

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**TESTIMONY
OF
GREG A. GREENWOOD
IN SUPPORT OF NON-UNANIMOUS STIPULATION AND AGREEMENT
WESTAR ENERGY, INC.**

DOCKET NO. 18-WSEE-328-RTS

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME.**

3 A. Greg A. Greenwood.

4 **Q. ARE YOU THE SAME GREG GREENWOOD WHO ASSUMED**
5 **THE DIRECT TESTIMONY OF MARK RUELLE AND FILED**
6 **REBUTTAL TESTIMONY IN THIS DOCKET?**

7 A. Yes.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN SUPPORT**
9 **OF THE STIPULATION AND AGREEMENT?**

10 A. I will provide testimony in support of the Non-Unanimous Stipulation
11 and Agreement (S&A) reached between Westar Energy, Inc. and
12 Kansas Gas and Electric Company (together as "Westar"), Staff of
13 the State Corporation Commission of the State of Kansas (Staff),

1 Citizens' Utility Ratepayer Board (CURB), Kansas Industrial
2 Consumers Group, Inc., on its own behalf and on behalf of its
3 members (KIC)¹, Unified School District No. 259 (USD 259),² The
4 Kroger Co. (Kroger), U.S. Department of Defense and all other
5 Federal Executive Agencies (DOD/FEA), HollyFrontier El Dorado
6 Refining LLC (Frontier), Wal-Mart Stores, Inc. (Wal-Mart), Tyson
7 Foods, Inc., the Topeka Metropolitan Transit Authority,³ and The
8 Kansas State Board of Regents⁴ (referred to collectively as the
9 "Parties"). I will discuss how the S&A complies with the
10 Commission's standard for approval of settlement agreements.

11 **II. BENEFITS OF SETTLEMENTS**

12 **Q. WHAT IS THE COMMISSION'S VIEW OF SETTLEMENTS?**

13 A. I understand that the Commission – and Kansas law – strongly favors
14 settlements. The Commission has explained:

15 In general, Kansas favors compromising and settling
16 disputes when the agreement is entered into
17 intelligently, and in good faith. Of the Commission's
18 vast array of cases, settlements are particularly
19 favored when the controversy involves complex
20 litigation taking considerable time and expense to
21 litigate, including the time and expense of multiple
22 appeals.

¹ KIC members that have been admitted as parties to this docket are Cargill, Incorporated, Coffeyville Resources Refining & Marketing, LLC, Occidental Chemical Corporation, Spirit AeroSystems, Inc., CCPS Transportation, LLC, Goodyear Tire & Rubber Company, and Learjet Inc.

² USD 259 signs subject to approval by its Board of Education. KASB signs subject to approval by its board of directors. Counsel for USD 259 and KASB will file a letter with the Commission confirming approval by the Board of Education and KASB board of directors.

³ Counsel for the Topeka Metropolitan Transit Authority has indicated it does not oppose this Stipulation and Agreement.

⁴ The Kansas State Board of Regents was unable to meet to review and approve support for this Stipulation and Agreement; however, counsel for the Board of Regents has indicated that it does not oppose this Agreement.

1 *In Re Atmos Energy*, Order Approving Contested Settlement
2 Agreement, Docket No. 08-ATMG-280-TS, at ¶ 10 (May 12, 2008);
3 *see also Bright v. LSI Corp.*, 254 Kan. 853, 858, 869 P.2d 686, 690
4 (1994) (“the law encourages settlement”).

5 **Q. WHY ARE SETTLEMENTS SUCH AS THE S&A FILED IN THIS**
6 **DOCKET BENEFICIAL?**

7 A. Settlements such as the one we filed in this docket put an end to the
8 time-consuming and expensive litigation process, saving all parties
9 and the Commission the time and cost of an extensive evidentiary
10 hearing. The settlement process involves a significant amount of
11 dialogue among the parties, all of whom have disparate interests.
12 There is a large amount of give and take and the result is an
13 agreement that represents a balance among all the parties with their
14 disparate interests woven into the final agreement reached. As a
15 result, the product of this type of settlement process is a perfect
16 substitute for the evidentiary hearing process that involves cross-
17 examination of witnesses by all the parties. In fact, because the
18 settlement process involves an open and unrestricted dialogue
19 among the parties on a confidential basis, it may even produce a
20 result superior to what would be produced through the hearing
21 process, which is adversarial.

1 **III. SUMMARY OF STIPULATION AND AGREEMENT**

2 **Q. PLEASE DESCRIBE THE TERMS OF THE S&A FILED IN THIS**
3 **DOCKET.**

4 A. We have agreed to an S&A that would implement a revenue
5 requirement decrease of \$66 million, effective September 27, 2018.
6 As part of the S&A, the Parties agreed that there should not be a
7 second step revenue requirement change as initially requested by
8 Westar. This revenue requirement decrease includes the benefits
9 that result from the recent change in the federal corporate tax rate
10 through the Tax Cuts and Jobs Act (TCJA), the impact of updated
11 depreciation rates resulting from depreciation studies conducted by
12 Staff and Westar, inclusion of a levelized revenue requirement for
13 the Western Plains wind farm, the benefits of Westar's efforts to
14 success in refinancing debt since the last rate case, the expiration of
15 the production tax credits that were associated with Westar's initial
16 investment in wind energy ten years ago, and all other aspects
17 necessary to set retail rates. This revenue requirement decrease
18 also reflects the commitments Westar made in the docket where the
19 Commission approved our merger with Great Plains Energy, Inc.,
20 Docket No. 18-KCPE-095-MER (Merger Docket), discussed further
21 below.

22 As part of the agreed-upon revenue requirement increase, the
23 Parties agreed that the \$66 million decrease reflects a total Pension
24 and OPEB expense of \$38,535,911. The revenue requirement

1 decrease also includes up to \$2 million of increased revenue for
2 Westar's Nuclear Decommissioning Trust Fund accrual.

3 This settlement includes a 9.3% stated return on equity and a
4 weighted cost of capital of 7.0570%. This pre-tax rate of return is
5 based on a capital structure of 48.3349% Long-Term Debt,
6 51.2370% Common Equity, and 0.4281% Post 1970 ITC, as
7 supported by Westar and Staff in testimony.

8 The Parties also agreed that Westar should roll into base rates
9 the existing balance in the Property Tax Surcharge (PTS). Including
10 the roll-in of the PTS, the total base rate revenue requirement
11 decrease is \$50,311,893.46. The Parties also agreed that the
12 Kansas jurisdictional, non-transmission related, retail property tax
13 expense that will be in base rates after the rate decrease agreed to
14 in the S&A is \$122,359,118 and that this is the amount that will be
15 the basis for the property tax balance used for purposes of future
16 property tax surcharge filings.

17 The Parties agreed that Westar will provide to customers a
18 one-time bill credit of \$50,027,522 to provide customers with the
19 benefit of the TCJA from January 1, 2018, through the September
20 27, 2018, as proposed by Staff witness Grady. This one-time bill
21 credit will be distributed to customers as recommended by Staff
22 witness Glass. The up-front bill credits related to the merger and this
23 TCJA related credit will be reflected in customer bills beginning the

1 first billing cycle that starts following 60 days after the Commission
2 issues its order in this case. Westar agreed to sync up the timing of
3 these tax credits with the timing of the merger related up-front bill
4 credits that will be provided pursuant to the Commission's Merger
5 Order in an amount of approximately \$23 million for Westar
6 customers. This means that beginning about 60 days after the
7 Commission's order in this docket, customers will see a total of over
8 \$73 million in bill credits on their bills.

9 As I indicated above, the revenue requirement decrease
10 agreed to in the S&A includes the expense associated with updated
11 depreciation rates resulting from depreciation studies performed by
12 Westar and Staff. The S&A will result in an increase to the
13 depreciation expense included in Westar's rates of approximately
14 \$46 million. The S&A makes it clear that Westar's acceptance of the
15 depreciation rates contained in the S&A does not indicate
16 acceptance with all of the policy issues that were used to derive the
17 rates and that agreement to the rates does not indicate acceptance
18 of any depreciation study put forth by any party in the docket. The
19 S&A also includes provisions ensuring that Westar will record
20 depreciation expense related to plants it intends to close in a
21 regulatory liability to be applied to the appropriate accumulated
22 depreciation reserve in the next general rate case proceeding.

1 In Westar's initial Application in this docket, we asked the
2 Commission to approve a second-step rate increase to reflect the
3 lost revenue associated with a wholesale contract with Mid-Kansas
4 Electric Company (MKEC) that expires on January 3, 2019. In the
5 S&A, the Parties agreed that Westar should recover this lost revenue
6 through the Annual Cost Adjustment (ACA) true-up process for its
7 Retail Energy Cost Adjustment (RECA). Specifically, the Parties
8 agreed that the lost revenue from the expiration of the MKEC
9 contract will be reflected in the ACA true-up process following the
10 January 3, 2019 expiration. The Parties further agreed that at the
11 time of Westar's next rate case, Westar will remove the collection of
12 MKEC lost revenue credits from the RECA and adjust base rates
13 accordingly. Any unrecovered revenue credit shortfall will be
14 recovered through the ACA process.

15 The Parties agreed that Westar should be permitted to
16 recover non-Western Plains payments in lieu of taxes (PILOT)
17 payments through its property tax surcharge (PTS), as
18 recommended by Westar and Staff, but that recovery of non-Western
19 Plains royalty payments will remain in base rates as they have been
20 historically, and as proposed by Staff and CURB and will not move
21 to the RECA as was initially proposed by Westar. These royalty
22 payments are included in the revenue requirement decrease agreed
23 to by the Parties. The Parties agreed that certain modifications to

1 the General Terms and Conditions of Westar's Tariff related to direct-
2 buried service lines, as recommended by Staff witness Haynos and
3 proposed in the Errata Filing to John Wolfram's Direct Testimony on
4 May 22, 2018, should be approved. Westar also agreed to review
5 its construction standards to determine if there are reasonable
6 construction methods that can be used for reducing the overall cost
7 of installing conduit for service lines or methods that can reduce the
8 potential for disruption of the ground surface from excavation.

9 The S&A also addressed certain accounting items, including
10 agreement on the expenses associated with Westar's pension plan
11 included in base rates as a result of the S&A for the purposes of
12 calculating Westar's pension tracker going forward, identification of
13 the amortization periods for various regulatory assets and liabilities
14 and for the four categories of excess deferred income taxes resulting
15 from the TCJA and identification of the 12 CP allocation factors that
16 will be used in Westar's transmission delivery charge filings following
17 this general rate case.

18 **Q. WHAT MERGER-RELATED COMMITMENTS ARE REFLECTED**
19 **IN THE REVENUE REQUIREMENT DECREASE CONTAINED IN**
20 **THE S&A?**

21 A. As I indicated in my rebuttal testimony, as part of the Settlement
22 Agreement approved by the Commission in the Merger Docket,
23 Westar agreed to make compromises on certain requests made in

- 1 this general rate case. Those items are reflected in the revenue
2 requirement decrease in the S&A and include:
- 3 • Recommendation of a 9.3% return on equity (ROE);
 - 4 • Agreement to guarantee customers receive at least
5 \$22.5 million of merger savings reflected in rates in this
6 rate case;
 - 7 • Westar's agreement to forego its ability to demonstrate
8 under-earnings at the time of the federal tax law
9 change as an offset to benefits otherwise due to
10 customers from January 1, 2018, through the effective
11 date of new rates in this case (resulting in the
12 approximately \$50 million bill credits for customers
13 discussed above);
 - 14 • Agreement to limit Westar's recovery of transition costs
15 to \$23,183,133, amortized over ten years; and
 - 16 • Agreement to recover the MKEC lost revenue through
17 the RECA.

18 **Q. HOW DOES THE S&A ADDRESS WESTAR'S INVESTMENT IN**
19 **THE WESTERN PLAINS WIND FARM?**

20 A. The Parties agree that the Western Plains Wind Farm will be
21 recovered by Westar through a fixed price PPA approach through
22 inclusion of a levelized revenue requirement in base rates. The
23 revenue requirement decrease agreed to by the Parties and included
24 in the S&A includes a levelized revenue requirement for Western
25 Plains of \$23,697,593. This annual levelized revenue requirement
26 was developed to reflect the total revenue requirement associated
27 with the Western Plains wind farm levelized per year over a 20-year
28 life, based on assumptions made about future operations and

1 maintenance (O&M) costs. At Westar's estimated capacity factor of
2 46.57%, the 281 MW Western Plains would produce 1,144,717
3 MWhs on an annual basis, which equates to a price of \$20.70/MWh
4 based upon the levelized revenue requirement.

5 In order to address concerns raised by some of the Parties
6 about whether Western Plains will perform at the capacity factor
7 estimated by Westar, the Parties agreed that the event that the
8 Western Plains Wind Farm has a capacity factor of less than 44.57%,
9 producing less than 1,095,556 MWhs in any calendar year based on
10 a rolling three-year average beginning in 2020 and using the three-
11 year average for 2018-2020, Westar will provide a credit to
12 customers through its ACA filing to return to customers any shortfall
13 in MWhs from 1,095,556 MWhs, multiplied by \$20.70/MWh.

14 On the other hand, in the event that the Western Plains wind
15 farm has a capacity factor of greater than 48.57%, producing more
16 than 1,193,878 MWhs in any calendar year based on a rolling three-
17 year average, beginning with the three-year average period ending
18 December 2020, the Parties agreed that Westar will be allowed to
19 include a charge in the ACA filing to the benefit of Westar that
20 equates to the difference between the actual production and the
21 1,193,878 MWhs, multiplied by \$20.70/MWh.

22 In the event of changes in law or regulations, or the
23 occurrence of events outside the control of Westar that result in a

1 material adverse impact to Westar with respect to recovery of the
2 Western Plains revenue requirement, the S&A makes it clear that
3 Westar may file an application with the Commission proposing
4 methods to address the impact of the events, including adjusting the
5 credit due to customers through the ACA described above. The
6 other Parties to this settlement retain their rights to contest any such
7 application, including whether the impact of the change or event is
8 material to Westar, and whether the proposed remedy in the
9 application is reasonable.

10 Because under this approach, subject to typical force majeure
11 exceptions as detailed in the S&A, Westar bears all of the risk
12 associated with future variances in O&M costs as well as any future
13 capital maintenance costs, the Parties agreed that Westar is free to
14 realize any residual value of the wind farm at the end of 20-years,
15 which is February 23, 2037. This includes any wholesale margins
16 the wind farm may produce and any asset or land sales related to
17 the acquisition.

18 **Q. HOW DOES THE S&A ADDRESS COSTS ASSOCIATED WITH**
19 **WESTAR'S LEASE OF 8% OF JEFFREY ENERGY CENTER**
20 **(JEC)?**

21 A. As explained in Mr. Bridson's direct and rebuttal testimony and my
22 rebuttal testimony, Westar currently leases 8% of JEC from
23 Wilmington Trust Company (WTC), a Trust held by Midwest Power

1 Company which is a subsidiary of Key Corporation. Westar then
2 sells the power acquired through the lease to MKEC through the
3 wholesale agreement mentioned above. Both the lease with WTC
4 and the MKEC wholesale agreement expire on January 3, 2019.
5 Westar is the operator of JEC and pays the upfront cost for O&M
6 work done at the plant. Currently, Westar's lease payment for the
7 8% of JEC and all of the O&M costs associated with the shares of
8 JEC owned or leased by Westar (which is 92%) are included in
9 Westar's base rates.⁵ The revenues from the sale to MKEC are also
10 included in base rates as an offset to those costs.

11 In its initial Application in this docket, Westar left the lease
12 expense associated with the lease with WTC/Midwest Power
13 Company and the O&M costs associated with that 8% interest in
14 base rates. Several parties raised concerns about leaving those
15 costs in base rates because it is unknown at this time whether
16 Westar will be able to negotiate a new lease with WTC/Midwest
17 Power Company or a purchase of the 8% interest. However, Westar
18 was concerned that if we remove those costs from base rates now –
19 at the beginning of a five-year moratorium – and Westar negotiates
20 a new lease or a purchase of the 8% interest or if WTC/Midwest
21 Power Company becomes the owner of the 8% interest upon
22 expiration of the lease and Westar is unable to collect O&M and/or

⁵ KCP&L owns the remaining 8% of JEC. Westar pays for the upfront cost of all of the O&M at the plant and then bills KCP&L for its share.

1 capital costs from WTC/Midwest Power Company for some reason,
2 Westar could incur significant costs in order to ensure continued
3 operation of JEC without the ability to recover those costs in rates.

4 Thus, in order to address all of these concerns, the Parties
5 agreed that the \$8.3 million of lease payment expense associated
6 with Westar's lease of the 8% interest of JEC that is currently held
7 by WTC will be removed from base rates. This removal is reflected
8 in the revenue requirement decrease agreed to by the Parties in the
9 S&A. In addition, the Parties agreed that the 8% portion of the non-
10 fuel operating and maintenance (NFOM) expense related to the
11 portion of JEC currently held by WTC (that is approximately \$6.9
12 million) will be removed from base rates. This removal is also
13 reflected in the revenue requirement decrease agreed to by the
14 Parties in the S&A.

15 However, in the event that Westar enters into a new lease for
16 this 8% share of JEC, or purchases the 8% portion of JEC outright,
17 the Parties agreed that Westar will be permitted to file a request to
18 recover these expenses (lease expenses and NFOM) through the
19 RECA. If the Commission approves the request for recovery of lease
20 expense and/or NFOM through the RECA, then any additional
21 wholesale sales that are directly attributable to this lease extension
22 or purchase would also be included in the RECA. In order to facilitate
23 Westar's ability to request recovery of the lease expense and/or

1 NFOM, the Parties agreed that Westar can utilize a regulatory asset
2 to defer actual lease expense and/or NFOM associated with the 8%
3 portion of JEC in the event that a new lease or purchase agreement
4 is reached. In the filing before the Commission, Westar shall have
5 the burden of showing that the new lease or purchase agreement is
6 a prudent decision for its retail customers.

7 The Parties agreed that if the Commission approves Westar's
8 request to recover lease expense and/or NFOM through the RECA,
9 it may also include the amortization of the regulatory asset recorded
10 during the pendency of the Commission's review of Westar's request
11 into the RECA. In the event that the Commission denies Westar's
12 filing, Westar shall not be allowed to recover the regulatory asset
13 containing deferred lease and NFOM expenses, and Westar shall be
14 allowed to retain any wholesale sales that are directly attributable to
15 the 8% portion of JEC for which the Commission denies Westar
16 recovery of the incurred cost of owning or leasing and operating the
17 8% portion of JEC. In the event that Westar ends up negotiating a
18 zero-cost transfer of ownership (defined as \$0 or \$1), the Parties
19 agreed that Westar would automatically be entitled to begin
20 recovering actual NFOM expenses and fuel expenses associated
21 with the 8% ownership of JEC without prior Commission approval.

22 Additionally, the Parties agreed that Westar should be allowed
23 to defer any of the 8% of NFOM or capital costs it is unable to recover

1 from WTC/Midwest Power Company (or any other third-party owner)
2 as a regulatory asset. Specifically, the S&A provides that Westar
3 can begin accruing unrecovered costs to the regulatory asset when
4 WTC/Midwest Power Company (or any other third-party owner) is
5 more than 60 days late in making a payment. If WTC/Midwest Power
6 Company (or the other third-party owner) ultimately makes payment,
7 the regulatory asset will be reduced for such payment. At the time
8 of Westar's next general rate case, Westar may request recovery of
9 the balance of unrecovered costs that have been deferred in the
10 regulatory asset upon a showing that Westar made reasonable
11 efforts to recover the costs from WTC/Midwest Power Company, or
12 any other third-party owner. The S&A makes it clear that it does not
13 prejudice Westar's claim for recovery of the unrecovered NFOM and
14 capital costs deferred in the regulatory asset and that recoverability
15 will be determined by the Commission at the time that Westar makes
16 its request for recovery of the regulatory asset, with the Parties free
17 to take whatever position they wish at the time the request is made.

18 Finally, Staff and CURB agree that in the event Westar is
19 unable to recover any of the NFOM or capital costs for which
20 WTC/Midwest Power Company, or any third-party owner is
21 responsible after the expiration of the lease for the 8% portion of
22 JEC, Staff and CURB will consider taking steps to encourage the
23 Commission to exercise its jurisdiction over WTC/Midwest Power

1 Company (or any other third-party owner) and enforce the party's
2 payment obligations.

3 **Q. HOW DOES THE S&A ADDRESS COST ALLOCATION AND**
4 **RATE DESIGN?**

5 A. The S&A allocates the \$66 million revenue decrease to the classes
6 as follows:

Residential	\$ (25,828,735)
Residential Distrib. Generation	\$ (5,000)
Small General Service	\$ (12,154,328)
Medium General Service	\$ (7,890,606)
Large General Service	\$ (10,907,162)
ILP/LTM/ISC/SPCL	\$ (6,065,048)
Schools and Churches	\$ (2,795,604)
Lighting	\$ (353,516)
	\$ (66,000,000)

7 This cost allocation was negotiated by the Parties after lengthy
8 settlement discussions and is supported by parties representing
9 virtually all of the affected classes – CURB for residential and SGS,
10 Wal-Mart and Kroger for MGS, USD 259 and KASB for schools, DOD
11 and KIC for ILP and LGS, and KIC and Frontier for special contracts.

12 With respect to rate design, the Parties agreed that there
13 would be no change to the monthly basic service fee for all residential
14 classes and for SGS customers, as was proposed by CURB. The
15 Parties also agreed that Westar will implement the optional tariffs for
16 residential customers proposed by Westar – Residential Peak

1 Efficiency Rate (“RPER”) and Residential Electric Vehicle (“REV”) –
2 as permanent rate schedules with rates that mirror the rates agreed
3 to for the Residential Distributed Generation (DG) class. Westar
4 agreed to allow customers taking service under the RPER and REV
5 rates a one-year opt out provision, as Westar initially proposed for
6 the RPER rate. The Parties also agreed that Westar should be
7 permitted to establish a regulatory asset or liability account to track
8 the revenue impact of rate switching for customers switching to either
9 the RPER or REV rates, the recovery of which will be determined at
10 the time of the next rate case.

11 With respect to rate design for customers with distributed
12 generation – the Residential DG class that was created during
13 Westar’s last general rate case, the Parties agreed that Westar
14 should implement a three-part rate, with a \$14.50 basic service fee
15 (the same as the basic service fee for other residential customers)
16 and a demand charge of \$9.00/kw for the summer and of \$3.00/kw
17 for the winter, as proposed by Staff.

18 The specific rate design for each class is reflected in Appendix
19 E to the S&A and incorporates proposals made by various parties,
20 including KIC’s “Alternate Proposal for Energy Rate Voltage
21 Differentials,” as described in the Direct Testimony of KIC witness
22 Brian C. Andrews and set forth in Table 8 (p. 23) of Mr. Andrews’
23 Direct Testimony and the transmission-level demand rate

1 differentials for LGS and ILP as reflected in the proposal made by
2 DoD-FEA witness Blank in his Exhibit LB-2.

3 The Parties also agreed that Westar will implement the
4 Electric Transit Rate Schedule using Westar's proposed
5 methodology that was supported by Staff and the Clean Charge
6 Network Rate Schedule using the rate design methodology
7 suggested by Staff. They agreed that Westar will consolidate rates
8 between Westar North and Westar South for the lighting classes –
9 representing the final step in consolidating rates between Westar
10 North and South – and apply the lighting portion of the PTS roll-in to
11 all lights. Westar also agreed to conduct a formal lighting cost study
12 for consideration in its next general rate case, as was recommended
13 by Staff.

14 Westar agreed to certain reporting requirements for the new
15 RPER and REV rates and the Residential DG class. Specifically, for
16 the RPER and REV rates, Westar will submit an annual report to the
17 Staff and CURB that includes the number of customers participating
18 in the voluntary programs, the number of customers that chose to
19 opt-out, and a report regarding the participants' change in energy
20 consumption. For the Residential DG class, Westar will submit an
21 annual report to Staff and CURB that includes the number of
22 residential DG customers taking service from the RS-DG, the
23 demand charge and energy charge during the year, analysis

1 regarding the customers' change in energy consumption, and a
2 report of the bill impacts for each RS-DG customer.

3 **Q. HOW WILL THE RATES ESTABLISHED BY THE S&A IMPACT**
4 **CUSTOMERS' BILLS?**

5 A. The rates reflected in the S&A will impact the customer classes as
6 follows:

Customer Class	Average Base Rate Decrease
Residential	-3.52%
Residential DG	-2.42%
Small general Service	-3.31%
Medium General Service	-3.66%
Large General Service	-4.28%
Industrial and Large power	-6.29%
Large Tire manufacturer	-6.17%
Interruptible Contract Service	-6.57%
Special Contracts	-4.68%
Churches	-6.38%
Schools	-5.97%
Lighting	-0.87%

7 An average residential customer using 900 kWh per month will see
8 a decrease of almost \$4 per month or about \$45 per year as a result
9 of the rates agreed to in the S&A.

10 **IV. COMMISSION STANDARD FOR APPROVAL OF SETTLEMENT**
11 **Q. WHAT IS THE STANDARD THE COMMISSION APPLIES TO**
12 **DETERMINE WHETHER TO APPROVE SETTLEMENT**
13 **AGREEMENTS?**

14 A. The Commission determines:

- 15 1. Whether each party had an opportunity to be heard on its
16 reasons for opposing the Stipulation;
17

- 1 2. Whether the Stipulation is supported by substantial competent
2 evidence;
3
4 3. Whether the Stipulation conforms with applicable law;
5
6 4. Whether the Stipulation results in just and reasonable rates;
7 and
8
9 5. Whether the results of the Stipulation are in the public interest.
- 10 **Q. HAS EACH PARTY HAD THE OPPORTUNITY TO BE HEARD ON**
11 **ITS REASONS FOR OPPOSING THE S&A?**
- 12 A. Yes. The S&A is supported by or not opposed by all but three parties
13 to the docket. These parties are participating in the proceeding as
14 one group per Commission order and we understand they plan to
15 oppose the S&A. The parties are Sierra Club, Vote Solar and
16 Climate and Energy Project (CEP). My understanding is that these
17 three parties' opposition is limited to concern with the rate design for
18 the Residential DG Class and issues related to operation of coal
19 plants on Westar's system. All parties to the docket had the
20 opportunity to participate in the settlement conference on July 9-12,
21 2018. They were provided with draft copies of the S&A and given
22 the opportunity to provide comments and decide whether or not to
23 support the S&A. The result was the non-unanimous S&A that was
24 filed with the Commission. In addition, parties that oppose the non-
25 unanimous S&A will have an opportunity to present their concerns
26 and positions to the Commission at the evidentiary hearing.

1 **Q. IS THE S&A SUPPORTED BY SUBSTANTIAL EVIDENCE IN THE**
2 **RECORD AS A WHOLE?**

3 A. Yes. The agreed-upon decrease in revenue requirement is clearly
4 supported by all of the parties (Westar, Staff, KIC, CURB, and
5 Kroger) that filed testimony regarding revenue requirement. In its
6 initial Application, Westar requested a net revenue requirement
7 increase (after both steps) of approximately \$52 million. However,
8 after Westar adjusted its position for the commitments it made in the
9 Merger Docket and other rebuttal items, Westar's Step One rate
10 decrease was adjusted to \$37,800,506 and our Step Two rate
11 increase was adjusted to \$4,327,758.

12 After recommending various accounting adjustments, Staff
13 recommended an overall revenue requirement decrease of
14 approximately \$69 million; CURB recommended an overall revenue
15 requirement decrease of \$138.4 million; Kroger recommended an
16 overall revenue requirement decrease of \$41.5 million and KIC
17 recommended an overall decrease of \$54 million.

18 The agreed-upon revenue requirement decrease stated in the
19 S&A is a greater decrease than Westar's rebuttal position and is
20 clearly within the range of positions supported by the testimony of
21 Westar's, Staff's, KIC's, Kroger's and CURB's witnesses. It reflects
22 an ROE supported by all parties testifying regarding ROE and is
23 based on a capital structure supported by both Staff and Westar.

1 The calculation of the TCJA bill credits is supported by Westar
2 and Staff witness Grady and the allocation of those credits to
3 customers is supported by Staff witness Glass. The updated
4 depreciation rates are based on the rates recommended by Staff and
5 the treatment for the depreciation related to the plants Westar plans
6 to retire was supported by Staff witness Grady and agreed to by
7 Westar in rebuttal.

8 The ratemaking treatment for Western Plains and for the
9 expenses associated with the 8% interest in JEC currently leased
10 from WTC that are contained in the S&A represent compromise
11 positions between the positions taken by the parties in testimony.
12 The recovery of the MKEC lost recovery through the RECA is
13 supported by all parties filing testimony on the issue.

14 The allocation of the revenue requirement decrease to the
15 customer classes is also supported by evidence in the record.
16 Westar and Staff filed class cost of service studies and the allocation
17 agreed to by the Parties that is reflected in Appendix C to the S&A
18 represents a compromise between the Parties' positions on class
19 cost of service and cost allocation.

20 With respect to the agreement not to adjust the basic service
21 fee for residential and SGS customers, this position is supported in
22 direct testimony by CURB. The addition of the new RPER and REV
23 rates is supported by Westar's, Staff's and CURB's testimony and

1 the reporting that Westar agreed to is supported by CURB. Staff's
2 and Westar's testimony also supports the addition of the Electric
3 Transit Rate Schedule and the Clean Charge Network Rate
4 Schedule, as well as the consolidation of the lighting classes
5 between Westar North and South. The rate design for the
6 Residential DG class is supported by Westar's, Staff's and CURB's
7 testimony and represents a compromise between those three
8 parties' positions and the reporting that Westar agreed to for this
9 class was recommended by CURB.

10 **Q. DOES THE S&A CONFORM TO APPLICABLE LAW?**

11 A. I express no opinion on whether the settlement conforms to
12 applicable law although I have been informed by counsel that it does.
13 I also understand that the Commission has previously recognized
14 that settlements are favored by the law.

15 **Q. WOULD THE RATES IMPLEMENTED PURSUANT TO THE S&A**
16 **BE JUST AND REASONABLE?**

17 A. Yes. The S&A will result in a substantial rate decrease for Westar's
18 customers, reflecting the benefits of the TCJA and the commitments
19 that Westar made in the Merger Docket in customers' rates, while at
20 the same time allowing Westar to update its revenue requirement for
21 all other costs to serve its customers including recovery for its
22 investment in wind energy in Kansas – an investment that has
23 already saved customers millions of dollars and benefitted the

1 Kansas economy – and updated depreciation expense in customers’
2 rates as a compromised position based upon depreciation studies
3 submitted by Westar and Staff. Although the depreciation rates
4 agreed to in the S&A do not increase depreciation expense as much
5 as proposed by Westar in our initial Application, they do take a step
6 in the right direction to begin to address the potential
7 intergenerational inequity issues associated with depreciation. The
8 revenue requirement decrease is based on a 9.3% ROE that was
9 supported by all parties filing testimony regarding ROE in the docket
10 and reflects a lower cost of debt than was included in rates in our last
11 general rate case.

12 By allowing Westar to recover the MKEC lost revenue through
13 the RECA, the S&A ensures Westar will be compensated for a known
14 and measurable change in Westar’s revenues that will occur in
15 January 2019 – an issue that all parties filing testimony on the issue
16 agree to – when it is reflected by Westar in its ACA filing. The S&A
17 also provides Westar with a mechanism to recover costs it incurs in
18 the future related to the 8% of JEC currently leased from WTC by
19 allowing Westar to defer costs incurred and request recovery through
20 the RECA. At the same time, the S&A protects customers from any
21 over-recovery related to the 8% interest of JEC by removing those
22 costs from base rates now.

1 **Q. IS THE THREE-PART RATE FOR RESIDENTIAL DG**
2 **CUSTOMERS CONTAINED IN THE S&A JUST AND**
3 **REASONABLE?**

4 A. Yes. As the Commission found in its order in its generic docket
5 examining rates for DG customers, a two-part rate is “problematic for
6 utilities and residential private DG customers because DG customers
7 use the electric grid as a backup system resulting in their consuming
8 less energy than non-DG customers, which results in DG customers
9 not paying the same proportion of fixed costs as non-DG customers.
10 The Commission finds DG customers are thus being subsidized by
11 non-DG customers.” The Commission specifically found that a “cost
12 of service based three-part rate consisting of a customer charge,
13 demand charge, and energy charge” is “appropriate for residential
14 private DG customers, to allow utilities to better recover the costs of
15 providing service to that class or sub-class of customers.” Final
16 Order, Docket No. 16-GIME-403-GIE, ¶¶ 22-23 (Sept. 21, 2017) (DG
17 docket).

18 As Dr. Faruqui explains in his testimony in support of the S&A,
19 a three-part rate provides customers with cost-reflective price
20 signals, allocates costs across individual customers more fairly than
21 the two-part rate, and gives customers an actionable incentive to
22 manage their energy use in a way that contributes to overall
23 reductions in the cost of running the power system. If customers take

1 steps to manage their energy use in this way, it will result in customer
2 bill savings.

3 The specific components of the three-part rate contained in
4 the S&A for Residential DG customers are supported by the
5 testimony of Staff witness Dr. Glass. Although Westar's class cost
6 of service study supported a greater allocation of costs to the
7 Residential DG class and a higher demand charge than are
8 contained in the S&A, for settlement purposes Westar and the other
9 signatories to the S&A agreed to a cost allocation very close to Staff's
10 proposal and to the summer and winter demand rates proposed by
11 Staff. The rate design for Residential DG customers contained in the
12 S&A is just and reasonable, consistent with the findings in the
13 Commission's order in the DG docket, and should be approved.

14 **Q. ARE THE RESULTS OF THE AGREEMENT IN THE PUBLIC**
15 **INTEREST?**

16 A. Yes. The fact that the S&A is supported or not opposed by almost
17 all of the parties in the docket is evidence that the agreement is in
18 the public interest. The Parties include representatives of virtually all
19 of the customer classes on Westar's system. Each of the Parties
20 has a duty to protect the interests of those it represents. Westar has
21 a duty to its customers and shareholders. CURB represents
22 residential and small commercial customers. Staff is required to
23 represent the public generally, including the interests of Westar, its

1 shareholders, and all of its customers. And, of course, each of the
2 individual customers that participated in the docket represents their
3 own unique interests. Given the diverse nature of the Parties, the
4 fact that they all came together in agreement with the S&A
5 demonstrates that the S&A is in the public interest.

6 **Q. CAN YOU DISCUSS HOW SOME OF THE SPECIFIC**
7 **PROVISIONS OF THE S&A ARE IN THE PUBLIC INTEREST?**

8 A. The provisions of the S&A related to Western Plains are in the public
9 interest because they allow recovery in base rates of Westar's
10 investment in wind energy that has already saved customers millions
11 of dollars, as confirmed by Staff in their direct testimony, and
12 represents an investment in a growing industry in Kansas, benefitting
13 the state and local economies. In order to address concerns raised
14 by some of the parties about the accuracy of Westar's capacity factor
15 estimate for Western Plains, the S&A offers some protection to
16 customers in the event that the wind farm operates at a lower
17 capacity factor than Westar projected by providing a potential for a
18 credit to customers through the RECA. In a symmetrical manner, the
19 S&A also provides a benefit to Westar in the event that the wind farm
20 operates at a higher capacity factor than Westar projected by allowing
21 Westar to recover for its own benefit an additional amount through
22 the RECA.

1 The provisions of the S&A related to the 8% interest of JEC
2 that Westar currently leases from WTC are also in the public interest
3 because they prevent any over-recovery by Westar but allow Westar
4 to recovery actual expenses incurred if Westar negotiates a new
5 lease of purchase of the 8% interest of JEC that is in customers' best
6 interests. In the event that Westar does not enter a new lease or
7 purchase the 8% interest and Midwest Power Company/WTC (or
8 another third party) remains the owner after January 3, 2019, these
9 provisions also allow the Commission to exercise its jurisdiction over
10 Midwest Power Company/WTC (or another third party) as the owner
11 of 8% of one of the largest power plants in the state. Under these
12 provisions, Westar will track any O&M or capital costs it incurs
13 related to the 8% interest owned by Midwest Power Company/WTC
14 (or another third party) and any non-payment by that entity. Then, in
15 Westar's next rate case, the Commission will have a clear picture of
16 the costs Westar is incurring as the operator of the plant related to
17 the 8% interest and will be able to make a decision about who is the
18 appropriate entity to pay those costs – Westar, customers, or
19 Midwest Power Company/WTC (or another third party).

20 **Q. ARE THE COSTS BEING ALLOCATED TO THE RESIDENTIAL**
21 **DG CLASS AND THE RESULTING RATE DESIGN CONTAINED**
22 **IN THE S&A IN THE PUBLIC INTEREST?**

1 A. Yes. As I indicated above, the Commission has already found that
2 DG customers are being subsidized by non-DG customers. Because
3 Westar established DG customers in a separate class in our last
4 general rate case, we were able to perform a class cost of service
5 study in this case and evaluate the costs those customers impose on
6 the system. The results of that study support allocation of an even
7 greater amount of costs to the Residential DG class than what is
8 contained in the S&A – in fact, our study supports a rate increase for
9 the class despite the fact that the other classes are receiving rate
10 decreases. However, for settlement purposes, Westar agreed to an
11 allocation of the rate decrease to the Residential DG class very close
12 to that proposed by Staff. As Dr. Faruqui explains in his testimony in
13 support of the S&A, although this allocation does not go as far as
14 Westar’s initial position in addressing the cross-subsidy, it does
15 make some progress towards reducing the subsidy.

16 **Q. ARE THE REPORTING AND EVALUATION REQUIREMENTS**
17 **PROPOSED BY SIERRA CLUB NECESSARY TO MAKE THE S&A**
18 **IN THE PUBLIC INTEREST?**

19 A. No. As Westar witness Bridson explained in rebuttal testimony,
20 these proposals seem to be designed to force Westar to remove its
21 coal plants from service without consideration of cost impacts for
22 customers, impacts on reliability or the value of diversity in the
23 generation fleet. Sierra Club offers no real justification for imposition

1 of the onerous requirements it proposes, other than its desire to
2 eliminate coal from Westar's generation fleet.

3 Sierra Club is attempting to use Westar's general rate case
4 docket – the purpose of which is to establish rates for customers- as
5 a forum for a policy discussion regarding coal plants. This is an
6 inappropriate forum for such discussion and it takes the parties' and
7 Commission's focus away from the real issues to be decided in the
8 case. In fact, consistent with my suggestion that these issues should
9 be addressed in a different forum, as part of the Commission's order
10 in the merger docket for our merger with Great Plains Energy, the
11 Commission required Westar and KCP&L to work with Staff and
12 CURB to develop an Integrated Resource Plan (IRP) reporting
13 framework for Kansas. There is no need for the Commission to
14 impose reporting requirements for coal plants in this docket when we
15 are working to develop requirements for all publicly owned utilities in
16 the state, related to all generation assets, not just coal.

17 As a result, the Commission's approval of the S&A will be in
18 the public interest.

19 **Q. THANK YOU.**