

**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, Inc. and Kansas Gas and Electric)
Company for Approval of their Annual) Docket No. 16-WSEE-421-ACA
Energy Cost Correction Adjustment Factor.)

ORDER APPROVING ANNUAL ENERGY COST 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 22, 2016, Westar, Inc. (Westar) and Kansas Gas and Electric Company, (KGEC), filed a Joint Application for Approval of their Annual Cost Adjustment (ACA) factor under Westar's Retail Energy Cost Adjustment (RECA) tariff.¹

2. On January 20, 2017, Commission Staff (Staff) submitted a Report and Recommendation (R&R) analyzing and recommending approval of Westar's requested 2015 ACA factor.² Staff's R&R was filed in this docket on January 30, 2017, and is incorporated herein.

3. On February 17, 2017, Staff submitted a Corrected Version of the R&R which (1) corrected a typographical error on pages 1 and 6 that inadvertently stated the refund at "\$0.0597" instead of "0.0597 cents" and (2) revised the final paragraph under

¹ Joint Application of Westar and KGEC (March 22, 2016).

² Staff Report and Recommendation, Corrected Version, p. 1 (February 17, 2017) (Staff R&R).

SPP IM Benefit to Kansas Ratepayers on page 6 with a more extensive explanation of Staff's analysis.

4. Staff's R&R summarizes the testimony of two Westar witnesses, Rebecca A. Fowler and Grant Wilkerson, noting that Westar's Application supported an over-recovery of \$12,252,003 during 2015, upon which Westar calculates an ACA factor refund of 0.0597 cents per kWh.³ Mr. Wilkerson's testimony describes Westar's fuel supply and generation planning practices for 2015, discusses Westar's cost of resources for 2015 compared to 2014, and discusses how the implementation of the Southwest Power Pool (SPP) Integrated Marketplace (IM) has impacted Westar's cost of serving its customers.⁴

5. Staff conducted Westar's audit along two lines: (1) the traditional fuel and purchased power review, and (2) the SPP IM review.⁵ For the months of June, July, August, and September 2015, 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 files with the Commission.

Staff found no material irregularities in the information provided.⁶

³ Staff R&R, p.2.

⁴ Staff R&R, p.2.

⁵ Staff R&R, p.2&3.

⁶ Staff R&R, p.3&4.

6. 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.⁷

7. Processes & Control Procedures. Based on the documentation provided to Staff by Westar and the discovery responses, Staff believes Westar has several robust control procedures in place to verify the accuracy of the settlement statements and invoices it receives from SPP for its activity in the IM.⁸ Furthermore, Westar has a comprehensive process in place to verify meter data with internal and external counterparties and with SPP.⁹ 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.¹⁰

8. 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.¹¹ Staff also reviewed Westar's

⁷ See Staff's R&R, pgs 3-6.

⁸ Staff R&R, p.4.

⁹ Staff R&R, p.4.

¹⁰ Staff R&R, p.4.

¹¹ Staff R&R, p.4.

strategy for offering its generating resources into the IM and bidding for the daily load necessary to serve customers.¹² Finally, Staff looked at Westar's hedging strategies and procedures regarding the Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) congestion management processes within the SPP IM. Staff stated that Westar offset its day-ahead congestion exposure by successfully hedging 107% of its congestion costs in 2015.¹³ Thus, Staff believes the strategies used by Westar have been successful in managing the risks and profitability associated with the IM.¹⁴

9. ACA Audit of Revenues and Costs. Westar provided Staff with a reconciliation that documented and verified all Westar IM activity for the audited months. This reconciliation relied on the KCC Monthly IM Activity Reports which Staff requires from all three vertically-integrated, investor-owned electric utilities in the State of Kansas.¹⁵ This reconciliation also relied on the 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.¹⁶ Staff concluded 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.¹⁷

10. SPP IM Benefit to Kansas Ratepayers. Staff issued formal discovery and examined other publicly-available data, which suggested that Westar's participation in the SPP IM produced benefits for Kansas ratepayers in 2015. The 2015 total fuel and

¹² Staff R&R, p.4.

¹³ Staff R&R, p.5.

¹⁴ Staff R&R, p.5.

¹⁵ Staff R&R, p.5.

¹⁶ Staff R&R, p.5&6.

¹⁷ Staff R&R, p.6.

purchased power per kWh was \$0.0205 or a year-over-year decrease of 8.1%.¹⁸ Staff also issued formal discovery requesting whether Westar had prepared an estimate of the overall cost to serve its retail customers during the year 2015 under the IM versus the cost to serve retail customers with company generation. The results showed that by participating in the IM, Westar reduced costs by an estimated \$34,840,000 in 2015 and \$68,110,000 from the inception of the IM in March of 2014.¹⁹ Based on these evaluations, Staff's analysis suggests that the IM is benefitting Westar's Kansas customers.

11. Staff recommends the Commission approve Westar's ACA factor refund of 0.0597 cents per kWh for the period of April 2016 through March 2017 as filed. Staff will continue to monitor Westar's performance and participation in the SPP IM and provide periodic updates to the Commission regarding this issue as often as is desired.

12. 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's ACA factor refund of 0.0597 cents per kWh for the period of April 2016 through March 2017, as filed, is approved.

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.²⁰

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further orders, as necessary.

¹⁸ Staff R&R, p.6.

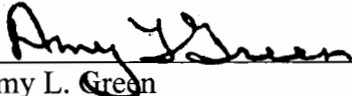
¹⁹ Staff R&R, p.6.

²⁰ K.S.A. 66-118; K.S.A. 77-529(a)(1).

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: APR 04 2017



Amy L. Green
Secretary to the Commission

JF

EMAILED

APR 04 2017

CERTIFICATE OF SERVICE

16-WSEE-421-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 APR 04 2017.

THOMAS J. CONNORS, ATTORNEY AT LAW
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
tj.connors@curb.kansas.gov

JAKE FISHER, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
j.fisher@kcc.ks.gov

DAVID W. NICKEL, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.nickel@curb.kansas.gov

SHONDA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
sd.smith@curb.kansas.gov

CATHRYN J DINGES, CORPORATE COUNSEL
KANSAS GAS & ELECTRIC CO.
D/B/A WESTAR ENERGY
818 S KANSAS AVE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8136
cathy.dinges@westarenergy.com

JEFFREY L. MARTIN, VICE PRESIDENT, REGULATORY
AFFAIRS
WESTAR ENERGY, INC.
818 S KANSAS AVE
PO BOX 889
TOPEKA, KS 66601-0889
jeff.martin@westarenergy.com

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.smith@curb.kansas.gov

/S/ DeeAnn Shupe
DeeAnn Shupe

MAILED

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