

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

---

**DIRECT TESTIMONY**

**OF**

**MARK A. RUELLE**

**WESTAR ENERGY**

---

**DOCKET NO. 15-WSEE-115-RTS**

---

**I. INTRODUCTION**

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Mark A. Ruelle, 818 South Kansas Avenue, Topeka, Kansas 66612.

4 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

5 A. Westar Energy, Inc. (Westar), as President and Chief Executive  
6 Officer.

7 **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS  
8 EXPERIENCE.**

9 A. I hold bachelors and masters degrees in economics. I have worked  
10 in the utility industry for 25 years, with the vast majority of that  
11 experience with Westar. I started at Westar in 1986, worked in  
12 various positions, then resigned in early 1997.

13 Prior to rejoining Westar in 2003, I worked at a Nevada-based  
14 integrated electric, natural gas and water utility.

1                    In early 2003, I returned to Westar as Executive Vice  
2                    President and Chief Financial Officer and held that position until  
3                    becoming President, and shortly thereafter was named Chief  
4                    Executive Officer in 2011.

5                    **Q.    HAVE YOU TESTIFIED BEFORE THIS OR OTHER REGULATORY**  
6                    **BODIES IN THE PAST?**

7                    A.    Yes. A few times.

8                    **II.    PURPOSE AND SUMMARY OF TESTIMONY**

9                    **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10                  A.    My testimony addresses policy considerations relevant to our  
11                  application. Specifically, my testimony will:

- 12                  1.    Share context that I believe will be helpful for the  
13                  Commission's consideration of this request, as well as share  
14                  our philosophy toward the issues and influences that bear on  
15                  our mission to serve the interests of Kansas, our customers  
16                  and our communities;
- 17                  2.    Outline the principal reasons a rate adjustment is reasonable  
18                  and appropriate and discuss how our proposals in this docket  
19                  affect and promote the public interest;
- 20                  3.    Describe how we provide electric service for, and how pricing  
21                  affects, our customers;
- 22                  4.    Discuss the merits of various ratemaking methods and  
23                  approaches the Commission might use to regulate Westar,

1 set its prices, and balance the public interest for the long-term  
2 benefit of all.

3 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

4 A. The costs reflected in Westar's rate application in this case reflect  
5 costs prudently incurred for Westar to continue providing reliable,  
6 efficient service at a reasonable cost to our customers, all in  
7 accordance with our public service obligations. The largest portion  
8 of our request relates to the costs of completing environmental  
9 upgrades at La Cygne Station (La Cygne), a project that was  
10 previously subject to predetermination scrutiny by the Commission,  
11 and that was successfully managed and timely completed –  
12 significantly *under* the preapproved budget.

13 Our Application also includes significant items at Wolf Creek  
14 Generating Station (Wolf Creek) necessary to ensure Kansas' only  
15 nuclear station continues to operate safely and reliably for the term  
16 of its recently extended license life.

17 We are proposing a grid resiliency program to significantly  
18 benefit our customers from financial, safety and reliability  
19 perspectives.

20 We are proposing changes to our existing rate structures and  
21 offering several new rate options for our customers, to better align  
22 rates with sound principles of cost causation.

1                   We have worked hard to manage our costs and found creative  
2 solutions to minimize costs for environmental projects required by  
3 the Environmental Protection Agency (EPA) and the Kansas  
4 Department of Health and Environment. These solutions have saved  
5 our customers tens, if not hundreds, of millions of dollars, while  
6 ensuring that Kansas remains compliant with environmental  
7 regulations and that we can continue to operate power plants that  
8 are clean, reliable, cost effective, and important contributors to our  
9 Kansas economy.

10                   We have also worked diligently to reduce our financing costs,  
11 which is reflected in the lower rate of return we are requesting  
12 compared to what the Commission approved in our last application.

13                   As a regulated utility, Westar must recover the costs it  
14 prudently incurs to serve our customers. Our Application reflects  
15 such costs. It is noteworthy that even with the requested increase –  
16 and recent prior increases for necessary infrastructure and  
17 compliance – our overall prices remain the lowest of any investor-  
18 owned utility in Kansas and below average nationwide. Simply put,  
19 even considering this request, the majority of our customers can  
20 enjoy all the value and convenience that electricity brings to their  
21 lives for about \$4.00 a day.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**III. MATTERS FOR CONSIDERATION IN DECIDING THE APPROPRIATE RATE ADJUSTMENT**

**Q. AS CEO OF WESTAR, CAN YOU SHARE WITH THE COMMISSION SOME INSIGHT INTO YOUR PHILOSOPHY TOWARD UTILITY REGULATION AND WESTAR'S ROLE IN SUPPORTING KANSAS?**

A. It is my belief, that while the appropriate *roles* of the Commission, its Staff, and Westar all necessarily and appropriately differ, we share a common *mission* of assuring safe, reliable, efficient, affordable, and cleaner energy.

This is our only business; being a great utility and asset for Kansas. This commitment is important because providing reliable electric service while maintaining reasonable prices and complying with environmental and other important regulations is essential to keeping Kansas strong and moving forward. Westar must be able to provide these things as well as, or better than, other utilities if we are to keep Kansas from falling behind.

Today, we are moving out of the last *known*, very expensive, chapter of federally mandated environmental upgrades. Although complying with these environmental regulations has resulted in multiple price increases these past few years, in the long run, the cost of electricity to our customers remains comparatively favorable, and the advantages for Kansas and our customers substantial due to our diligence in cost-control and project management. We have

1 maintained strong fuel diversity for our customers by keeping our  
2 reliable, low-cost coal plants operating safely – with the hundreds of  
3 related jobs and tax base that are important contributors to our  
4 economy – and we have done so with resulting utility prices that still  
5 compare very favorably, both in the state and across the country.

6 Also with this Application, we are laying the groundwork for a  
7 more resilient grid, suited to today's uncompromising customer  
8 demands. We are also creating rate structures for the future to  
9 ensure that our customers pay reasonable prices based on their  
10 respective energy needs.

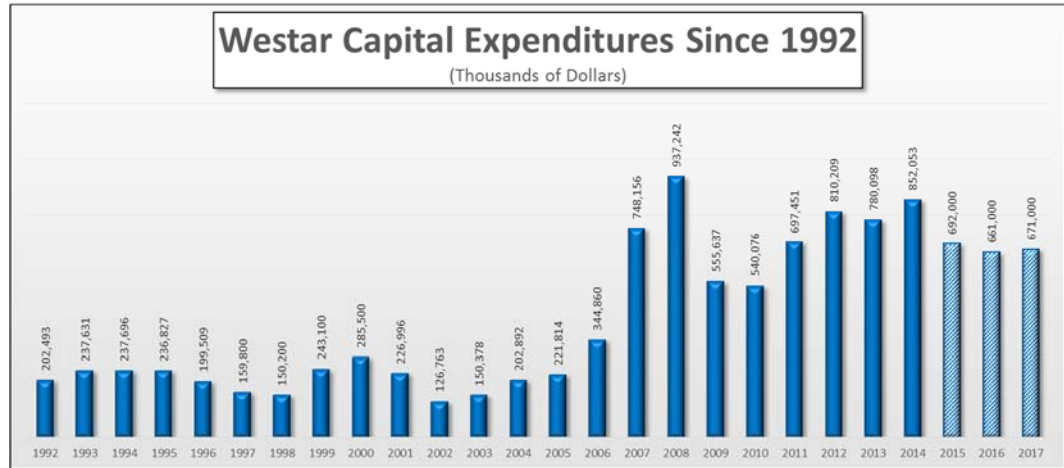
11 I believe strongly in how our industry is organized and  
12 regulated in our state. None of us would agree that it is perfect, but  
13 it has served our state well and as a result Kansas has avoided the  
14 traps so many others have fallen into while trying something different  
15 (e.g., volatile prices, shortages and rolling blackouts, protracted  
16 litigation, customer revolt, and stranded investment). This model  
17 provides the best result for customers and our state; but we need to  
18 continue to work constructively together to address these changing  
19 circumstances or Westar, our investors, and even our regulators will  
20 become less relevant, with our customers and communities the ones  
21 caught in the cross hairs of disruption.

22 **Q. DESCRIBE THE OVERALL CONTEXT FOR WESTAR'S**  
23 **REVENUE REQUEST.**

1       A.     Energy generation, transmission, distribution, maintenance and  
2             customer service is a business demanding incredible size and scale,  
3             with single pieces of equipment often costing tens of millions of  
4             dollars – or more. Arguably, it is the world’s biggest “machine,” and  
5             almost nothing we do is small. As a result, electric utilities are the  
6             most capital-intensive businesses in the world.

7                     We are nearing the end of an extremely large construction  
8             program for government-mandated environmental retrofits at our  
9             power plants that reinforces that fact. Moreover, when large capital  
10            additions are required, because of their great complexity and scale,  
11            they must often be tied with yet other large investments, making the  
12            overall investment lumpy. The past half dozen years or so have  
13            required an extraordinary amount of capital investment which has,  
14            unfortunately, also come with an associated level of significant, yet  
15            necessary, price increases to our customers. Figure 1 illustrates this  
16            level of capital investment but also foretells a more promising  
17            outlook.

**Figure 1**  
**Capital Expenditures Moderating After Recent Years' Surge**



1                                    We expect that both capital demands and the requisite price  
2                                    increases they bring will moderate following the completion of this  
3                                    general case. Though our business will continue to need significant  
4                                    capital; on a *relative* basis those demands appear to be smaller in  
5                                    the future, and accordingly, we look forward to an expected  
6                                    moderation in the rate of change in our prices as well.

7                    **Q. PLEASE DESCRIBE THE ENVIRONMENT IN WHICH WESTAR**  
8                    **OPERATES AND THE CHANGING CIRCUMSTANCES THAT**  
9                    **AFFECT WESTAR'S REQUEST FOR A PRICE INCREASE IN**  
10                   **THIS CASE.**

11                   A. The last several years have been challenging economically for our  
12                   country and for Kansas. Finally, we are seeing our economy  
13                   improve, based on the business activity of our customers. Reliable  
14                   electric infrastructure is essential to keep our economy moving and  
15                   competing. Reliable electric infrastructure gives the public



1 confidence that necessary foundations exist upon which to build.  
2 Reliable electric power is one of those things our customers and our  
3 communities expect to be able to take for granted, even as they raise  
4 their expectations for such reliability. Protecting the reliability and  
5 affordability of our electric power infrastructure for the future requires  
6 a clear understanding of the changing nature of the industry,  
7 customers' changing expectations, and the true costs associated  
8 with the undertaking. Perhaps nothing is more important in the  
9 Commission's consideration of this Application.

10 We are also seeing unprecedented interest from customers in  
11 installing self-generation at their homes. For these customers, it's  
12 not always about the economics of self-generation. Instead, like with  
13 many things, it is about customer preference. The number of  
14 customers with self-generation on our system, though still relatively  
15 small, is increasing quickly – by about 60% from December 2013  
16 through October 2014. The number of solar panel installers in the  
17 area is also increasing – from three to 10, in the last year and a half.  
18 In a recent survey of Westar customers, 67% of those responding  
19 indicated that they were at least somewhat interested in installing  
20 rooftop solar at their residences. Neither Westar nor the Commission  
21 should ignore these trends and customers' preferences. It is  
22 essential that the Commission appreciate the impact that residential  
23 customers installing self-generation have on costs for all of Westar's

1 customers under the current rate structure. That is the reason  
2 Westar is proposing two new rate options for customers wishing to  
3 install self-generation. I do not think it wise to discourage these  
4 trends; instead we must manage through this reality.

5 Recent events have also emphasized the need for more  
6 resilient infrastructure. For example, Hurricane Sandy resulted in  
7 more than eight million people without electricity, leaving many  
8 without power for weeks. The power outages that resulted from just  
9 that one storm caused substantial economic harm and loss of public  
10 confidence. The occasional harshness of our own climate  
11 (thunderstorms, tornadoes wind and ice) reminds us that Kansas too  
12 is not immune to Mother Nature's wrath. For some of our largest  
13 customers, a single outage can cause several millions of dollars in  
14 economic losses and impact our entire territory. This case is  
15 centered on ensuring the continued existence of reliable  
16 infrastructure in the future, while addressing changing circumstances  
17 in the industry and structuring rates in a way that ensures reasonable  
18 prices for all customers.

19 **IV. WESTAR'S APPLICATION AND THE PUBLIC INTEREST**

20 **Q. WHAT ARE THE PRINCIPAL DRIVERS OF WESTAR'S**  
21 **APPLICATION IN THIS CASE?**

22 A. The greatest contributors to the increase in Westar's revenue  
23 requirement since the last test year some four years ago are the cost  
24 of environmental compliance at La Cygne, a plant operated by KCPL

1 and 50% owned by Westar; life extension projects at Wolf Creek,  
2 Kansas' only nuclear generating station; enhancements to the aging  
3 distribution grid, and general cost increases not otherwise offset by  
4 cost efficiencies during the last several years.

5 La Cygne is the last – as far as we can see today – of major  
6 investments for plant modifications required to comply with  
7 provisions of the Clean Air Act. Unlike the cost of modifications we  
8 have already successfully completed at Jeffrey and Lawrence  
9 Energy Centers, the Commission did not permit Westar to recover  
10 La Cygne costs through an existing environmental rider. Instead, the  
11 Commission considered and approved the La Cygne environmental  
12 project in a predetermination proceeding that ordered cost recovery  
13 for its owners through an abbreviated rate application we filed two  
14 years ago, followed by this general rate application.

15 Westar and Wolf Creek's other owners have successfully  
16 secured a license extension from the Nuclear Regulatory  
17 Commission, but for the plant to contemplate a now 20-year longer  
18 life (through 2045) requires significant upgrades and mid-life renewal  
19 to enable Wolf Creek's 1,000+ person workforce to safely and  
20 successfully operate and maintain this important zero-emission base  
21 load resource. Westar witness Mr. Bridson discusses in his direct  
22 testimony work being completed at Wolf Creek to ensure the  
23 continued safe, reliable operation of this very important plant.

1                   Building on the success of our ReliabiliTree® tree trimming  
2                   and repair program approved by the Commission in our last general  
3                   rate application<sup>1</sup>, we are proposing another phase of distribution grid  
4                   reliability and resiliency improvements. With its proven success,  
5                   outlined by Mr. Akin in his testimony, we will continue the  
6                   ReliabiliTree® tree-trimming and repair program. However, we have  
7                   found that some of our equipment is so old, it is no longer efficient to  
8                   repair it, and instead we should replace it. So we are now asking for  
9                   permission to use the same proactive approach the Commission  
10                  approved for tree-trimming and repairs with the ReliabiliTree®  
11                  program to most efficiently replace outdated equipment that causes  
12                  power outages. As part of this request, we are asking the  
13                  Commission to approve a method of more timely recognizing  
14                  incremental *capital* investments in the distribution grid, with an  
15                  annual rate adjustment mechanism for related expenditures, subject  
16                  to both dollar investment and time limits.

17                  There is no question that demands on and expectations for  
18                  our distribution grid are greater today than any time before. While  
19                  too many throughout the country have waited for the harsh effects of  
20                  extreme storms to demonstrate the need to modernize distribution

---

<sup>1</sup> ReliabiliTree® is a program we proposed and the Commission approved in our last general rate case (Docket No. 12-WSEE-112-RTS) specifically designed to improve distribution reliability through enhanced vegetation management, follow-up line maintenance and customer education.

1 grids, Kansans should not have to suffer such consequences before  
2 we and our regulators jointly act to better secure its future.

3 Because we are facing ever-increasing and sophisticated  
4 security threats to the grid and our computing and operating systems  
5 – and concomitant regulations from the Federal Energy Regulatory  
6 Commission, the North American Electric Reliability Corporation, the  
7 Nuclear Regulatory Commission, and possibly other regulatory  
8 agencies in the future – we are asking that the Commission allow us  
9 to defer as a regulatory asset costs associated with complying with  
10 these regulations, then amortize those costs in rates at the time of a  
11 subsequent rate application.

12 As part of our rate request, we are also asking for a lower rate  
13 of return on investment, passing on to our customers the benefits of  
14 Westar’s recent aggressive refinancing program.

15 **Q. YOU HAVE DESCRIBED THE PRINCIPAL REASONS FOR THE**  
16 **INCREASE IN REVENUE REQUIREMENT. WHAT HAS WESTAR**  
17 **DONE TO OFFSET THE INCREASE?**

18 A. First, as I mentioned, we have reduced the requested return for  
19 investors in this case from 8.40% approved in our last general rate  
20 case to 7.99% today. This reduction is a result of executing a  
21 business plan that resulted in improved credit ratings, cooperative  
22 capital markets and sound financial execution which capitalized on  
23 each. The lower overall rate of return in this case that results from

1           our lower interest costs, discussed by Westar witness Ms. North in  
2           her direct testimony, saves our customers about \$19 million  
3           annually.

4           **Q.   WHAT ARE SOME WAYS YOU HAVE BEEN ABLE TO AVOID**  
5           **CAPITAL EXPENDITURES, WHILE STILL MEETING YOUR**  
6           **SERVICE AND COMPLIANCE OBLIGATIONS?**

7           A.   Our project management has produced very good results when  
8           dealing with large, complex, hazardous, and very costly projects.

9                        When confronted with potentially very expensive *water*  
10           discharge options required as a result of *air* quality projects at Jeffrey  
11           Energy Center (JEC), we developed a first-of-its-kind application to  
12           avoid what we estimate to be \$60 million (and also avoiding  
13           significant environmental risk) compared to what would otherwise  
14           have been required for more costly treatment options.<sup>2</sup> This project,  
15           for which we incidentally received our industry’s highest award – the  
16           EEI Edison Award – will also save annual operating costs over more  
17           conventional solutions. Westar witness Mr. Bridson discusses our  
18           innovative wetlands solution for wastewater treatment at JEC in his  
19           direct testimony.

20                        We have managed our JEC NO<sub>x</sub> compliance projects to avoid  
21           as much as a quarter billion dollars (or more) of capital spending.

---

<sup>2</sup> One recommended solution which we avoided was “deep well injection.” Geological concerns about deep well injection have been exacerbated by the growing prevalence of earthquakes, including in Kansas, where that practice has expanded.

1 With foresight and a mind toward keeping options open, we did this  
2 by managing a very complex set of circumstances over several  
3 years. First, after seven years of disagreement and discussion, we  
4 negotiated a favorable settlement with the EPA that provided us  
5 more cost-effective options rather than mandates to incur costs that  
6 didn't make sense for our customers. Then, we managed the  
7 Selective Catalytic Reduction (SCR) project for JEC Unit 1 in such a  
8 way as to have saved more than \$15 million compared to its budget.  
9 Finally, our engineers found a creative solution to maximize  
10 customer benefits from the option we negotiated with the EPA. We  
11 leveraged to the maximum extent possible the single SCR on JEC  
12 Unit 1, and combined it with novel solutions for the other two units to  
13 avoid having to construct a much more expensive SCR on one or  
14 both of those other units, yet still keeping the plant in compliance with  
15 site-wide NO<sub>x</sub> limits and making it cleaner than any of us could have  
16 imagined. Mr. Bridson also discusses these projects in his  
17 testimony.

18 As a co-owner of La Cygne, we have aided KCPL, the project  
19 sponsor, in its successful management of that project, now expecting  
20 it too to come in tens of millions of dollars below the amount  
21 predetermined by the Commission. I am also pleased to report that,  
22 notwithstanding its many hazards, that project has also been  
23 completed with a remarkable safety record.

1                   We managed two of our major transmission projects – Prairie  
2                   Wind and Rose Hill-Sooner – to complete them ahead of schedule  
3                   and nearly \$90 million under budget. Those lower costs for our  
4                   customers are reflected in our transmission delivery charge.

5                   **Q.    IN ADDITION TO THESE METHODS OF AVOIDING CAPITAL**  
6                   **EXPENDITURES, CAN YOU SHARE EXAMPLES OF WHAT YOU**  
7                   **HAVE DONE TO MAXIMIZE EFFICIENCY AND SAVE MONEY**  
8                   **WITH YOUR OPERATIONS AND MAINTENANCE**  
9                   **EXPENDITURES?**

10                  A.    I am proud that our employees continually look for ways to reduce  
11                  operations and maintenance expenditures – ranging from significant  
12                  changes in how we operate our business to small changes made on  
13                  a day-to-day basis that add up for our customers. For example, as  
14                  Westar witness Mr. Banning explains, we recently renegotiated our  
15                  contract with the International Brotherhood of Electrical Workers so  
16                  that the pension plan provided to new union employees is similar to  
17                  the plan we provide to non-union employees. We expect that this  
18                  change will reduce our costs by \$2 million during the next five years  
19                  and by up to \$60 million in the long-term.

20                         Continuing the gains we first learned in our power plants, we  
21                         have now implemented similar predictive maintenance technologies  
22                         that allow us to identify problems in substations, transformers, and  
23                         other equipment before that equipment fails. We have avoided



1 millions of dollars in capital replacement costs as a result of this  
2 program. We have also worked to optimize our planned  
3 maintenance. Many of our planned maintenance intervals had been  
4 set to more frequent suggested intervals than we have learned are  
5 necessary. By using more intelligence and analysis, we have been  
6 able to responsibly and safely extend these cycles, which has  
7 already produced annual savings of over a half million dollars. By  
8 reviewing our cycles for inspection of substations and the process  
9 that we use to inspect substation breakers, we have saved  
10 customers another \$600,000, or so, annually.

11 One technically simple solution saves millions. We have  
12 begun installing trusses instead of replacing power poles, where pole  
13 integrity remains acceptable, except for the narrow band near the  
14 ground level. This change alone has saved our customers about  
15 \$4.5 million annually.

16 Our negotiations and contracting pay off in administrative  
17 areas too. When negotiating with the North American Renewables  
18 Registry regarding the rate we would pay to register renewable  
19 energy credits (RECs) produced by our wind farms, we were able to  
20 negotiate a lower rate, not only for Westar, but for all Kansas utilities  
21 that register RECs. The reduction in price that our employees  
22 negotiated saved our customers about \$170,000 annually – and  
23 other Kansas utilities' customers more still.

1                    These are just a few examples of the work Westar employees  
2                    do every day to reduce costs for customers while continuing to  
3                    provide them reliable electric service.

4                    **Q. CAN YOU EXPLAIN HOW YOUR INFRASTRUCTURE**  
5                    **INVESTMENTS HAVE AFFECTED JOBS IN KANSAS?**

6                    A. Utility infrastructure affects employment in three ways. First, there  
7                    are construction jobs, the easiest to track. Figure 2 below shows  
8                    peak construction jobs for some of Westar's most recent sponsored  
9                    projects; well paid jobs with good benefits for hundreds, if not  
10                    thousands, of pipefitters, electricians, steelworks and machinists at  
11                    a time when our economy perhaps needed it most.

**Figure 2**  
***Westar's Utility Investments Have Also Created Thousands of Construction Jobs for Skilled Craft***

<u>PROJECT</u>	<u>NUMBER OF JOBS</u>
Emporia Energy Center	454
JEC Scrubber	829
LEC Air Quality Project	225
2008 Wind Farms	370
Major Transmission Projects	150
JEC Wetlands Project	45
JEC SCR/SNCR Project	300
La Cygne Environmental Project	943
Post Rock Wind Farm	200
Ironwood Wind Farm	184
Total	3516

1                   Next, there are jobs associated with the utility itself. Today  
2                   we employ about 2400 people (excluding our share of employees  
3                   at Wolf Creek and La Cygne); a number that has been relatively  
4                   stable these past few years, notwithstanding how much additional  
5                   equipment we operate today. Hundreds of those are at our recently  
6                   upgraded base load power plants. Finally, and hardest to measure,  
7                   are the jobs that result as people choose to live and do business in  
8                   Kansas, in part because of our infrastructure and our competitive

1 pricing. One part of that choice is reliable, resilient, cost-effective  
2 utility service, something we know from our work alongside economic  
3 development agencies in Kansas as they work to retain, expand, and  
4 recruit jobs for Kansas, such as the recent addition of Mars  
5 Chocolate to the Kansas economy.

6 **Q. YOU MENTIONED CHANGES TO WESTAR'S RATE**  
7 **STRUCTURE. WHY IS RATE STRUCTURE IMPORTANT?**

8 A. First, rate structure and design is important to ensure that Westar  
9 has a reasonable opportunity to recover its necessary cost of doing  
10 business. Second, rate design is necessary to ensure fairness  
11 among customers; that is, reasonably apportioning the overall costs  
12 to the various categories of customers driving those costs and, thus,  
13 avoiding subsidization between customers. Third, we use rate  
14 structure to make sure we do not waste resources by encouraging  
15 things that do not fundamentally make economic sense. One of the  
16 things about a free political economy is that people get to choose  
17 how they spend their money, and on what. But if our rates are poorly  
18 designed, we can inadvertently encourage them to waste resources.  
19 Fourth, and finally, rate design can give customers more choice in  
20 the manner in which they purchase and use electricity.

21 Our customers use our product in vastly different ways, and  
22 deserve optional payment plans to choose from, similar to how each  
23 of our families' now pay and budget for their cell phone use.

1           However, concomitant with that is that the prices of those things  
2           people choose to purchase – or not purchase – should reflect as  
3           reasonably as we can, their true cost.

4           **Q.   WHAT ARE KEY ELEMENTS OF RATE STRUCTURE THAT**  
5           **WESTAR PROPOSES IN THIS CASE, AND WHAT ARE THE**  
6           **REASONS FOR THEM?**

7           A.   We are proposing several changes to our residential rate structure.  
8           Westar witnesses Mr. Overcast, Dr. Faruqui, and Ms. Wilson provide  
9           more detail on these proposed changes; however, I want to  
10          emphasize the fact that our proposals are designed with three main  
11          objectives in mind – to give customers more choices in how they  
12          purchase and use their electric service, to better match fixed costs  
13          and revenues, and better reflect cost causation in our rates to  
14          minimize one customer having to subsidize another.

15          **Q.   YOU INDICATED THAT WESTAR IS PROPOSING TO**  
16          **STRUCTURE ITS RESIDENTIAL RATES IN A WAY THAT**  
17          **BETTER REFLECTS COST CAUSATION.  WHAT DOES THAT**  
18          **MEAN?**

19          A.   A large percentage of Westar’s costs to serve its customers – almost  
20          two-thirds – are fixed, meaning they do not change regardless of the  
21          amount of energy consumed.  However, most of Westar’s fixed costs  
22          today are actually recovered through a volumetric energy charge,  
23          giving a false impression about what does or does not cause us to

1 incur costs on their behalf. From our residential customers – for  
2 whom the proportion of fixed costs is even higher at almost 75% –  
3 we are only recovering about 12% of our costs from fixed charges.  
4 The remainder of our fixed costs are recovered through the  
5 volumetric energy charge. This type of rate structure can lead to bad  
6 consequences like volatile bills (especially high summer bills),  
7 tenants in poorly insulated homes subsidizing those in even high-end  
8 condos or second homes, and creating incentives for people to  
9 intermittently bypass the grid with more costly solutions.

10 We are proposing to take small gradual steps during a four-  
11 year period to better match revenues with the percentage of our  
12 costs that are fixed. While these small changes will not solve the  
13 problem entirely, they are a step in the right direction for our  
14 customers, and our proposal introduces these changes in a gradual  
15 manner, consistent with a ratemaking principle this Commission has  
16 embraced for a long time.

17 We are also proposing two new voluntary rate options for  
18 residential customers, both of which give our customers more choice  
19 and control over their bills, and also help match cost causation with  
20 revenues.

21 **Q. ARE YOU PROPOSING CHANGES FOR THE RATES PAID BY**  
22 **CUSTOMERS THAT HAVE DISTRIBUTED GENERATION?**

1 A. Yes. Unlike many utilities across the nation addressing similar  
2 concerns, we do not believe our customers who produce some of  
3 their own energy should be assessed special charges or penalties.  
4 We do, however, propose that they pay their share of costs for the  
5 system they use. We are proposing that our residential customers  
6 without self-generation have three options from which they can  
7 choose, and that our self-generating customers have two of those  
8 same options, but not the third. Dr. Faruqui discusses these three  
9 rate options in detail in his direct testimony.

10 A change in the law approved by the Kansas legislature in  
11 2014, which we supported, now gives the Commission the authority  
12 to allow jurisdictional utilities to propose different rate structures for  
13 customers with some of their own generation, and those without it.

14 **Q. ARE YOU PROPOSING ANY OTHER RATE STRUCTURE**  
15 **CHANGES?**

16 A. We are proposing changes to our commercial and industrial rate  
17 classes to address customer migration issues and ensure that  
18 customers with similar energy demands pay similar prices. Westar  
19 witness Mr. Wolfram discusses these changes.

20 Additionally, as Westar witness Mr. Wilson explains, we are  
21 proposing a change to the funding mechanism for our economic  
22 development rider to better allow Westar to support economic  
23 development in a manner consistent with the method used for other

1 utilities in the state and neighboring states with which Kansas  
2 competes for economic development.

3 **V. IMPACT OF PROPOSED RATE ADJUSTMENT ON CUSTOMER**  
4 **RATES AND THE VALUE OF ELECTRICITY**

5 **Q. GENERALLY, HOW WOULD YOU DESCRIBE HOW WESTAR**  
6 **AND KANSAS ARE POSITIONED WITH RESPECT TO ELECTRIC**  
7 **UTILITY SERVICE, INFRASTRUCTURE AND PRICING?**

8 A. By objective measures, things are very favorable. We have  
9 navigated the compliance maze of environmental regulations  
10 promulgated these past few years without having to shut down our  
11 most reliable, stable and low-cost base load coal generation (along  
12 the way preserving about 700 well-paying jobs that they entail). We  
13 have managed our air quality compliance programs to be less costly  
14 than expected. We have increased our generating capacity with 660  
15 MW of new efficient natural gas generation. We have added almost  
16 700 MW of wind generation, which will grow to nearly 1,100 MW by  
17 2016 – a remarkable amount of emission-free renewable energy –  
18 with minimal impact on costs to our customer’s bills – keeping us in  
19 compliance with statutory mandates and giving Kansas a path  
20 through future carbon rules under consideration.

21 The success in these areas has left us and our customers with  
22 an *even more diverse* fuel mix, and a dramatically growing portfolio  
23 of emission-free resources. We have also improved reliability and  
24 remove congestion in the regional transmission system and made



1 significant improvements to our distribution safety and reliability. We  
2 have significantly improved (with more work to continue) the  
3 resiliency of our distribution grid.

4 We have accomplished all of this while keeping prices for our  
5 customers the lowest of any major utility in our state, below the  
6 national average, and during the past couple of decades, below the  
7 rate of inflation, generally.

8 **Q. TO WHAT DO YOU PRINCIPALLY ATTRIBUTE THESE**  
9 **FAVORABLE CONDITIONS?**

10 A. It has been a collaborative effort, and for that I am grateful. Key  
11 elements include: (1) a consistent, constructive regulatory and  
12 legislative policy environment in Kansas; (2) cooperative and  
13 frequent engagement between the professionals on the Commission  
14 Staff, consumer advocate, and those at Westar; (3) good corporate  
15 governance at Westar, with a clear mission and passionate  
16 commitment to our public service responsibilities as Kansans; and  
17 (4) transparency, open communication and mutual trust.

18 As I said, it is my belief that while our roles appropriately differ,  
19 we share a common *mission* of assuring safe, reliable, efficient,  
20 affordable, and cleaner energy. We have listened to and learned  
21 from one another, and the results have been good for our state, our  
22 customers and Westar. I hope we have also built a stronger mutual

1 respect and trust. Frankly, I think we have jointly proved some cynics  
2 wrong.

3 **Q. WHAT DO YOU MEAN BY THAT?**

4 A. Cynics might claim that things like pre-approving large projects or  
5 having annual riders to track planned expenses would create  
6 perverse incentives and limit regulatory oversight. The results have  
7 been quite the opposite, and with overwhelming evidence.

8 For example, under the authority and review of a well-  
9 functioning environmental cost recovery rider, we completed key air  
10 quality compliance projects on time and under budget, and our  
11 engineers developed creative solutions to avoid hundreds of millions  
12 of dollars of additional environmental improvements that we could  
13 easily have justified under EPA regulations, *but didn't*. Westar also  
14 brought several large transmission lines in under the amount  
15 expected by the SPP, and ahead of schedule.

16 Another example is La Cygne. As a co-owner confronted with  
17 massive required air quality improvements at the station, in this  
18 policy environment, it could have been tempting to forfeit that plant  
19 (and its hundreds of jobs) and replace it with a new, more costly,  
20 natural gas-fired plant, passing through those higher costs to our  
21 customers. Certainly we could have gained friends in the  
22 environmental arena by shutting down a coal plant. But instead the  
23 owners did the tough analysis, brought that analysis to the

1 Commission Staff and presented the case to the Commission, and  
2 as a result of our joint efforts, we continue to have that important  
3 base load resource, fuel diversity, and the jobs that keep it humming.  
4 Moreover, even though the cost of this significant retrofit investment  
5 was preapproved, that project too will be completed below budget,  
6 as Commission Staff is aware as a result of their close and frequent  
7 attention to the project.

8 A third example is our wind contracts. Because of our  
9 improving relative financial strength, we have been in a position to  
10 be opportunistic as to timing and with whom we contract as our  
11 counterparties. As a result, we have added to our generation  
12 portfolio some of the lowest cost renewables in the nation.

13 Because Westar has improved its financial profile, it means  
14 we have been able to make decisions with a long-term perspective.  
15 The decisions we have made about what to invest in, when, where  
16 and how, we can make not from a hurried, forced, or short-term  
17 perspective, but more thoughtfully. If you look at the shareholder  
18 base we have cultivated, they are not activists looking for a quick  
19 buck resulting from our volatility or based on just next quarter's  
20 earnings. Instead, our investors are solid, long-term-focused,  
21 traditional utility investors, many of whom are themselves our Kansas  
22 neighbors, who appreciate what a Kansas utility should be – not a  
23 company swinging for the fences, but one that steps up to the plate

1 consistently, working to get safely on base. As a result, my time as  
2 CEO is far more focused on our business and our customers than  
3 dealing with activist investors looking for the next “catalyst” that might  
4 move our stock price up or down compared to their other  
5 investments.

6 And as I have mentioned, our improving financial profile has  
7 given us the opportunity to refinance hundreds of millions of dollars  
8 of outstanding debt to reduce the rate of return and cost of capital in  
9 this case, passing the lower costs to our customers.

10 Some might say “Westar is a boring investment.” That may  
11 be true, but I hope we continue to work jointly to keep it so, as that is  
12 best for our customers and our state.

13 **Q. HOW ELSE HAS THE SHARED MISSION BETWEEN THE**  
14 **COMMISSION, WESTAR, AND STAFF BENEFITTED KANSAS?**

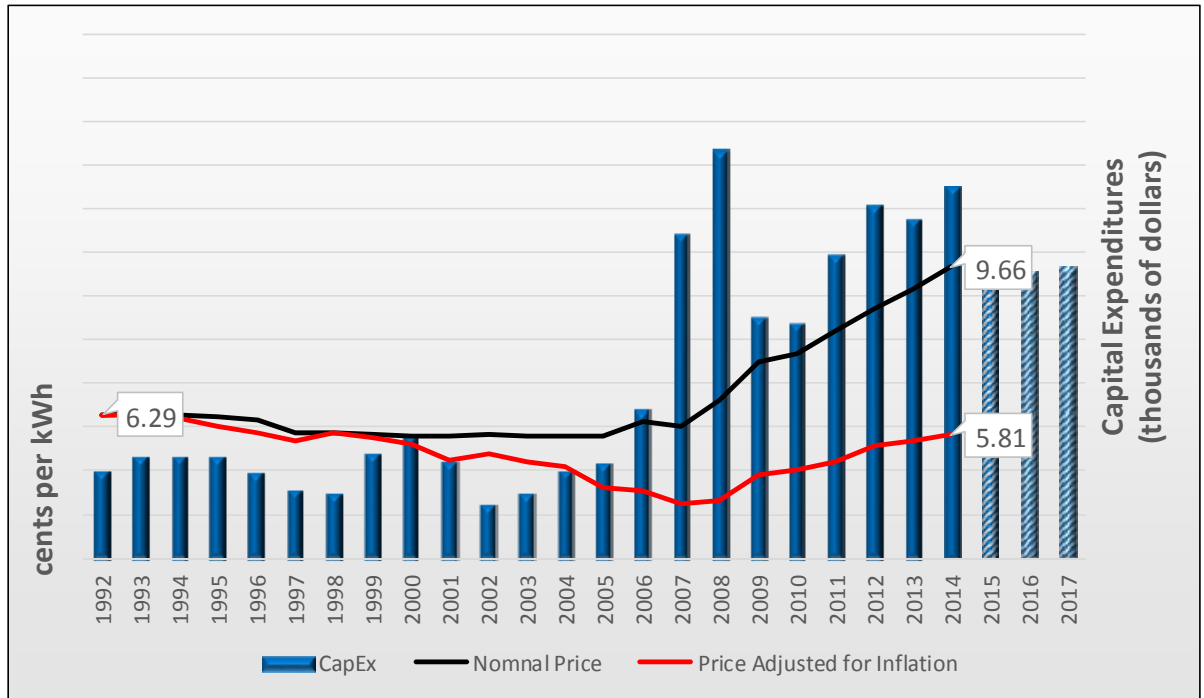
15 A. Because I believe we share a common mission – of assuring safe,  
16 reliable, efficient, affordable, and cleaner energy – and have worked  
17 to achieve this mission in a cooperative and constructive way,  
18 Kansas has been able to avoid the acrimony that sometimes occurs,  
19 often leaving customers in the cross hairs of disruption and disputes.  
20 For example, unlike New York and Hawaii, where electricity prices  
21 are 2-3 times what they are in Kansas, our state has not felt  
22 compelled to turn the cart upside down and start over. In fact, in one  
23 of these states, its largest utility is being taken over. Because our

1 legislature, regulators and utilities work together to keep our prices  
2 moderate and our rates more aligned with costs, we have also  
3 avoided the mess that has become associated with heavily  
4 subsidized renewable power, and the higher rates, risk of stranded  
5 investment, and political fighting that has come along with it.

6 **Q. CAN YOU PUT THE RECENT HISTORY OF WESTAR'S PRICES**  
7 **FOR ENERGY IN CONTEXT?**

8 A. Figure 3 below shows Westar's average retail price per KWh for  
9 electricity over time, compared to the Consumer Price Index, since  
10 1992. It also shows how our prices and capital investment are  
11 correlated. The upper black line is just nominal dollars, the lower  
12 line is the same price, just adjusted for inflation.

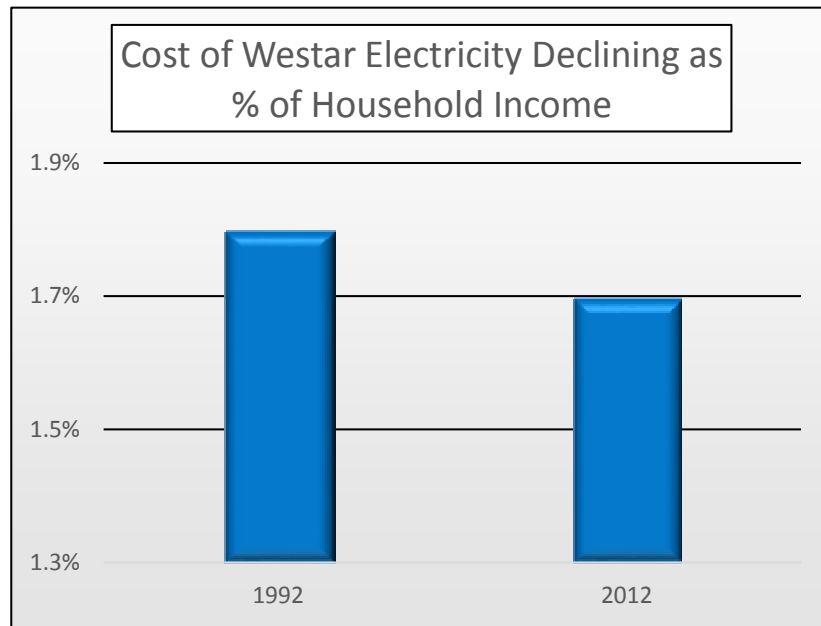
**Figure 3**  
***Even as Required Investment Drives Rates, Weststar's Prices Remain below the General Rate of Inflation***



1            You can see that for about a decade and a half, during a period of  
2            relatively low required reinvestment, our customers enjoyed flat  
3            (nominal) to declining (adjusted for inflation) prices. In the past few  
4            years, concomitant with a very large capital investment program, due  
5            largely to federal environmental mandates, our prices have risen  
6            rapidly (in nominal terms) but still remain below the change in the  
7            overall consumer cost of living. Or, stated another way, after  
8            adjusting for inflation, our rates are still lower than they were more  
9            than 20 years ago.

1                    Figure 4 below shows that as a percent of Kansas household  
2                    income, the cost of Westar electricity today is just 1.7% of household  
3                    income, down slightly from two decades ago. Today, even though  
4                    they use more of it electricity takes a smaller percentage of our  
5                    customers' incomes.

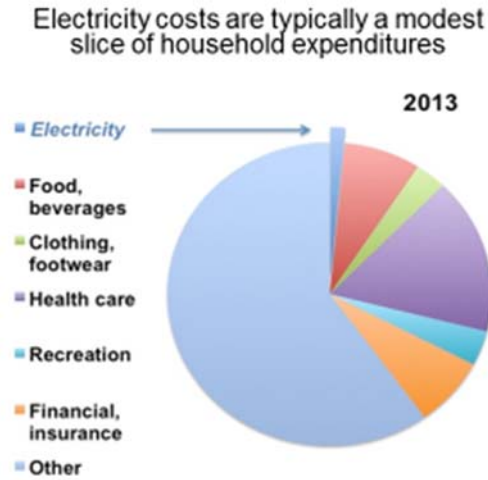
**Figure 4**



To put that further in context, for about two-thirds of our residential customers, the daily cost of powering their entire home for 24 hours is about \$4.00, about the same cost it takes to drive their cars for less than one hour, or what it takes to buy a fancy cup of coffee. Further perspective is in Figure 5 below, which shows the relative percentage of household income required for items other than

electricity, even though many of those other things depend on electricity for their value.

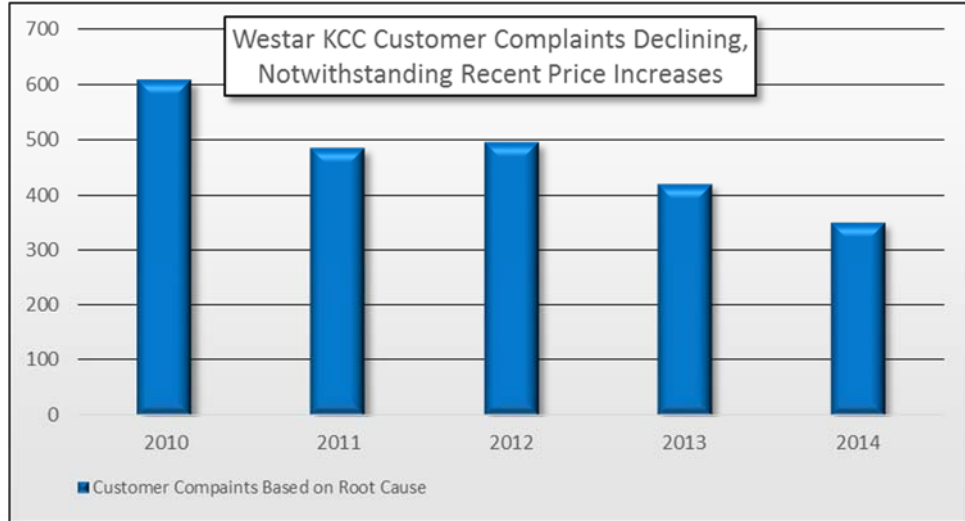
**Figure 5**



1                   Indeed, this is the reason *most* of our customers rarely  
2 complain about their electricity costs. There is no question that some  
3 of our customers have trouble paying for all of the things it takes for  
4 daily living, including their utility bills, and that can be a hardship. But  
5 the fact that electricity delivers such value for such a relatively small  
6 portion of most of our customers' incomes – together with the fact  
7 that the vast majority of high energy users are also high income  
8 households may explain why the number of complaints filed by our  
9 customers with the Commission has steadily decreased over the last  
10 five years, even as our prices have been rising. (Figure 6 below)



**Figure 6**



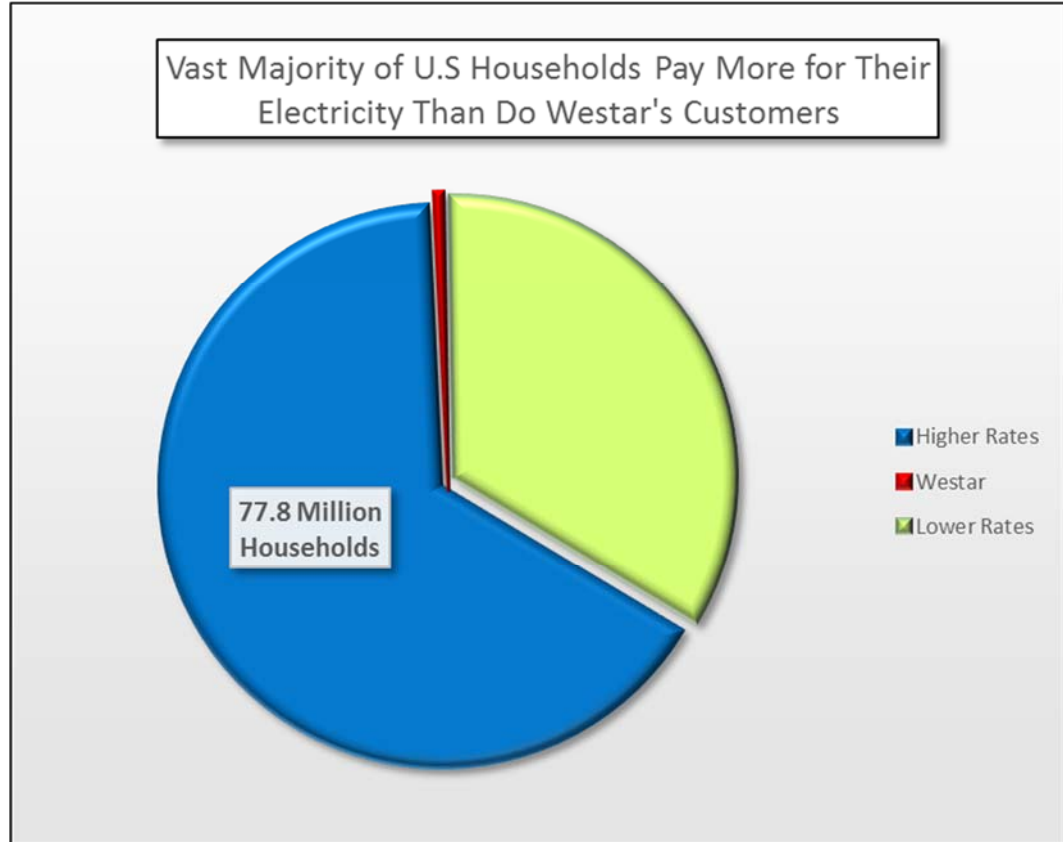
1       **Q.     WHAT WILL BE THE EFFECT ON CUSTOMER PRICES OF**  
2       **GRANTING YOUR RATE REQUEST?**

3       A.     If the Commission grants our request, for two-thirds of our customers  
4       the increase would be less than 44 cents per day.

5       **Q.     HOW DO WESTAR’S RATES, EVEN WITH THIS PROPOSED**  
6       **ADJUSTMENT, COMPARE TO THE RATES OF OTHER**  
7       **ELECTRIC UTILITIES IN THE REGION AND ACROSS THE**  
8       **COUNTRY?**

9       A.     Westar’s retail rates are lower than any other jurisdictional utility in  
10      Kansas; and a lot lower than virtually all non-jurisdictional ones, too.  
11      Westar’s retail rates are also lower than most other utilities across  
12      the country – as is reflected in Figure 7 below, two out of three US  
13      households pay more for their electricity than do Westar’s customers.

**Figure 7**



1 **Q. DO YOU SEE THE RECENT TREND OF RAPIDLY INCREASING**  
2 **ELECTRICITY PRICES CONTINUING?**

3 A. Fortunately, no. At least not for Westar's customers. While I do not  
4 think we can expect a return to flat prices, we have reason to expect  
5 more modest increases in the future and fewer rate adjustments.  
6 This is largely reflective of more modest capital investments, the  
7 principal driver of the increases. But of course, much of that depends  
8 on the external policy environment and government mandates  
9 affecting our industry and ultimately our customers.

10 **Q. WHEN DO YOU ANTICIPATE FILING ANOTHER GENERAL**  
11 **RATE APPLICATION?**

1 A. It has been nearly four years since the last one, and I hope we can  
2 avoid the next one for quite some time too. However, that depends  
3 on a lot of factors outside our control – such as laws, tax rates,  
4 environmental policy, and interest rates – and, importantly, how the  
5 Commission balances the competing interests in this present rate  
6 request.

7 **VI. MERITS OF RATEMAKING USED BY THE COMMISSION**

8 **Q. WHAT CONCERNS YOU MOST ABOUT THIS PRESENT RATE**  
9 **APPLICATION?**

10 A. I am concerned that the very real and present pain of a series of  
11 recent price increases these past few years might create a set of  
12 circumstances that undoes much of the progress we have jointly  
13 made. Indeed, that is a concern of Westar’s investors, of which  
14 nearly 20,000 are also Kansans.

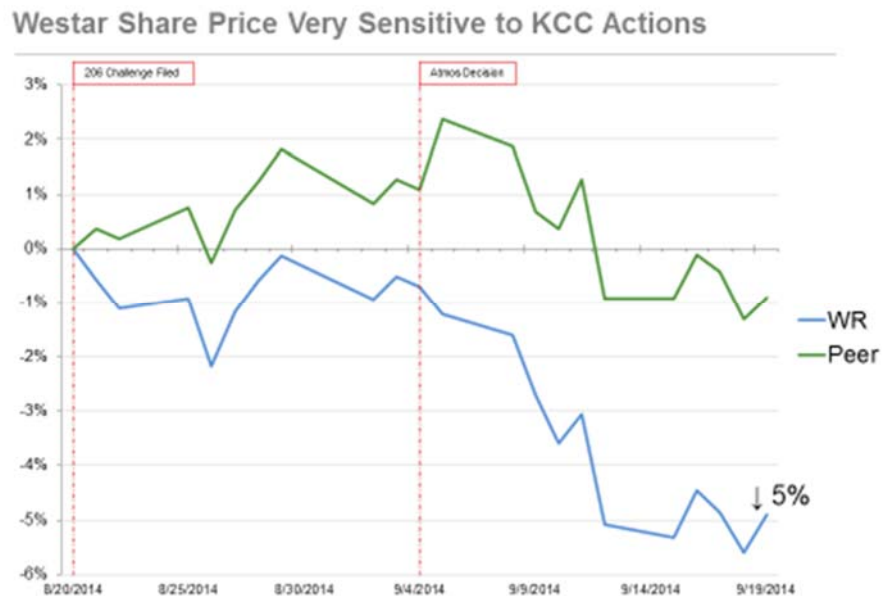
15 **Q. CAN YOU EXPLAIN FURTHER?**

16 A. Investors recognize that the rate setting process inherently involves  
17 some uncertainty. That is why companies with constructive,  
18 predictable regulation have an advantage in finding good  
19 shareholders and willing lenders. When circumstances arise that  
20 cause investors to perceive a negative shift in the regulatory  
21 sentiments, they do not hide their concerns.

22 A recent example of those concerns, reflected in Figure 8  
23 below, was the more than \$200 million dollars of Westar shareholder  
24 value lost late summer in response to the Commission’s order in the

1 Atmos case – in which they (our shareholders) perceived the  
2 Commission as having embraced an uncharacteristically low allowed  
3 return for investors – coupled with concerns about the complaint the  
4 Commission filed at the Federal Energy Regulatory Commission  
5 (FERC). Investors interpreted those actions as negative signals of  
6 change.

**Figure 8**



7 Fortunately, and with a lot of investor hand holding last fall,  
8 we have calmed some of those fears and regained most of that  
9 ground – for now – by reminding investors of the broader story that  
10 demonstrates the cooperative, constructive Kansas regulatory  
11 environment I believe (and hope) still exists, the continuation of  
12 which would bode well for our customers, shareholders and Kansas.  
13 But of course, the outcome of this case is still uncertain.

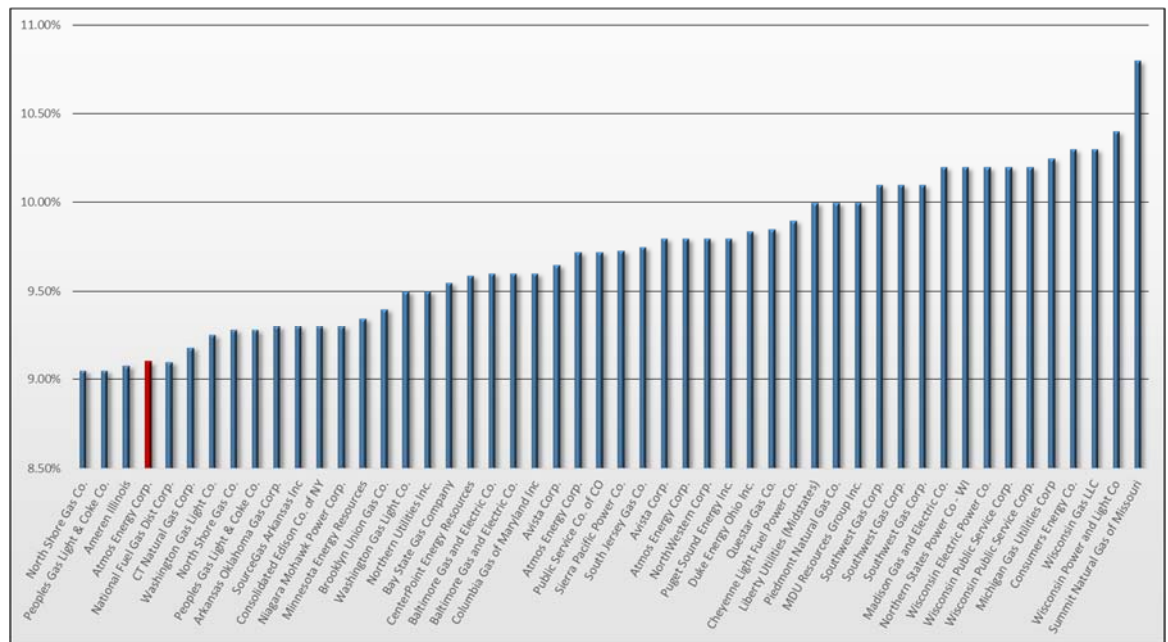
1                   A responsibility that lies with Westar in this application is to  
2 present a compelling case to the Commission for our request, and to  
3 share our concerns about the consequences that could befall  
4 Kansas if a fair outcome balancing all interests involved does not  
5 result.

6                   While it may not seem very intuitive, for investors the income  
7 statement starts at the bottom. By that I mean investors are keenly  
8 aware of how very large changes in the *bottom line* can result from  
9 relatively small changes in *top line* revenue. For example, the  
10 difference between an allowed ROE of 9.5% vs.10.0% might seem  
11 slight to some, but it is very significant for investors who have a  
12 multitude of options for their investments. Indeed, for most  
13 residential customers it would reflect a difference of less than the  
14 cost of a single gallon of gasoline per month. On the other hand, the  
15 difference in that ½ of one percent, can signal for investors the  
16 difference between a company under either reasonably constructive  
17 or relatively challenging regulation, respectively. If investors see the  
18 regulatory environment as challenging, they will simply reallocate  
19 their capital elsewhere and we risk losing the best terms for  
20 investments that are the lifeblood of our capital intensive industry and  
21 that enable us to do a good job of providing a critical public service  
22 at reasonable rates.

1 Q. CAN YOU PROVIDE SOME CONTEXT AROUND THE CURRENT  
2 REGULATORY ENVIRONMENTAL AS IT RELATES TO  
3 AUTHORIZED ROE?

4 A. Figure 9 below highlights our concerns, or more appropriately, the  
5 concerns of investors who put their capital to work for Kansas utility  
6 infrastructure. It shows recent ROE decisions of regulatory  
7 commissions for gas and electric utilities across the nation, including  
8 the most recent decision by the Commission. Notable is that the  
9 Commission's recent decision is well below average, and nearly the  
10 lowest of any across the nation.

**Figure 9**  
**Recent ROE Decision in Atmos among Lowest in Nation**

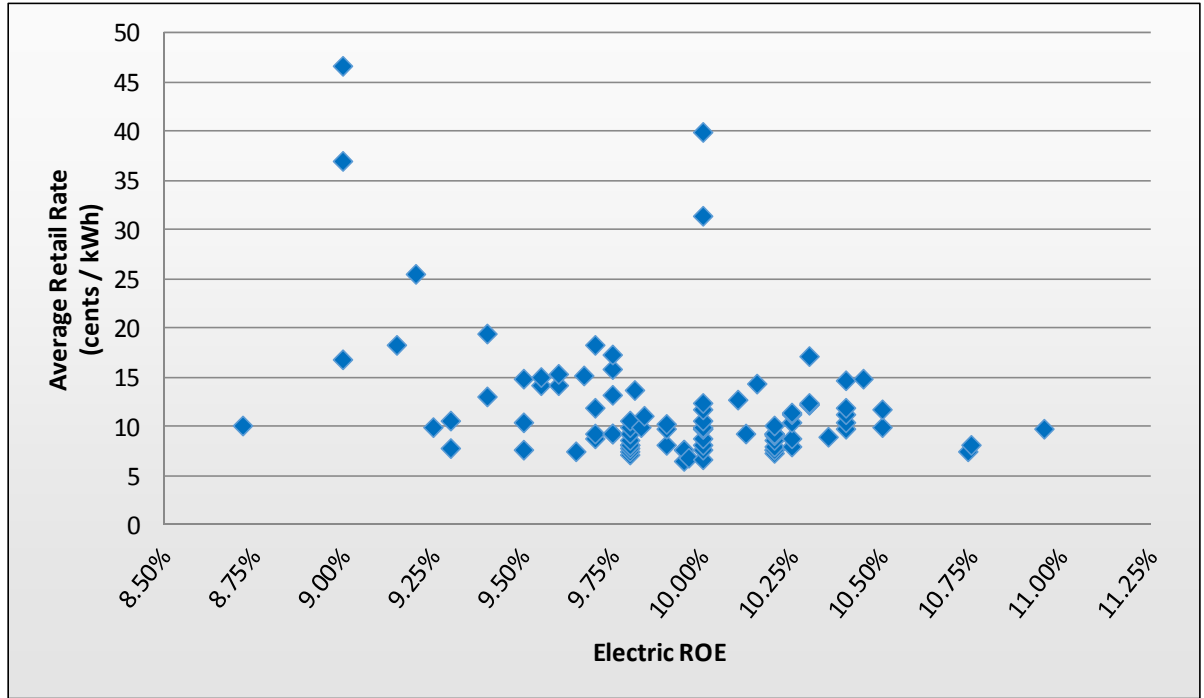


11 If a utility were neglecting its public service duties, and the  
12 Commission felt the need to make its dissatisfaction known, that  
13 might be a legitimate reason for a substandard allowed ROE. Were

1           that the case, it would be important to make that known so that  
2           investors would not erroneously generalize sentiments about the  
3           Commission's intentions. However, if the utility were meeting its  
4           public service obligations, providing safe, efficient and sufficient  
5           service, it would be questionable to investors as to why the  
6           Commission would discourage them from supporting our State's  
7           utility infrastructure.

8           It is understandable that in addressing cost pressures  
9           regulators might feel the need to squeeze investors' allowed returns,  
10          but the data do not bear out that lower authorized returns result in  
11          lower prices for customers. Figure 10 below shows a scatter diagram  
12          of allowed returns for the last three years across numerous  
13          regulatory jurisdictions, corresponding to customer rates. Figure 10  
14          shows there is no correlation suggesting that lower rates result from  
15          lower allowed returns. If there were, there would be a discernable  
16          trend from the lower left to the upper right on Figure 10. When  
17          analyzed statistically, the very small correlation that does exist is  
18          actually *negative*, implying that that companies with lower ROEs  
19          have higher rates.

**Figure 10**  
**Lower Allowed ROE does not correlate with Lower Customer Rates**



- 1     **Q.     HOW DO INVESTORS VIEW AUTHORIZED ROE FOR WESTAR?**
- 2     A.     Investors clearly perceive the authorized ROE as a key indicator of
- 3             perceived regulatory balance, particularly when there is little if
- 4             anything otherwise unique about Westar’s regulatory tools and
- 5             mechanics. The methods, mechanisms and practices of Kansas
- 6             generally provide little unique advantage for Westar – something
- 7             Staff has confirmed on multiple occasions.<sup>3</sup>

---

<sup>3</sup> See, e.g., Gatewood Direct Testimony, at pp. 7-8, Docket No. 12-WSEE-112-RTS (“Staff is not recommending a specific adjustment to account for any risk reduction associated with Westar’s tariff riders because most of Staff’s proxy companies have similar mechanisms. Thus, any risk reduction associated with these mechanisms is captured in the market data (stock prices) used in Staff’s analysis”).



1                   Westar competes for capital on a national – even global –  
2 basis. If investors perceive Kansas as being harsh in its treatment  
3 of utility shareholders, they will simply take their capital to the next  
4 jurisdiction. It is that next state then that would boast a more  
5 attractive infrastructure, important for overall economic health and  
6 jobs and for moving that state forward.

7                   It may make us uncomfortable when the market speaks,  
8 perhaps in a way that does not square with our own perceptions,  
9 preferences, and intuition, but the facts are that investors vote with  
10 their feet.

11                   What returns other investors in other industries with different  
12 circumstances might earn is irrelevant to Westar’s investors. Utility  
13 investors look to other utilities similar to Westar – and the risks and  
14 rewards they offer – and compare that to what they see in Kansas  
15 with Westar.

16       **Q.   WHAT ARE THE CONSEQUENCES TO COMPANIES**  
17       **PERCEIVED BY INVESTORS AS HAVING MORE DIFFICULT**  
18       **REGULATORY CIRCUMSTANCES?**

19       A.   Typically, their stock trades at lower levels, their cost of borrowing is  
20 higher, their bond ratings are lower, and they attract more short-term-  
21 focused, activist shareholders. As a result, management spends  
22 more time and focus trying to calm frayed nerves and satisfy investor  
23 demands for quick fixes, with less focus available for making the best

1 long-term decisions for their customers, communities and their  
2 company.

3 It is no secret that the number of mid-sized utilities is  
4 shrinking. In the past year, four of Westar’s peers, comprised of 11  
5 subsidiary companies, have been targeted for acquisition, with a fifth  
6 just last month. And while companies being acquired is not  
7 necessarily a bad thing, in states and communities already starved  
8 of corporate headquarters and the unique and valuable jobs they  
9 bring to a community, such events can have a disproportionate  
10 impact on the well-being of smaller communities and states with  
11 smaller populations. Westar, unfortunately, is one of the few  
12 remaining, sizable publicly traded companies still headquartered in  
13 Kansas.

14 When a utility company is acquired, obviously the poles and  
15 wires remain. A less obvious “cost” when all this happens is that  
16 there is a diminished sense of local interest.

17 **Q. PLEASE SUMMARIZE THE COSTS RELATIVE TO THE**  
18 **REQUESTED RATE OF RETURN IN THIS APPLICATION.**

19 A. We are requesting an overall rate of return (ROR) of 7.99%. The  
20 ROR approved by the Commission in our last case was 8.40%. This  
21 reduction in ROR implies a \$19 million reduction in the revenue  
22 requirement from what was authorized in the last case. Westar’s  
23 request of 10% ROE is at the low end of ROEs requested by

1 vertically integrated utilities across the nation in the last 12 months  
2 and right at the average of the ROEs that regulators have authorized  
3 to vertically integrated utilities over the same 12 month period.  
4 Commission approval of our request would help return Kansas to at  
5 least an average authorized ROE.

6 **Q. WHAT STANDARD SHOULD THE COMMISSION APPLY TO**  
7 **WESTAR'S ROE REQUEST IN THIS CASE?**

8 A. The standard for the Commission's decision on ROE for investors, I  
9 would hope, would be far higher than whether it would simply be  
10 upheld by the courts. Frankly, that is a pretty low standard, as we  
11 recognize the courts have affirmed the Commission's broad authority  
12 in matters of setting rates.

13 The standard I hope the Commission considers is one far  
14 more important; that is, what is best for the long-term interests and  
15 health of Kansas and the electrical infrastructure that drives our  
16 economy; a standard that does not leave Westar reduced to short-  
17 term decision making simply to meet financial exigencies of a  
18 restrictive order, the balance of which might have been tipped too far  
19 away from shareholders. An ROE in the middle of the pack, and  
20 perhaps yielding a monthly bill apparently a few cents higher than  
21 might result from a sub-par allowed ROE, could prove to be cost-  
22 effective insurance in keeping the Kansas economy on the right track  
23 toward a financially strong future.

1                   Westar’s investors do not expect special treatment or a  
2                   premium ROE, but I do not think they should expect below average  
3                   treatment either, unless, perhaps our performance in our duties were  
4                   lacking. It is always important to remember that the charge of this  
5                   Commission is to fairly balance the interests of both the customers  
6                   and the shareholders – which I am confident is at the heart of  
7                   Westar’s proposal.

8                   **Q.   WHY SHOULD THE COMMISSION NOT EXPECT WESTAR**  
9                   **SIMPLY TO FIND WAYS TO CUT CORNERS OR PRODUCE**  
10                   **WEAKER RETURNS FOR INVESTORS, AS MANY OTHER**  
11                   **BUSINESSES MIGHT HAVE TO ON OCCASSION?**

12                   A.   First, cost management is and remains an important and ongoing  
13                   focus of Westar’s management. But central to this entire discussion  
14                   is the reality that electric utilities like Westar are simply not like other  
15                   businesses. Regulated electric utilities are a unique institution, a  
16                   hybrid enterprise with a mission quite unlike any other. Yes, we have  
17                   special rights, but along with them we also have unique, special, and  
18                   extraordinarily demanding responsibilities. Unlike most businesses,  
19                   we do not have the flexibility of saying “no” to a customer wanting  
20                   service, closing a division, cherry-picking the most profitable  
21                   customers, curtailing services, shutting down a production shift, or  
22                   deferring maintenance and investment.

1                   By design, the regulatory and legal framework in which we  
2                   operate is intended to recognize and respect that electric utilities are  
3                   essential to our way of life, that our service needs to be continually  
4                   accessible to all customers willing and able to pay (a “just and  
5                   reasonable, regulated price”), and that our investments must be with  
6                   an eye toward the long-term public good, even as we experience  
7                   short-term pressures. Indeed, those are legal obligations we share  
8                   together, each in our respective roles.

9                   In a business that must attract huge amounts of capital (that  
10                  must be recovered over almost unimaginably long depreciable lives  
11                  compared to any other business<sup>4</sup>) to fulfill its basic mission, no  
12                  investor would place a bet on such a peculiar set of business  
13                  conditions and constraints without assurance that there was a  
14                  reliable, constructive, regulatory framework that appreciates this  
15                  unique arrangement for what it is. In that sense, good regulation is  
16                  intended to keep electric utilities moderated from some of the  
17                  volatility and violence of the market, so they are never tempted nor  
18                  compelled to make expedient, compromising decisions that impair  
19                  their ability to serve the public interest, now and long into the future.

20                  It may be appealing on the surface to argue that any price  
21                  increase by a utility is a risk to a still recovering economy; in fact, the

---

<sup>4</sup> For example, as reported in Westar’s most recent 10-K, the longest depreciable life for Westar’s assets ordered by the Commission is about 80 years – for a component of our generation plant..

1 far greater risk would be to yield to temptation and push these costs  
2 off to another day when seemingly it is less awkward to deal with  
3 them, only to find that the costs have now magnified and morphed  
4 into a much greater risk for our state and customers.

5 Kansas enjoys relatively low rates compared to many places,  
6 but that does not mean that Kansans are served by keeping them  
7 temporarily artificially low, only to experience unavoidable price,  
8 safety or reliability shocks later.

9 The Commission acts as a surrogate for competition for its  
10 regulated utilities to keep utilities disciplined in their management  
11 decisions in light of real-world economic conditions. This inherently  
12 means that the principles applied to setting rates cannot be artificial  
13 and must ensure that rates reflect the true nature of costs, required  
14 revenues, and an opportunity to achieve a reasonable return on  
15 investment in both the short and long terms.

16 We manage Westar for the very long term. It is that same  
17 long-term context in which I believe the Commission should make its  
18 decision in this case.

19 **Q. HOW SHOULD THE COMMISSION VIEW WESTAR'S RECOVERY**  
20 **OF ITS COSTS AS A REGULATED UTILITY?**

21 A. As a regulated utility, Westar has the legal obligation to serve all  
22 customers willing to pay the just and reasonable regulated rate;  
23 meaning we cannot ever refuse a customer. With that comes the

1 legal right to recover our prudently incurred costs and have the  
2 opportunity to earn a reasonable return commensurate with returns  
3 earned by investors in other enterprises having similar risks.  
4 Moreover, there should be recognition that an authorized return is  
5 simply a permission, not a guarantee. The returns for investors are  
6 necessarily residual; that is, they are “what’s left over” when all the  
7 other bills – most of which have been rising – are paid. In a generally  
8 rising price environment, the deck is stacked against Westar ever  
9 earning that allowed return. Due process requires the Commission  
10 to balance the interests of customers with the interests of investors  
11 when making decisions regarding Westar’s recovery of costs and  
12 allowed return.

13 **Q. DOES THE PRINCIPLE REGARDING RECOVERY OF**  
14 **PRUDENTLY INCURRED COSTS ALSO APPLY IN THE**  
15 **CONTEXT OF EMPLOYEE COMPENSATION?**

16 A. Yes, it does. In previous cases, other parties have suggested that  
17 portions of our employee compensation that relate to the financial  
18 performance of the company should be disallowed. This position  
19 taken by other parties ignores the central principle of utility regulation  
20 that I discussed above – that a regulated utility is to be given the  
21 opportunity to recover actual costs prudently incurred in connection  
22 with providing public service. There is no question that the costs

1 related to employee compensation we included in our revenue  
2 requirement have been prudently incurred and are reasonable.

3 In his direct testimony, Westar witness Mr. Banning amply  
4 demonstrates the reasonableness of our compensation philosophy  
5 and practice. Moreover, our customers enjoy good utility service –  
6 in their own opinions – and our rates remain the lowest of any  
7 investor owned electric utility in Kansas, notwithstanding that we  
8 have had to make extraordinary investments to comply with stringent  
9 environmental regulation. Absent evidence that our compensation  
10 levels are the result of imprudent practices or that we are otherwise  
11 failing our customers or the public in some meaningful manner, there  
12 is no sound basis for disallowing costs related to employee  
13 compensation.

14 **Q. GIVEN THE EBB AND FLOW OF UTILITY RESTRUCTURING**  
15 **ACROSS THE NATION, AND THE CURRENT INTEREST OF A**  
16 **FEW LEGISLATORS IN RESTRUCTURING SOME ELEMENTS**  
17 **OF UTILITY REGULATION IN KANSAS, WHAT IS YOUR OPINION**  
18 **CONCERNING HOW KANSAS REGULATION WORKS?**

19 A. No system is perfect; each has its advantages and disadvantages.  
20 However, as I mentioned earlier, by all measures, how Kansas  
21 organizes and regulates its electric utilities works well. Before one  
22 tries to “fix” something, I hope they consider very carefully whether it  
23 is really “broken” and whether proposed changes might bring about



1 unintended negative consequences of greater concern. Indeed, in  
2 states that have gone down that path, the results are at best mixed,  
3 but certainly more volatile for customers.

4 Because things are working well in Kansas – and for concern  
5 about unintended consequences of proposed change – I believe  
6 strongly that the way Kansas organizes and regulates its utilities  
7 remains best for customers, our state and our investors. We respect  
8 the authority and role of the Commission. If the Commission shares  
9 those general sentiments, I think it is important that we continue  
10 working constructively together to demonstrate its continuing merits,  
11 because the harsh truth is, if we don't we will all become less relevant  
12 if we fail to show its continuing value.

13 Having said that, it should not, I believe, give us too much  
14 comfort in the *status quo*. Our customers have come to expect  
15 certain features in all the things they do. They expect more choice,  
16 more control, and the conveniences technology now affords.  
17 Together I think we need to pay close attention to customers'  
18 expectations, make reasonable adjustments along the way, or quite  
19 simply, they will demand something that puts at risk the present  
20 industrial organization and regulation of our industry that I think  
21 serves Kansas, well.

1 **VII. CONCLUSION**

2 **Q. HOW HAS WESTAR ATTEMPTED TO FACILITATE AN OPEN**  
3 **AND TRANSPARENT REGULATORY PROCESS?**

4 A. We have endeavored to be proactive in our regulatory affairs by  
5 openly sharing our plans and the status of projects with the  
6 Commission, the Staff and the public generally. This has taken many  
7 forms. For example, in developing our large transmission projects,  
8 in addition to the public hearings required by statute, we hold open  
9 houses to explain our intentions and to elicit public input. In that  
10 same vein, we provide landowners notice of the proposed line routes  
11 more broadly than called for in the statutes, even as we know that  
12 will subject us to more criticism. We also solicit input from interested  
13 environmental and non-governmental organizations. In addition to  
14 trying to be a good neighbor and recognizing that utility assets  
15 sometimes intrude into people's lives, it also reduces the likelihood  
16 of costly and time-consuming dissent and delay.

17 Before proceeding with new, very significant commitments,  
18 such as the La Cygne environmental project, we have initiated or  
19 supported predetermination cases. The predetermination process is  
20 helpful to sound decision-making because it provides a degree of  
21 common understanding and agreement about how best to develop  
22 large and expensive projects before we jointly commit investors and  
23 customers to them. Such a formal, focused process also provides  
24 *ex ante* information to our customers and to the Commission about

1 the costs and rate implications of these projects and an opportunity  
2 for input, and even objection or protest – before we commit our  
3 customers and our company to them. It is a maxim that addressing  
4 potential problems or disagreements up front ends up being less  
5 costly and less disruptive than dealing with unpleasant surprises  
6 later.

7 In our day-to-day interactions with the Commission and its  
8 Staff, whether responding to information requests or initiating  
9 communications about our operations and plans, our intent is to be  
10 open, direct and forthcoming. I am hopeful that both the reality and  
11 the perception of our actions are consistent with that objective. As  
12 an example, in our last two rate cases, we kept the amount of  
13 confidential information to an absolute minimum and responded to  
14 every data request submitted to us. Consistent with that approach,  
15 there is only one claim of confidential privilege (related to protecting  
16 customer-specific information – not our own) in this application and  
17 we have already begun the process of responding to Staff data  
18 requests.

19 Recent evidence of our efforts to be transparent and work  
20 collaboratively with Staff and the Consumer Advocate is the Joint  
21 Application process that resulted in the schedule for this case and a  
22 decision regarding the accounting treatment for our investment in La  
23 Cygne. We worked with Staff and CURB to address accounting and

1 scheduling issues involved with both ours and our neighbor's rate  
2 cases related to the investment at La Cygne and were able to jointly  
3 file an application for approval of both the accounting treatment and  
4 rate case schedules.

5 **Q. WHAT OBSERVATIONS DO YOU OFFER TO THE COMMISSION**  
6 **AS IT CONSIDERS YOUR APPLICATION AND STAFF'S AND**  
7 **OTHER PARTIES' RESPONSES TO IT?**

8 A. As the Commission, the Staff and intervening parties examine our  
9 filing, I believe it will be evident that our request is transparent,  
10 conventional, presented in a forthright manner, and contains little, if  
11 anything, that should be characterized as controversial. I believe it  
12 will withstand the scrutiny of careful audit and verification as to  
13 completeness, accuracy and reasonableness. This should not be  
14 taken as an assertion that we have been infallible or that other  
15 approaches have no merit. We will readily acknowledge and correct  
16 any errors as we or other parties discover them and will be open to  
17 considering reasonable alternatives to adjustments we have  
18 proposed.

19 I also believe the Commission will find that our request reflects  
20 necessary, but well-managed cost increases consistent with: (a) our  
21 continued commitment to being a responsible, basic Kansas utility,  
22 (b) our obligation to provide reliable service at a reasonable cost, and

1 (c) our mutual responsibility to address evolving customer  
2 expectations and policy mandates.

3 **Q. THANK YOU.**