

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

In the Matter of the General Investigation to )  
Examine Issues Surrounding Rate Design for ) Docket No. 16-GIME-403-GIE  
Distributed Generation Customers. )

**INITIAL POST-HEARING BRIEF OF COMMISSION STAFF**

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The Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission,” respectively) submits its Initial Post-Hearing Brief regarding the general investigation into matters surrounding rate design for distributed generation customers.

## **I. BACKGROUND**

1. On September 24, 2015, in Docket No. 15-WSEE-115-RTS, the Commission issued an Order Approving Stipulation and Agreement which directed Staff to “file a Report and Recommendation outlining specific issues to discuss, research and evaluate in a manner consistent with the terms of the S&A as amended.”<sup>1</sup> Staff was further directed to coordinate with the Docket No. 15-WSEE-115-RTS parties on the initial outlaying of issues.<sup>2</sup>

2. On March 11, 2016, Staff filed its Motion to Open Docket supported by its Report and Recommendation concerning issues to be evaluated in a generic investigation to examine issues surrounding rate design for distributed generation customers.<sup>3</sup> Staff’s initial Report and Recommendation recommended the Commission open a generic docket to investigate rate design for distributed generation customers; to determine the appropriate rate structure for distributed generation customers by evaluating the costs and benefits of distributed generation; and to evaluate potential rate design alternatives for distributed generation customers.<sup>4</sup>

3. On July 12, 2016, the Commission issued an Order Opening General Investigation.<sup>5</sup> In its order, the Commission opened a general investigation to examine various issues surrounding rate structure for distributed generation customers; designated that hearings in the docket be conducted in accordance with the Kansas Administrative Procedures Act; ordered all Kansas electric public utilities subject to the Commission’s jurisdiction over retail rates be a

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<sup>1</sup> Docket No. 15-WSEE-115-RTS, Order Approving Stipulation and Agreement, ¶117 (Sept. 24, 2015).

<sup>2</sup> *Id.*

<sup>3</sup> Motion to Open Docket (Mar. 11, 2016).

<sup>4</sup> *Id.* at ¶3.

<sup>5</sup> Order Opening General Investigation (July 12, 2016).

party to the proceeding; and ordered parties to file comments on how the general investigation should proceed.<sup>6</sup>

4. On February 16, 2017, following the receipt of comments on procedure by participating parties, the Commission issued an Order Setting Procedural Schedule.<sup>7</sup> The Procedural Schedule set the timeline for Initial Comments, Reply Comments, two Roundtable Discussions, the Evidentiary Hearing, and briefing.<sup>8</sup>

5. On March 17, 2017, Staff and other parties filed Verified Initial Comments. Staff's Verified Initial Comments identified two fundamental questions posed by designing rates for distributed generation customers; specifically (1) what are the costs (fixed and variable) and the benefits of providing utility service to distributed generation customers; and (2) what is the best way to structure the residential rate design to recover the costs created by distributed generation customers?<sup>9</sup> Furthermore, Staff analyzed the market-based benefits and costs of distributed generation; the real-time pricing, the marketplace, and avoided costs; and time varying electric rates as approximations for real-time pricing.<sup>10</sup> To conclude, Staff recommended the Commission consider a three part rate design consisting of a customer charge (dollars per meter), demand charge (dollars per kW peak), and energy charge (dollars per kWh) to achieve a fair and reasonable, cost-based rate design for distributed generation customers.<sup>11</sup>

6. On May 5, 2017, Staff and other parties filed Verified Reply Comments. Staff's Verified Reply Comments identified the two fundamental differences in positions between

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<sup>6</sup> *Id.* at Ordering Clauses A.-D.

<sup>7</sup> Order Setting Procedural Schedule (Feb. 16, 2017).

<sup>8</sup> *Id.* at ¶12.

<sup>9</sup> Notice of Filing Staff's Verified Initial Comments, ¶5 (Mar. 17, 2017).

<sup>10</sup> Notice of Filing Staff's Verified Initial Comments, ¶6 (Mar. 17, 2017).

<sup>11</sup> Notice of Filing Staff's Verified Initial Comments, ¶7 (Mar. 17, 2017).

parties; specifically, that parties disagree on (1) which benefits of distributed generation should be considered; and (2) the appropriate rate design for distributed generation customers.<sup>12</sup>

7. On June 16, 2017, Staff, Westar, KCP&L, Sunflower, Mid-Kansas, Southern Pioneer, KEC, Midwest Energy, Empire, and IBEW 304 (collectively, “Settling Parties”) filed a Non-Unanimous Stipulation and Agreement (S&A) with the Commission, moving the Commission to approve the same.<sup>13</sup> Brightergy, LLC, and United Wind, Inc. were not signatories to the agreement, but indicated they do not oppose the terms of the S&A.<sup>14</sup>

8. Also on June 16, 2017, the parties jointly filed their List of Contested Issues.<sup>15</sup>

9. On June 20, 2017, Staff, Westar, KCP&L, and Southern Pioneer joined by KEC filed testimony in support of the S&A. Also on June 20, 2017, CURB, Climate and Energy Project, and Cromwell Environmental filed testimony in opposition to the S&A.

10. On June 26, 2017, Westar filed a Motion for Leave to File Reply Testimony in Support of Stipulation and Agreement (Reply Testimony).

11. The Commission held an evidentiary hearing in this matter where it received testimony from expert witnesses on issues surrounding distributed generation and rate design. During the hearing, the Commission permitted cross-examination of witnesses and admitted verified initial and reply comments of parties as well as testimony regarding the S&A into the record, including the Reply Testimony proffered by Westar.<sup>16</sup>

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<sup>12</sup> Notice of Filing Staff’s Verified Reply Comments, ¶6 (May 5, 2017).

<sup>13</sup> Joint Motion to Approve Non-Unanimous Stipulation and Agreement (June 16, 2017).

<sup>14</sup> *Id.* at fns. 1, 2.

<sup>15</sup> List of Contested Issues (June 16, 2017).

<sup>16</sup> The initial comments of United Wind were received as public comments. Tr. Vol. 1, p. 24.

## II. ISSUES AND ARGUMENT

### A. Whether utilities should have the option to uniquely identify DG customers within the ratemaking process, through a separate class or sub-class, because of different usage characteristics of those customers.

12. The record supports the potential for DG customers to have different usage characteristics than traditional residential customers.<sup>17</sup> In fact, Cromwell asserts this point<sup>18</sup> and—albeit inconsistent with its filed testimony in opposition to the S&A—Climate and Energy Project witness Mr. Gilliam’s testimony asserts the very reason customers invest in home solar is to change (reduce) their electricity usage.<sup>19</sup> The distributed generation customers’ usage characteristics disrupt the utility’s collection of its approved revenue requirement.<sup>20</sup> Distributed generation customers essentially use the grid as a backup system, but because of their lower energy purchases, do not pay their share of the fixed costs of that backup system.<sup>21</sup> Thus, the behavior of distributed generation customers is significantly different from regular residential

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<sup>17</sup> Verified Initial Comments of Commission Staff, p. 16, ¶ 41, (Mar. 17, 2017); Verified Reply Comments of Commission Staff, pp. 5-6, (May 5, 2017); Comments of Cary Catchpole for the Citizens’ Utility Ratepayer Board on Distributed Generation Policy Matters, p. 7, ¶ 11, pp. 8-9, ¶ 12-13, (Mar. 17, 2017); Comments of Brian Kalcic for the Citizens’ Utility Ratepayer Board on Distributed Generation Rate Design, p. 8, (Mar. 17, 2017); Reply Comments of Brian Kalcic on Distributed Generation Rate Design Alternatives for the Citizens’ Utility Ratepayer Board, pp. 2-4, (May 5, 2017); Initial Comments of Westar Energy, Inc. and Kansas Gas and Electric Company Regarding Cost-Based Rates for Customers with Distributed Generation, pp. 3-8, (Mar. 17, 2017); Reply Comments of Westar Energy, Inc. and Kansas Gas and Electric Company Regarding Cost-Based Rates for Customers with Distributed Generation, pp. 3-6, (May 5, 2017); Affidavit of William G. Eichman on Behalf of The Empire District Electric Company, pp. 2-3, (Mar. 17, 2017); Affidavit of William G. Eichman Supporting Reply Comments on Behalf of The Empire District Electric Company, p. 1, pp. 3-4, (May 5, 2017); Initial Comments of Sunflower Electric Power Corporation and Mid-Kansas Electric Company, LLC, pp. 2-3, (Mar. 17, 2017); Verified Reply Comments of International Brotherhood of Electrical Workers Local No. 304, p. 2, (May 5, 2017); Initial Comments of Southern Pioneer Electric Company Joined by the Kansas Electric Cooperatives, Inc., p. 5, p. 7, ¶ 17, (Mar. 17, 2017); Reply Comments of Southern Pioneer Electric Company, p. 8, ¶¶ 19-20, (May 5, 2017); Initial Comments of Midwest Energy, Inc., pp. 3, 5-6, and 8, (Mar. 17, 2017); Reply Comments of Midwest Energy, Inc., pp. 2-4, (May 5, 2017); Initial Comments of Mr. Bradley D. Lutz, p. 24, (Mar. 17, 2017); and Reply Comments of Kansas City Power & Light Company, p. 8, (May 5, 2017).

<sup>18</sup> Tr. Vol. 2, p. 375.

<sup>19</sup> Tr. Vol. 2, p. 398; Mr. Gilliam contradicts himself by offering the conclusion—based on a flawed analysis—that DG customers do not in fact use less electricity than traditional customers. *See* Testimony of the Climate and Energy Project Addressing Non-Unanimous Settlement, p. 14 (June 20, 2017).

<sup>20</sup> Verified Initial Comments of Commission Staff, p. 1 (Mar. 17, 2017).

<sup>21</sup> *Id.*

customers, and that difference causes the two-part tariff in place for regular residential customers to be inadequate for collecting sufficient revenue from distributed generation customers.

13. Nevertheless, parties in opposition to the S&A attempt to downplay this fact by drawing anecdotal analogies to potential scenarios available to traditional residential customers—for example citing replacing appliances, weather, differing work schedules, and shrinking household sizes as kids depart for college as reasons for variability in *any* residential customer usage pattern—in an attempt to undercut justification for a separate rate class for DG customers.<sup>22</sup> This argument is nothing more than an attempt to distract from the facts supported by the record in this case: DG customers use electricity and rely on the grid differently than traditional residential customers.<sup>23</sup> Because rate classes are established based on the homogenous characteristics of class members, it is appropriate to uniquely identify DG customers in a separate rate class. Such separation will permit more detailed data-gathering of these customers as a group through the standard class cost of service study in a general rate proceeding.<sup>24</sup>

14. Secondary to the aforementioned justification of a separate rate class is the reality that a separate rate class or sub-class does not automatically mean a separate rate design or rate. By uniquely identifying DG customers in the class cost of service study, each utility will have the opportunity to determine the appropriate rate design reflecting cost causation as well as cost offsets for each customer class, based on its specific data for each class.

15. Paragraph 9 of the S&A addresses this issue, with the Settling Parties agreeing DG customers should be uniquely identified within the ratemaking process. This provision of

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<sup>22</sup> Reply Comments of Cromwell Environmental, Inc. p. 8 (May 5, 2017); Reply Comments of Climate and Energy Project, p. 8-9 (May 5, 2017); Tr. Vol. 1, pp. 113-114, 145-146.

<sup>23</sup> Verified Initial Comments of Commission Staff, p. 1 (Mar. 17, 2017); Rebuttal Testimony of Ahmad Faruqui, p. 7 (June 26, 2017).

<sup>24</sup> See K.S.A. 66-117, K.A.R. 82-1-231.

the S&A, however, gives each utility the flexibility to make the choice most appropriate for that utility, and does not *require* a separate rate class for DG customers if the utility has reason to leave DG customers on the utility's standard residential tariff.

**B. Whether the two-part rate currently used is inadequate for residential private DG customer and whether it recovers all of the costs of providing service to those customers.**

16. K.S.A. 66-101b prohibits unjust, unreasonably discriminatory, and unduly preferential rates. While there has been no assertion that the rates and rate structures subject to this docket are unreasonably discriminatory or unduly preferential, it is upon the basis of this rule that class cost of service studies and rate design aim to assign the cost of providing electric service to the correct cost-causer as accurately as practical. The record in this proceeding demonstrates that the usage characteristics of DG customers result in these customers disrupting the utility's collection of its approved revenue requirement, as DG customers essentially use the grid as a backup system, but because of their lower energy purchases that results in their lower payment of fixed costs, distributed generation customers do not pay the appropriate proportion of the fixed costs as traditional residential customers.<sup>25</sup> Inevitably, these costs are collected from *all* residential customers, resulting in non-DG customers subsidizing the fixed costs associated with serving DG customers.<sup>26</sup>

17. In its initial comments and at hearing, Cromwell attempts to downplay this cross subsidy as de minimis, having no "meaningful impact on utility operations or revenue collection."<sup>27</sup> However, the record clearly supports that the current two-part rate utilizes the energy charge to collect the majority of utility fixed costs, and when a DG customer's energy

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<sup>25</sup> Verified Initial Comments of Commission Staff, pp. 1,4 (Mar. 17, 2017).

<sup>26</sup> *Id.*; Tr. Vol. 1, p. 112.

<sup>27</sup> Reply Comments of Cromwell Environmental, Inc., p. 2 (May 5, 2017).

purchases are zero or near zero, the utility is unable to collect its actual fixed costs from that customer.<sup>28</sup>

18. Paragraph 10 of the S&A acknowledges that the current two-part rate is problematic for utilities and residential private DG customers. Settling Parties, as well as CURB, support this assertion throughout comments and testimony.<sup>29</sup>

**C. Whether the following rate designs are appropriate for residential private DG customers to better recover the costs of providing service:**

- a. Cost of service based three-part rate consisting of a customer charge, demand charge, and energy charge;**
- b. Grid access charge based upon either the DG output or nameplate rating;**
- c. Cost of service based customer charge that is tiered based upon a customer's capacity requirements;**
- d. Minimum billing to recover the marginal or incremental cost differences from other residential customers;**
- e. Additional rate design options contained in the comments of the parties.**

19. Staff's initial and reply comments advocate for a three-part rate design. The three-part rate design comprised of a customer charge (dollars per meter), demand charge (dollars per kW peak), and energy charge (dollars per kWh) has the potential to mitigate some of the cost recovery and rate design challenges created by distributed generation without the need for time-consuming and expensive cost-benefit studies (which historically have yielded widely differing conclusions).<sup>30</sup> By removing the recovery of capacity demand costs from the energy charge, the resultant energy charge will more closely reflect electricity's marginal cost; and the

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<sup>28</sup> Verified Initial Comments of Commission Staff, p. 1-2 (Mar. 17, 2017); Initial Comments of Westar Energy, Inc. and Kansas Gas and Electric Company Regarding Cost-Based Rates for Customers with Distributed Generation, pp. 7-13 (Mar. 17, 2017); Affidavit of William G. Eichman on Behalf of the Empire District Electric Company, p. 2 (Mar. 17, 2017); Initial Comments of Southern Pioneer Electric Company Joined by the Kansas Electric Cooperatives, Inc., pp. 5-7; Initial Comments of Midwest Energy, Inc., ¶13 (Mar. 17, 2017); Initial Comments of Mr. Bradley D. Lutz, pp. 23-24 (Mar. 17, 2017); Comments of Cary Catchpole for the Citizens' Utility Ratepayer Board on Distributed Generation Policy Matters, ¶16 (Mar. 17, 2017); Comments of Brian Kalcic for the Citizens' Utility Ratepayer Board on Distributed Generation Rate Design Alternatives, ¶7 (Mar. 17, 2017).

<sup>29</sup> *Id.*

<sup>30</sup> Verified Initial Comments of Commission Staff, p. 14 (Mar. 17, 2017).

demand charge will reflect the cost of capacity.<sup>31</sup> Furthermore, by removing demand-related fixed costs from the customer charge and adding a demand charge, the rates will be more cost-based and provide better price signals.<sup>32</sup>

20. From Staff's perspective, a three-part rate design would be the best approximation for incorporating capacity demand into the rate design for distributed generation customers.<sup>33</sup> By using a three-part rate design, distributed generation customers would be charged for the capacity they used, and not charged for the capacity they did not use.<sup>34</sup> When their own generation allows them to use less capacity, they would only pay for the capacity they used.<sup>35</sup>

21. Paragraph 11 of the S&A includes a list of options of appropriate rate designs for residential distributed generation customers. While Staff advocates the three-part rate design as most feasible, it joins the S&A and supports the potential for a variety of rate designs to be proposed for residential distributed generation customers. The three potential and appropriate rate designs listed in Paragraph 11 of the S&A are supplemented by a catch-all provision which permits a utility to propose another appropriate rate design in the course of that utility's rate proceeding. This provision of the settlement agreement provides utilities with the flexibility to present an appropriate rate design as supported by its unique customer base and cost of service data.

**D. Whether rates for private residential DG customers should be cost-based and whether or not a value of resource approach should be considered as part of the ratemaking process.**

22. There is little, if any, dispute in the record that rates should be cost-based. CEP acknowledges in its testimony in opposition to the settlement that rates should be cost based, but

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<sup>31</sup> *Id.*

<sup>32</sup> Verified Reply Comments of Commission Staff, p. 4 (May 5, 2017).

<sup>33</sup> Verified Reply Comments of Commission Staff, p. 5 (May 5, 2017).

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

caveats that it is “common knowledge that residential rates are never intended to collect the actual cost of serving each individual customers from those individual customers.”<sup>36</sup> Rate design is more art than science,<sup>37</sup> and achieving perfectly precise and accurate recovery from each customer, each month, would require each customer to have its own individualized rate design, which is not only impractical but likely impossible to attain and administer. Nevertheless, the primary goal of rate design is to collect the cost of serving each customer class from that customer class, minimizing possible cross subsidization with other classes. As such, the Commission should continue to strive towards that goal with the support of available class cost of service data. Such data and information are available to the utilities and to the Commission in a standard class cost of service study through the rate case process; therefore, rate designs which more accurately assign and collect costs from the appropriate cost-causer should be preferred. Mr. Gilliam’s statement attempts to throw cold water on any such progress and restrain residential distributed generation customer rates to a structure subsidized by standard residential customers.

23. A value-of-resource study or approach is neither necessary nor appropriate when designing rates for distributed generation customers. Many of the benefits of distributed generation advanced by parties to this docket (specifically, parties opposing the S&A) are potential avoided costs, which would be identified and reflected in a standard class cost of service study.<sup>38</sup>

24. Cromwell recommends distributed generation customers be treated differently or held to a different standard than other electric customers.<sup>39</sup> Such a recommendation is

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<sup>36</sup> Testimony of the Climate and Energy Project Addressing Non-Unanimous Settlement, p. 16 (June 20, 2017).

<sup>37</sup> Tr. Vol. 2, p. 340.

<sup>38</sup> Tr. Vol. 2, p. 338.

<sup>39</sup> Tr. Vol. 2, pp. 389-390.

inappropriate and represents a fundamental misunderstanding of the ratemaking process.<sup>40</sup> No other class of ratepayers receives rate adjustments through the rate design process for unique benefits not part of the standard class cost of service study, and introducing such a practice may unleash a myriad of complications in future rate cases, further exacerbating the subsidization issue presently felt by the utilities and utility customers.<sup>41,42</sup>

25. Utility investments in renewable resources do not receive any unique or favorable treatment in the ratemaking process.<sup>43</sup> Utility-scale wind generation, for example, is treated for ratemaking purposes the same as any other resource such as a coal-fired or nuclear generating facility.<sup>44</sup> Commission precedent has explicitly denied the recovery of a societal benefit component of renewable generation resources, despite then-existing explicit statutory authority for requesting an incentive adder.<sup>45</sup>

26. Paragraph 13 of the S&A addresses this issue by acknowledging that rates for private residential distributed generation customers should be cost-based and any unquantifiable value of resource approach should not be considered when setting rates. The S&A further acknowledges that a class cost of service study provides sufficient support for design of a residential private distributed tariff and no further study is necessary for the purposes of this docket. With this acknowledgement, it is important to note that this provision does not exclude parties from entering into evidence in future proceedings any additional benefit or cost study; nor does it prohibit the Commission from determining such a study may be necessary in a future proceeding. This provision merely asserts for the purposes of developing an initial policy

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<sup>40</sup> Cromwell's witness admitted at hearing that he has not participated in a class cost of service study, nor is he aware of how they work or what information is used in a class cost of service study. *See* Tr. Vol. 2, pp. 337-338.

<sup>41</sup> Special contract customers are an exception to this statement; however, special contracts are addressed by a distinct KCC policy, and such contract customers are not a rate class.

<sup>42</sup> Tr. Vol. 2, pp. 338-339.

<sup>43</sup> Tr. Vol. 1, p. 108.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*; Docket No. 08-WSEE-309-PRE, Final Order, Ordering Clause G (Dec. 28, 2007); K.S.A. 66-117(e).

relevant to rate design for distributed generation customers, sufficient data exists within a class cost of service study to design an appropriate rate.

**E. Whether a class cost of service study provides sufficient support for residential DG tariff changes.**

27. As noted above, Paragraph 13 of the S&A acknowledges that a class cost of service study does provide sufficient support for establishing a residential private distributed generation tariff. The confusion concerning whether a class cost of service would provide the information necessary to develop a residential distributed generation tariff stems, in part, from the confused use of the terms “demand,” “energy,” “cost,” “benefit,” and “avoided cost” in this docket, and in part from confusion over the mechanism that translates distributed generation customers’ behavior into the allocation of the costs incurred by a utility to serve distributed generation customers.<sup>46</sup> Clarifying the terms and the role of the class cost of service in the revenue allocation process should explain why the standard class cost of service is sufficient to create a residential private distributed generation tariff.

28. The confusion surrounding the terms “demand” and “energy” can be clarified by initially separating the customer demand and energy needs from the utility’s incurred demand and energy costs as is done in a class cost of service. The customer’s behavior creates customer demand and customer energy usage that are met by the utility. To meet these customer needs, the utility purchases generation, transmission, and distribution equipment that is classified as demand costs and energy costs. These classified demand and energy costs are then allocated to customer classes based on classes’ consumption behavior—their demand and energy requirements. The principle behind the allocation process is the cost causation principle. The result is the allocation of utility costs to customers consistent with the “cost causer is the cost

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<sup>46</sup> Tr. Vol. 2, pp. 280-281, 284.

payer” principle: the utility’s incurred demand and energy costs are linked to the customer class’s demand and energy needs.<sup>47</sup>

29. The confused use of the terms “cost,” “benefit,” and “avoided cost” seems to result from the assumption that the potential benefits of distributed generation customers are something additional that needs to be included in the rate design process in order to develop a cost-based tariff for distributed generation customers. In fact, the potential quantifiable benefits are all avoided costs—these benefits are subtractions, not additions. Thus, the benefits that distributed generation customers contribute are cost reductions that would be captured in the class cost of service. The next step is ensuring that if these avoided costs exist, they are reflected in the revenue allocation to distributed generation customers.

30. In Staff’s initial comments for this docket, Staff sorted the benefits attributed to distributed generation customers by advocates into market-based and non-market-based benefits. The market-based benefits were the quantifiable benefits and they were all avoided costs: avoided energy costs, avoided generation capacity costs, avoided ancillary and capacity reserve services, avoided transmission costs, and avoided distribution costs.<sup>48</sup> Thus, these potential benefits would show up in a class cost of service as a reduction in costs. In order to adhere to the cost causation principle, the reduction in costs caused by the distributed generation customers would need to be allocated to the distributed generation customers.<sup>49</sup>

31. In the discussion above, describing the separation of customer demand and energy needs and utility incurred demand and energy costs, it was noted that these different components were linked by cost causation. A couple of examples explain how cost causation linkage will compensate distributed generation customers if they are responsible for avoided costs.

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<sup>47</sup> Tr. Vol. 2, pp. 319-320, 325-326.

<sup>48</sup> Verified Initial Comments of Commission Staff, p. 3 (Mar. 17, 2017).

<sup>49</sup> Tr. Vol. 2, p. 357.

32. For the first example, suppose that because of lower energy purchases, distributed generation customers reduce the amount of O&M that is needed for the distribution system. Distribution O&M costs can be allocated to customer classes based on energy consumption, and with distributed generation customer's lower energy purchases, they will be allocated less O&M costs, thus satisfying the cost causation principle.<sup>50</sup>

33. For the second example, suppose that distributed generation customers reduce their need to use the utility system as a backup by making the distributed generation system more robust by adding electric storage. Further, suppose the addition of storage allows the distributed generation customers to level their demand. The flatter demand results in the customers having a lower peak demand. One of the allocators of generation capacity is peak demand, and thus, distributed generation customers would have less generation capacity costs allocated to them because of their lower demand allocator, again satisfying the cost causation principle.<sup>51</sup>

34. Finally, because the class cost of service will reflect any avoided costs that exist, and because these avoided costs can be reflected in lower allocated costs to distributed generation customers, the rate design process will include the benefits of distributed generation in lower average rates for the distributed generation class of customers.<sup>52</sup> Nonetheless, Staff has additionally argued that the rate design for distributed generation customers can be further improved by adopting a three-part tariff for distributed generation customers.

35. Consider the example of the robust distributed generation system that reduces the customer's demand for the utility system as a backup. If only a relatively small percentage of distributed generation customers add electric storage, then only a few of the distributed generation customers are actually reducing their demand. The result would be cross-

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<sup>50</sup> Tr. Vol. 2, pp. 358-359.

<sup>51</sup> Tr. Vol. 2, pp. 319-320.

<sup>52</sup> Tr. Vol. 2, p. 341.

subsidization of those without storage by those with storage since two-part energy rate would be based on average demand for the entire class. But if a three-part tariff with a demand charge is used instead, then the distributed generation customers with storage and reduced demand would have a lower demand bill than the ones without storage. Thus, the three-part tariff would reward those distributed generation customers that made the investments to make their system more robust by reducing their demand charge.<sup>53</sup>

36. Under the terms of the S&A, cost-based benefits, including any avoided costs created by distributed generation can and would be captured through a class cost of service study, and reflected in the resultant rate design. The class cost of service study would recognize the costs of serving the distributed generation customer, as well as the costs avoided by having distributed generation customers on the utility system, and would remain consistent with existing ratemaking methodologies for other classes.

**F. Whether any benefits of residential DG should be considered in the ratemaking process and, if so, whether they should be required to be quantifiable and distinguishable from benefits provided by utility scale resources.**

37. Staff's initial comments identified eleven potential benefits of distributed generation which should be examined for determination as to which, if any, should be included in a rate design for distributed generation customers.<sup>54</sup> Staff separated these benefits into market based avoided costs and non-market based avoided costs.<sup>55</sup> Staff analyzed the non-market based avoided costs and concluded they are either difficult and impractical to quantify, off-set by corresponding risks (for example, the decentralized nature of distributed generation could potentially provide a hedge if the whole system goes down; however the decentralized nature potentially opens the door for greater and easier opportunities to hack into the system), or result

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<sup>53</sup> Verified Initial Comments of Commission Staff, p. 14 (Mar. 17, 2017).

<sup>54</sup> Verified Initial Comments of Commission Staff, pp. 2-3 (Mar. 17, 2017).

<sup>55</sup> Verified Initial Comments of Commission Staff, p. 2 (Mar. 17, 2017).

in double counting quantifiable benefits already recognized in the ratemaking process.<sup>56</sup>

Furthermore, Commission precedent does not support the inclusion of societal benefits and externalities in the ratemaking process.<sup>57</sup> As such, Staff recommends only the market-based avoided costs be considered in distributed generation ratemaking.<sup>58</sup>

38. Staff's reply comments note that the data and information substantiating the market-based avoided costs would come by way of supporting documentation in utility-specific rate proceedings; specifically, through the class cost of service studies performed as part of a rate case.<sup>59</sup> The S&A also acknowledges that to the extent a cost-benefit analysis is requested by the Commission in a future proceeding, it is most appropriately limited to including only quantifiable market-based avoided costs and benefits to the particular utility, and should correspondingly occur within a utility-specific rate case docket.<sup>60</sup>

**G. Whether any additional study is necessary for purposes of this generic docket or whether any costs and benefits to be considered should be considered in utility-specific rate case dockets.**

39. No further study is necessary for purposes of this generic docket, as the Settling Parties agree that an appropriate rate design for distributed generation customers can be supported by a traditional class cost of service study in a utility-specific rate case.<sup>61</sup>

40. In its comments, Staff notes the avoided costs (benefits) distributed generation advocates demand be quantified can be addressed in a class cost of service study developed for a

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<sup>56</sup> *Id.*

<sup>57</sup> See generally, 08-GIMX-442-GIE, 12-GIMX-337-GIE, 15-WSEE-181-TAR; and 16-KCPE-446-TAR.

<sup>58</sup> *Id.*

<sup>59</sup> Verified Reply Comments of Commission Staff, p. 3 (May 5, 2017).

<sup>60</sup> S&A, ¶ 14.

<sup>61</sup> S&A, ¶ 13.

future utility-specific rate case.<sup>62</sup> Because this data is produced as part of a rate case proceeding, it is unnecessary to go to the additional time and expense of reproducing it here.

41. The S&A acknowledges this point in Paragraph 13, stating a standard class cost of service study provides sufficient support for the design of a residential private distributed generation tariff, and no further study is necessary for the purpose of this docket.

**H. Whether DG customers interconnected under parallel generation tariffs should be treated the same as DG customers interconnected with net metering.**

42. A policy addressing rate design for distributed generation customers should treat customers under parallel generation tariffs and customers interconnected with net metering the same. From the perspective of interaction with the power grid, both subsets of customers behave identically as they are both partial requirements customers.<sup>63</sup> Therefore, the rate design should not be different between the two because the rate design in both cases addresses the problem of the reduction in energy purchases resulting in a failure of both subsets of customers to pay a sufficient amount of their demand costs.

**I. Whether the record in this docket contains sufficient substantial and competent evidence to support the approval of a rate design policy for residential distributed generation.**

43. The S&A is essentially recommending a policy whereby: (1) utilities may determine whether a separate rate class is appropriate; (2) utilities may provide cost data for that class through a class cost of service study (which is already a requirement pursuant to Commission regulation); (3) utilities are to provide cost data uniformly excluding societal benefits and externalities, which are not a part of the ratemaking process for any other customer

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<sup>62</sup> Verified Initial Comments of Commission Staff, p. 8 (Mar. 17, 2017); Verified Reply Comments of Commission Staff, p. 3 (May 5, 2017).

<sup>63</sup> Tr. Vol. 1, p. 78; Tr. Vol. 2, pp. 360-361.

classes; and (4) utilities may recommend the rate design appropriate for their electric system, service, and customer base.<sup>64</sup>

44. The record in this docket contains support from six public utilities having the necessary experience with formulation and development of utility rates, one cooperative association, and two distributed generation system installers, in addition to Commission Staff, asserting that there is sufficient substantial and competent evidence to support the approval of a rate design policy for residential distributed generation.<sup>65</sup>

**J. Whether additional Kansas-specific data is necessary in order to develop a rate design policy for residential distributed generation.**

45. Paragraph 13 of the S&A acknowledges that no additional Kansas-specific data is necessary in order to develop a rate design policy for residential distributed generation—no such study is necessary for the purpose of this docket. The distinction between policy and implementation is important in this docket. Because the S&A requests only voluntary action on the part of utilities, the policy implementation is flexible. Utilities may or may not create a special class for distributed generation customers; utilities may or may not have a special rate design for distributed generation customers, etc. Since this docket does not implement any specific rate design, but only sets policy, there is no need for additional data or studies.

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<sup>64</sup> S&A, ¶¶ 9-17.

<sup>65</sup> See Testimony in Support of the Non-Unanimous Stipulation and Agreement Prepared by Robert H. Glass (June 20, 2017); Testimony of Jeff Martin in Support of Stipulation and Agreement – Westar Energy, Inc. (June 20, 2017); Testimony in Support of the Settlement Agreement of Bradley D. Lutz on behalf of Kansas City Power & Light Company (June 20, 2017); Testimony in Support of Stipulation and Agreement Prepared by Richard J. Macke (June 20, 2017); Reply Comments of Westar Energy, Inc. and Kansas Gas and Electric Company Regarding Cost-Based Rates for Customers with Distributed Generation (May 5, 2017); Affidavit of William G. Eichman Supporting Reply Comments on Behalf of The Empire District Electric Company (May 5, 2017); Reply Comments of Kansas City Power & Light Company (May 5, 2017); Reply Comments of Sunflower Electric Power Corporation and Mid-Kansas Electric Company, LLC (May 5, 2017); Reply Comments of Midwest Energy, Inc. (May 5, 2017); Reply Comments of Kansas Electric Cooperatives, Inc. (May 5, 2017); Reply Comments of Southern Pioneer Electric Company (May 5, 2017); Verified Reply Comments of Commission Staff (May 5, 2017); Verified Initial Comments of Commission Staff (Mar. 17, 2017).

46. Staff's comments note the limited value of such studies; these studies return widely varying results and unnecessarily duplicate information already part of utility-specific class cost of service studies.<sup>66</sup>

47. Furthermore, in the interest of permitting utilities the ability to begin the process of developing a rate design for distributed generation customers, thereby sending accurate economic signals to those customers, the policy supported by the S&A proposed by the Settling Parties provides a framework within which utilities may work, while still allowing for flexibility to refine the policy in the future—including allowing for possible future studies at the Commission's direction. At this time, however, no additional Kansas-specific data is necessary to move forward with the proposed policy framework.

**K. Whether rate design changes authorized by this docket should apply to customers who have installed DG prior to the order date in this docket.**

48. Paragraph 16 of the S&A provides that any distributed generation-specific rate design implemented subsequent to this proceeding would only apply to customers adding distributed generation systems on or after the effective date of those tariffs. Following the policy supported by the S&A, any tariffs containing distributed generation-specific rate designs would become effective following a utility-specific rate case, and would be based on utility-specific data following a class cost of service and litigated rate design proposal in that utility-specific docket. Therefore, under the settlement, no rate design changes would apply to customers who have installed distributed generation prior to an order date in this docket, with the limited exception of Westar's Residential Standard Distributed Generation tariff, which will be discussed below.

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<sup>66</sup> Verified Initial Comments of Commission Staff, p. 8 (Mar. 17, 2017); Verified Reply Comments of Commission Staff, p. 3 (May 5, 2017).

**L. Whether the settlement approved by the Commission in Westar’s last general rate case regarding the creation of the “Residential Standard Distributed Generation” tariff is still effective such that customers who added DG on or after October 28, 2015, will be subject to the rate design changes approved in this docket and the rate changes approved in future rate case dockets.**

49. Paragraph 16(a) of the S&A allows for the continuance of Westar’s Residential Standard Distribution Generation tariff. Under this provision, customers who added distributed generation systems on or after October 18, 2015, will be subject to the rate design change that occurs in future rate case dockets based on the policy established in this proceeding. That being said, changes that customers currently on Westar’s Residential Standard Distribution Generation tariff experience would not be implemented until after a class cost of service and rate design proposal are fully vetted in Westar’s next rate proceeding.

50. This outcome is appropriate as the customers on Westar’s Residential Standard Distribution Generation tariff have received ample notice by way of Westar’s last general rate proceeding (Commission Docket 15-WSEE-115-RTS), as well as educational outreach efforts by Westar in the interim including those relevant to this docket.<sup>67</sup> In addition to these communications, additional notice will be a part of Westar’s next rate proceeding—where any changes impacting this class would be proposed (with supporting data), investigated, analyzed, and possibly litigated.

### **III. CONCLUSION**

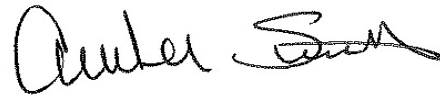
51. The policy framework proposed in the Non-Unanimous Stipulation and Agreement provides enough guidance so as to allow utilities to proceed to design—or maintain—rates appropriate for distributed generation customers. However, it also remains flexible enough to be further refined as the Commission deems necessary in future proceedings. As such, it is a reasonable resolution to the issues identified in the Commission’s order

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<sup>67</sup> Tr. Vol. 1, p. 124.

establishing the scope of this general investigation, and will promote the public interest going forward.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Amber Smith", written over a horizontal line.

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