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Via E-Filing

June 22, 2018

Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604-4027

Re: ***Docket No.*** 18-WSEE-328-RTS

Dear Sir/Madam:

Attached please find the CROSS ANSWERING TESTIMONY OF KEVIN C. HIGGINS on behalf of THE KROGER CO. for filing in the above-referenced matter.

Copies have been served on all parties of record.

Very truly yours,

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COUNSEL FOR THE KROGER CO.

KJBkew
Enclosure

BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company to Make Certain Changes in Their Charges for Electric Service	)))))	Docket No. 18-WSEE-328-RTS

Cross-Answering Testimony of Kevin C. Higgins

on behalf of

The Kroger Co.

June 22, 2018

CROSS-ANSWERING TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. Are you the same Kevin C. Higgins who pre-filed direct testimony on behalf of The Kroger Co. ("Kroger") in this proceeding?

A. Yes, I am.

Overview and Conclusions

Q. What is the purpose of your cross-answering testimony?

A. My cross-answering testimony responds to the proposals of Kansas Industrial Consumers Group, Inc. ("KIC") witness Brian C. Andrews to correct an error in the allocation of costs to the Industrial and Large Power class ("ILP") and to modify the Retail Energy Cost Adjustment ("RECA") to include voltage-differentiated rates.

Q. What are your primary conclusions and recommendations?

A. Mr. Andrews has identified an error in the allocation of energy costs to the ILP class that is attributable to incorrect voltage levels that Westar assumed for this class in the Company's cost-of-service study. I agree that this error should be corrected. The net result of this correction should be a $426 thousand reduction in class cost responsibility assigned to ILP and a commensurate increase in costs allocated for all other classes collectively.

In addition, Mr. Andrews proposes to modify the RECA charge to provide for voltage-differentiated rates. As I explain below, this proposal results in significant shifting of cost recovery among customer classes. I recommend that the change in RECA rate design *not* be adopted unless it is accompanied by an equal and offsetting adjustment to the base rates of each rate class in the amount of the cost recovery shift created by the RECA rate design change. Otherwise, the RECA rate design change would cause a $2.6 million cost recovery shift among customer classes that would be layered on top of the class revenue allocation in this case.

<u>**Correction of Error in Allocation of Cost to ILP**</u>

Q. Please describe the error that Mr. Andrews corrected in the allocation of costs to the ILP rate class.

A. Mr. Andrews explains that there is an error in the energy-related costs that Westar allocated to the ILP rate class. As explained by Mr. Andrews, the Company's cost of service study assumed that 100% of the energy used to serve the ILP class is delivered at primary voltage, when in fact, 60% of the energy used to serve the ILP class is delivered at transmission voltage. Mr. Andrews estimates that this error results in the ILP class being allocated $426 thousand more than it should be. Mr. Andrews shows how correcting this error impacts the allocation of costs in Westar's cost of service study in Table 2 of his direct testimony,[1] which I have replicated in Table KCH-1-CA below for ease of reference.

Table KCH-1-CA

Replication of KIC Witness Brian Andrews
Comparison of COSS Revenue Requirement KIC Correction
to Westar COSS Revenue Requirement - Final Rates

Rate Class	Company Proposed[1]		KIC Corrected[2]		Difference	
	Revenue Requirement	Return on Rate Base	Revenue Requirement	Return on Rate Base	Revenue Requirement	Return on Rate Base
RES	$921,727,409	5.20%	$921,876,804	5.19%	$149,395	-0.01%
RES-DG	217,688	-0.14%	217,714	-0.14%	26	0.00%
SGS	399,942,708	7.44%	400,026,024	7.44%	83,316	-0.01%
MGS	234,621,097	8.20%	234,681,404	8.19%	60,307	-0.01%
LGS	279,957,267	10.67%	280,044,789	10.66%	87,523	-0.01%
ILP	82,031,450	5.73%	81,605,678	5.95%	(425,773)	0.22%
LTM	8,426,569	8.71%	8,429,409	8.69%	2,840	-0.02%
INT	1,739,524	-0.19%	1,739,930	-0.20%	405	-0.01%
SPL	70,949,188	0.86%	70,973,340	0.84%	24,152	-0.01%
RITOD	2,736,662	-2.87%	2,737,027	-2.88%	365	0.00%
SCH	75,150,781	0.76%	75,165,462	0.76%	14,680	-0.01%
LIGHT	19,084,583	19.73%	19,087,346	19.72%	2,763	0.00%
TOTAL	$2,096,584,926	6.46%	$2,096,584,926	6.46%	$0	0.00%

Source: Direct Testimony of Brian C. Andrews, Table 2

1 Kroger-1.02 - Westar COS Study true-up_Final rates

2 Exhibit BCA-1

Q. How does Mr. Andrews propose to remedy this error in the cost of service study?

A. Mr. Andrews states that the solution is not as simple as reallocating the $426 thousand consistent with his revision to the cost of service study because the cost of service study only serves as a guide for revenue allocation and rate design.

[1] *See* Direct Testimony of Brian C. Andrews, p. 13.

Mr. Andrews states that his proposal will remove $234 thousand of energy revenue from the ILP class for his proposed rate design.[2] KIC witness Michael Gorman recommends that $235 thousand of cost from the ILP rate class be reallocated to other rate classes.

Q. Mr. Andrews' proposal, as you described it so far, only remedies $235 thousand of the $426 thousand error. Where does the remainder of the adjustment to ILP costs come from?

A. It appears that the balance is intended to come from an adjustment to the RECA charge that Mr. Andrewa also proposes, which I discuss below. However, as I will show, Mr. Andrews' RECA proposal would cause a significantly greater impact on other classes than just $191 thousand,[3] which is the balance required to remedy the $426 thousand cost allocation error. On a standalone basis, Mr. Andrews' RECA proposal would shift $786 thousand in cost recovery to other classes to the benefit of ILP. In addition, it would shift another $1.2 million to other classes for the benefit of the Large General Service rate class ("LGS"). The total shifts in class cost recovery from Mr. Andrews' RECA proposal add up to nearly $2.6 million.

<u>Retail Energy Cost Adjustment – Rate Design</u>

Q. What is Mr. Andrews' proposal to adjust the rate design of the RECA charge?

[2] *Id.*, pp. 13-14.
[3] $426,000 COSS error - $235,000 KIC proposed revenue re-allocation = $191,000

A. Mr. Andrews argues that the RECA charge should be modified to reflect voltage differentiation. His proposed change is intended to respond to the fact that, all things being equal, Westar must generate or purchase slightly more energy to deliver a given amount of power to a customer served at lower voltage (e.g., secondary) than higher voltage (e.g., primary or transmission) due to line losses.

Q. Does Mr. Andrews have any additional rate design proposals concerning voltage differentiation?

A. Yes. Mr. Andrews also proposes that voltage differentiation should be reflected in the ILP and LGS base energy charges. To implement this, Mr. Andrews proposes an energy credit for transmission customers for the ILP rate class. For the LGS rate, Mr. Andrews proposes an energy credit for transmission customers and an energy surcharge for secondary customers relative to the primary rate.

Q. Do you have any objections to the establishment of voltage-differentiated rates for the ILP and LGS classes?

A. No. I believe it is reasonable to reflect cost-based voltage differentiated base rates for these customer classes.

Q. How does Mr. Andrews design his proposed energy rate differential for the RECA?

A. Mr. Andrews designs the voltage differential for the RECA in a similar manner to his proposed energy rate differential for the LGS and ILP rate classes, except that it is designed for the entire system. He assigns all of the metered energy for the system to a voltage level and adjusts for losses to the production level. Mr. Andrews allocates the $411 million RECA revenue requirement to the different voltage levels according to the production billing determinants and then divides the cost for each voltage level by the metered energy to determine the voltage specific rate.

Q. What is your assessment of Mr. Andrews proposed adjustments to the RECA tariff rates?

A. I recommend against adoption of Mr. Andrews' RECA proposal. Unlike his recommendation for ILP and LGS *base* energy rates, the implications of which are entirely contained *within* those classes, Mr. Andrews' RECA proposal results in a significant shifting of cost recovery *among* customer classes. In effect, it is a separate "one-off" revenue allocation adjustment – entirely apart from the larger treatment of revenue allocation among classes in this case. And some of the results it would produce are simply not reasonable.

Q. If a voltage-differentiated RECA charge properly reflected differences in cost, why would it be a problem to adopt it in this case?

A. The problem here is that Westar's cost of service study already allocates costs to the various rate classes based on loss-adjusted energy usage, with the exception of the ILP error that I discussed above. That is, even though the RECA charge itself is not voltage differentiated, the *cost responsibility assigned* to each class *does* account for the effects of voltage differentiated RECA-related costs. Consequently, voltage-differentiated RECA-related costs are already captured in each class's revenue deficiency in Westar's cost-of-service study (with the exception of the ILP error). Therefore, the change in RECA rate design should *not* be adopted unless it is accompanied by an equal and offsetting adjustment to the base rates of each rate class in the amount of the cost recovery shift created by the RECA rate design change. Otherwise, the RECA rate design change would cause a $2.6 million cost recovery shift among customer classes that would be layered on top of the class revenue allocation in this case.

Q. Have you calculated the class cost recovery shifts that would result from adoption of the RECA rate design change proposed by Mr. Andrews?

A. Yes, I have. These impacts are presented in the third column of numbers in Table KCH-2, below. As can be seen, the class impacts of the proposed RECA change are significantly greater than the impacts required to remedy the $426 thousand error identified by Mr. Andrews, which are presented in the fourth column of the table. For example, to remedy the $426 thousand cost allocation error would require an additional $60 thousand to be allocated to the Medium General Service ("MGS") class – whereas the proposed change in RECA rate design would increase the revenues recovered from this class by $230 thousand. As shown in Table KCH-2-CA, in total the RECA proposal would shift $2.6 million in cost recovery among classes.

Table KCH-2-CA

KIC Proposed RECA Voltage Differential Revenue Impacts				
Rate Class	Revenue Increase as-filed	Revenue Increase KIC Proposed	KIC Proposed Revenue Change Increase/(Decrease)	KIC Corrected COSS Rev Req Adjustment
Residential Service	**44,171,233**	**45,551,876**	**1,380,643**	**149,395**
Residential-DG	**56,719**	**57,141**	**422**	**26**
Small General Service	**8,869,146**	**9,649,387**	**780,241**	**83,316**
Medium General Service	**5,284,564**	**5,514,316**	**229,752**	**60,307**
MGS Secondary			448,296	
MGS Primary			(218,544)	
Large General Service	**6,726,722**	**5,508,168**	**(1,218,554)**	**87,523**
LGS Secondary			202,580	
LGS Primary			(1,066,251)	
LGS Transmission			(354,883)	
Industrial and Large Power	**1,731,629**	**946,032**	**(785,597)**	**(425,773)**
ILP Primary			(194,810)	
ILP Transmission			(590,787)	
Large Tire Manufacturing	**189,836**	**78,826**	**(111,011)**	**2,840**
Interruptible Contract Service	**29,258**	**21,581**	**(7,677)**	**405**
Special Contracts	**1,237,483**	**780,208**	**(457,275)**	**24,152**
Restricted Institution Time of Day	**97,588**	**100,949**	**3,362**	**365**
Schools	**1,966,039**	**2,103,110**	**137,071**	**14,680**
Lighting	**135,373**	**172,086**	**36,714**	**2,763**
SUBTOTAL Rate Class Increase			**2,568,204**	**425,772**
SUBTOTAL Rate Class Decrease			**(2,580,113)**	**(425,773)**
TOTAL	**70,495,590**	**70,483,681**	**(11,909)***	**(1)**

*Total does not equal zero due to rounding and because KIC Exhibit BCA-9 utilized per books metered kWh billing units to develop RECA voltage differentials, while Westar proof of revenue utilized metered kWh billing units with pro forma adjustments.

Q. Can you provide a specific example of why the cost recovery shift from a change in RECA rate design is unwarranted?

A. Yes. Consider the MGS class, which I discussed briefly above. According to Westar's proposed class revenue allocation, the MGS class would provide an above-average rate-of-return of 8.20% – fully taking into account the effects of voltage differentiated RECA-related costs.[4] As I noted above, adopting the change in RECA rate design would increase net revenues recovered from this class by an additional $230 thousand. As this class is already providing an above-average rate-of-return – and one that is above some of the classes that would benefit from the RECA rate design change – this incremental rate increase is clearly unwarranted. This example illustrates why the change in RECA rate design should not be adopted unless it is accompanied by an equal and offsetting adjustment to the base rates of each rate class in the amount of the cost recovery shift created by the RECA rate design change. At a minimum, such an offsetting adjustment should be applied to the base rates of those rate classes with above-average rates-of-return.

Q. Does this conclude your cross-answering testimony?

A. Yes, it does.

[4] Source: Westar Response to Kroger 1.02, Westar COS Study true-up_Final rates. See also Table KCH-1-CA.

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OF THE STATE OF KANSAS

In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company to Make Certain Changes in Their Charges for Electric Service	)))))	Docket No. 18-WSEE-328-RTS

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;

2. He is the witness who sponsors the accompanying testimony entitled "Cross Answering Testimony of Kevin C. Higgins;"

3. Said testimony was prepared by him and under his direction and supervision;

4. If inquiries were made as to the facts in said testimony he would respond as therein set forth; and

5. The aforesaid testimony and exhibits are true and correct to the best of his knowledge, information and belief.

Kevin C. Higgins

Subscribed and sworn to or affirmed before me this 18th day of June, 2018, by Kevin C. Higgins.

Notary Public

Notary Public
Kimberlie A. Ignjatovic
Commission #682578
My Commission Expires
April 10, 2019
State of Utah

CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or regular U.S. mail (unless otherwise noted), this 22ND day of June, 2018 the following:

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