

3. On September 24, 2015, the Commission issued its Order Approving Stipulation and Agreement in the 115 Docket, including the proposal to open a generic docket to research

and evaluate specific issues related to DG. The Commission indicated a generic docket is the appropriate method of identifying and discussing issues related to DG prior to allowing a public utility to implement DG-specific rates in its service area. Id. at 4.

4. Pursuant to the September 24, 2015 Order Approving Stipulation and Agreement in the 115 Docket, Commission Staff ("Staff") filed its Motion to Open Docket on March 11, 2016, for the purpose of examining various issues surrounding rate design for DG customers, such as: determining the appropriate rate structure for DG customers, evaluating the costs and benefits of DG and evaluating potential rate design alternatives for DG customers. See Motion to Open Docket, at ¶ 3.

5. On July 12, 2016, the Commission issued its Order Opening General Investigation in the instant docket. The Commission stated that although this case originated as an offshoot of Westar's most recent general rate proceeding, DG rate design policy presents an issue of first impression before the Commission; therefore, the Commission finds a general investigation to be the appropriate docket for consideration of issues surrounding rate design for DG customers. See Order Opening General Investigation, at p. 4.

6. On February 16, 2017, the Commission issued its Order Setting Procedural Schedule, which provides that Initial Comments in response to Staff's March 11, 2016 Report and Recommendation are due to be filed on March 17, 2017. Along with the Initial Comments, the Commission directed the parties to provide supporting affidavits, verifying the documents presented, sworn and under oath, subject to Commission questions or discussion. See Order Setting Procedural Schedule, at p. 3; see also Staff Report and Recommendation, at p. 7.

7. Pursuant to the Commission's February 16, 2017 Order Setting Procedural Schedule, Midwest Energy submits the following comments, along with the attached Affidavit of Patrick Parke.

## II. Initial Comments

8. It is Midwest Energy's overarching positions that: (1) DG customers should not be placed in a separate rate class; and (2) all rates should be designed to more closely align fixed charges with fixed costs and align variable charges with variable costs. Further, in its Report and Recommendation ("Staff's R&R"), Staff posed two fundamental questions with respect to DG. Midwest Energy's responses follow.

A. What are the costs (fixed and variable) and the benefits of providing utility service to DG customers?

9. Most costs of providing utility service to DG customers are very similar to costs traditionally incurred to serve non-DG customers. Designation as to costs being "fixed" or "variable" would be the same for both groups and should be consistent with long-standing Cost of Service practices. Additional costs that would vary with the number of DG customers or nameplate capacity of DG facilities might include: (1) customer-specific costs incurred to review and interconnect DG facilities; (2) grid enhancements needed to accommodate a high concentration of DG facilities in a particular area; and (3) the cost of the "additional unpredictability" identified in Staff's R&R.

10. Differentiation between fixed and variable costs could vary between utilities that primarily generate their power versus those that rely more on purchased power agreements (PPAs). Such costs might only be the same if the component costs in the PPA exactly aligned with the generating utility's actual fixed and variable costs.

11. Benefits derived from DG customers are, at least for some categories, more difficult to quantify.

a. The first three benefits cited in Staff's R&R (avoided energy costs, avoided generation capacity costs, and avoided ancillary services and capacity reserve costs) seem to be the easiest to quantify.



b. The next two benefits cited by Staff (avoided transmission costs and avoided distribution costs) are conceptually understandable, but may be present or vanish as a function of time and the concentration of DG units in a particular area. For example, a rural distribution feeder might be in need of capacity enhancements. If the load on that feeder is growing at a pace faster than the installation of DG facilities, the presence of DG may not allay the need for a feeder upgrade. Further, since conductor sizes are discrete rather than infinitely variable, DG may not avoid any construction costs unless some threshold combined DG capacity was present before the upgrades were initiated. Another scenario especially applicable to rural distribution feeders is the impact of major storms. If significant parts of the feeder are rebuilt simply to restore service after a storm, the previously anticipated need for upgrading the feeder might be deferred for many years. Thus, the benefit of avoided distribution costs for DG units already in place may vanish. A third scenario involves the case of DG units being situated on a tie line between two substations. Occasionally portions of the distribution line may be fed from either substation during storm restoration or routine switching operations for maintenance. It is possible that one or more DG units may alternate between providing a benefit and not providing a benefit.

c. The remaining benefits cited by Staff appear to be either externalities or speculative, or both. These include avoided environmental costs, avoided renewables costs, price mitigation benefits, economic development, health benefits and grid security. To date, externalities such as some of those listed above, have not been quantified for purposes of rate setting in Kansas. Therefore, Midwest Energy believes it best to table consideration of these categories pending future Legislative direction or development of consensus within the industry.

B. What is the best way to structure the residential rate design to recover the costs created by DG?

12. Separate rate treatment is not advisable for DG customers.

a. "Distributed generation" is a generic term that includes several technologies with different generator output characteristics. The definition of "Renewable energy resources" in K.S.A. 66-1257 includes wind energy, solar thermal sources, photovoltaic (PV) panels, various forms of biomass energy, hydropower, fuel cells and energy storage connected to any of the preceding. Yet, the net load shape (customer load less DG output, if any) seen by the utility might be vastly different for each of these technologies. As a result, crafting a DG tariff appropriate for a variety of DG technologies is difficult.

b. In addition, separate rate treatment may create new problems to be fixed later; that is, if the justifications for creating a separate rate class disappear, the utility and the Commission will be faced with the dilemma of phasing out or modifying rate components without putting undue burdens on affected customers. For example, many electric utilities offered lower, promotional rates to encourage load growth in the 1950s and 1960s. One significant reason for permitting promotional rates was that increased sales justified larger power plants, which in turn achieved economies of scale, allowing for lower rates. The energy crisis and escalating costs of generating capacity in the 1970s called promotional rates into question. Midwest Energy, among other utilities, found itself phasing out the price differences between standard residential rates and total electric rates. As a result, customers who availed themselves of the special rate for years, or even decades, may have felt they were treated unfairly.

c. Existing rate schedules already accommodate a wide range of end users and load shapes. For example, the same general service tariff is used to calculate bills for

a high load factor convenience store and a low load factor grain elevator. The same oil field tariff is used to calculate bills for a high load factor “down hole” pump and a time-clocked pump jack operating only intermittently. The same residential rate schedule applies to a small apartment and a large private residence. In all three cases, the load shape and load factor may be significantly different within the rate class. Since the utility sees the net load at a site, irrespective of the presence of DG, the same rate schedule should suffice for either situation, with or without DG, within an existing rate class.

13. “Cost causers should be the cost payers” is an oft-heard maxim in the utility industry. Yet, Midwest Energy believes its rate schedules overly depend on variable charges. That is, Midwest Energy collects significant fixed costs via a variable charge. This mismatch in cost causation versus cost recovery is not economically efficient. Resources are not optimally allocated, which leads to improper price signals and potential subsidization. With the application of DG or energy efficiency measures, some fixed costs are not eliminated but simply shifted to other customers. The focus of this docket should be on developing rate designs that more efficiently recover fixed and variable costs from all customers and customer classes, not solely those utilizing DG technologies. Midwest Energy’s Automated Metering Infrastructure (AMI) system, currently in deployment, will provide additional customer-specific data that will enable rate designs for residential customers that can incorporate time and demand elements in addition to total kilowatt-hours used.

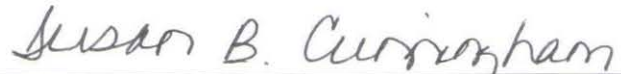
- C. This general investigation should provide guidance to the utilities for developing DG rate design, not prescriptive mandates.

14. In Staff’s R&R, Staff requested a generic docket be opened to establish rate design policy for DG customers. See Staff Report and Recommendation, at p. 1. In its July 12, 2016 Order Opening General Investigation, the Commission agreed that this general investigation docket is designed to develop policy for DG rate design. See Order Opening



General Investigation, at p. 2. Midwest Energy agrees with both Staff and the Commission when they state the purpose of this general investigation is to develop policy for DG rate design. Importantly, Midwest Energy believes this docket should provide guidance to the utilities for developing DG rate design, not result in prescriptive mandates. Ultimately, each utility should be permitted to propose company-specific tariffs based on the characteristics unique to its own system, but in accordance with the guidance provided by the Commission in this docket. Because one size does not fit all, the Commission should refrain from imposing prescriptive mandates as it considers DG rate design policy.

WHEREFORE, Midwest Energy, Inc. respectfully submits its Initial Comments and attached Affidavit of Patrick Parke.




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**VERIFICATION**  
**(K.S.A. 53-601)**

STATE OF KANSAS            )  
  ) ss.  
COUNTY OF SHAWNEE    )


I, Susan B. Cunningham, being of lawful age, hereby state that I have caused the foregoing Initial Comments of Midwest Energy, Inc. to be prepared, that I have read and reviewed the Initial Comments, and that the contents thereof are true and correct to the best of my information, knowledge and belief.

  
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Susan B. Cunningham

Executed on the 17<sup>th</sup> day of March, 2017

**CERTIFICATE OF SERVICE**

A true and correct copy of the above and foregoing Initial Comments of Midwest Energy, Inc. was electronically served on this 17<sup>th</sup> day of March, 2017, to the persons appearing on the Commission's service as last modified on March 13, 2017.

  
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Susan B. Cunningham



**AFFIDAVIT OF PATRICK PARKE**

STATE OF KANSAS                    )  
  )     ss.  
COUNTY OF ELLIS                )

Patrick Parke, being first duly sworn on his oath, states:

1. I am Vice President Customer Service, for Midwest Energy, Inc. ("Midwest Energy"), 1330 Canterbury Road, P.O. Box 898, Hays, Kansas, 67601.
2. Pursuant to the Commission's February 16, 2017 Order Setting Procedural Schedule, Initial Comments in response to Staff's March 11, 2016 Report and Recommendation on issues surrounding rate design for distributed generation customers are due to be filed on March 17, 2017. Along with the Initial Comments, the Commission directed the parties to provide supporting affidavits, verifying the documents presented, sworn and under oath, subject to Commission questions or discussion.
3. In my capacity as Vice President for Midwest Energy, I am authorized to verify the Initial Comments of Midwest Energy, Inc. Further, the Initial Comments were prepared by me or under my direct control and supervision.
4. I have knowledge of the matters set forth above, which are true and correct to the best of my information, knowledge and belief.

Further Affiant sayeth not.



Patrick Parke

Subscribed and sworn before me this 17<sup>th</sup> day of March, 2017.

  
Notary Public

My commission expires: December 24, 2018