

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

In the Matter of the Applications of Westar)
Energy, Inc. and Kansas Gas and Electric)
Company for Approval to Make Certain)
Changes in their Charges for Electric Service) Docket No. 17-WSEE-147-RTS

CROSS-ANSWERING TESTIMONY

OF

FELIPE A. SALCEDO

ON BEHALF OF

**THE UNITED STATES DEPARTMENT OF DEFENSE
AND ALL OTHER FEDERAL EXECUTIVE AGENCIES**

April 18, 2017

EXETER
ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

DIRECT TESTIMONY OF FELIPE A. SALCEDO

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Felipe A. Salcedo. My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, MD 21044.

Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING?

A. Yes. On April 11, 2017, I filed direct testimony, exhibits, and schedules on behalf of the U.S. Department of Defense (“DoD”) and all other Federal Executive Agencies (“FEA”) (collectively, “DOD/FEA”).

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR CROSS-ANSWERING TESTIMONY?

A. I am filing Cross-Answering Testimony to address portions of the Direct Testimony filed by KCC Staff witness Lana J. Ellis on April 11, 2017. Specifically, my Cross-Answering Testimony will respond to Dr. Ellis’ cost allocation of adjustments related to investments in distribution grid resiliency.

Q. HOW IS YOUR TESTIMONY STRUCTURED?

A. First, I summarize the accounting adjustments sponsored by KCC Staff in this proceeding with an emphasis on showing the adjustments related to distribution grid resiliency expenditures. Then, I summarize the revenue requirement deficiency sponsored by KCC Staff in this proceeding. Finally, I show that the amount of revenue requirement deficiency identified by Witness Ellis as being attributable to distribution grid resiliency is not consistent with the terms of the Kansas Corporation Commission

1 (“KCC” or “Commission”) Order in Docket No. 15-WSEE-115-RTS approving the
2 Stipulation and Agreement (“115 Order”).

3 Q. DO YOU HAVE ANY RECOMMENDATIONS FOR THE COMMISSION?

4 Yes. I recommend that 37.0 percent to 38.3 percent of the Commission-approved
5 revenue requirement deficiency in this proceeding is found to be attributable to
6 distribution grid resilience costs. This percent reflects the proportion of the total
7 revenue deficiency that is based on distribution grid resiliency investments and, as
8 described more fully in my testimony, reflects the terms agreed upon in the Stipulation
9 and Agreement (“S&A”) approved in the 115 Order. None of the distribution grid
10 resiliency revenue requirement deficiency should be allocated to Large General
11 Service (“LGS”), Industrial and Large Power (“ILP”), Large Tire Manufacturer
12 (“LTM”), Interruptible Service (“IS”) classes, or special contract customers.

13

14 **III. INCONSISTENCIES IN ADJUSTMENTS FOR DISTRIBUTION GRID**
15 **RESILIENCY IMPROVEMENTS**

16 Q. HAVE YOU PERFORMED AN EXAMINATION AND REVIEW OF THE
17 DIRECT TESTIMONY FILED IN THIS PROCEEDING ON APRIL 11,
18 2017 BY THE CITIZENS’ UTILITY RATEPAYER BOARD, THE
19 INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS
20 LOCAL UNION NO. 304, AND THE KCC STAFF?

21 A. Yes.

22 Q. IN HER TESTIMONY, DR. ELLIS PRESENTS A REVENUE
23 REQUIREMENT DEFICIENCY SPECIFIC TO DISTRIBUTION GRID
24 RESILIENCY INVESTMENTS OF \$207,957, DO YOU AGREE WITH
25 HER DEFINITION OF THESE COSTS?

1 A. No, I do not agree with Dr. Ellis' value for the distribution grid resiliency revenue
2 deficiency and I believe her adjustments are in conflict with the S&A in the 115 Order.

3 Q. PLEASE EXPLAIN THE BASIS OF YOUR DISAGREEMENT.

4 A. In her direct testimony, Dr. Ellis allocates the revenue requirement deficiency identified
5 by KCC Staff between distribution grid resilience-related recovery and non-grid
6 resiliency recovery. In the workpapers provided by Dr. Ellis to support her direct
7 testimony, she starts with Westar's *Revenue Requirement for Grid Resiliency* amount
8 of \$6,454,638, she then adjusts \$6,246,679 from that amount, which reduces the
9 adjustment to \$207,959, allocable to distribution grid resiliency. I disagree with this
10 allocation, because Dr. Ellis' testimony does not explain the basis for this allocation.
11 Her adjustments are hard-coded in her workpapers without reference or source, and as
12 is currently presented, does not satisfy the principles of or the terms of the 115 Order.

13 Q. WHAT IS THE TOTAL AMOUNT OF THE ACCOUNTING
14 ADJUSTMENTS SPONSORED BY KCC STAFF?

15 A. KCC Staff's adjustments to rate base (including the adjustment for distribution grid
16 resiliency expenditures) increase Westar's net rate base by about \$120 million. KCC
17 Staff's adjustment to distribution grid resiliency accounts for about \$49.6 million of
18 this total. KCC Staff's adjustments related to operating expenses, also inclusive of
19 distribution grid resiliency expenditures, reduce Westar's operating income by about
20 \$696,661. A summary of all the accounting adjustments sponsored by KCC Staff in
21 this proceeding are shown below in Table CA-DOD/FEA-1.

Table CA-DOD/FEA-1		
Description	Amount	Adjustment Percent
Net Rate Base Before Adjustments^[1]	\$4,974,813,520	
KCC Staff Adjustments		
La Cygne	\$47,050,033	39.2%
ECRR Roll in	21,953,338	18.3
Distribution Grid Resilience	49,641,646	41.4
Wolf Creek	1,323,752	1.1
<i>Subtotal Adjustments:</i>	\$119,968,770	100.0%
Total Net Rate Base After Adjustments:^[2]	\$5,094,782,289	
Operating Income Before Income Taxes and Adjustments^[3]	\$380,349,366	
KCC Staff Adjustments		
La Cygne	(\$1,114,444)	57.3%
ECRR Roll in	(319,695)	16.4
Distribution Grid Resilience	(497,256)	25.6
Wolf Creek	(13,468)	0.7%
Interest Synchronization	1,248,202	
<i>Subtotal Adjustments:</i>	(\$696,661)	
Operating Income After Adjustments:^[4]	\$379,652,705	
^[1] KCC Staff Schedule A-1, column A, line 18. ^[2] Ibid, column E, line 18. ^[3] KCC Staff Schedule B-1, column A, line 23 ^[4] Ibid, column G, line 23.		

1 Q. FROM TABLE CA-DOD/FEA-1, WHAT PERCENT OF THE INCREASE
2 IN RATE BASE AND OPERATING INCOME ADJUSTMENTS
3 PROPOSED BY KCC STAFF IS ATTRIBUTABLE TO DISTRIBUTION
4 GRID RESILIENCY?

5 A. Of the total amount of adjustments to rate base of \$119,968,770, advocated by KCC
6 Staff in this proceeding, \$49,641,646, or 41.4 percent, is attributable to distribution grid
7 resiliency. Excluding the adjustments for interest synchronization, the operating

1 expense adjustment attributable to distribution grid resiliency is about 25.6 percent of
2 the total operating expense adjustments.

3 Q. WHAT IS THE CORRESPONDING REVENUE REQUIREMENT
4 DEFICIENCY FROM THE ACCOUNTING ADJUSTMENTS
5 SPONSORED BY KCC STAFF IN THIS DOCKET AND SUMMARIZED
6 IN TABLE CA-DOD/FEA-1?

7 A. As shown in KCC Staff Schedule REV REQ, page 1, the accounting adjustments
8 summarized in Table CA-DOD/FEA-1 translate to a revenue requirement deficiency
9 of \$16,317,254.¹

10 Q. DO YOU DISAGREE WITH THE TOTAL AMOUNT OF REVENUE
11 DEFICIENCY CALCULATED BY KCC STAFF?

12 A. No. The revenue requirement deficiency calculated by KCC Staff is similar to the
13 amount sponsored by DOD/FEA of \$16,269,104. However, as shown in subsequent
14 pages of my testimony, I disagree with KCC Staff's allocation of the revenue
15 requirement among the different retail customer classes.

16 Q. CAN THE REVENUE DEFICIENCY OF \$16,317,254 BE RECOVERED
17 FROM ALL RETAIL CUSTOMER CLASSES?

18 A. No. The 115 Order states that no part of the revenue requirement deficiency associated
19 with distribution grid resiliency costs may be allocated to the LGS, ILP, LTM, or IS
20 rate classes or to special contract customers. The 115 Order at ¶¶ 64-65 states that
21 recovery of revenue deficiency, as it pertains to distribution grid resiliency in this
22 abbreviated rate case, must adhere to the following:

23 *64. Separation of Grid Resiliency Costs: The Joint*
24 *Movants propose that no part of the increase in*
25 *revenue requirement in the abbreviated rate case*
26 *associated with investments in grid resiliency be*

¹ Line No.7 of KCC Staff Schedule REV REQ, page 1.

1 *allocated to the LGS, ILP, large tire manufacturer*
2 *(LTM), interruptible service (IS) classes, or special*
3 *contract customers. Grid Resiliency Costs would be*
4 *allocated to the remaining customer classes in the*
5 *abbreviated rate case based on the same percentages*
6 *reflected in Appendix A of the S&A but adjusted*
7 *proportionally to reflect the exclusion of the LGS,*
8 *ILP, LTM, IS, and special contract customers from*
9 *the allocation. [footnotes omitted]*

10 *65. Remainder of Revenue Increase: The Joint*
11 *Movants propose that the remainder of the increase*
12 *in revenue requirement in the abbreviated rate case*
13 *will be allocated based on the same percentages*
14 *reflected in Appendix A of the S&A. [footnote*
15 *omitted]*

16 Q. HOW MUCH OF THE REVENUE REQUIREMENT DEFICIENCY OF
17 \$16,317,254 DID KCC STAFF WITNESS ELLIS ESTABLISH WAS
18 RELATED TO DISTRIBUTION GRID RESILIENCY COSTS?

19 A. As shown in Dr. Ellis' EXHIBIT LJE-1, only \$207,959 of the \$16,317,254 was
20 ascribed by KCC Staff to be related to distribution grid resilience costs. This means
21 that Dr. Ellis identified only about 1.3 percent of the revenue requirement deficiency
22 attributable exclusively to distribution grid resilience costs.

23 Q. DO YOU AGREE WITH DR. ELLIS' FINDING?

24 No, I do not. As shown earlier in Table CA-DOD/FEA-1, after certain adjustments,
25 the capital investment in distribution grid resiliency improvements sponsored by KCC
26 Staff is \$49.6 million. This amount is about 41.4 percent of rate base adjustments
27 sponsored by KCC Staff; these costs are specifically attributable to distribution grid
28 resilience expenditures, and should be allocated consistently with the terms of the 115
29 Order.

30 KCC Staff schedules show that 41.4 percent of the total net rate base adjustment
31 is attributable to distribution grid resiliency, yet Dr. Ellis finds that only 1.3 percent of

1 the revenue requirement deficiency is due to distribution grid resiliency. Her testimony
2 does not provide evidence as to why such a large portion of the distribution grid
3 resiliency costs do not flow through to the revenue requirement deficiency.

4 There should be a reasonable relationship between the proportion of distribution
5 grid resilience costs allowed in base rates and operating income and the allocation of
6 revenue deficiencies created by these costs. In other words, if about 41.4 percent of
7 rate base adjustments sponsored by KCC Staff are related exclusively to distribution
8 grid resiliency, the proportion of the revenue requirement deficiency to be recovered
9 exclusively from distribution grid resiliency costs cannot be as low as the 1.3 percent
10 as identified by Dr. Ellis.

11 Dr. Ellis' allocation fails to adequately match distribution grid resiliency costs
12 to distribution grid resiliency recovery; it is contrary to the intent of the 115 Order and
13 to what the signatories agreed in the S&A, and should be rejected by the Commission.

14 Q. WHY IS WITNESS ELLIS' AMOUNT OF REVENUE REQUIREMENT
15 DEFICIENCY THAT IS ASCRIBED TO DISTRIBUTION GRID
16 RESILIENCY IN CONFLICT WITH THE 115 ORDER?

17 A. Dr. Ellis appears to be moving costs categorized as distribution grid resiliency to costs
18 recovered under a general category she terms *Revenue Requirement for all other*
19 *issues*.² In moving the revenue deficiency away from distribution grid resiliency
20 recovery, Dr. Ellis subsequently allocates costs to customers who, according to the
21 terms of the S&A approved in the 115 Order, should not be paying for distribution grid
22 resiliency costs.

23 The 115 Order was clear in that "...Westar be permitted to recover up to
24 \$50,000,000 of capital investment in grid resiliency improvements completed between

² Reference Dr. Ellis's excel work paper, worksheet (tab) titled *Revenue Allocation*, specifically the table on lines 21-26 that presents Dr. Ellis's adjustments to revenue requirements.

1 October 28, 2015, and March 1, 2017...”³ Moreover, the 115 Order stated: “...that no
2 part of the increase in revenue requirement in the abbreviated rate case associated with
3 investments in grid resiliency be allocated to the LGS, ILP, large tire manufacturer
4 (LTM), interruptible service (IS) classes, or special contract customers.”⁴

5 Q. WERE YOU ABLE TO VERIFY THE SOURCE OF THE ADJUSTMENTS
6 FOR DISTRIBUTION GRID RESILIENCY REVENUE DEFICIENCIES IN
7 DR. ELLIS’ EXHIBITS AND WORK PAPERS?

8 A. No, I was not able to identify the methodology through which Dr. Ellis calculated the
9 revenue deficiency amounting to the \$207,959 revenue requirement deficiency
10 attributable to distribution grid resiliency. This number came from a hard-coded
11 adjustment in Dr. Ellis’ work papers without reference or source.

12 Q. HOW DOES THE PORTION OF REVENUE DEFICIENCY ATTRIBUTED
13 TO DISTRIBUTION GRID RESILIENCY IMPACT COST RECOVERY
14 AND COST ALLOCATION?

15 A. Under the terms of the S&A, the distribution grid resiliency costs are not allocated
16 evenly across all customer classes. If the portion of the revenue deficiency for
17 distribution grid resiliency is mistakenly understated, then the LGS, ILP, LTM, and IS
18 rate classes, and the special contract customers will be allocated costs in a manner that
19 conflicts with the terms of the 115 Order.

20 Q. WHAT PORTION OF THE REVENUE REQUIREMENT DEFICIENCY
21 CAN BE REASONABLY ATTRIBUTABLE TO DISTRIBUTION GRID
22 RESILIENCY COSTS?

³ Commission Order Approving the Stipulation and Agreement, Docket No. 15-WSEE-115-RTS, at ¶ 41 (September 24, 2015).

⁴ Ibid at ¶ 64.

1 A. I have run several models calculating revenue requirement deficiencies under the
2 accounting adjustments sponsored by Westar, DOD/FEA, and KCC Staff. I ran
3 alternative models removing the accounting adjustments related to distribution grid
4 resilience to isolate its effects on the revenue requirement deficiency.

5 The results of my calculations and models show that distribution grid resiliency
6 costs account for anywhere between 37.0 percent and 38.3 percent of the total revenue
7 requirement deficiency.

8 Based upon the accounting adjustments filed by Westar in its application, which
9 translate to a revenue requirement deficiency of \$17,445,707, the amount of this
10 deficiency allocable to distribution grid resiliency costs is \$6,454,639, which equals to
11 37.0 percent of the total revenue requirement deficiency.

12 Based upon the accounting adjustments filed by DOD/FEA, which translate to a
13 revenue requirement deficiency of \$16,269,104, the amount of this deficiency allocable
14 to distribution grid resiliency costs is \$6,105,282, which equals to about 37.5 percent of
15 the total revenue requirement deficiency.

16 Based upon the accounting adjustments filed by KCC Staff, which translate to
17 a revenue requirement deficiency of \$16,317,254, the amount of this deficiency
18 allocable to distribution grid resiliency costs is \$6,246,593, which equals to about
19 38.3 percent of the total revenue requirement deficiency.

20 Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?

21 A. Yes. DOD/FEA has requested additional information from KCC Staff regarding the
22 distribution grid resiliency cost allocation.

23 Q. DOES THIS COMPLETE YOUR CROSS-ANSWERING TESTIMONY?

24 A. Yes, it does.

VERIFICATION

**STATE OF MARYLAND
COUNTY OF HOWARD**

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) **ss:**

Felipe A. Salcedo, of lawful age, being first duly sworn, on his oath states:

1. My name is Felipe A. Salcedo. I am a Senior Economist with Exeter Associates, Inc., having its principal place of business at 10480 Little Patuxent Parkway, Suite 300, Columbia, MD 21044. I have been retained by the U.S. Department of Defense and all other Federal Executive Agencies in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my cross-answering testimony which was prepared in written form for introduction into evidence in the Kansas State Corporation Commission Docket No. 17-WSEE-147-RTS.
3. I have read the above cross-answering testimony; I know the contents thereof, and declare that the statements made therein are true and correct to the best of my knowledge, information and belief.



FELIPE A. SALCEDO

SUBSCRIBED AND SWORN to before me this 17th day of April, 2017.



Notary Public

DEBORAH M ADAMS
Notary Public
State of Maryland
Howard County