

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

DIRECT TESTIMONY

OF

STATE CORPORATION COMMISSION

DICK F. ROHLFS

OCT 01 2007

WESTAR ENERGY, INC.

Susan K. Duffy Docket
Room

DOCKET NO. 08-WSEE-309-PRE

- 1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A. Dick F. Rohlfs, 818 South Kansas Avenue, Topeka, Kansas 66612.
- 3 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**
- 4 A. Westar Energy, Inc. (Westar). I am Director, Retail Rates.
- 5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND**
- 6 **AND BUSINESS EXPERIENCE.**
- 7 A. I was graduated from the University of Northern Iowa with a
- 8 Bachelor of Arts degree in accounting. My utility experience began
- 9 in 1976 when I was employed by the Iowa State Commerce
- 10 Commission as a utility analyst. In 1980, I joined the staff of the
- 11 State Corporation Commission of Kansas. In 1982, I accepted a
- 12 position with Kansas Gas and Electric Company (KG&E) as a rate
- 13 auditor, advancing to senior regulatory accountant. In 1992, with

1 the merger of The Kansas Power and Light Company (KPL) and
2 KG&E, I accepted a position of regulatory coordinator before
3 advancing to senior manager in February 1996. In June 2001, I
4 assumed my current position.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. I present the impact on revenue requirement and rates of adding
8 the proposed 300 MW of wind generation to Westar's system.

9 **Q. WHAT IS THE REVENUE REQUIREMENT FOR WESTAR'S**
10 **WIND PROJECTS?**

11 A. The annual revenue requirement is presented in Exhibit DFR-1 for
12 the 2008 wind projects Westar proposes to own and for projects
13 related to power purchase agreements (PPAs). The total revenue
14 requirement for the owned projects will vary each year due to
15 changes in rate base and expenses. I estimate that the owned
16 projects will result in an initial increase in base rate levels of \$27
17 million beginning in 2009. This increase reflects the inclusion of
18 construction work in progress (CWIP) through August of 2008. In
19 the first year after all of the owned projects are in full commercial
20 operation and included in rates, the revenue requirement for those
21 projects will be \$32 million. The revenue requirement will decline to
22 less than \$15 million over the estimated twenty-year life of the

1 projects. For the PPAs, the revenue requirement recovered
2 through the RECA will be constant at approximately \$22 million.

3 In the first year that the owned projects are in full commercial
4 operation and recognized in our cost of service, base rates will
5 increase approximately fifteen hundredths of a cent per kWh. This
6 amount will decline to five hundredths of a cent per kWh
7 (0.05¢/kWh) over the twenty-year life of the projects. The PPA
8 expense recovered through Westar's fuel clauses will be
9 approximately one tenth of a cent per kWh (0.10¢/kWh) higher in
10 the first year energy is purchased under the PPAs and will decline
11 to approximately seven hundredths of a cent per kWh (0.07¢/kWh)
12 over the twenty-year period. Considering both the base rate
13 increase and the recovery of PPA expense through the fuel
14 clauses, I estimate that an average Westar residential customer will
15 have an overall increase of about \$2.00 to \$2.50 per month in the
16 first few years the 2008 projects are in operation.

17 **Q. HAVE YOU CALCULATED THE FIRST YEAR RATE IMPACT?**

18 A. Yes. Given the assumptions outlined in the testimony of Westar
19 witnesses William Moore and Greg Greenwood, I have estimated
20 the first year rate impact for Westar's owned projects at thirteen
21 hundredths of a cent per kWh (0.13¢/kWh) or about \$1.30 per
22 month for an average Westar residential customer. This reflects
23 the inclusion of CWIP, rather than total project costs, in our cost of

1 service. Adding the PPA costs of one tenth of a cent per kWh
2 (0.10¢/kWh) will result in an initial rate increase of approximately
3 \$2.25 per month for an average residential customer.

4 **Q. WHAT IS INCLUDED IN THE CALCULATION OF THE REVENUE**
5 **REQUIREMENT?**

6 A. For the PPAs, the calculation of the revenue requirement reflects
7 the assumed purchase price times an assumed annual output,
8 before considering any offsets from the sale of RECs for the life of
9 the PPAs. The calculation for the revenue requirement for the
10 owned projects uses the traditional ratemaking formula; including:

- 11 1. Investment return based on the rate base times a cost
12 capital factor using Westar's currently authorized rate of
13 return plus a 1% incentive rate of return authorized by
14 Kansas law;
- 15 2. Depreciation based on a 20-year book life, with a 5% annual
16 rate;
- 17 3. An offset for accumulated deferred tax offsets based on a
18 tax life of five years;
- 19 4. An offset for production tax credits; and
- 20 5. O&M expenses as described by Westar witness Michael
21 Elenbaas. The calculation shows the revenue requirement
22 by year.

1 **Q. ARE THERE COST AND SAVINGS IMPACTS FROM THE**
2 **ADDITION OF WIND GENERATION THAT ARE NOT INCLUDED**
3 **IN YOUR REVENUE REQUIREMENT CALCULATION?**

4 A. Yes. First, I did not include the effect of wind on fuel costs
5 associated with Westar's existing generation resources. Adding
6 wind lowers fuel costs because there are no fuel costs associated
7 with wind production from the owned projects. Consequently, each
8 kWh generated by wind will allow Westar to avoid fuel or purchased
9 power costs. However, the addition of wind generation decreases
10 generation dispatch efficiency due to the need to use other assets
11 to follow load as output from the wind generation fluctuates. Fuel
12 cost savings are expected to significantly exceed the costs
13 associated with decreased generation efficiency. However, I did
14 not include the net effect of these two factors in my rate estimates.
15 Mr. Elenbaas discusses this further in his testimony.

16 Second, my revenue requirement calculation does not take
17 into consideration any revenue from the sale of RECs. Revenues
18 generated by such sales could be credited to customers through
19 the Retail Energy Cost Adjustment (RECA). A modification to the
20 RECA will be required to accomplish this. The market will set the
21 value of the credits but it is likely that RECs will have some value
22 and that Westar will be able to sell at least some RECs. Thus,
23 omission of the RECs from my analysis would imply that my

1 revenue requirements calculation is somewhat overstated. It also
2 ignores any potential changes in off-system sales margins that
3 would be returned through the RECA.

4 **Q. WHAT WOULD BE THE EFFECT ON YOUR ANALYSIS IF**
5 **REVENUE FROM SALE OF RECS WERE INCLUDED?**

6 A. The inclusion of RECs will lower the overall revenue requirement
7 and cost in both the PPA and ownership analyses. I have
8 estimated that Westar may generate approximately \$3.5 million of
9 revenue or nearly 10 percent of the total revenue requirement if
10 100% of the estimated RECs are sold at today's prevailing price.

11 **Q. WHEN AND HOW WILL CUSTOMERS EXPERIENCE THE**
12 **EFFECTS OF THESE NEW RESOURCES?**

13 A. A portion of the revenue requirement for Westar's investment in
14 wind will be included in our next rate proceeding. We expect to file
15 that case next spring and we would expect new rates to go into
16 effect later next year. As I noted earlier, the effects in this rate
17 review relate to the inclusion of CWIP for projects through
18 approximately August 2008. In addition, the portion of the
19 investment that will occur after the August 2008 time frame will be
20 included in a subsequent rate review. For the PPAs, the expense
21 will be flowed through the RECA following each project's in-service
22 date.

1 **Q. IS WESTAR CONSIDERING WAYS IN WHICH CUSTOMERS**
2 **CAN VOLUNTARILY PROVIDE ADDITIONAL SUPPORT FOR**
3 **THE DEVELOPMENT OF RENEWABLE RESOURCES?**

4 **A.** Yes. Westar is considering methods by which customers may
5 provide such support. We will be submitting a proposal in our next
6 rate case.

7 **Q. THANK YOU.**

Westar Energy, Inc.
Revenue Requirement Impacts by Year for
2008 Wind projects

	Rev Req for Projects Owned	Rev Req for Projects w/ PPA	Total Revenue Requirements	Estimated Sales kWh	Estimated Change in Base rates	Estimated change in RECA
2009	33,225,700	21,710,705	54,936,405	21,419,579,634	\$0.0016	\$0.0010
2010	28,338,113	21,710,705	50,048,818	21,871,579,754	\$0.0013	\$0.0010
2011	24,516,963	21,710,705	46,227,668	22,258,417,211	\$0.0011	\$0.0010
2012	21,777,050	21,710,705	43,487,755	22,669,630,502	\$0.0010	\$0.0010
2013	19,526,983	21,710,705	41,237,688	23,066,658,366	\$0.0008	\$0.0009
2014	17,627,291	21,710,705	39,337,996	23,448,434,499	\$0.0008	\$0.0009
2015	16,538,268	21,710,705	38,248,974	23,835,676,153	\$0.0007	\$0.0009
2016	15,448,116	21,710,705	37,158,821	24,230,923,134	\$0.0006	\$0.0009
2017	14,356,936	21,710,705	36,067,641	24,632,737,045	\$0.0006	\$0.0009
2018	13,264,625	21,710,705	34,975,330	25,041,227,149	\$0.0005	\$0.0009
2019	23,528,545	21,710,705	45,239,250	25,456,504,525	\$0.0009	\$0.0009
2020	22,547,583	21,710,705	44,258,288	25,878,682,105	\$0.0009	\$0.0008
2021	21,566,621	21,710,705	43,277,326	26,307,874,699	\$0.0008	\$0.0008
2022	20,585,660	21,710,705	42,296,365	26,744,199,031	\$0.0008	\$0.0008
2023	19,604,697	21,710,705	41,315,403	27,187,773,769	\$0.0007	\$0.0008
2024	18,623,736	21,710,705	40,334,441	27,638,719,557	\$0.0007	\$0.0008
2025	17,642,774	21,710,705	39,353,479	28,097,159,048	\$0.0006	\$0.0008
2026	16,661,813	21,710,705	38,372,518	28,563,216,940	\$0.0006	\$0.0008
2027	15,680,850	21,710,705	37,391,555	29,037,020,005	\$0.0005	\$0.0007
2028	14,699,888	21,710,705	36,410,593	29,518,697,129	\$0.0005	\$0.0007