

BEFORE THE
KANSAS CORPORATION COMMISSION

STATE CORPORATION COMMISSION

OCT 08 2008

 Docket
Room

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. 08-WSEE-1041-RTS

CROSS-ANSWERING TESTIMONY

OF

BRIAN KALCIC

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

October 8, 2008

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

3

4 **Q. Have you previously submitted testimony in this proceeding?**

5 A. Yes, I have.

6

7 **Q. What is the subject of your cross-answering testimony?**

8 A. My cross-answering testimony responds to certain positions taken in the direct testimony of
9 the following witnesses: a) Dorothy J. Myrick on behalf of KCC Staff; b) James T. Selecky
10 on behalf of Wal-Mart Stores, Inc. ("Wal-Mart"); and c) Kevin C. Higgins on behalf of The
11 Kroger Co. ("Kroger").

12

13 **KCC Staff**

14 **Q. On page 10 of her direct testimony, Ms. Myrick discusses Staff's proposed rate design**
15 **and states, in part, that "Staff utilized the class cost-of-service study presented by**
16 **Staff Witness, Sonya Cushinberry to ensure that classes had positive rates of return**
17 **and moved towards the system average." Do you agree that Staff's proposed rate**
18 **design moves all rate classes toward the system average rate of return, as measured by**
19 **Staff's cost study?**

20 A. No. Given the results of Staff's cost-of-service study, Staff's proposed rate design
21 produces a class revenue allocation that is particularly problematic in Westar South.

22

23 **Q. Please explain.**

1 A. Staff's proposed revenue allocation for Westar South is summarized in Table DJM-T3 on
2 page 13 of Ms. Myrick's direct testimony. As shown in Table DJM-T3, the Residential,
3 Small General Service, Religious Institution, and Medium General Service classes would
4 all receive increases in excess of Staff's recommended Westar North increase of 10.96%.
5 Yet, these same classes are shown to provide a present rate of return in excess of the system
6 average in Staff's recommended cost study.¹ If Staff's proposed revenue allocation were,
7 in fact, intended to move the above classes "towards the system average" rate of return, one
8 would expect these classes to receive below-average base rate increases, not the above-
9 average increases recommended by Staff.

10 In addition, Table DJM-T3 shows that the High Load Factor class would receive a
11 base rate increase of 4.99%, or less than one-half of Staff's overall recommended increase
12 of 10.96%. Once again, however, this outcome is exactly opposite to what one would
13 expect given that the High Load Factor class provides a present rate of return of just 3.21%,
14 which is well below the system average rate of return of 6.23% shown in Staff's cost study.

15
16 **Q. Are the above Westar South rate class outcomes related to Staff's proposal with**
17 **respect to rate equalization between Westar North and Westar South?**

18 A. That would not appear to be the case because Table DJM-T3 is based explicitly on Staff's
19 recommended *stand-alone* revenue requirement for Westar South.

20
21 **Q. What do you conclude about Staff's proposed revenue allocation in Westar South?**

¹ See page 1 of Exhibit SAC-WES2.

1 A. Despite Staff's claim to the contrary, Staff's proposed Westar South rate design would
 2 produce a class revenue allocation that is not supported by Staff's cost-of-service results.
 3 The Commission should reject it.

4
 5 **Q. Do you have any comments on Staff's rate equalization proposal?**

6 A. Yes. Staff is proposing the equalization of delivery charges and rate riders across Westar
 7 North and Westar South. In particular, Table 1 below summarizes Staff's equalized
 8 proposed rates for residential customers taking Standard Service and Conservation Service,
 9 in either Westar North or Westar South. Note that under Staff's proposed rate design, the
 10 Residential Conservation winter rates would no longer be same as the Residential Standard
 11 winter rates. Moreover, the Residential Conservation summer rates would no longer be tied
 12 to (i.e., the same as) the winter rates paid by these customers.

13
 14 Table 1

<i>Energy Charges</i>	<i>Residential Standard</i>	<i>Residential Conservation</i>
Winter		
Block 1	\$0.051488	\$0.050847
Block 2	\$0.047918	\$0.047449
Block 3	\$0.042214	\$0.041718
Summer		
Block 1	\$0.051493	\$0.051286
Block 2	\$0.059406	\$0.047810
Block 3	\$0.064291	\$0.000000

15 Source: Page 3 of Staff Exhibits WEN-E1 and WES-E2.

16
 17 **Q. Does Staff explain why it has proposed to restructure the Company's Residential**
 18 **Conservation rate schedule?**

1 A. Not to my knowledge.

2

3 **Q. How did CURB approach the issue of residential conservation in this proceeding?**

4 A. As I discuss in my direct testimony, CURB recommends that the Commission implement a
5 more conservation-oriented rate structure in this proceeding. Under CURB's proposal, *all*
6 residential customers would be given a strong incentive to use less than 900 kWh in the
7 summer months, not just those customers on the Residential Conservation rate. In fact,
8 under CURB's recommended rate design, there is no longer a need for a separate
9 conservation rate schedule, and CURB proposes to consolidate Westar's Residential
10 Standard and Residential Conservation rate schedules in this proceeding.

11

12 **Q. Do you see any potential problem with Staff's Residential Conservation rate design?**

13 A. Yes, I do. Since Staff proposes to retain separate Residential Standard and Residential
14 Conservation rate schedules, it is particularly important that the Residential Conservation
15 rate maintain a strong conservation incentive. Based upon my review of Staff's proposed
16 rate design, that does not appear to be the case.

17

18 **Q. Please explain.**

19 A. Under Westar's current tariffs, a residential customer taking Conservation Service must
20 limit his/her average daily usage to no more than 30 kWh during the summer months. If a
21 customer's usage should exceed that threshold, the customer loses the conservation
22 discount applicable to summer consumption. Since Westar's current tariffs do not include
23 separate winter energy charges for Residential Standard and Residential Conservation

1 customers, the effective penalty for exceeding the 30 kWh per day threshold is the loss of
2 *all* discounts provided under the tariff.

3 Under Staff's equalized proposed rates shown in Table 1, it appears that a
4 Residential Conservation customer would continue to receive a winter discount, even if the
5 customer's average daily usage exceeds 30 kWh during the summer. If so, Staff's
6 equalized proposed rate design would undermine the conservation incentive contained in
7 the Company's current tariff.

8
9 **Q. Suppose that the Company's current tariff language were to be modified so that a
10 Conservation Service customer that exceeds the 30 kWh usage threshold would be
11 subject to both the winter and summer energy charges applicable to Standard Service
12 customers. Would that fix the above problem?**

13 A. That type of tariff language might be sufficient to "re-incent" the Company's existing
14 Conservation Service customers. However, such language would do nothing to deter an
15 existing Standard Service customer from switching to Conservation Service, "pocketing" a
16 free discount during the winter months (when no usage threshold applies), and then
17 reverting to Standard Service during the summer when the customer fails to conserve.

18
19 **Q. What do you conclude about Staff's equalized proposed rate design for Residential
20 Conservation Service?**

21 A. Staff's rate design is clearly unworkable under the Company's current tariff language, and
22 raises concerns with respect to maintaining conservation incentives and discouraging
23 potential "free riders." If the Commission desires to encourage conservation, I would

1 recommend that it reject Staff's proposed rate design and instead adopt CURB's revised
2 residential rate structure.

3
4 **Q. Referring back to Table 1, it is apparent that Staff's equalized proposed rate design**
5 **for Residential Standard customers generally follows the Company's current rate**
6 **structure, i.e., it contains winter energy charges that decline over three blocks and**
7 **summer energy charges than increase over three blocks. In the event that the**
8 **Commission chooses to equalize Westar North and Westar South rates in this**
9 **proceeding, would it still be feasible to implement CURB's recommended residential**
10 **rate structure at the conclusion of this case?**

11 A. It should. In other words, the Commission should *not* view Staff's rate equalization
12 proposal and CURB's residential rate design as mutually exclusive options in this
13 proceeding.

14
15 **Wal-Mart**

16 **Q. On pages 18-19 of his direct testimony, Mr. Selecky offers an alternative class revenue**
17 **allocation for Westar South in the case where the Commission determines that Westar**
18 **South's final increase should be less than the \$87.6 million requested by the**
19 **Company. Do you have any comment?**

20 A. Yes. The revenue allocation proposal sponsored by Mr. Selecky combines two (2) separate
21 components: a) first-dollar relief in the amount of \$26.45 million to the Small General
22 Service, Medium General Service, Public Schools, High Load Factor and Lighting Service

1 classes;² and b) the allocation of any rate relief (i.e., revenue disallowance) in excess of
2 \$26.45 million to all classes in proportion to rate base.³ As proposed, each of these
3 components would produce unreasonable results.

4
5 **Q. Why would Wal-Mart's first-dollar relief proposal produce an unreasonable**
6 **outcome?**

7 A. A comparison of Wal-Mart's proposed first-dollar relief levels (shown in column 6,
8 Schedule 5 of Wal-Mart Exhibit No. 1) with Westar's proposed class revenue increases
9 (shown in column 2, Schedule 3S of Wal-Mart Exhibit No. 1) indicates that the Public
10 School class would receive an overall revenue *decrease* under Wal-Mart's proposal. This
11 type of outcome would be inequitable to Westar South's remaining customer classes. No
12 class should receive an overall revenue decrease in this case, since that outcome would
13 necessitate that Westar's remaining classes shoulder an aggregate increase in excess of the
14 total amount awarded to the Company.

15
16 **Q. Mr. Kalcic, please explain why Wal-Mart's proposal to allocate any rate relief in**
17 **excess of \$26.45 million to all classes in proportion to rate base is unwarranted.**

18 A. Implicit in this component of Wal-Mart's proposal is the assumption that any revenue
19 disallowance by the Commission in excess of \$26.45 million is solely the result of a
20 reduction in Westar's requested rate of return (which would then be given back to classes in
21 proportion to rate base). Obviously, there is any number of adjustments that the

² See Wal-Mart Exhibit No. 1, Schedule 5, column 6.

³ See Wal-Mart Exhibit No. 1, Schedule 5, column 7.

1 Commission could make to Westar's filed case that would produce a reduction in the
2 Company's requested increase. It would be entirely unreasonable to assume that all such
3 adjustments are rate-of-return related, and equally unreasonable to allocate all such rate
4 relief to customer classes in proportion to rate base. Wal-Mart's revenue allocation
5 proposal for Westar South should be dismissed.

6
7 **Kroger**

8 **Q. On pages 13-14 of his direct testimony, Mr. Higgins provides certain**
9 **recommendations regarding how the Commission should apportion any awarded**
10 **increase to Westar North. Due to alleged deficiencies in certain data that was used in**
11 **the Company's (Westar North) cost-of-service study, Mr. Higgins' primary**
12 **recommendation is that the Commission should disregard the results of Westar's cost**
13 **study and spread any awarded rate increase to Westar North to all classes on an equal**
14 **percentage basis. As an alternative, Mr. Higgins recommends that the Commission**
15 **assign the Medium General Service class a system-average increase, and adjust**
16 **Westar's proposed increases to the remaining classes on a pro-rata basis in order to**
17 **achieve the Company's overall revenue requirement target. Do you have any**
18 **comment?**

19 **A.** Yes. If the Commission were to agree with Kroger that the input data used in the
20 Company's Westar North cost study were, in fact, defective to the point of rendering the
21 Company's cost-of-service results meaningless *for the Medium General Service class* (as
22 Mr. Higgins suggests), then the Commission should also declare the cost-of-service results
23 meaningless for all of Westar North's rate classes. In other words, either the Westar North

1 cost study is reasonable to use as a guide for setting rates for *all* rate classes, or it is
2 reasonable for none. If the Commission deems the cost study to be defective, I would agree
3 with Mr. Higgins that an across-the-board base rate increase in Westar North would be
4 appropriate. However, in no event should the Commission adopt Kroger's alternative
5 revenue allocation proposal for Westar North. That outcome would presuppose that the
6 Westar North cost study results could be simultaneously valid and invalid, depending on
7 the rate class.

8
9 **Q. Does Mr. Higgins recommend an alternative class revenue allocation for Westar**
10 **South?**

11 A. Yes, in Kroger Exhibit KCH-2.

12
13 **Q. Do you agree with the approach shown in Kroger Exhibit KCH-2?**

14 A. No. Mr. Higgins' proposal suffers from the same deficiency as Mr. Selecky's first-dollar
15 relief proposal, i.e., it would assign an overall decrease to the Public Schools class. The
16 Commission should dismiss it.

17
18 **Q. Does this conclude your cross-answering testimony?**

19 A. Yes.

VERIFICATION

STATE OF MISSOURI)
) ss:
COUNTY OF)

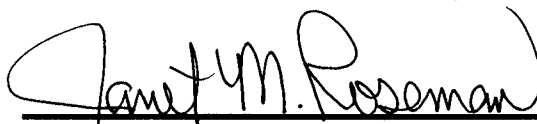
I, Brian Kalcic, of lawful age, being first duly sworn upon his oath states:

That he is a consultant for the Citizens' Utility Ratepayer Board; that he has read the above and foregoing Cross-Answering Testimony, and, upon information and belief, states that the matters therein appearing are true and correct.



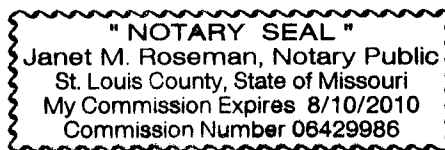
Brian Kalcic

SUBSCRIBED AND SWORN to before me this 6th day of October, 2008.



Notary of Public

My Commission expires:



CERTIFICATE OF SERVICE

08-WSEE-1041-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 8th day of October, 2008, to the following:

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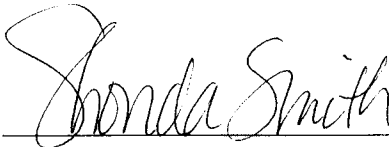
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