURREBUTTAL TESTIMONY

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WM. EDWARD BLUNK

Case No. ER-2009-0089

Q: Are you the same Wm. Edward Blunk who pre-filed Direct Testimony and Rebuttal Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company")?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: My Surrebuttal Testimony responds to Staff Witness Michael S. Proctor's Rebuttal Testimony regarding which natural gas prices should be used to drive the distribution for margins in the NorthBridge Model and KCP&L's production (generation) costs.

Q: What is your understanding of Dr. Proctor's recommendation?

A: As I understand it, Dr. Proctor recommends using "the same natural gas prices" for both the distribution for margins in the NorthBridge Model and KCP&L's production (generation) costs. In other words, Staff is proposing using historical natural gas prices to project the future electricity prices used to determine the distribution of projected off-system sales margins.

Q: Why are different natural gas prices being used to drive the distribution for margins in the NorthBridge Model and KCP&L's production (generation) costs?

A: As the Commission noted in its decision on page 39 of the Report and Order in Case No. ER-2007-0291, the non-firm off-system sales margin is "**projected**" [emphasis added].

Because the non-firm off-system sales margin is projected, projected natural gas prices are used to project the corresponding electricity prices. On the other hand, production fuel expense is based on a normalization of a historical test period. Consequently, production fuel costs are constructed from corresponding historical prices.

Q: Were different natural gas prices used to drive the distribution for margins in the NorthBridge Model and KCP&L's production (generation) costs in the Company's prior cases?

A: Yes. In both ER-2006-0314 and ER-2007-0291 the Commission ordered the use of projected non-firm off-system sales margins which where developed using projected natural gas prices. Also in both of those cases, production fuel costs were developed using historical prices which were representative of the normalized test period.

Q: Do you have any concerns with Staff's proposal to use historical natural gas prices for projecting the distribution for margins in the NorthBridge Model?

A: Yes, my concern with Staff's proposal to use historical natural gas prices for projecting non-firm off-system sales margin deals with the recent fundamental changes in the natural gas market. Those changes have depressed natural gas prices, and as this Commission noted on page 37 of its Report and Order in Case No. ER-2007-0291, drops in the price of natural gas can cause drops in the price of electricity.

Q: How have natural gas markets changed since 2008?

A: Since about July 2008 commodity markets in general have lost significant value. Natural gas is not an exception. For example, NYMEX's April 2009 contract for natural gas closed on July 1, 2008 at $11.927 but expired on March 27, 2009 at $3.631. Natural gas prices have been hit hard by multiple factors. The severe economic downturn has deflated natural gas demand. At the same time, new supplies of natural gas production are coming to market. The "game changer" in supply has been shale production. This unconventional gas source is having a major impact on the natural gas industry. At least one firm estimates that current excess supply is about 4.0 to 5.0 BCFD. The natural gas market paradigm has changed from one characterized by tight supplies and high prices to one of over-supply and soft prices. These fundamental changes are key factors driving the forward price of natural gas down.

Q: Did Staff address this recent shift in the market paradigm for natural gas when it proposed using historical natural prices to project non-firm off-system sales margin?

A: While Dr. Proctor concluded "*that the drop in forward natural gas prices is the key driver for the drop in KCPL's forecast of electricity price,*" he did not discuss the substantial fundamental changes in the natural gas market. He did however discuss a corresponding change in the electricity market and stated in his Rebuttal Testimony, "*this drop in KCPL's forecast of electricity prices is consistent with what was taking place in electricity markets where forward trading has developed. This drop in forecasted electricity prices is also consistent with the drop in spot electricity prices that began in August 2008 in the SPP electricity markets*." [See Rebuttal Testimony of Michael S. Proctor, page 6, lines 5-10]

Q: Did Staff discuss any abnormalities in the historical natural prices it proposed to use to project non-firm off-system sales margin?

A: Not directly. Dr. Proctor discussed how natural gas prices were a key driver in KCP&L's forecast of electricity prices. He also described some of the electricity prices from the historical period as "abnormal." Specifically he explained how some of the electricity prices in his proposed test period are, "*…the highest prices observed over the past history of active wholesale power markets, including the very high prices that occurred in 2005 following hurricanes Rita and Katrina. These prices were clearly abnormal when compared to prices in April and May, August and September of the same year, and were significantly higher than the June and July prices observed in the previous year.*" He did not explain if the natural gas prices were also abnormal. While proposing to normalize some of the electricity prices he did not propose to normalize the natural gas prices. [See Rebuttal Testimony of Michael S. Proctor, page 11, lines 4-9]

Q: Please summarize your conclusion.

A: The Commission should continue to use projected natural gas prices when projecting non-firm off-system sales margins.

Q: Does this 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 Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

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 Manager, Fuel Planning.

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 Four (4) pages ~~and Schedule(s) ____-____ through ____-____~~, 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 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 7th day of ~~March~~ April 2009.

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