

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

DIRECT TESTIMONY

OF

STATE CORPORATION COMMISSION

JAMES LUDWIG

OCT 01 2007

WESTAR ENERGY

Susan K. Duffy Docket
Room

DOCKET NO. 08-WSEE-309-PRE

I. INTRODUCTION

1

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

3 A. James Ludwig, 777 West Central, Wichita, Kansas.

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

5 A. Westar Energy, Inc. I am Executive Vice President, Public Affairs
6 and Consumer Services.

7 **Q. PLEASE DESCRIBE YOUR ELECTRIC UTILITY EXPERIENCE
8 AND YOUR EDUCATION.**

9 A. I started at Westar in June 1989 as an Information Specialist. Later
10 that year I was appointed Director, Government Affairs and served
11 in that capacity until mid-1995. From then until I resigned from
12 Westar in October 2001, I was Senior Director, Regulatory Affairs.
13 I returned to Westar at the beginning of 2003 as Vice President,

1 Public Affairs. In March 2006, I became Vice President, Regulatory
2 And Public Affairs and served in that role until I assumed my
3 current position beginning July of this year. I graduated summa
4 cum laude from the University of Kansas in 1980 with two Bachelor
5 of Arts degrees, one in classical languages and another in history.

6 **II. SUMMARY OF TESTIMONY**

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

8 A. We think it is important, whenever the Commission is considering
9 our energy supply plans, for us to tell the Commission what we are
10 doing with regard to encouraging energy efficiency and
11 conservation. In fact, K.S.A. 66-1239, the applicable statute under
12 which our application is filed, requires that we submit a description
13 of our conservation measures and demand side management
14 (DSM) efforts. The purpose of my testimony is to describe Westar's
15 recent developments in energy efficiency, conservation and
16 demand management and briefly summarize past efforts that are
17 still in place. I also discuss federal legislation on renewable energy
18 and climate change. Finally, I discuss the policy benefits of our
19 proposed wind projects and how Westar's strategy integrates the
20 Governor's policy initiatives into our business plan.

21 **III. DESCRIPTION OF WESTAR'S ENERGY EFFICIENCY,**
22 **CONSERVATION AND DSM INITIATIVES**

23 **Q. WHEN WESTAR MADE A SIMILAR APPLICATION TO THIS ONE**
24 **UNDER K.S.A. 66-1239 FOR EMPORIA ENERGY CENTER,**

1 **DOCKET EEC DOCKET NO. 07-WSEE-616-PRE, WESTAR**
2 **FILED TESTIMONY DESCRIBING FIVE PROGRAMS FOR**
3 **ENERGY EFFICIENCY AND DSM BEING CONSIDERED. ARE**
4 **THOSE PROGRAMS STILL PLANNED?**

5 A. Yes.

6 **Q. PLEASE REMIND THE COMMISSION WHAT THOSE**
7 **PROGRAMS ARE.**

8 A. The programs are:

- 9 1. a residential and commercial direct load control (DLC)
- 10 program for central air conditioning, electric water heaters,
- 11 swimming pool pumps, and other interruptible devices;
- 12 2. a high efficiency heat pump program with mandatory DLC;
- 13 3. a high efficiency residential and commercial water heating
- 14 heat pump program with mandatory DLC;
- 15 4. a program to provide energy efficiency assistance to
- 16 low-income households, and;
- 17 5. a program with targeted energy audits to identify energy
- 18 efficiency opportunities for commercial and large residential
- 19 customers.

20 **Q. PLEASE DESCRIBE SOME OF YOUR PROGRESS WITH THESE**
21 **PROGRAMS AND THEIR PRESENT STATUS.**

22 A. In April of this year, Westar issued a request to solicit proposals
23 from vendors of DLC and DSM. Three firms responded May 10,

1 2007. The responses included proposals to provide demand
2 response services for commercial and industrial customers and
3 install direct load control thermostats in residential customers'
4 homes. The load control thermostats typically have a one-way
5 communications device that can be used to adjust the thermostat
6 during periods of peak demand in order to shave peak. The
7 thermostats are also programmable, allowing customers to use
8 energy more efficiently year round. Westar expects to choose the
9 winning vendor and test the thermostats in several employees'
10 homes. Once satisfied that the program will work, gain consumer
11 acceptance and not harm customer satisfaction, Westar plans to
12 deploy the program in spring 2008. Assuming successful
13 completion of contract negotiations, Westar plans to deploy a
14 demand response program in 2008. Prior to deployment, Westar
15 will seek the Commission's approval of these DLC and DSM
16 programs and a ruling on their ratemaking treatment.

17 Because the components of DLC and DSM programs are
18 most amenable to rapid progress, we have focused our initial
19 efforts here. The technology for DLC and DSM is commercially
20 available and firms that provide deployment of these services are
21 already actively soliciting business.

22 **Q. WHAT IS INVOLVED IN IMPLEMENTING PROGRAMS FOR**
23 **HIGH EFFICIENCY HEATING AND COOLING EQUIPMENT?**

1 A. Because of the relatively long lives of heating, ventilation and air
2 conditioning (HVAC) capital stock, the sizable investments involved
3 in making long-term decisions about HVAC equipment, and the
4 purchasing relationships involving builders, architects, contractors
5 and homeowners, implementing these programs requires much
6 more customer education, building of alliances and a longer
7 planning horizon. For example, when a homebuilder chooses to
8 install a particular kind of HVAC equipment, that choice may last for
9 as long as two decades, until the equipment fails. At the time the
10 equipment fails, likely on a hot summer day, the homeowner's
11 greatest exigency is replacing it quickly, not what would be the
12 most efficient and cost effective equipment for the next 20 years.

13 Effective programs to promote high efficiency equipment
14 need to take these and many other factors into consideration.
15 Convincing customers to purchase high efficiency equipment
16 requires extensive consumer education, and we must develop
17 alliances with HVAC dealers, builders and architects. Some
18 customers are unaware of financial resources and tax incentives
19 available for investment in high efficiency equipment available
20 through government programs. Effective programs may need to
21 include financing packages, extended warranties, performance
22 guarantees, government grants, tax credits, etc. To make more
23 rapid progress, it may also be necessary to encourage legislation or

1 ordinances that require more energy efficient building codes and
2 standards for equipment and appliances.

3 **Q. IN LIGHT OF THESE CHALLENGES, WHAT PROGRESS HAS**
4 **BEEN MADE?**

5 A. First, we have added extensive educational information to Westar's
6 website and have distributed other educational materials. Second,
7 our experience has shown that our employees and retirees can be
8 effective educators of our customers. Most of them live in the
9 communities we serve at retail, and our customers often consult
10 them on energy matters. We launched an employee and retiree
11 program to offer rebates for them to install high efficiency HVAC
12 equipment. Those who use the program become "ambassadors" to
13 our customers. Even those who are not ready to replace their
14 HVAC systems have become more conversant about the benefits
15 of high efficiency equipment by virtue of educational seminars
16 conducted for employees when the program was launched. An
17 explanatory brochure was also sent to all employees and retirees.
18 Third, as I discuss in more detail later, we are hiring employees to
19 develop alliances with HVAC dealers, builders, architects, realtors
20 and others who can influence consumer choices of equipment.

21 **Q. YOU MENTIONED CUSTOMERS' LIMITED AWARENESS OF**
22 **RESOURCES AVAILABLE TO THEM AND CONSUMER**

1 **EDUCATION. HOW IS CONSUMER EDUCATION PART OF**
2 **WESTAR'S INITIATIVE?**

3 A. In the beginning, customer education is at the top of the agenda to
4 promote energy efficiency. Westar already has a program called
5 School Connections to offer schools, among other things, age-
6 appropriate energy efficiency curricula. We will expand our efforts
7 in schools in 2008. Westar's website has energy efficiency pages
8 to help residential and commercial customers make wise energy
9 decisions. These website pages include "calculators" for customers
10 to use to estimate savings from many potential energy efficiency
11 investments, information for children and an energy efficiency
12 library for adults. Westar is also collaborating with other utilities,
13 environmental groups and the Kansas Energy Office to develop
14 consistent, accurate customer education materials. Westar is
15 developing media plans to educate customers about the
16 importance of energy efficiency. Westar has also produced an
17 instructional DVD for residential customers to advise them how to
18 make their homes more energy efficient. A similar commercial
19 video is in production.

20 **Q. WHAT PROGRESS HAVE YOU MADE ON THE ENERGY**
21 **EFFICIENCY PROGRAM FOR LOW-INCOME ASSISTANCE?**

22 A. We are developing "weatherization kits" to be given to low-income
23 customers. These kits will have such basic products as compact

1 florescent bulbs (CFLs), weather stripping, caulking, insulation-
2 wrap for water heaters, and other materials that can be used to
3 improve the thermal and energy efficiency of inferior housing.
4 Westar intends to recruit employees, retirees, and civic and faith-
5 based organizations to help distribute and install these kits in the
6 homes of low-income customers who are elderly or disabled.
7 Westar has also has been engaged in constructive meetings with
8 state agencies and advocates for low-income residents to find
9 effective ways to address energy efficiency for low-income
10 customers. These groups are working to identify homes in
11 Westar's service territory in most need of weatherization and
12 develop strategies to encourage landlords to make their rental
13 properties more energy efficient.

14 **Q. ARE THERE OTHER PROGRAMS YOU ARE DEVELOPING IN**
15 **ADDITION TO THE FIVE PROGRAMS ENUMERATED ABOVE?**

16 **A. Yes.**
17 1. We continue to evaluate ways we might modify or change
18 the way we operate our own systems to improve energy
19 efficiency. (Given the size and scope of our own system,
20 even modest improvements to it might create greater
21 opportunities for energy efficiency than we can ever hope to
22 achieve with some of our customer-focused initiatives.) For
23 example, we recently filed an application with the Kansas

1 Department of Health and Environment in which we seek
2 permission to improve Jeffrey Energy Center's thermal
3 efficiency and modestly increase its output. We are also
4 seeking ways to improve the efficiency of our transmission
5 and distribution systems. An example is the use of infrared
6 imaging to inspect distribution equipment. These inspections
7 not only can detect likely failures before they occur (clearly a
8 benefit to customer satisfaction), but we are also able to
9 identify and change out equipment that is causing line
10 losses. Our transmission department plans to rewire many
11 sections of our oldest transmission lines. Besides improving
12 reliability, these new conductors will reduce line losses, thus
13 improving efficiency.

14 2. In order to lead by example, Westar also recently adopted a
15 policy to adhere to the LEED standards when it builds a new
16 office facility or makes major renovations to an existing office
17 space. LEED stands for Leadership in Energy and
18 Environmental Design, also referred to as "Green Building
19 Rating," and designates the state-of-the art in energy
20 efficient, environmentally sound construction. For instance,
21 we are renovating and expanding Westar's service center in
22 Lawrence to standards that will qualify for LEED certification.

- 1 3. As I discuss in more detail below, Westar has distributed
2 thousands of CFLs, and it intends to propose an initiative to
3 the Commission to promote their use among customers.
4 Comparatively low-watt CFLs produce as much light
5 (lumens) as higher-watt incandescent bulbs. CFLs produce
6 60 lumens per watt, while an incandescent bulb produces
7 only 15. For example, a 15-watt CFL produces 900 lumens,
8 the same as a 60-watt incandescent bulb. By simply
9 replacing their incandescent bulbs with CFLs, customers can
10 make substantial progress in becoming more energy efficient
11 consumers. In addition, the lower heat output of CFLs can
12 reduce air conditioning load.
- 13 4. In accordance with the Commission-approved agreement in
14 the Emporia Energy Center docket, Westar is collaborating
15 with KCC staff to conduct a real-time pricing pilot program.
16 Price signals are potentially among the most effective means
17 to stimulate energy efficient and DSM behaviors.
- 18 5. Westar has joined with the Kansas Energy Office and
19 several other Kansas utilities to support a U.S. Department
20 of Energy research project to test consumers' energy
21 efficiency response to direct communications with them
22 about their energy usage habits and how their usage
23 compares with that of similar customers.

1 6. Westar has joined with a few local units of government and
2 neighborhood associations to promote consumer education
3 on energy efficiency.

4 7. Westar is conducting a business case for automated meter
5 infrastructure (AMI) and meter data management (MDM).
6 Although it has many other additional business applications
7 and benefits, AMI/MDM is a necessary antecedent for broad
8 deployment of time-of-use pricing strategies and several
9 extensive DSM programs.

10 **Q. IN THE EMPORIA ENERGY CENTER FILING, THE COMPANY**
11 **ALSO PROVIDED TESTIMONY ABOUT THE ACTIVITIES OF**
12 **WESTAR'S ENERGY EFFICIENCY AND CONSERVATION TASK**
13 **FORCE. WHAT IS THE STATUS OF THAT TASK FORCE?**

14 A. When I assumed my current position July 1 of this year, one of my
15 first actions was to establish an energy efficiency department within
16 the Company, formalizing and enhancing many of the functions
17 previously undertaken by the Energy Efficiency and Conservation
18 Task Force. The task force, formed in the summer of 2006, has
19 been superseded by the creation of this new department. Its
20 members occasionally serve in an informal advisory capacity to the
21 new department.

22 **Q. WHAT DID THE ENERGY EFFICIENCY AND CONSERVATION**
23 **TASK FORCE ACCOMPLISH FROM ITS INITIATION IN MID-**

1 **2006 UNTIL THE INCEPTION OF THE ENERGY EFFICIENCY**
2 **DEPARTMENT IN JULY 2007?**

3 A. The task force identified the five programs listed and discussed
4 above, which were presented to Westar’s senior management early
5 in 2007. It also:

- 6 • initiated the primary customer research necessary to ensure
7 purposeful program deployment;
- 8 • designed and produced 8000 energy efficiency education
9 kits (4000 for adults, another 4000 for school-aged children);
- 10 • facilitated implementation of sophisticated yet user-friendly
11 commercial and residential informational energy efficiency
12 pages on Westar’s website;
- 13 • issued requests for proposals for residential direct load
14 control services and for audit and demand response services
15 for small to medium size commercial and industrial
16 customers; and,
- 17 • launched distribution of approximately 18,500 energy
18 efficient CFLs to Westar customers. To date, Westar has
19 purchased about 21,000 CFLs and will distribute the
20 remainder before the end of the year.

21 **Q. WHAT IS THE STATUS OF THE NEW ENERGY EFFICIENCY**
22 **DEPARTMENT?**

1 A. I hired Randy Degenhardt to be the director of the department. Mr.
2 Degenhardt has thirty years of experience with Westar, with
3 extensive experience in customer service, energy efficiency,
4 conservation and DSM. He has been instrumental in administrating
5 Westar's long-standing demand management and response efforts
6 and in advising customers about tariffs that encourage the wise use
7 of electricity. I briefly discuss those efforts and rates below.

8 Westar has also posted positions for three managers who
9 will be employees of the energy efficiency department reporting to
10 Mr. Degenhardt. The first position is manager, consumer
11 education. As stated earlier in my testimony, education is key to
12 successful energy efficiency programs. This employee will work
13 closely with the Kansas Energy Office, other utilities and interest
14 groups for a concerted effort in consumer education. This person
15 will also administer Westar's CFL and low-income energy efficiency
16 programs. The second position is manager, energy efficiency and
17 DSM. The person in this job will be responsible generally for
18 implementing and managing the DLC components of the initiatives
19 already identified by the task force. The third position is manager,
20 trade and ally programs. The incumbent in that position, as the title
21 suggests, will develop alliances with heating, ventilating and air
22 conditioning dealers, builders, architects, real estate agents and
23 others to encourage the use of high energy efficiency equipment

1 and building practices. This person will also be responsible for the
2 high efficiency equipment components of the task force initiatives.
3 Mr. Degenhardt expects to fill these manager positions before year
4 end. Once those jobs are filled, these managers will then hire the
5 necessary analysts, field representatives and support staff.

6 Mr. Degenhardt has already hired a program coordinator to
7 provide field and general support to the department, and to assist
8 with educational efforts directed toward school-aged children.

9 Fully staffed, the energy efficiency department will have 13
10 employees.

11 **IV. DISCUSSION OF WESTAR'S LONGER-STANDING EFFORTS IN**
12 **THE AREA OF ENERGY EFFICIENCY AND CONSERVATION**

13 **Q. WHAT HAS WESTAR HISTORICALLY DONE TO ENCOURAGE**
14 **ITS CUSTOMERS TO USE ENERGY EFFICIENTLY?**

15 A. We have proposed and implemented tariffs designed to encourage
16 the efficient use of energy. This is accomplished primarily through
17 the use of summer/winter pricing differences. For example, the
18 winter residential rate encourages wise use of energy, particularly
19 for customers who are willing to supplement natural gas space
20 heating with high-efficiency add-on electric heat pumps. The
21 summer residential rate is higher than the winter rate thereby
22 encouraging energy conservation during those months when
23 demand for electricity is highest. The non-residential rate
24 schedules have seasonally differentiated prices but also use

1 demand ratchets to encourage off-peak usage and provide an
2 incentive to avoid establishing high peak demands in the summer
3 period. Pricing of the overall cost of energy designed to encourage
4 the wise use of energy can be found throughout Westar's tariffs.

5 **Q. DOES WESTAR HAVE AN INTERRUPTIBLE SERVICE**
6 **PROGRAM THAT ALLOWS CUSTOMERS TO ACCEPT**
7 **INTERRUPTIONS IN THEIR SERVICE IN EXCHANGE FOR**
8 **LOWER PRICES, AND IF SO, HOW DOES THIS REDUCE PEAK**
9 **DEMAND?**

10 A. Yes. Westar has an active interruptible program with 73 customers
11 participating. The program is administered through clauses in
12 special contracts and three rate schedules approved by the
13 Commission for large industrial customers. We typically realize a
14 system peak demand reduction of approximately 200 MW as a
15 result. We called on our interruptible customers four days this
16 summer during peak conditions. Peak reduction during the hours
17 of interruption on those days ranged from 201 MW to 206 MW.
18 Another component of this long-standing demand response
19 program is an option for us to call on cogeneration units of two
20 industrial retail customers during peak periods.

21 **V. PUBLIC POLICY CONSIDERATIONS AFFECTING WESTAR'S**
22 **WIND GENERATION INITIATIVE**

23 **Q. PLEASE DESCRIBE LEGISLATIVE DEVELOPMENTS WITH**
24 **REGARD TO RENEWABLE RESOURCES.**

1 A. Both the U.S. House and Senate have passed energy bills this
2 session of Congress. The House passed its energy bill (HR 3221)
3 August 4, 2007, and on the same day passed HR 2776, the
4 accompanying tax provisions. The House subsequently merged
5 the two bills with HR 3221 surviving. The Senate passed HR 6
6 June 21, 2007, but did not pass an associated tax bill. Because the
7 Senate did not enact any tax provisions, the House and Senate bills
8 cannot immediately be sent to conference committee. To qualify
9 for referral to a conference committee, the Senate and House need
10 to pass companion bills. At the time of preparing this testimony, the
11 Senate had not taken the procedural actions necessary to advance
12 a bill to conference.

13 The House version comprises two divisions: Division A
14 contains the *New Direction for Energy Independence, National*
15 *Security, and Consumer Protection Act*. Division A includes an
16 adopted floor amendment that added a 15% renewable portfolio
17 standard (RPS). Division B, the *Renewable Energy and Energy*
18 *Conservations Tax Act of 2007* extends the renewable production
19 tax credit for four years and includes other efficiency and renewable
20 resource incentives.

21 The Senate version does not include an RPS or energy tax
22 provisions. Provisions in the Senate bill include appliance
23 efficiency standards, an increase of the renewable fuel standard,

1 and an increase in the combined corporate average fuel economy
2 standards.

3 The RPS amendment the House adopted requires that 15%
4 of electricity sold by electric utilities be generated from renewable
5 resources by 2020. Up to 4% of the requirement can be met with
6 energy efficiency measures. The bill calls for an electric utility
7 unable to meet the requirement to purchase tradable credits for the
8 equivalent amount of renewable sourced electricity. The RPS
9 requirement would start at 2.75% in 2010 and ramp up to the 2020
10 standard. Municipal and rural electric utilities are exempt. The
11 Senate, on the other hand, considered and rejected two RPS
12 amendments.

13 It is unclear if Congress will impose an RPS. Likewise, the
14 House and Senate to date have failed to renew the production tax
15 credit (PTC) for electricity generated from renewable resources.
16 Unlike an RPS, however, which Congress has never enacted,
17 Congress has renewed the PTC several times. Even during
18 sessions when Congress has tried to pass major omnibus energy
19 legislation and failed, it has separately approved renewal of the
20 PTC in tax legislation.

21 **Q. PLEASE DESCRIBE CONGRESS' CONSIDERATION OF**
22 **CLIMATE CHANGE.**

1 A. Concerns about climate change have drawn considerable attention
2 in the 110th Congress. As of July 17, 2007, members of Congress
3 have introduced 54 bills that either directly or indirectly address
4 climate change and green house gases (GHGs) that many believe
5 contribute to climate change. The Senate has introduced 28 bills
6 and the House 26. More than 45 Congressional hearings have
7 been held on climate change issues.

8 To date, the House has passed three bills dealing with
9 climate change research and the Senate has passed one. Neither
10 body of Congress, however, has yet passed any tax or emissions
11 limit on GHGs. Much of the debate on carbon restrictions centers
12 on either taxing emissions or on establishing a “cap and trade”
13 market for carbon dioxide emissions. A cap and trade system sets
14 a limit on the quantity of carbon dioxide emissions, issues permits
15 equaling that quantity, and then allows trading of permits among
16 electric utilities that emit carbon dioxide, thereby creating a market
17 to price carbon dioxide reductions to stay under the cap.

18 It is too early to tell whether Congress will enact GHG taxes
19 or restrictions. If it does, it is not known when such taxes or
20 restrictions may become effective. It is clear, from the number of
21 bills introduced and hearings held, that climate change is a
22 prevalent topic that has drawn more and more attention in the past
23 few years. Members of Congress from both major political parties

1 have introduced legislation intended to curb emissions of carbon
2 dioxide and other green house gases. Both Democrats and
3 Republicans have proposed concepts for various types of carbon
4 tax, cap and trade emission markets, and hybrids thereof.

5 **Q. WESTAR WITNESS MICHAEL ELENBAAS RAN MODELS**
6 **ASSUMING CARBON EMISSIONS TRADING AT \$10 AND \$25**
7 **PER TON. ARE THOSE GOOD ESTIMATES?**

8 A. In my opinion, given the admitted uncertainties about climate
9 change legislation I have discussed, his assumptions about the
10 cost per ton of carbon emissions and when a carbon emissions
11 trading system would start are reasonable for modeling purposes
12 and sensitivity testing. Implementing any carbon tax or cap and
13 trade system will involve a fairly extensive rulemaking process. If
14 legislation is enacted in the next one to three years, an assumed
15 implementation date around 2015 is reasonable. And although a
16 wide range of costs per ton of carbon emissions have been
17 debated, his two assumed costs at \$10 and \$25 per ton for
18 emission allowances avoid extreme proposals and fall within the
19 range at which the annual inflation-adjusted cost could ramp up. At
20 this time, there appears to be a preference for either a cap and
21 trade emission allowance system or a hybrid of a cap and trade
22 system and a carbon tax over a mere tax levy on carbon emissions.

1 Hence, the Commission should consider Mr. Elenbaas'
2 estimates and resulting revenue requirement effects to be
3 reasonable illustrative approximations of the range of possible
4 legislative outcomes. We do not pretend to a precision that cannot
5 be known, especially when predicting whether or when Congress
6 will act, much less what legislation might entail. Several legislative
7 proposals and concepts, however, fall within Mr. Elenbaas' range of
8 costs for carbon emissions and effective dates for imposition of
9 those costs.

10 **Q. HAVE ANY OTHER BRANCHES OF THE FEDERAL**
11 **GOVERNMENT THAN CONGRESS ADDRESSED GHG**
12 **EMISSIONS?**

13 A. Yes. In an April 2, 2007 decision in *Commonwealth of*
14 *Massachusetts et al. v. Environmental Protection Agency*, the U.S.
15 Supreme Court ruled 5 to 4 that the Environmental Protection
16 Agency (EPA) violated the Clean Air Act by improperly declining to
17 regulate GHG emissions. The court ruled "EPA has offered no
18 reasoned explanation for its refusal to decide whether greenhouse
19 gases cause or contribute to climate change" and that the EPA
20 "identifies nothing suggesting that Congress meant to curtail the
21 EPA's power to treat greenhouse gases as air pollutants." This
22 opinion opens the door for states that seek to regulate GHG

1 emissions. The court's opinion also provides impetus for federal
2 executive and legislative branches to act.

3 In his State of the Union address January 23, 2007,
4 President Bush announced his support of "technologies [that] . . .
5 will help us to confront the serious challenge of global climate
6 change." This was the first instance in his six State of the Union
7 messages that he acknowledged the problem of climate change.

8 **Q. YOU ADMIT TO UNCERTAINTY ABOUT THE OUTCOMES OF**
9 **THE DEBATE ABOUT CLIMATE CHANGE, RPS, AND TO A**
10 **LESSER DEGREE, THE PTC. HOW SHOULD THE**
11 **COMMISSION REGARD THESE UNCERTAINTIES AS IT**
12 **CONSIDERS WESTAR'S REQUESTS REGARDING WIND**
13 **POWER IN THIS DOCKET?**

14 A. We acknowledge those uncertainties, and others. But even in the
15 face of uncertainty, demand for electricity in Kansas and nationally
16 continues to grow. To meet our customers' needs, Westar has
17 undertaken a transitional strategy, the hallmarks of which are
18 flexibility and adaptability. In the years ahead, during the horizon of
19 our forecast, it is most likely that hindsight will show some times
20 when our capacity and DSM decisions seemed right, and other
21 times when they seemed wrong.

22 Take as an example our current position on building a new
23 coal plant. At the end of 2006, we announced that Westar was

1 indefinitely deferring commitment to construct a new pulverized
2 coal (PC) unit because costs for coal generation were escalating so
3 rapidly that the narrowing cost differences between PC baseload
4 generation and other kinds of generation were making the most
5 advantageous economic choice harder to discern. Since then, the
6 concerns and policy discussions regarding GHGs have intensified,
7 and costs to construct PC plants have continued to escalate.
8 Opposition to new coal plants will cause delays, and hence, cost
9 over-runs. Because we started early enough in evaluating sites for
10 additional PC baseload capacity, we can take a different course, at
11 least for a while. Hindsight today makes it appear we were right.
12 But we readily admit that if costs for generating fuels other than
13 coal spike and GHG emission limits never come to pass, hindsight
14 at some specific time in the future could suggest that we were
15 wrong. We continue to keep our options open with respect to a
16 new PC plant, but in the context of our transitional strategy, we are
17 studying emerging, but yet unproven coal technologies that pollute
18 less and observing efforts to rejuvenate the nuclear power industry.
19 At some point, our customers will need baseload capacity.

20 **Q. HOW WILL WESTAR DEFER ADDING BASELOAD CAPACITY**
21 **AND CONTINUE TO MEET ITS CUSTOMERS' ELECTRICITY**
22 **NEEDS?**

1 A. This question gets to the heart of Westar’s transitional strategy.
2 Our strategy is to bridge the gap, meet customer demand and
3 satisfy environmental concerns with a combination of energy
4 efficiency and DSM, adding wind generation to our system, adding
5 new combustion turbines that can both meet peak demand and
6 compensate for the intermittent nature of wind, and enhance the
7 transmission network in Kansas. This strategy pushes out the need
8 for baseload capacity, at least for a few years. Another transitional
9 component of our strategy would be to determine over the next few
10 years whether some of the projected need for additional peaking
11 capacity should instead be combined cycle intermediate capacity.

12 It is in this context of a flexible, adaptive strategy that the
13 Commission should consider our requests for wind power in this
14 docket. It’s a strategy that:

- 15 • acknowledges our or anyone else’s limited ability to predict;
- 16 • avoids a “win-or-lose-all” wager to a single predicted
17 outcome (for example, committing now to building several
18 large PC or nuclear plants or counting on a nascent
19 technology);
- 20 • increases diversity of electricity supply;
- 21 • respects environmental interests;
- 22 • uses an abundant renewable Kansas resource, i.e., wind;
- 23 • results in higher, but still reasonable electric rates;

- 1 • spurs investment in much-needed high capacity
2 transmission lines; and,
3 • advances the Governor's renewable energy policy with
4 properly sited wind generating facilities.
- 5 **Q. THANK YOU.**