

Exhibit No.:
Issue: Fuel Expense
Witness: Wm Edward Blunk
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2006-0314
Date Testimony Prepared: September 8, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2006-0314

REBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
September 2006**

*** [REDACTED] *** Designates that "Highly Confidential"
Information has been Removed
Pursuant To The Protective Order In This Case.

REBUTTAL TESTIMONY

OF

WM. EDWARD BLUNK

Case No. ER-2006-0314

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 ("KCPL") as Supervisor, Fuel
6 Planning.

7 **Q: Are you the same William Edward Blunk who pre-filed direct testimony in this**
8 **case?**

9 A: Yes, I am.

10 **Q: What is the purpose of your rebuttal testimony?**

11 A: My rebuttal testimony responds to the Office of Public Counsel's ("OPC") witness
12 Ralph C. Smith's testimony regarding recovery of the Surface Transportation Board
13 ("STB") rail rate complaint case costs.

14 **Q: What is your understanding of OPC's recommendation regarding recovery of the**
15 **STB case costs?**

16 A: OPC recommended that KCPL not be permitted to recover any of the expense associated
17 with the STB rail rate complaint case.

1 **Q: What do you expect from the STB case?**

2 A: KCPL filed its rate complaint case with the STB on October 12, 2005. Since that time,
3 the STB has issued a decision in a separate case and initiated a rulemaking proceeding,
4 both of which have increased the uncertainty of the outcome in KCPL's case.

5 In a decision issued on January 27, 2006, the STB found that Otter Tail Power
6 Company ("Otter Tail") failed to establish that the rates it contested on January 2, 2002,
7 (STB Docket No. NOR_42071_0) were unreasonably high and dismissed the complaint.
8 As I understand it, the STB came to that conclusion after it revised a fundamental
9 assumption regarding the construction and operation of a hypothetical "stand-alone"
10 railroad. (The STB will only prescribe rates if it finds that a challenged rate is greater
11 than the cost of operating a hypothetical "stand-alone" railroad and 180 percent of the
12 railroad's variable cost for the contested move.) Moreover, the STB included in its order
13 information suggesting that the contested rate was significantly less than the minimum
14 rate it would prescribe.

15 On February 27, 2006, the STB instituted a rulemaking proceeding (Ex Parte
16 No. 657 (Sub-No. 1)) to address major issues regarding the proper application of the
17 stand-alone cost test in rail rate cases and the proper calculation of any rail rate relief.
18 The STB identified five major issues that it plans to address in the rulemaking, any one of
19 which may have significant bearing on any STB rate prescription. Moreover, the order
20 initiating STB Ex Parte No. 657 (Sub-No. 1) declared that the changes in determining rail
21 rate relief that are adopted as a result of the rulemaking will be applied to KCPL's case.
22 As part of that order, the STB suspended KCPL's case until the Ex Parte No. 657
23 (Sub-No. 1) proceeding is closed.

1 Without knowing the new rules the STB will use to calculate any rail rate relief, it
2 is impossible to estimate such relief. Prior to the Otter Tail decision and the STB's
3 initiation of Ex Parte No. 657 (Sub-No. 1), KCPL estimated that potential freight cost
4 savings ranged from ** [REDACTED] **. That range of rate
5 prescriptions combined with other uncertainties would have resulted in a range of refunds
6 from ** [REDACTED] **. KCPL expected those refunds to be fully
7 unencumbered at the conclusion of the railroad's probable appeal or sometime in the first
8 quarter of 2009. By suspending KCPL's case, the STB's rulemaking will delay an order
9 in the Company's case and receipt of any refunds. Moreover, KCPL expects that the
10 rulemaking will affect any rate prescription and the amount of the associated refunds.

11 ** [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED] **

15 **Q: What is your recommended treatment of the STB case costs?**

16 **A:** I recommend that we treat the costs related to the STB case as a regulatory asset. Those
17 costs would then be amortized to expense over five years beginning in January 2007, the
18 month when electric rates for this proceeding will go into effect. If the STB complaint
19 case results in a refund, any refund received by KCPL would first offset any existing
20 balance of STB case costs in the regulatory asset, with the remainder of the refund
21 offsetting fuel costs as determined in a future proceeding.

1 **Q: Why are you recommending this treatment?**

2 A: There are multiple reasons why I am recommending that the costs related to the STB case
3 be amortized starting in 2007. Beginning in 1982, KCPL has filed four cases with the
4 STB and its predecessor the Interstate Commerce Commission ("ICC"). On average that
5 would be a case about every five years. ** [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED] **

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

15 A: Yes, it does.

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007