

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

Before Commissioners: Pat Apple, Chairman
Shari Feist Albrecht
Jay Scott Emler

In the Matter of the Joint Application of)
Westar Energy, Inc. and Kansas Gas and) Docket No. 17-WSEE-425-ACA
Electric Company for Approval of their)
Annual Energy Cost Correction Adjustment)
Factor.)

ORDER APPROVING ANNUAL CORRECTION ADJUSTMENT

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the files and records and being duly advised in the premises, the Commission makes the following findings:

1. On March 20, 2017, Westar Energy, Inc. and Kansas Gas and Electric Company (Westar) filed a Joint Application for approval of its Annual Correction Adjustment (ACA) under their Retail Energy Cost Adjustment (RECA) clauses for the year ending December 31, 2016.¹

2. On October 23, 2017, Commission Staff (Staff) submitted a Report and Recommendation (R&R) analyzing and recommending approval of Westar's requested 2016 ACA factor.² Staff's R&R was filed in this docket on October 23, 2017, and is incorporated herein.

3. Traditional Fuel and Purchased Power Review. Staff requested from Westar, by formal discovery requests, documentation supporting Westar's Application and

¹ Application of Westar (March 20, 2017).

² Staff Report and Recommendation, p. 1 (Staff R&R) (October 23, 2017).

Exhibits A, B, C attached to the Application and also met with Westar at its corporate offices.³ For the months of March, April, July, and August 2016, Staff audited Westar's

Application by:

- Verifying the accuracy of the monthly settlement computations by ensuring the actual cost adjustment computed by Westar reflects the actual over/under-recoveries and the actual sales to Kansas jurisdictional customers;
- Ascertaining that the actual fuel, purchased power, and emissions costs recovered through the ECA are actual costs supported by vendor invoices and general ledger entries;
- Verifying that sample costs reviewed are just and reasonable; and
- Verifying that the ECA factor used to calculate the customer's bill agrees with the calculation that the Company filed with the Commission.

Staff found no material irregularities in the information provided.⁴

4. For the SPP IM portion of the audit, Staff's objectives as to the Westar's participation in the IM were as follows:

- a. Review Westar's process and control procedures in place to validate the accuracy of SPP invoices and statements.
- b. Examine Westar's management of market performance and operational risk within the SPP IM.
- c. For the months being audited in this year's ACA audit, evaluate whether Westar has accurately accounted for Kansas' actual share of IM costs/revenues pursuant to the provisions of the current ECA tariff.
- d. Determine whether Westar's participation in the IM is providing benefits to Westar's Kansas ratepayers.

Staff's R&R provides the details of Staff's process and analysis for this portion of the audit.⁵

5. Processes & Control Procedures. Based on the documentation provided to Staff by Westar and the discovery responses, Staff believes Westar has robust control procedures in place to verify the accuracy of the settlement statements and invoices it

³ Staff R&R, p.2.

⁴ Staff R&R, p.2&3.

⁵ See Staff's R&R, pgs 3-7.

receives from SPP for its activity in the IM.⁶ Furthermore, Westar has a comprehensive process in place to verify meter data with internal and external counterparties and with SPP.⁷ Finally, Westar has a process in place to verify all Bilateral Settlement Schedules (BSS) are submitted to SPP, and it has a defined process in place to submit and monitor disputes with SPP.⁸

6. Market Performance and Operational Risk. Staff conducted extensive discovery into the details of Westar's procedures for determining the profitability of incremental market sales associated with the SPP IM.⁹ Staff also issued formal discovery requests regarding Westar's strategy for offering its generating resources into the IM and bidding for the daily load necessary to serve customers.¹⁰ Finally, Staff issued several formal discovery requests regarding Westar's hedging strategies and procedures regarding the Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) congestion management processes within the SPP IM.¹¹ "While the details of Westar's strategies are confidential due to their competitive and market-sensitive nature, Staff found that Westar has developed strategies that allow it to manage risks (including risks of recovery of variable O&M costs and fuel cost changes) and evaluate profitability to be successful in the SPP IM."¹²

7. ACA Audit of Revenues and Costs. Westar provided Staff with a reconciliation that documented and verified all Westar IM activity for the audited months.

⁶ Staff R&R, p.4.

⁷ Staff R&R, p.4.

⁸ Staff R&R, p.4.

⁹ Staff R&R, p.4.

¹⁰ Staff R&R, p.4.

¹¹ Staff R&R, p.5.

¹² Staff R&R, p.4.

This reconciliation relied on the KCC Monthly IM Activity Reports, weekly SPP settlement statements and Westar's reconciliation spreadsheet tying net general ledger accounting data for the month back to the corresponding settlement statement and KCC Monthly IM Activity Report.¹³ Staff verified that the financial impact of the SPP statements and KCC Monthly IM Activity Report were accurately reported on Westar's general ledger and this data was tied back to Westar's ACA Application for the sample months reviewed in the audit.¹⁴

8. SPP IM Benefit to Kansas Ratepayers. Staff issued formal discovery and examined other publicly-available data. Staff concluded that:

Staff has not performed a comprehensive review of the benefits and costs derived from Westar's participation in the various components of the SPP IM. Staff's analysis focused on short-run marginal costs of generation and transmitting power to serve Westar's load. In this limited review, Staff has observed a decline in Westar's overall cost to serve its load since the implementation of the SPP IM in 2014, but has also seen a decline in OSS [off-system sales] and increased congestion revenue and expenses in 2016. However, based on the available data from SPP, the modeled results performed by Westar, and the decline in the overall cost to serve load since the start of the SPP IM, Staff's analysis suggests that the SPP IM is benefitting Westar's Kansas customers.¹⁵

9. Staff recommends the Commission approve Westar's Application and recommends the Commission authorize the use of Westar's 2016 ACA factor of 0.1554 cents per kWh for the period of April 2017 through March 2018 as filed, which reflects an under-recovery of \$32,016,151 during the 2016 calendar year.¹⁶ Staff will continue to monitor Westar's performance and participation in the IM and will provide periodic updates to the Commission regarding this issue as often as is desired.

¹³ Staff R&R, p.6.

¹⁴ Staff R&R, p.6.

¹⁵ Staff R&R, p.7.

¹⁶ Staff R&R, p.1&7.

10. Upon review of the record as a whole, the Commission finds all of Staff's findings and recommendations to be reasonable and hereby adopts the same.

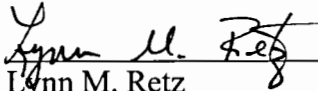
IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

- A. Westar is authorized to use its 2016 ACA factor of 0.1554 cents per kWh.
- B. The parties have fifteen (15) days, plus three (3) days if served by mail, from the date of electronic service of this Order to petition for reconsideration.¹⁷
- C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further orders, as necessary.

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: NOV 21 2017



Lynn M. Retz
Secretary to the Commission

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¹⁷ K.S.A. 66-118; K.S.A. 77-529(a)(1).

CERTIFICATE OF SERVICE

17-WSEE-425-ACA

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

Electronic Service on NOV 21 2017.

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