

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

Received
on

AUG 15 2011

In the Matter of the Application of Westar)
Energy, Inc. for Approval of an Accounting)
Authority Order to record and defer costs)
related to Westar Energy's SmartStar)
Lawrence Project.)

Docket No. 11-WSEE-610-ACT

by
State Corporation Commission
of Kansas

RESPONSIVE COMMENTS TO STAFF'S REPORT AND RECOMMENDATION

COMES NOW Westar Energy, Inc. (Westar) and submits the following Responsive Comments to Staff's Report and Recommendation:

1. On March 2, 2011, Westar filed an Application to defer certain expenses related to the development and deployment of its smart grid project denoted SmartStar Lawrence. In the Application, Westar explained that SmartStar Lawrence is the first step in the process of changing significantly the way the electric distribution system is managed, how customers manage their own use of electricity, and the interactions between Westar and its customers. Application, at ¶ 2. The Application explained that the cost of the project was approximately \$40 million and that approximately \$19 million of that amount was to be funded under a grant from the U.S. Department of Energy under the American Recovery and Reinvestment Act of 2009. Application, at ¶ 3. The Application described the elements of the project and how it would be implemented. Application, at ¶ 4. It also identified the ways that both customers and Westar would benefit from installation of a smart grid. Application, at ¶¶ 5, 9-13.

2. The Application requested authority: (a) to defer expenses associated with the SmartStar project as a regulatory asset; (b) to defer depreciation expense on associated capital investments; and (c) to earn a deferred return on the investment. Application, at ¶ 6. Westar

proposed that the deferred amount be recovered through the Energy Efficiency Rider (EER) in a future filing or amortized following a general rate review. Application, at ¶ 7.

3. Staff filed its Report and Recommendation on June 20, 2011. By Commission Order dated August 3, 2011, Westar was permitted to file its Responsive Comments on or before August 15, 2011.

4. Staff's Report and Recommendation proposes that the Commission approve the request to defer non-labor expenses attributable to the project because "this project is non-recurring and unusual," but without carrying charges. Report and Recommendation at p. 8. It recommends against approving deferral of depreciation expense and against approving the accrual of carrying charges on the investment portion of the project. It also recommends against recovery of the deferred expenses through the EER.

5. Staff's opposition to the accrual of carrying charges on deferred expenses and the capital investment in the project is premised on the notions that the \$2.2 million in expenses is not "material enough to warrant accumulation of carrying charges," and that "the Commission has not typically allowed deferral of depreciation and carrying charges related to capital investments in regulatory assets." Staff Report and Recommendation at pp. 8 and 9. Staff also indicates that changes in a utility's plant "are expected to be part of the normal ebb and flow of a utility's finances between rate cases." Staff Report and Recommendation at pp. 9-10. Staff supports this latter statement with the suggestion that Westar has depreciated over \$71 million of its investment in the Wolf Creek Nuclear Power Plant since Westar's last rate case that is "producing approximately \$6,037,939 a year worth of return in Westar's base rates that is over and above its current investment in Wolf Creek." Staff Report and Recommendation at p. 10.

6. Westar concurs with Staff's recommendation regarding deferral of non-labor expenses. With respect to the issue of whether carrying charges should be permitted on these expenses and on the capital investment in the project, however, Westar respectfully notes that Staff's comments are silent on the Commission's indication in Docket No. 08-GIMX-441-GIV that prudent capital expenditures in smart-metering technology would be favorably considered for cost capitalization. Final Order, Docket No. 08-GIMX-441-GIV, at p. 14, fn 8. Given that nearly half of the investment in the SmartStar project is being funded by the U.S. Department of Energy grant, there should be no question that the project investment ultimately recoverable through rates is a prudent expenditure on behalf of Westar's customers.

7. Staff suggests that the Commission does not typically allow deferral of depreciation and carrying charges on regulatory assets and points to Westar's recent ice storm requests as support. However, in those instances, Westar did request and receive authorization to defer and accrue a carrying charge on the deferred amounts.¹

8. When recommending deferral of non-labor costs associated with SmartStar Lawrence, Staff indicated that it believes the project is "non-recurring and unusual." Such a conclusion would also support the deferral of the depreciation expense associated with the project for the same reason. This project will be the first implementation of a smart grid and first use of smart meters in Kansas. Investment in IT-infrastructure is necessary to allow for

¹ Staff's Report and Recommendation referenced two ice storms. During the past decade, Westar's service area experienced three such storms. In each instance Westar requested to defer expenses and record deferred carrying costs on the deferred expense amount at Westar's most recently allowed return on rate base. The filings and authorization of such accounting are found in Docket Nos. 02-WSRE-723-ACT, 05-WSEE-645-ACT and 08-WSEE-690-ACT.

expansion of this type of system in the future. As a result, Westar should be permitted to defer and recover the depreciation expense associated with its investment in the IT-infrastructure.

9. As to Staff's suggestion that Westar's depreciation expense for Wolf Creek since the last rate case totals \$71 million,² which permits Westar to earn more than \$6 million worth of return on rate base that is over and above current investment, Westar notes that from January 1, 2008, through June 30, 2011, its non-fuel capital investment in Wolf Creek was \$103.7 million. Although much of this investment was incurred in the recent refueling outage, the investment amount clearly exceeds the level of depreciation expense included in rates. Accordingly, Staff's Wolf Creek depreciation example provides no basis for denying capitalization treatment of depreciation expense on investments made by Westar in the SmartStar Lawrence project and denying deferring a carrying charge.

10. Regarding the request to defer depreciation expense, Westar submits that such deferral will permit concurrent matching of the depreciation expense incurrence and the realized benefits from this project. For example, Westar will incur expenses of approximately \$2.5 million plus invest approximately \$18 million in new assets on this project, which will begin being depreciated following completion of each capital component asset.³ All of the expenditures will be incurred by Westar and the benefits – both customer benefits and company benefits – will begin to be realized following meter deployment in late 2011 and will be fully realized following the installation of a new Outage Management System in late 2012 or early 2013. Matching the benefits that inure to the customer with cost recognition and recovery by

² Depreciation expense through June 30, 2011, would be approximately \$82.5 million.

Westar is logical. It is only through the deployment of the SmartStar facilities that the benefits that inure to the benefit of the customer can be realized. Thus, deferring the depreciation expense recognition to align with cost recognition and recovery following the completion of the SmartStar project will better match cost recovery with total benefits to be realized. Westar firmly believes that it can demonstrate that the benefits of the SmartStar project are greater than the cost of the project.

11. Staff also suggests that IT-based upgrades and retrofits implemented as part of the SmartStar project, “[w]hile scalable,” will not produce savings for a system-wide smart grid deployment. Westar believes that this suggestion may be the result of a misinterpretation or misapplication of a data request response. Staff asked: “What does the Company estimate additional IT support infrastructure will be required if the Company expands the Lawrence project to its entire service territory?” Data Request KCC-06, attached hereto as Exhibit A. Westar readily acknowledged that system-wide deployment of smart grid would involve additional costs for such things as data storage and expansion of the Wide Area Network. However, overall deployment costs will be far less than otherwise would be incurred due to the scalable nature of the SmartStar IT infrastructure. Specifically, the project will result in the installation of the following major IT applications;

- Advanced Metering Infrastructure (AMI) data receipt application – initial receipt point for meter and other field system operating data;

³ For example, meter deployment will likely be completed in late 2011 or early 2012 and the outage management system will be installed in late 2012 or early 2013. Depreciation expense will begin following the closing of the work orders.

- Meter Data Management System (MDMS) – receives data from the AMI application; validates quality and prepares the data for billing;
- Customer web portal – receives data from the MDMS and provides detailed information online to customers’ on their energy use, cost and associated environmental footprint; and
- Outage Management System (OMS) – receives data from multiple sources, including the AMI application, which identifies power outages, restorations and other power quality issues. Formats data and provides operations management with real time information to respond more quickly and accurately.

These applications are scalable to support system wide operations with the aforementioned additional costs of expansion. The purchase and installation labor expense associated with these applications is approximately \$26 million. These core application expenses will not have to be incurred again for further smart meter deployment.

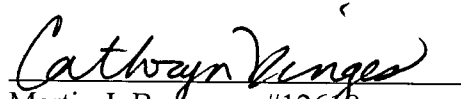
12. Staff’s Report and Recommendation was silent on Westar’s interest in working with Staff and others on a variety of topics including dynamic pricing, customer protection, and changing business and regulatory practices to assure a forward looking implementation process for advance meters and smart grids. Westar encourages the Commission to direct Westar, Staff, and CURB to begin informal discussions as it and possibly other utilities move forward with implementation of these technologies.

13. Westar respectfully submits that the significant and multiple customer benefits attributable to the SmartStar Lawrence project that are detailed in the Application, Westar’s

investment in and support for a project designed to facilitate the efficient use of electricity, Westar's success in securing funding from the U.S. Department of Energy to reduce the ultimate cost of the project for customers, and the costs currently being incurred by Westar to deploy the Lawrence SmartStar project warrant approval of each request set forth in the Application.

WHEREFORE, for the reasons set forth herein, Westar respectfully requests the Commission issue an order approving its Application for an Accounting Authority Order.

Respectfully submitted,
WESTAR ENERGY, INC.
KANSAS GAS AND ELECTRIC COMPANY



Martin J. Bregman, #12618

Executive Director, Law

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VERIFICATION

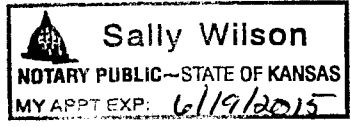
STATE OF KANSAS)
)
COUNTY OF SHAWNEE) ss:

Cathryn J. Dinges, being duly sworn upon her oath deposes and says that she is one of the attorneys for Westar Energy, Inc. and Kansas Gas and Electric Company; that she is familiar with the foregoing **Responsive Comments**; and that the statements therein are true and correct to the best of her knowledge and belief.

Cathryn Dinges

Cathryn J. Dinges

SUBSCRIBED AND SWORN to before me this 15th day of August, 2011.



Sally Wilson

Notary Public

My Appointment Expires: 6/19/2015

CERTIFICATE OF SERVICE

I hereby certify that on this 5th day of August, 2011, the original and eight copies foregoing **Responsive Comments** were delivered to:

Patrice Peterson-Klein
Executive Director
KANSAS CORPORATION COMMISSION
1500 SW Arrowhead
Topeka, Kansas 66604

and were hand delivered to each person designated on the official service list in this proceeding.

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Cathryn J. Dinges

KCC
SmartStar
11-WSEE-610-ACT
04/19/2011

EXHIBIT A

Page 1 of 1

Data Request: KCC-06::Infrastructure

Please provide a detail narrative answering the questions presented below. Please include all work papers if applicable.

What does the Company estimate additional IT support infrastructure will be required if the Company expands the Lawrence project to its entire service territory?

Will there be any cost savings associated with infrastructure improvements already made in conjunction with the Company's Lawrence project? If yes, please detail these cost savings.

Response:

If and when the Company expands the SmartStar project to the entire service area, then additional IT hardware will be required to collect and store the additional meter read data. This would include servers and data storage located in both the Topeka and Wichita datacenters. Additionally, the wide area network (WAN) will need to be expanded to the entire service area. This service is currently provided via lease by Kore Telematics.

The IT infrastructure described in response to information request no. 5 will permit expanding the this project to the entire Westar service area, however maintenance costs will increase as we add capacity to the systems. We do not anticipate IT infrastructure savings from this implementation. However, with the introduction of a more service orientated architecture over time we do anticipate that there will be less labor expense required at some point in the future to make changes or add additional services or features to our product suite.

Prepared by or Under Supervision of: Jensen, Hal

Verification of Response

I have read the foregoing Data Request and Answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed by: _____

Dated: _____



CATHRYN J. DINGES
Corporate Counsel

August 15, 2011

Received
on

AUG 15 2011

by
State Corporation Commission
of Kansas

Patti Petersen-Klein
Executive Director
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, Kansas 66604

Re: In the Matter of the Application of Westar Energy, Inc. for Approval of an Accounting Authority Order to record and defer costs related to Westar Energy's SmartStar Lawrence Project; Docket No. 11-WSEE-610-ACT

Dear Ms. Petersen-Klein:

Enclosed for filing please find the original and eight (8) copies of the **Responsive Comments to Staff's Report and Recommendation**.

Please file stamp one copy for my files.

Thank you for your assistance.

Sincerely,


Cathryn J. Dinges

Enclosures

cc: Service List