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 for Approval of Energy Efficiency Programs	))))	Docket No. 15-WSEE-181-TAR

DIRECT TESTIMONY OF

STACEY HARDEN

ON BEHALF OF

CITIZENS' UTILITY RATEPAYER BOARD

MARCH 18, 2015

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Stacey Harden. My business address is 1500 SW Arrowhead Road, Topeka, Kansas 66604.

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

A. I am employed by the Citizen's Utility Ratepayer Board ("CURB") as a Regulatory Analyst.

Q. Please describe your educational background.

A. I earned a Bachelor of Business Administration degree from Baker University in 2001. I earned a Master of Business Administration degree from Baker University in 2004.

Q. Please summarize your professional experience.

A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February 2008. Prior to joining CURB, I was the manager of a rural water district in Shawnee County, Kansas for five years. I am currently an adjunct faculty member at Friends University, Baker University and Haskell Indian Nations University, where I instruct business and accounting courses for undergraduate and graduate students.

Q. Have you previously testified before the Commission?

A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS, 10-KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, 10-SUBW-602-TAR, 10-

WSEE-775-TAR, 10-KCPE-795-TAR, 10-KCPE-415-RTS, 11-SUBW-448-RTS, 12-SUBW-359-RTS, 12-MKEE-410-RTS, 12-MKEE-491-RTS, 13-HHIW-570-RTS,14-WSEE-148-TAR, and 14-ATMG-230-TAR. I have also authored Report and Recommendations to the Commission in 13-HHIW-570-RTS, 14-KCPE-042-TAR, and 15-WSEE-021-TAR.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. On October 28, 2014, Westar Energy, Inc. and Kansas Gas and Electric Company ("Westar " or "Company") filed an application with the Kansas Corporation Commission ("KCC" or "Commission") seeking:

- approval of a Small Business Lighting Program ("SBL Program");
- approval of a Home Energy Audit Program ("HEA Program");
- approval of a Targeted Energy Efficiency Program ("Targeted EE Program");
- permission to "sunset" its WattSaver program; and
- approval of a lost revenue recovery mechanism

My testimony will fall into three sections. First, I will review the Commission's current policies regarding energy efficiency programs, and which policies are relevant to Westar's application. Second, I will discuss Westar's new energy efficiency programs, and Westar's request to sunset the existing WattSaver program. Finally, I will evaluate the Company's proposed cost recovery mechanism as well as Westar's request for a lost revenue recovery mechanism. I will provide recommendations for consideration by the

Commission. In my evaluation of Westar's application, I will assess whether the proposed programs and lost revenue recovery mechanism conform to the Commission's stated policy goals for energy efficiency programs and cost recovery mechanisms.

III. SUMMARY OF CONCLUSIONS

Q. Please summarize your conclusions and recommendations.

A. My testimony presents the following conclusions and recommendations regarding Westar's application:

1. WattSaver:
    - customers spent $24 million creating the WattSaver program – which Westar says saves 52 MW on peak – but Westar does not use the program;
    - if the Commission determines the WattSaver program is economic, with benefits for Westar's system as a whole, then the Commission should include language in its order requiring Westar to utilize WattSaver program, as it may be the least-cost, most-efficient way to serve customer's needs;
    - if the Commission determines that the WattSaver program is not used and useful, is not economic, and does not provide a benefit to consumers, then the Commission should terminate the WattSaver program and order Westar to refund the $24 million customers paid for the WattSaver program;
2. Proposed programs:
    - the Commission should deny the SBL program as presented because:

- as proposed, the parameters of the program are too broadly defined and allows the cost of energy efficiency improvements at big businesses to be subsidized by other ratepayers;
- the cost to manage the program is 38% of the overall budget, which is too costly for a small business lighting program;
- the cost of "free" measures provided through the program are greatly inflated;
- there is no plan for the EM&V of program results; and
- the SBL program is not cost-effective and does not pass the TRC or RIM tests.

- the Commission should deny the HEA program because a participant is not required to implement recommended improvements in a comprehensive and logical way, making any energy efficiency savings from the program unreliable, in the sense of a resource;
- the Commission should deny the Targeted EE program because:
  - it is a social program that should not be funded by ratepayers;
  - there is no evidence that the proposed $3 million budget is an effective way to address the needs of the program; and
  - there is no assurance that the $3 million provided in the Targeted EE program will be used to increase weatherization services in Westar's service territory.
- if the Commission approves any of the programs proposed in the application, the Commission should deny Westar's request to provide future budgets upon request

and, instead should specify that the programs expire when the approved operating budgets expire;

- if the Commission approves any of the programs proposed in Westar's application, the Commission should deny Westar's request to change the third-party provider at its own discretion;
- if the Commission approves any of the programs prosed in Westar's application, the Commission should specify that the programs are "pilot programs" and that the determination as to whether the program will become a "permanent program" will be made after a complete EM&V has been conducted and approved by the Commission.

3. Lost Margin Recovery Mechanism

- The Commission should deny Westar's request for a lost margin recovery mechanism because:
  - the Commission has stated that it will not allow for lost revenue recovery mechanisms;
  - the SBL program does not qualify for a lost margin recovery mechanism because the margins lost from the implementation of the program do not have a significant detrimental impact to Westar's finances;
  - the Targeted EE program does not qualify for a lost margin recovery mechanism because the margins lost from the implementation of the program do not have a significant detrimental impact to Westar's finances;
  - The SBL program does not meet the Commission's guidelines for a program to qualify for a shared savings mechanism;

- Westar's proposal to recover lost margins does not use the Database for Energy Efficient Resources ("DEER") estimates and instead uses deemed savings, which inflates the lost margin recovery;
- Westar's proposal to recover forecasted lost margins does not include a plan to verify actual margins lost due to the successful implementation of energy efficiency programs; and
- Westar failed to adequately estimate and true-up lost margins allowed by the Commission in the Simple Savings program – the only instance the Commission approved a shared savings mechanism.

IV. INITIAL COMMENTS

Q. Before beginning your discussion of the issues, do you have any general comments?

A. Yes. I recommend the Commission deny Westar's application in its entirety. My recommendations are based upon current Commission policies, the economics of the programs, and Westar's failure to present an application that adheres to Commission's policies. I will discuss the specifics of the economics and programs in my testimony, but for a brief summary: Westar has requested approval for three energy efficiency programs – none of which provide cost effective savings to customers, none of which contain a plan to verify the effectiveness of these programs, and none of which will be implemented by Westar unless the Commission approves recovery of margins lost as a result of the implementation of the programs.

Westar's application and testimony of witnesses is at times inconsistent. One Westar witness testifies that a $3 million program is necessary because inefficiencies in homes "negatively impacts all customers by placing higher demands on Westar's system as a whole during peak usage times."[1] However, another Westar witness requests permission to sunset a "tremendously successful"[2] program that ratepayers have paid $24 million for and could potentially save 52 MW on peak, if Westar actually utilized the program.

In another instance, one witness testifies that actual savings will be verified and then trued up to the amount recovered,[3] but in a discovery response Westar clarifies that only deemed savings will be used and that a true up will not measure actual savings.[4] In another instance one Westar witness says the Company hasn't used an established energy efficiency program (WattSaver) because it has "sufficient capacity during peak load times and didn't require backup assistance",[5] but in a discovery response, Westar suggests that it does not have any excess capacity and needs to find ways to reduce load.[6] These inconsistencies in Westar's witnesses' testimonies, the application, and its responses to discovery requests have made the analysis of Westar's application much more difficult that it should have been.

I am also troubled by the fact that Westar has spent and recovered $44,013,320 from its Kansas customers through the Energy Efficiency Rider ("EER"), and has not conducted a single evaluation to verify that this $44 million of ratepayer money was used efficiently or effectively. Without having provided any evidence to show that Kansas customers actually received one single dollar in benefits from the $44 million that they

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[1] Direct Testimony of Scott Unekis at page 2.
[2] Direct Testimony of Hal Jensen at page 6.
[3] Direct Testimony of Ralph Nigro at page 16.
[4] Westar Response to CURB DR 106.
[5] Westar Response to CURB DR 113.
[6] Westar Response to CURB DR 70.

spent on energy efficiency, Westar now suggests that it should be allowed to spend another $50 million over the next five years for energy efficiency, without any proposal for evaluating their effectiveness.[7]

V. CURRENT ENERGY EFFICIENCY POLICIES

Q. Please provide a background in how the Commission's energy efficiency policies were established.

A. In the October 10, 2007 Order closing the general investigation into energy efficiency programs in docket number 07-GIMX-247-GIV, *In the Matter of a General Investigation Regarding Energy Efficiency Programs,* the Commission cited with approval the efforts of utilities and Kansas agencies to develop energy efficiency measures and programs. The Commission noted its desire to work collaboratively with utilities and other entities to encourage, facilitate and guide current and future energy efficiency programs.

In November 2007, the Commission opened two general investigation dockets, 08-GIMX-441-GIV ("441 Docket") and 08-GIMX-442-GIV ("442 Docket") to investigate cost recovery methods, to develop rules and policies and to create a regulatory framework for utility-sponsored energy efficiency. In 2008 and 2009, the Commission issued orders in the 441 Docket and 442 Docket, establishing a general policy framework for review and evaluation of energy efficiency programs on a uniform and consistent basis.

In November 2011, the Commission opened another general investigation docket, 12-GIMX-337-GIV ("337 Docket") in order to clarify the Commission's orders in the

[7] Exhibit SMH-1.

441 and 442 Dockets. In its March 2013 Order in the 337 Docket, the Commission determined that the underlying principles in the 441 Docket and 442 Docket are consistent. The Commission policies and guidelines established in the 441 Docket and 442 Docket, as well as clarification in the 337 Docket continue to serve as the guidelines for utility-sponsored energy efficiency programs.

Q. On which aspects of the Commission's current policies on utility-sponsored energy efficiency programs will you focus in your testimony?

A. I will focus on the areas in which Westar's proposals do not meet established Commission policies and guidelines, such as:

- the Commission's policy that energy efficiency needs to produce cost-effective, firm energy savings;
- the Commission's policy that energy efficiency programs should be used as a resource to moderate bill increases that are likely to be caused as utilities build new generation, implement environmental requirements, and invest in additional assets;
- the Commission's policy that all energy efficiency program proposals include an evaluation, measurement and verification ("EM&V") plan;
- the Commission's policy that DEER should be used to determine a measure's useful life and estimated savings for at least the program's first two years until the first EM&V review; and
- the Commission's policy to not allow lost revenue recovery mechanisms.

Q. Please describe the Commission's policy that energy efficiency programs need to produce cost-effective, firm energy savings.

A. In its June 2, 2008 Order in the 442 Docket, the Commission stated that it views energy efficiency as an additional resource that may be utilized in meeting the state's energy needs. As a resource, the Commission determined that "energy efficiency needs to produce cost-effective, firm energy savings. Energy efficiency programs should be used to achieve both energy and demand reductions."[8] I understand this policy to require that energy efficiency programs should produce savings that are measurable and reliable over the duration of the program.

Q. If a utility wants to offer an energy efficiency program, what must it provide to the Commission to determine the cost-effectiveness of a proposed program?

A. Utilities must submit applications for energy efficiency programs which include the results of standard benefit-cost tests. The five standard benefit-cost tests are the Participant Test, the Ratepayer Impact Measure Test ("RIM"), the Total Resource Cost Test ("TRC"), the Participant Cost Test ("Participant Test"), the Societal Cost Test ("Societal Test"), and the Program Administrator Cost Test ("PAC").

Q. Which benefit-cost test supports the Commission's policy that an energy efficiency program must produce cost-effective, firm energy savings?

A. The TRC test supports the Commission's policy that an energy efficiency program must produce cost-effective, firm energy savings. The TRC test is designed to measure the cost

[8] June 2, 2008, Order Setting, 08-GIMX-442-GIV, at ¶26.

effectiveness of a program to the utility as a whole and indicates whether a program is beneficial to the utility and to all of the utility's customers – whether or not a customer participates in the offered energy efficiency program.

Q. Do the Commission's policies place emphasis on the TRC test?

A. Yes. In addition to the Commission's policy that an energy efficiency program produce cost-effective, firm energy savings, the Commission also determined that reducing or postponing future construction of electric generation and reservation of capacity on natural gas transmission pipelines are primary goals which may have benefits for all of a utility's customers. An energy efficiency program with a TRC test score greater than 1.0 reflects the benefit to implementing an energy efficiency program throughout a utility's territory. In other words, if an energy efficiency program can produce a TRC score greater than 1.0, it means each dollar spent on the energy efficiency program allows the utility to avoid more than one dollar in future construction expenditures.

Q. Did the Commission indicate how it would regard energy efficiency programs that do not achieve a TRC score greater than 1.0?

A. Yes. The Commission stated that it is "unlikely a program that fails the TRC test will be approved by the Commission."[9]

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[9] April 13, 2009, Order Following Collaborative, 08-GIMX-442-GIV, at ¶ 25.

Q. Please describe the Commission's policy that energy efficiency programs should be used as a resource to moderate bill increases that are likely to be caused as utilities build new generation, implement environmental requirements, and invest in additional assets.

A. The Commission recognized that utilities have several resources available to them for meeting future energy needs. Additionally, the Commission identified the mitigation of customer bill increases as a primary goal of energy efficiency. The Commission stated that utilities can use "energy efficiency programs as a resource that can moderate the inevitable bill increases caused by the building of new generation, implement environmental requirements and invest in additional transmission investment."[10]

Q. Which benefit-cost test supports the Commission's policy that an energy efficiency program should moderate bill increases that are likely to be caused as utilities build new generation, implement environmental requirements, and invest in additional assets?

A. The RIM test supports the Commission's policy to mitigate customer bill increases as a primary goal of energy efficiency programs. In general, a program with a RIM test score below 1.0 will put upward pressure on rates, while a program that can achieve a RIM test score greater than 1.0 will either have no impact or will put downward pressure on rates.

[10] June 2, 2008, Order Setting, 08-GIMX-442-GIV, at ¶25.

Q. Do the Commission's policies place emphasis on the RIM test?

A. Yes. The Commission emphasized that the use of the "RIM and TRC tests is appropriate in light of Kansas realities and Commission goals."[11] The Commission stated that an energy efficiency program that scores less than 1.0 on the RIM test "may still be considered by the Commission for approval, depending on the degree of RIM test failure, (and) its performance on the other tests …"[12]

Q. Do Commission policies require energy efficiency programs to pass both the TRC and RIM tests?

A. No.

Q. Under what circumstances should the Commission approve a program with a RIM score of less than 1.0?

A. Based upon the Commission's guidelines in the 442 Docket, I would expect the Commission to consider approving a program that has a slight RIM failure but can achieve a high TRC score. The RIM test is an indicator of how much rates will increase with costs of the program, whereas the TRC test is a measure of savings to the system overall. CURB assumes the Commission would prefer to minimize any rate increase caused by offering these programs. A slight RIM failure with a significant TRC indicates that rates may go up slightly, but there will be a large overall benefit. However, a poor RIM score coupled with a low TRC indicates that rates will increase significantly with very little overall benefit to the system. Thus, CURB assumes the Commission would

[11] June 2, 2008, Order Setting, 08-GIMX-442-GIV, at ¶ 39, 40.
[12] April 13, 2009, Order Following Collaborative, 08-GIMX-442-GIV, at ¶23.

deny approval of a program that provides little overall benefit but increases rates significantly.

Q. Please discuss the Commission's policy that all energy efficiency program proposals include an EM&V plan.

A. The Commission required that all energy efficiency program proposals include an EM&V plan because EM&V is linked with sound regulatory oversight. In the 442 Docket, the Commission recognized that EM&V, while complex and technical, is important because it serves as "both a test score for use of ratepayer dollars and utility shareholder reward by measuring resource savings and enforcing program accountability."[13] The Commission's policy identifies that EM&V constitutes an important aspect of program design, and thus the Commission will expect program proposals to include an EM&V plan for Commission review and approval.[14]

Q. What does an EM&V actually do?

A. An EM&V begins with verifying that an energy efficiency program is doing what it is supposed to do. Then the program's effect and cost are measured. The final step, evaluation, involves taking the measurements and comparing them to the baseline or the goals initially established for the program.

[13] June 2, 2008, Order Setting, 08-GIMX-442-GIV, at ¶47.
[14] June 2, 2008, Order Setting, 08-GIMX-442-GIV, at ¶49.

Q. Isn't that the same thing as a benefit-cost analysis?

A. No. Evaluation analysis is similar to the benefit analysis done in a benefit-cost study, but the difference between benefit-cost analysis and evaluation analysis is that the benefit-cost analysis is done before the program is implemented, and the evaluation analysis is done after the program has run for a period of time. Thus, an EM&V should use the benefit-cost analysis as a standard to judge the program — i.e. whether the program produced the benefits it was designed to produce.

Q. When does Commission policy suggest conducting an EM&V of energy efficiency programs?

A. The Commission Order in the 442 Docket found that "EM&V evaluation should be conducted two years after program implementation. By this, the Commission means that two years after program implementation, the review process should begin such that two years of data will be under review."[15]

Q. Please discuss the Commission's policy that the Database for Energy Efficient Resources ("DEER") should be used to determine a measure's useful life and estimated savings for at least the program's first two years until the first EM&V review.

A. DEER is a California Energy Commission and California Public Utilities Commission sponsored database designed to provide well-documented estimates of energy and peak demand savings values, measure costs, and effective useful life all with one data source.

[15] April 13, 2009, Order Following Collaborative, 08-GIMX-442-GIV, at ¶149.

When the Commission issued its order in the 442 Docket, a Kansas-specific database of an energy efficiency measure's estimated savings or effective useful life had not yet been developed. In order to accurately estimate the potential savings measures included in an energy efficiency program, the Commission determined that the best solution is to use the widely recognized DEER values for at least a program's first two years until the first EM&V review.[16]

Q. Since the Commission's Order in the 442 Docket, has a Kansas-specific database of energy efficiency measures been developed?

A. No. Unfortunately, evaluation of energy efficiency programs in Kansas has been limited. Without adequate evaluations to create a Kansas specific database, the Commission's policy to use DEER values for energy efficiency measures in still applicable for all energy efficiency applications.

VI. <u>WESTAR'S AVOIDED COST STRUCTURE</u>

Q. Please restate the Commission goal for energy efficiency programs?

A. In the 442 Docket, the Commission indicated that "(e)nergy efficiency programs should be used as a resource to moderate bill increases that are likely to be caused as utilities build new generation, implement environmental requirements and invest in additional transmission assets."[17]

[16] April 13, 2009, Order Following Collaborative, 08-GIMX-442-GIV, at ¶88.
[17] April 13, 2009, Order Following Collaborative, 08-GIMX-442-GIV, at ¶187.

Q. Has Westar provided any evidence that its energy efficiency program proposals will allow Westar to forgo building new generation or completing large environmental construction projects?

A. No. On the contrary, Westar's capital build-out plan shows both environmental and generation construction projects to be completed over the next ten years.[18] According to Westar's response to CURB DR 9, the current energy efficiency efforts will not be a big enough factor to postpone when new generation is needed.

Q. Will Westar's energy efficiency programs moderate bill increases due to new generation or environmental upgrades?

A. No. Westar has just completed a large environmental construction project at the LaCygne power plant, which accounts for the largest portion of Westar's general rate increase request currently pending before the Commission.[19] Additionally, as I previously testified, Westar's capital build-out plan includes both environmental and generation construction projects to be completed over the next ten years.[20]

Q. If Westar's energy efficiency programs do not delay or avoid the cost new generation, what is the value of avoided generation in Westar's benefit-cost tests?

A. If Westar cannot prove that its energy efficiency programs avoid or delay the construction of new generation, then the implementation of energy efficiency programs

[18] Westar Response to CURB DR 70.
[19] March 2, 2015, Docket 15-WSEE-115-RTS, Direct Testimony of Mark A. Ruelle, at page 3.
[20] Westar Response to CURB DR 70.

will not avoid any future cost. Therefore, the appropriate value for avoided generation costs is $0 per kW.

Q. What value did Westar assign to avoided generation in its benefit-cost tests?

A. Westar used $82 per kW as its avoided generation costs in its benefit-cost tests.

Q. Where did Westar's $82 per kW come from?

A. The $82 per kW was calculated as the sum of $57 per kW in avoided generation and $25 per kW in avoided environmental costs.[21] Westar previously used $82 per kW as the avoided capacity costs in its 2009 WattSaver application.[22] However, in the WattSaver application, Staff determined that it is not "appropriate to add cost of clean coal technology to capacity costs for use in the estimate of avoided costs."[23]

Q. What is the most recent Commission-approved level of avoided capacity costs for Westar?

A. $57 per kW was established over five years ago in the Commission-approved decision on the level of avoided capacity costs for Westar. In Docket No. 10-WSEE-775-TAR ("775 Docket"), Staff used avoided capacity costs of $57 per kW to determine the cost-effectiveness of Westar's Simple Savings program.[24] The Commission approved the Simple Savings program using Staff's analysis of the program.

[21] Westar response to CURB DR 79.
[22] April 23, 2009, KCC Docket 09-WSEE-636-TAR, Memorandum of the Commission Staff, at section 8.
[23] April 23, 2009, KCC Docket 09-WSEE-636-TAR, Memorandum of the Commission Staff, at section 8.
[24] October 1, 2010, Direct Testimony of Michael Deupree, Docket No. 10-WSEE-775-TAR.

Q. Does Westar explain why it chose to use $82 per kW for avoided capacity costs as opposed to the $57 per kW that Staff used in Westar's most recent energy efficiency application?

A. No.

Q. Is Westar's application consistent with the Commission's goals for energy efficiency in Kansas?

A. No. The Commission's order in the 442 clearly indicated that energy efficiency programs should be viewed as a resource to help delay the considerable expense associated with constructing new generation. Westar's application presents no evidence that the proposed programs will delay the considerable expense associated with constructing new generation, meaning customers' bills will increase to pay for energy efficiency programs and additional generation. Without evidence that the proposed programs will delay or avoid future generation, each of Westar's proposed energy efficiency programs fails the Commission required benefit-costs tests.

VII. WESTAR'S CURRENT ENERGY EFFICIENCY PROGRAMS

a. Westar's request to "sunset" the WattSaver program

Q. Please provide a brief summary of Westar's WattSaver program.

A. Demand response ("DR") programs – like Westar's WattSaver and Energy Efficiency Demand Response Rider – shed load during peak conditions, when market rates are typically highest. The WattSaver program allows Westar to reduce system peak load by sending a signal to a participant's thermostat, which will cycle the participant's air conditioner during peak times. These cycling events are limited to a maximum of 90 hours per curtailment season, which is from June 1 through September 30 each year.

Q. What is Westar's proposal regarding the WattSaver program?

A. Westar has requested permission to "sunset" the WattSaver program.

Q. Since WattSaver was approved in 2009, how much has Westar spent on the WattSaver program?

A. Westar has recovered \$23,641,029.95 in WattSaver expenses through its annual EER.[25] Additionally, Westar has spent \$575,867.34 from July 2014 through December 2014, which I expect will be included in Westar's next EER application.[26]

Q. Since WattSaver was approved in 2009, how many times has Westar utilized the WattSaver program in order to shed load during the hottest time of the year?

A. WattSaver has been utilized fourteen times, for a total of 47.5 hours since the program was approved in 2009.[27] Eleven of these curtailment events took place in 2010 and 2011. Only three curtailment events lasting a total of 9.5 hours have been called in 2012, 2013 and 2014.

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[25] October 17, 2014, Docket 15-WSEE-021-TAR, CURB's Response, at Appendix A.
[26] Westar response to CURB DR 21.
[27] Westar response to CURB DR 18.

Q. Did Westar provide the result of a benefit-cost analysis showing whether the WattSaver program passes either TRC or RIM?

A. No. Staff Data Request No 21 requested Westar to provide the most recent benefit cost analysis that has been performed for WattSaver. Westar provided the 2009 data that was included in the program's original application. Considering that data is more than five years old, it is unclear whether the WattSaver program would still provide a positive benefit-cost result.

Q. What has Westar actually saved using the WattSaver program saved since it was approved by the Commission in 2009?

A. We don't know how much savings Westar actually generated through the WattSaver program. Westar has not completed an EM&V of the program to verify any actual savings.

Q. Has Westar provided an estimate of savings achieved from WattSaver's fourteen cycling events?

A. Yes. In its response to CURB Data Request 18, Westar estimates total savings – capacity and energy – to be $17,203,645.

Q. Based upon Westar's estimates, has the WattSaver program produced firm, cost-effective energy savings?

A. No. The WattSaver program has not produced firm, dependable savings because Westar has not used the program consistently. Additionally, the program has cost ratepayers $23,641,029.95 over five years, while only producing estimated savings of $17,203,645.

Q. Do you agree with Westar's estimate of total savings achieved from WattSaver cycling events?

A. No. Westar's estimate includes an inflated avoided cost value of $57.00 per kW. As I previously testified, Westar's energy efficiency programs are not delaying or avoiding the construction of new generation. Therefore, it is inappropriate to include an avoided capacity cost of $57 per kW in any estimate of savings achieved. If Westar's estimates of avoided capacity are reduced to a realistic number, the estimated savings associated from WattSaver will also be reduced, further exacerbating the program's lack of cost-effectiveness.

Q. Based upon the inflated avoided costs and Westar's limited use of the WattSaver program, would you expect the WattSaver program to pass either the TRC or RIM tests?

A. No, I would not.

Q. Should demand response programs, like WattSaver, be able to produce firm, cost-effective savings?

A. Yes. WattSaver is a demand response program that was designed to reduce peak demands during periods of either high wholesale market prices or system reliability conditions. Westar's ability to cycle participants' air conditioners instead of purchasing power in the SPP marketplace when wholesale prices are highest, should create an immediate system benefit through the reduced need for peak generation.

Q. Why hasn't Westar's WattSaver program been able to produce firm, cost-effective savings?

A. There could be a variety of reasons that the program has not performed at the level estimated in Westar's 2009 WattSaver application. However, in my opinion, the lack of savings achieved through the program is a direct result of Westar's failure to utilize the program. Unlike demand side management programs which provide dependable energy savings over the lifetime of a measure, demand response programs, like WattSaver, only provide savings when the Company utilizes them. Westar has made the decision to not use the WattSaver program in a way that produces enough savings to economically justify the costs of the program.

Q. How can Westar utilize the WattSaver program to produce firm, cost-effective savings?

A. Westar can deploy the WattSaver program to shift load during the hottest days of the year in order to avoid purchasing the most expensive power in the SPP marketplace. For example, in the middle of a summer heat wave, on the hottest day of the year, Westar may project that it needs additional resources to meet its system peak demand. Instead of purchasing additional power in the SPP marketplace – which is likely very expensive because of increased demand – Westar can utilize the WattSaver program to cycle participant's air conditioners, thereby shaving its system peak requirements. By simply sending a signal to thermostats (thermostats that have already been paid for), Westar can save its customers the cost of purchasing expensive power in the SPP marketplace.

Q. What does Westar propose to do with the WattSaver program?

A. According to the application, Westar intends to "sunset" the WattSaver program. Sunsetting the program would discontinue both new and replacement installations of the current WattSaver thermostat. Despite sunsetting the program, Westar still estimates WattSaver expenses will be approximately $1.5 million per year.

Q. Does "sunsetting" the WattSaver program mean Westar can no longer cycle participant's air conditioners during allowed times?

A. No. Westar's proposal to sunset the program would discontinue new and replacement installations of WattSaver thermostats but not disable its ability to cycle air conditioners currently in the program. However, the evidence provided in this docket shows that while Westar has had the capability to cycle air conditioners to shave peak demand, it has only used it three times over the last three summers. In my opinion, it is unlikely that Westar will utilize the WattSaver program in the future.

Q. Should ratepayers continue to pay $1.5 million per year for a program that they can no longer participate in and does not create cost-effective benefits?

A. No. If the program is not cost-effective, and the Company has no intention to utilize the program in a cost-effective way that would provide a benefit to its customers, then ratepayers should not be required to pay an additional $1.5 million per year.

Q. What should the Commission do with Westar's WattSaver program?

A. The Commission must now consider whether it makes economic sense to continue requiring consumers to pay for the WattSaver program. I have two recommendations for the Commission regarding the continuation of the WattSaver program. First, if the Commission determines that the WattSaver program is economic and has benefits to consumers, then the Commission should order Westar to utilize the WattSaver program frequently enough to generate net savings on peak. During peak hours, WattSaver's ability to shed load may still be the least-cost, most-efficient way to serve customer's needs. If the Commission determines that the WattSaver program is economic and provides benefits for Westar's system as a whole, then Westar has no defensible argument that it should not use the program that its customers have paid for. Otherwise, it is like building a power plant and then refusing to run it for no discernable reason.

Alternatively, if the Commission determines that the WattSaver program is not economic and does not provide a benefit to consumers, then Westar has wasted $24 million of consumer money. If the Commission determines that the WattSaver program is not used and useful, is not economic and does not provide a benefit to consumers, then the Commission should terminate the WattSaver program and order Westar to refund to its customers the $24 million that they paid for the WattSaver program.

<u>b. Other Commission approved energy efficiency programs</u>

Q. Besides WattSaver, what are the current energy efficiency programs offered by Westar?

A. Westar has received Commission approval for five other energy efficiency programs: Energy Efficiency Education Program, Building Operator Certificate, Energy Efficiency Demand Response Rider, and Simple Savings.

Q. Which of Westar's approved energy efficiency programs are presently active?

A. With the exception of Simple Savings – which expired in January 2015 – all of Westar's energy efficiency programs are still active.

Q. Did Westar address each of its energy efficiency programs in its application?

A. No. Westar only addresses the Watt Saver program in its application.

Q. What is the status of Westar's other energy efficiency programs?

A. The status of Westar's Energy Efficiency Education Program, Building Operator Certificate and Energy Efficiency Demand Rider is uncertain at this time. While Westar has not indicated that it intends to terminate any of the existing programs, it also has not requested approval for any program budget beyond the initial five-year budgets that were approved in 2009.

Q. What is the proposed budget for Westar's entire energy efficiency portfolio, including both existing programs and programs proposed in this application?

A. Exhibit SMH-1 provides the details of Westar's entire energy efficiency portfolio. In summary, Westar's energy efficiency portfolio of programs and proposed lost margin recovery mechanism will cost ratepayers over $51 million dollars from 2015 through 2019.

Q. If the program budgets expired, did the program also expire?

A. Not in my opinion. While the language in the 441 and 442 Dockets did not specifically indicate that a program's eligibility to be offered is dependent on the term of the budget. Westar filed budgets for the WattSaver, Energy Efficiency Demand Response Rider, and Energy Efficiency Education Program budgets in Docket 15-WSEE-021-TAR on March 16, 2015, but did not seek Commission approval of the budgets. Because program costs are recovered through an annual rider that "maintains the Commission's responsibility to review costs for prudence,"[28] the lack of a Commission-approved budget puts Westar at greater risk of the Commission disallowing program costs because of prudence issues.

VIII. WESTAR'S PROPOSED ENERGY EFFICIENCY PROGRAMS

a. SBL Program

Q. Please describe Westar's proposed Small Business Lighting Program.

A. Westar's SBL Program will be available to 85,000 Westar Small General Service customers. The SBL program, administered by Franklin Energy Services ("Franklin"),

[28] November 14, 2008 Final Order in KCC Docket No. 08-GIMX-441-GIV at ¶32.

will provide these customers with a free in-person energy audit, up to $500 of free energy efficiency measures, and the option to make additional energy efficiency upgrades for 40% of the total cost. The remaining 60% of all project costs will be subsidized by all customers and the costs will be included in the Company's annual EER application.

Q. What is the budget for the proposed SBL program?

A. Westar's application includes a three-year budget of $6,232,025.[29] Westar estimates that at this budget level, it will conduct 3,310 energy assessments, and, based upon the energy assessment, 1,324 customers will make energy efficiency improvements as recommended by the energy auditor.

Q. What is your recommendation to the Commission regarding Westar's proposed SBL program?

A. I recommend the Commission deny Westar's proposed SBL Program for the following reasons:

- as proposed, the parameters of the program are too broadly defined and allows the cost of energy efficiency improvements at big businesses to be subsidized by other ratepayers;
- the cost to manage the program is 38% of the overall budget, which is too costly for a small business lighting program;
- the cost of "free" measures provided through the program are greatly inflated;

[29] Westar Response to CURB DR 110.

- there is no plan for the EM&V of program results; and
- the SBL program is not cost-effective and does not pass the TRC or RIM tests.

Q. Which customers are able to participate in the SBL program?

A. Westar estimates that 85,000 small businesses are eligible for the SBL program. According to the application, the SBL program is designed to target market segments such as grocers and food markets, convenience stores, churches, and offices of health care providers that may be unable to participate in energy efficiency programs because of a "lack of awareness, available capital and time."[30]

Q. Did Westar provide a list of grocers and food markets that would be eligible to participate in the SBL program?

A. Yes. In its response to CURB DR 78, Westar provided a list of the 295 grocers and food markets that would eligible to participate in the SBL program. Grocers and food markets are a segment of customers in the Small General Service class that would be targeted in the SBL program. Included in this list of eligible small businesses are several large grocery and discount stores. The list of grocers eligible to participate in the SBL program includes a number of Dillon's Food Stores and Wal-Mart discount stores

[30] Direct Testimony of Hal Jensen, at page 27.

Q. Are Dillons and Wal-Mart the types of customers that are in need of a small business lighting program because they "lack awareness, available capital and time"?

A. No. Dillons Food Stores (whose parent company is Kroger) and Wal-Mart regularly intervene and participate in cases before the Commission, and in my opinion, are unlikely to be unable to participate in efficiency programs because of a "lack of awareness, available capital and time."

Q. If the Commission elects to approve the SBL program, should businesses like Dillons and Wal-Mart be eligible to participate in the program?

A. No. Clearly the parameters determining eligibility in the SBL program need to be further refined to ensure that the program would truly benefit the "hard to reach" small businesses that are in most need of energy efficiency because of a lack of awareness, available capital and time.

Q. How much will Westar pay Franklin to administer the SBL program?

A. According to Exhibit HJ-1, total management costs paid to Franklin will be $2,360,617. The management fees paid to Franklin represent 38% of the program's $6,232,025 budget.

Q. According to Westar's application, each participant in the SBL program will be provided up to $500 in free energy efficiency measures. Please identify each eligible free measure and the cost of the measure.

A. The chart below shows each eligible free measure and the cost of each measure:

Measure Description	Cost per unit
DI CFL (14W)	$ 10.00
DI CFL (19W)	$ 10.00
DI CFL (23W)	$ 10.00
DI Cooler Miser	$ 175.00
DI Decorative LED - 25W Equiv	$ 20.00
DI Decorative LED - 40W Equiv	$ 25.00
DI Decorative LED - 60W Equiv	$ 45.00
DI Directional LED - >150W Equiv	$ 50.00
DI Directional LED - 40W Equiv	$ 25.00
DI Directional LED - 45W Equiv	$ 25.00
DI Directional LED - 50W Equiv	$ 25.00
DI Directional LED - 60W Equiv	$ 45.00
DI Directional LED - 65W Equiv	$ 45.00
DI Directional LED - 75W Equiv	$ 45.00
DI Directional LED - 90W Equiv	$ 45.00
DI low-flow Bathroom Aerators	$ 5.00
DI low-flow Kitchen Aerators	$ 7.00
DI Omni - Directional LED - 100W Equiv	$ 30.00
DI Omni - Directional LED - 40W Equiv	$ 15.00
DI Omni - Directional LED - 60W Equiv	$ 20.00
DI Omni - Directional LED - 75W Equiv	$ 25.00
DI Pre Rinse Sprayers	$ 75.00
DI Vending Miser	$ 200.00

Q. Is that really $10 for a single CFL lightbulb?

A. Yes. According to Westar's response to CURB DR 83, the $10 cost per CFL lightbulb includes shipping, use tax, breakage, and inventory management plus the cost to install the product.

Q. Is it appropriate to charge $10 to install a CFL lightbulb?

A. No. First, CFL lightbulbs are available in nearly every grocery, discount, and hardware store. Business owners are likely already purchasing and installing CFL bulbs when they need to replace burnt out bulbs at their business. Business owners can purchase and install several CFL bulbs for $10. Considering the market allows for businesses to purchase CFL bulbs at a much lower cost, it would be inappropriate to include costs equivalent to $10 per CFL bulb in the SBL program.

Second, according to Westar's response to CURB DR 83, in most direct install programs, like the proposed SBL program, "the CFL total installed cost is around the $6 to $7 per unit range." If the average cost to install a CFL bulb is in the $6 to $7 range, then Franklin is upcharging Westar $3 or $4 for the installation of each CFL bulb. Again, if the actual cost of installing a CFL bulb is between $6 and $7 each – which I contend is still too high considering the price of CFL bulbs in the market – it is inappropriate to include costs equivalent to $10 per CFL bulb in the SBL program.

Q. Will Franklin charge Westar $10 per CFL bulb it installs in the SBL program?

A. It's unclear whether or not Franklin with charge $10 per CFL bulb installed in the SBL program. According to Westar's response to CURB DR 83, Franklin will review the cost of the CFL and all the LED models and make a downward adjustment on these items. However, it should be noted that the final contract between Westar and Franklin has not yet been executed, and the fee structure charged to Westar by Franklin will not be finalized until after the program is approved.[31] So while it is possible that Franklin will charge less than $10 per CFL bulb installed after the Commission approves the SBL program, it is also possible that Franklin could charge more than $10 per CFL bulb installed in the SBL program.

Q. How much of the total SBL budget is the cost of the $500 in free measures provided to each participant?

A. According to Westar's response to CURB DR 82, the total cost of free measures provided for three years is $744,996, or 12% of the program's total budget of $6,232,025.

Q. In addition to receiving $500 of free energy efficiency measures, what other benefits are available to businesses that participate in the SBL program?

A. Westar's proposal permits businesses that want to make additional energy efficiency upgrades, but find the cost of more expensive upgrades prohibitive, to make energy efficiency upgrades and pay only 40% of the project's total cost. Participants will also have the option to finance their out-of-pocket portion of the energy efficiency upgrades.

Q. If participants are only required to pay 40% of the project's total cost, who pays the remaining 60%?

A. 60% of each approved project will be included as a program incentive cost for the SBL Program and recovered from all ratepayers through the EER.

[31] Westar Response to CURB DR 43.

Q. How much is the 60% subsidy provided for approved projects?

A. The cost of measures provided under the 60% subsidy totals $2,695,887 for three years.[32]

Q. Explain how customer participating in the SBL program can receive financing for its energy efficiency project.

A. Participants can finance 40% of the total project with Franklin, with a minimum out-of-pocket cost of $1,000. After paying a $40 application fee, a participant is eligible to divide the amount of their co-pay into six equal monthly payments.

Q. How much does it cost to offer the free financing option?

A. Franklin will not charge interest or any other finance charges to Westar or the participant. However, embedded in the program's administration costs is $41,229 for "financing." According to Westar, this $41,229 represents the allocation of time from the Franklin program team to facilitate the financing option to 100-200 customers per year.[33]

Q. What is Westar's EM&V plan for the SBL program?

A. Westar did not present an EM&V plan with its application. Instead, Westar proposes it be allowed to wait until it receives Commission approval and the SBL program is operational, and then develop a detailed EM&V plan.[34]

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[32] Westar Response to CURB DR 82.
[33] Westar Response to CURB DR 29 and 30.
[34] Westar Response to CURB DR 61.

Q. Doesn't the Commission's policy state that an EM&V plan must be provided with an energy efficiency program application?

A. Yes. The Commission's policy specifies that EM&V constitutes an important component of program design, and that the Commission will expect program proposals to include an EM&V plan for Commission review and approval.[35]

Q. Should the Commission accept Westar's word that it will create a detailed EM&V plan after the program has been approved?

A. No. In four of the five Commission-approved energy efficiency programs that Westar has operated since 2009, the Commission approvals included specific language regarding Westar's obligation to perform EM&V of the programs. Westar has failed to conduct and provide the results of a single EM&V in any program. In my opinion, based upon Westar's failure to conduct EM&V, the Commission should not approve any Westar program application that does not include a specific EM&V plan. At minimum, if the Commission approves Westar's SBL program, the Commission should include very specific guidelines and expectations about data gathering and reporting necessary for an EM&V, and specify that cost recovery will be contingent on meeting these requirements.

Q. According to Westar's application, what are the TRC and RIM scores for the SBL program?

A. According to the application, the TRC and RIM scores are 1.14 and 0.31, respectively.

[35] June 2, 2008, Order Setting, 08-GIMX-442-GIV at ¶49.

Q. Are the TRC and RIM scores provided by Westar overstated?

A. Yes. Westar's benefit-cost test model includes avoided capacity costs $82.00 per kW. As I have previously testified, Westar does not avoid any construction of additional capacity by offering the SBL program. Since Westar is not avoiding or delaying the construction of new generation, the appropriate avoided cost per kW is $0. The use of $82 per kW greatly inflates the results of benefit-cost test results.

Q. Is there another reason the TRC and RIM scores provided by Westar are overstated?

A. Yes. The TRC and RIM scores provided in Westar's application do not use DEER estimates to calculate projected measure savings as required by the Commission in the 442 Docket. Instead, Westar utilized savings values provided by Franklin – the company that stands to gain over $2.3 million in management fees if the program is approved. If the benefit-cost tests are performed using the DEER estimates of savings required by the Commission, the TRC and RIM scores drop to 0.89 and 0.29 respectively.[36]

Q. What happens to the TRC and RIM tests if you use the appropriate avoided generation cost of $0 per kW?

A. Using the spreadsheet attached to Westar's response to CURB DR 110, which uses the Commission ordered DEER estimates of savings, changing the avoided capacity costs to $0 per kW, the TRC and RIM scores change to 0.56 and 0.18, respectively.

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[36] Westar response to CURB DR 110.

Q. If both TRC and RIM are below 1.0, will the SBL program create a subsidy from one class of ratepayers to another, without any system benefits to customers as a whole?

A. Yes. The proposed SBL program is available only to the customers in Westar's Small General Service class. However, the costs of the SBL program will paid by all other ratepayers, despite their ineligibility to participate in the program. A TRC score below 1.0 indicates that the program will not create system-wide benefits greater than the cost of the program. A RIM score below 1.0 shows upward pressure on rates, meaning customer bills will increase to fund the program.

Q. What do you conclude about Westar's proposed SBL program?

A. In a best case scenario – using Westar's numbers – the SBL has a high degree of RIM failure, meaning rates will increase to pay for a program that only provides a low TRC benefit. Using more realistic numbers, including reasonable avoided costs and established DEER estimates of savings, the SBL program fails TRC and RIM. In either scenario, the SBL program does not meet the Commission's standards for approval.

Q. What is your recommendation to the Commission regarding Westar's proposed SBL program?

A. I recommend the Commission deny Westar's proposed SBL Program for the following reasons:

- as proposed, the parameters of the program are too broadly defined and allows the cost of energy efficiency improvements at big businesses to be subsidized by other ratepayers;
- the cost to manage the program is 38% of the overall budget, which is too costly for a small business lighting program;
- the cost of "free" measures provided through the program are greatly inflated;
- there is no plan for the EM&V of program results; and
- the SBL program is not cost-effective and does not pass the TRC or RIM tests.

<u>b. Home Energy Audit Program</u>

Q. Please describe Westar's proposed Home Energy Audit program.

A. Westar has requested Commission approval of a HEA program. This program is an educational program that provides residential customers with a choice of two different energy audits, each of which are designed to educate customers on their home energy usage. Like the SBL program, the HEA program will be managed by Franklin Energy.

Residential customers who participate in the HEA program will have two options. First, customers may choose a Level 1 Home Energy Assessment, which will provide the participant a basic on-site energy assessment, and $50 in free energy efficiency measures. The participant will pay $50 for the assessment and the free measures.

Second, customers may choose a Level 2 comprehensive home energy analysis. The Level 2 home energy analysis offers a more in-depth and customized energy audit, but does not include any free energy efficiency measures. Customers who choose to participate in the Level 2 home energy audit will pay $198 of the cost of the comprehensive energy audit.

Q. Do the participant's payments cover all the costs of the energy audit?

A. No. The cost Franklin will charge Westar for each Level 1 Home Energy Assessment conducted is $225.00. Westar estimates 500 customers will participate in this program each year. Franklin will charge Westar $495 for each Level 2 comprehensive home energy audit completed. Westar estimates that 100 customers will participate in this program each year.

Q. Who will pay the remaining costs of the HEA program, after the participants pay the required co-pay?

A. Any costs not recovered from the customer co-pay will be included in the Company's annual EER application and recovered from all ratepayers.

Q. What is the proposed budget for the HEA program?

A. Yes. The three year budget for the HEA program is $531,600.[37] The budget includes the costs of the audits, after the participant co-pay, the cost of free measures provided to participants that choose a Level 1 audit, and program management fees.

[37] Exhibit HJ-2.

Q. Is there any requirement that the participant make any of the energy efficiency improvements recommended by the energy auditor?

A. No. Participants in this program benefit from a receiving a deeply discounted energy audit, but are not required to make any actual energy saving improvements.

Q. Has the Commission made a previous ruling that suggests incentives for energy audits are inappropriate if no energy saving improvements are completed?

A. Yes, it has. In Docket No. 08-KCPE-581-TAR ("581 Docket") the Commission denied the application of KCP&L to implement a Home Performance with ENERGY STAR® Program. The program would have provided a rebate to customers to help offset the cost of a home energy audit, similar to Westar's proposed HEA program. In rejecting the KCP&L program, the Commission specifically expressed its concern that "because a participant is not required to implement recommended improvements in a comprehensive and logical way, energy efficiency savings from the program are not likely to be as dependable as possible, in the sense of a resource."[38] This Commission decision clearly disapproved energy efficiency programs that offer an incentive payment for energy audits, but do not require the participant to actually install energy efficiency measures.

Q. Does the proposed HEA program pass either TRC or RIM tests?

A. No. The proposed HEA program has a TRC score of 0.76 and a RIM score of 0.21.[39]

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[38] Docket No. 08-KCPE-581-TAR, Order on Staff's Report and on Petition for Reconsideration at ¶30 & 31.
[39] Direct Testimony of Hal Jensen at page 40.

Q. Should the Commission approve the proposed HEA program?

A. No. The HEA program does not require the participants to implement any energy efficiency savings measures and therefore cannot provide firm, cost-effective benefits in accordance with Commission policy. Additionally, the customer delivery and costs for the HEA program are completely intertwined with the SBL program. If the SBL program is not approved, the program management costs for the HEA program would likely increase, causing the programs overall cost-effectiveness to further decrease.

<u>**c. Targeted EE Program**</u>

Q. Please describe Westar's proposed Targeted Energy Efficiency Program.

A. Westar has requested approval of a Targeted EE program that will provide the Kansas Housing Resources Corporation ("KHRC") $3 million each year for five years to help eligible Westar residential customers utilize energy more efficiently by implementing cost-effective energy saving weatherization improvements.

Q. How did Westar determine the annual $3 million budget for the Targeted EE program?

A. Westar proposes to direct the amounts previously spent on the WattSaver program towards the new energy efficiency programs proposed in the application. Mr. Unekis stated that providing $3 million per year to the Targeted EE program will "result in an almost net zero increase in the overall budget for Westar's energy efficiency portfolio, because the WattSaver program is planned to move into "sunset mode" and its budget is spread among the Targeted Energy Efficiency, Small Business Lighting, and Home Energy Audit programs."[40]

Q. Did Westar provide any testimony of what budget is proper for the Targeted EE program?

A. No. The budget for the Targeted EE program was determined simply by taking the highest level of expenditures charged in its annual EER, and then subtracting the forecasted WattSaver expenses. This difference, after deducting the SBL and HEA programs, is what is left for the Targeted EE program.

Q. Is that an appropriate way to determine an energy efficiency program's budget?

A. No. Westar appears to assume that the Commission approved a certain level of funding for energy efficiency, regardless of whether Westar is using it for the programs originally approved. Because Westar is no longer spending the money in WattSaver, it apparently believes it should be allowed to spend it on a different program. Westar's assumption is incorrect. Westar's decision to decrease spending in the WattSaver and other approved energy efficiency programs has decreased the EER by over $6 million – or 52% – since 2013.[41] If the Commission were to approve Westar's proposed programs, the EER would increase by over $6 million per year.

Additionally, the Commission did not approve ongoing energy efficiency spending at the rate of $11 million per year. Rather, the Commission approved specific five-year budgets for specific energy efficiency programs. Westar's request to add new

[40] Direct Testimony of Scott Unekis, at page 11-12.
[41] Exhibit SMH-2.

program spending to the EER would result in an increase in rates charged through the EER, a result clearly not intended by the Commission's original order approving Westar's previous energy efficiency programs.

Exhibit SMH-2 attached to my testimony summarizes Westar's Commission approved EER for the previous five years and the proposed EER for the next five years, if the Commission approves Westar's application. The EER increases 96% in one year because of Westar's increased spending in energy efficiency.

Q. If the Commission approves the Targeted EE program as described by Westar, will all $3 million be available for weatherization services?

A. No. The amount available for weatherization services each year will be $2,655,200. This is the amount of funding that will remain after marketing and administration fees are paid.[42]

Q. Does the proposed Targeted EE program pass either TRC or RIM tests?

A. No. The proposed Targeted EE program has a TRC score of 0.20 and a RIM score of 0.12.[43]

Q. Why did Westar select KHRC to administer the Targeted EE program?

A. KHRC is a state agency that administers the Kansas Weatherization Assistance Program ("KWAP") with federal funding received from the United States Department of Energy.

[42] Westar Response to Staff DR 9.
[43] Direct Testimony of Ralph Nigro at page 13.

KHRC is already experienced with weatherization programs and has established criteria in place for the KWAP.

Q. Who will be eligible to receive benefits from the proposed Targeted EE program?

A. The Targeted EE program will use the same income-based eligibility criteria that KHRC uses to administer the KWAP program. The KWAP criteria are that residential renters or homeowners whose income is at or below 200 percent of the poverty level shall be eligible for weatherization services. Additionally, households that include a member who has received cash assistance payments under Title IV or XVI of the Social Security Act shall be eligible for weatherization services.

In addition to the KWAP criteria, Westar proposes that participants in the Targeted EE program meet additional criteria. Specifically, to be eligible to receive services from the Targeted EE program, customers must:

- be a current Westar residential customer who has made a reasonable attempt to maintain a current payment history over the last 12 months,
- have total household electricity consumption greater than 3,000 kWh per year,
- if a renter, be fully responsible for the household bills, and
- if a landlord, agree under contract to not raise the rent for at least two years from the completion date of the weatherization procedures.

Q. How many homes did KHRC provide weatherization services to in Kansas during 2012 and 2013?

A. KHRC provided weatherization services to 1,117 and 1,186 households in Kansas in

2012 and 2013, respectively.[44]

Q. How much did KHRC spend providing weatherization services to in Kansas during 2012 and 2013?

A. KHRC spent $6,657,441.14 in 2012 and $6,653,562.80 in 2013 to weatherize households in Kansas.[45]

Q. How many homes did KHRC provide weatherization services to in Westar's service territory during 2012 and 2013?

A. KHRC provided weatherization services to 732 and 808 of Westar's residential customers in 2012 and 2013, respectively.[46]

Q. How much did KHRC spend providing weatherization services in Westar's service territory during 2012 and 2013?

A. KHRC did not provide expenditures for weatherization services specifically in Westar's service territory. However, if weatherized homes in Westar's service territory accounted for roughly 67% of total homes weatherized in Kansas, I estimate that KHRC spent approximately $4.5 million in Westar's service territory in 2012 and 2013.

Q. What energy efficiency measures would be available to participants that receive weatherization services through the Targeted EE Program?

[44] Westar response to CURB DR 89.
[45] Westar response to CURB DR 89.
[46] Westar response to CURB DR 89.

A. Because Westar is using KHRC to administer the Targeted EE program, eligible customers in the Targeted EE program would receive the same energy efficiency measures approved in the KWAP. These energy efficiency measures include air sealing, attic, foundation, floor and kneewall insulation, CFL lightbulbs, efficiency furnace replacements, air conditioners, refrigerators, ceiling fans and efficiency water heater replacements.[47]

Q. Does Westar's application propose to change the payment that KHRC requires from landlords in order to replace inefficient heating/cooling systems?

A. Yes. Currently, KWAP requires landlords to pay the total cost of all heating/cooling system replacements, minus $250. Westar's proposed Targeted EE program would cap the landlord's total expense for heating/cooling system replacements at $1,500. The remaining cost of upgrading the home's heating/cooling system would be paid by Targeted EE funds.

Q. How many homes does Westar estimate would receive weatherization services through the Targeted EE program?

A. Westar estimates participation in the Targeted EE program will be 395 houses per year.[48]

Q. Do you recommend the Commission approve Westar's Targeted EE program?

A. No, I do not.

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[47] Westar response to Staff DR 9.
[48] Westar response to Staff DR 9.

Q. Please explain why you recommend the Commission deny Westar's Targeted EE program.

A. I recommend the Commission deny Westar's Targeted EE program for three reasons. First, Westar's Targeted EE program should be considered a social program that provides benefits to low-income customers, as opposed to an energy efficiency program. The Targeted EE program is not providing funds specifically for an energy efficiency program, but rather is providing funds to the customers of a social class who will receive services that may improve their dwelling structure. For example, once the funds are delivered to KHRC they can be used not just for weatherization, but also for health and safety issues such as removal of hazardous material and the installation of smoke and carbon monoxide alarms. According to the KWAP, expenses charged as health and safety measures do not require cost justification and are not to be included as part of the per unit average.[49] It is my opinion that the Targeted EE program as proposed by Westar is a social program, and not an energy efficiency program.

Second, there is no evidence that providing $3 million a year in funding for weatherization services will provide benefits to Westar's system as a whole. In his direct testimony, Mr. Scott Unekis explains that Westar identified a number of houses that have significantly higher energy bills than other customers with comparable home sizes. It is Mr. Unekis's testimony that this high usage places a burden on Westar's system as a whole by increasing demand during peak times, which can result in higher costs to all Westar customers when Westar is required to acquire additional generation. These higher

[49] Exhibit SEU-2, at page 26.

costs may lead to higher bills in inefficient homes, which may exacerbate any monetary pressures being faced in the household.

However, while Mr. Unekis explains that Westar believes the higher usage can be attributed to inefficiencies in the customers' homes, this belief is little more than a guess. Westar did not provide any supportive data showing that the burden placed on its system by customers with high usage is directly attributable to the inefficiency of the home. While it is certainly possible that high usage is directly attributable to the home's level of efficiency, it is also entirely possible that high usage is attributable to having three teenagers in the house, each with a television and Xbox, cells phones that are constantly plugged in and charging, and of course, the extra refrigerator that runs in the garage. Offering $3 million to KHRC for additional weatherization services may be able to decrease some of the high usage that exists because of a home's efficiency, but Westar did not provide any evidence that providing $3 million each year to KHRC will be able to mitigate the burden placed on Westar's system because of high usage.

Finally, there is no assurance that the $3 million provided by Westar's ratepayers will be incremental to the amount KHRC currently spends on weatherization services in Westar's service territory. It is true that the $3 million provided to KHRC will only be used to provide weatherization services to current Westar customers, but there is no assurance that the $3 million will be used in addition to the weatherization services already provided by KHRC. As I previously testified, during 2012 and 2013, KHRC spent an average of $4.5 million on weatherization services in Westar's service territory. If the Targeted EE program is approved, $3 million would be provided to KHRC for use in Westar's service territory. This contribution may allow KHRC to shift weatherization services currently provided by federal funds in Westar's service territory to other parts of the state. This shift may actually result in a decrease in weatherization services in Westar's territory.

Q. Did the Citizens' Utility Ratepayer Board express an opinion regarding the proposed Targeted EE program?

A. Yes. The members of the Citizens' Utility Ratepayer Board ("Board") are not comfortable with the Targeted EE program, as proposed. Unlike an effective energy efficiency program, the expenditures under the Targeted EE program do not result in a level of savings to justify the expenditures. The program fails both the TRC and RIM tests, meaning customer bills will increase to support the program, without a requisite level of system benefits.

The Board believes this program is more accurately described as a social program or a charitable contribution from Westar customers to KHRC. While the Board is certainly supportive of KHRC and the work it does, the board is not supportive of forcing utility customers to make this type of charitable contribution. While laudable, it is not necessary for the provision of efficient and sufficient service. Social programs to address issues of poverty and access to necessary utility services are important, but the Board believes these issues should be addresses more holistically at a State or legislative level, and not utility-by-utility.

The Board is also open to the idea that there may be some utility benefits related to keeping service available to low income customers that may live in substandard housing or struggle to keep bills current. However, little evidence is presented in this case to make judgments on these issues. The Board looks forward to further discussion around these issues, but cannot support the Targeted EE program as proposed.

Q. Do you have an additional option for Westar's Targeted EE Program?

A. Yes. If Westar is motivated to assist the KHRC in providing assistance to low-income customers, Westar could simply make a contribution to KHRC. On August 19, 2014, ONEOK, Inc., and Kansas Gas Service, a division of ONE Gas, Inc. ("ONEOK"), partnered with KHRC to provide an additional $1.2 million for weatherization services. ONEOK's contribution was not made in conjunction with an energy efficiency program and does not rely upon ratepayer funding. If Westar's shareholders want provide assistance for eligible low-income customers, they should follow ONEOK's lead and provide a contribution to KHRC.

d. <u>Other concerns</u>

Q. Do you have any other concerns regarding Westar's application?

A. Yes. Beyond the economics of the programs and the Commission's policy guidelines, there are two other requests included in Westar's application that are troubling. First, Westar provides program budgets for a specific time frame and indicates that it will "provide future-year budgets to Commission Staff upon request."[50] Despite the Commission's approval of five-year budgets for Westar's current energy efficiency programs – each of which expired during 2014 – Westar resisted filing new operating

[50] Direct Testimony of Hal Jensen, at page 4.

budgets for its programs. The Commission had to order Westar to provide new budgets.[51] Budgets are an important aspect of utility-sponsored energy efficiency and should not be optional. If the Commission elects to approve any of the programs proposed in the application, the Commission should deny Westar's request to provide future budgets upon request and instead should specify that the programs expire when the approved operating budgets expire. If Westar wants to continue to operate the programs after the budget expiration date, and receive cost recovery for the programs, it should file for approval of new operating budgets.

Second, in each of the programs proposed in the application, Westar is requesting Commission permission to "adjust the third-party provider if necessary in the future without making an additional filing with the Commission."[52] The suitability and costs associated with the third-party provider of each program is an integral part of determining whether the program should be approved and the cost of the program that is passed on to ratepayers. If the Commission elects to approve any of the programs proposed in Westar's application, the Commission should deny Westar's request for permission to change the third-party provider at its discretion. If in the future, Westar wants to change providers, then Westar should seek Commission approval to alter the program to select a new third-party provider.

[51] January 6, 2015, Docket No. 15-WSEE-021-TAR, Order on Operating Budgets and EM&V Studies.
[52] Direct Testimony of Hal Jensen, at page 34.

Q. Do you have any other recommendations regarding Westar's application for energy efficiency programs?

A. Yes. If the Commission elects to approve any of the programs proposed in the application, it should establish that the approved program is a pilot program and that the determination as to whether the program will become a "permanent program" will be made after a complete EM&V has been conducted in accordance with the 442 Docket, and approved by the Commission.

I am making this recommendation because of the passage of Senate Substitute for House Bill No. 2482, An Act Creating the Energy Efficiency Investment Act, which was approved by Governor Brownback on April 16, 2014. The new legislation states that the "commission shall permit public utilities to implement commission-approved demand-side programs ..."

While I am not an attorney, this legislation concerns me because it appears to mean that if the Commission were to approve Westar's programs as presented, then the Commission may be required to permit Westar to continue offering these programs in the future, regardless of their value or benefits. It is my recommendation that if the Commission determines that Westar may offer any of the programs, the Commission should clearly identify that the programs are "pilot" programs that will be evaluated at a specific date.

IX. LOST REVENUE RECOVERY

Q. Is Westar seeking Commission approval to recover margins lost due to the implementation of the SBL and Targeted EE programs?

A. Yes. Westar has requested approval for recovery of the lost margins associated with the implementation of the SBL and Targeted EE programs.

Q. Should the Commission approve Westar's request for a lost revenue recovery mechanism if it approves the SBL or Targeted EE program?

A. No. The Commission should deny Westar's request to recover lost margins if it approves the SBL and Targeted EE programs because:

- the Commission has stated in its policy orders that it will not allow for lost revenue recovery mechanisms;
- the SBL program does not have a significant detrimental impact to Westar's finances;
- the Targeted EE program does not have a significant detrimental impact to Westar's finances;
- the SBL program does not meet the Commission's guidelines for a program to qualify for a shared savings mechanism because it does not target fixed or low-income customers and does meet the Commission's whole house requirement;
- Westar's proposal to recover lost margins does not use DEER estimates;
- Westar does not include an EM&V plan to verify actual margins lost due to the successful implementation of energy efficiency programs; and

- Westar failed to adequately estimate and true-up lost margins allowed by the Commission in the Simple Savings program.

a. Lost revenue recovery mechanisms

Q. What is the Commission's current policy concerning lost revenue recovery mechanisms?

A. The Commission's current policy is to not allow lost revenue recovery mechanisms. A lost revenue recovery mechanism allows a utility to recover the non-fuel margins that are lost as sales decline due to the successful implementation of energy efficiency programs.

Q. Why does the Commission indicate that it would not allow lost revenue recovery mechanisms?

A. Originally, in its Order in the 441 Docket, the Commission stated that it would not favor a lost revenue recovery mechanism because of "the high premium this method places on accurate evaluation of program impacts and the increased potential for expensive and time-consuming litigation arising from disputes."[53]

In the 337 Docket, the Commission clarified its position and firmly renounced lost revenue recovery mechanisms by stating:

- "(g)iven the current economic and regulatory environment, the Commission is disinclined to allow lost margin recovery,"

[53] November 14, 2008 Final Order in KCC Docket No. 08-GIMX-441-GIV at ¶ 66.

- "allowing recovery of lost margin creates a subsidy for energy efficiency programs that can violate the fundamental ratemaking principle of cost causation,"
- "under the principle of cost causation, the participants in the energy efficiency programs alone should be responsible for any reduction in revenue resulting from the energy efficiency program," and
- "(i)n general, the Commission will not allow recovery for lost margins."[54]

Q. Given the Commission's Order in the 337 Docket, would you expect the Commission to approve a proposal for a lost revenue recovery mechanism?

A. No. In its Order in the 337 Docket, the Commission indicated that allowing lost revenue recovery is in violation of the fundamental ratemaking principle of cost causation. Given that language, I would not expect the Commission to approve an application for lost revenue recovery.

Q. The 337 Order aside, did the Commission identify a situation in which it may consider a lost margin recovery?

A. Yes. In its Order in the 441 Docket, the Commission stated that mechanisms which address the throughput incentive – like decoupling and lost margin recovery mechanisms – should only be considered if "a utility can show that a program will have significant detrimental impact on the company's finances."[55]

[54] March 6, 2013, Docket No. 12-GIMX-3237-GIV, Order.
[55] November 14, 2008, Final Order, KCC Docket 08-GIMX-441-GIV, at ¶47.

In order to assess whether the energy efficiency programs have a detrimental impact on the company's finances, the Commission determined that "the utility should provide a comparison of the potential financial impacts of the energy efficiency programs it has received approval for or intends to seek approval for and the expected financial outcome without energy efficiency programs in place."[56]

Q. Did the Commission quantify what "significant detrimental impact" is, when considering a lost revenue recovery mechanism?

A. Not specifically. However the Commission's order did define what it considers "significant" program costs. In its 441 Order, the Commission established that it would consider "significant" costs to be ½% of base revenue, a guideline that has been established by the legislature in K.S.A. 66-2203, as a minimum level of expense for approval of a Gas System Reliability Surcharge.[57] Additionally, the Commission also stated that mechanisms which address the throughput incentive – like decoupling and lost revenue recovery mechanisms – should only be considered if "a utility can show that a program will have significant detrimental impact on company finances."[58] Under the Commission's guidelines for significance, Westar would need to show that it will experience a loss of margins equal to ½% of base revenues – about $10,000,000 – before they are allowed to recoup lost margins.

[56] November 14, 2008, Final Order, KCC Docket No. 08-GIMX-441-GIV, at ¶72.
[57] November 14, 2008, Final Order, KCC Docket No. 08-GIMX-441-GIV, at ¶ 36.
[58] November 14, 2008, Final Order, KCC Docket No. 08-GIMX-441-GIV, at ¶ 47.

Q. Did Westar provide a comparison of the financial impacts, with and without the proposed energy efficiency programs?

A. No. Westar's application does not include a comparison of the potential financial impacts with its proposed energy efficiency programs and the expected financial outcomes without the proposed energy efficiency programs in place.

Q. Even without the Commission required comparison of financial impacts, can you determine whether the margins lost due to the implementation of the SBL and Targeted EE programs will have a significant detrimental impact on the Company's finances?

A. Yes. Westar's proposed SBL and Targeted EE programs will not have a significant detrimental impact on Westar's finances. Westar has estimated that the total margins lost due to the implementation of the SBL program will be $1,731,193 over a three year period. Westar estimated that the margins lost due to the implementation of the Targeted EE program will be $493,905 over a five year period.[59]

Westar has an annual base revenue requirement in excess of $2 billion.[60] Based upon the estimate of lost margins provided in Westar's application, Westar would experience a 0.033% revenue shortfall from the implementation of the SBL and Targeted EE programs. In my opinion, this level of lost margins should not be considered to have a significant detrimental impact to Westar's finances.[61]

[59] Westar Response to CURB DR 59.
[60] Westar's proposed revenue in Docket 15-WSEE-115-RTS is $2,071,499,431, at Schedule 16-B.
[61] Targeted EE lost margins = $98,781 per year; SBL lost margins $1,731,193 over three years.

Q. Is there evidence that the margins lost from the Targeted EE program will not create a significant detrimental impact on Westar's finances?

A. Yes. The Targeted EE program provides supplemental funding to KHRC to assist in weatherization services. As I previously testified, KHRC provides weatherization services to an average of 770 homes in Westar's service territory each year. Even without the Targeted EE programs, Westar may be experiencing a level of lost margins due to the KHRC weatherization services. The reduction of sales due to KHRC weatherizing 770 homes per year has not been significant or detrimental to Westar's finances to date, and has not prompted Westar to seek additional recovery mechanisms.

Q. If the Commission were to approve Westar's request for lost margin recovery, how long would Westar be allowed to recover lost margins?

A. Lost margin recovery is a short term solution that is reset when a utility files a new general rate case, with new billing determinants. Because of the frequency in which Westar files general rate cases, Westar would likely only experience its estimated lost margins for a three year period. This further points to the insignificance of the lost margins to Westar's finances.

Q. Based upon the Commission's stated policies and requirements in the 441 Docket, do Westar's proposed SBL and Targeted EE program qualify for a lost margin recovery mechanism?

A. No. Neither the margins lost from the SBL or Targeted EE programs – individually or together – cause a significant detrimental impact on Westar's finances. As I have discussed above, the Commission's order in the 441 Docket indicates that it will consider mechanisms to reduce the throughput disincentive – like lost margin recovery – if utilities can show that the energy efficiency programs will have a significant detrimental impact on the company's finances. Westar provided no evidence to support its need for a lost margin recovery mechanism, and therefore neither the SBL or Targeted EE program should qualify for a lost margin recovery mechanism.

b. Shared savings mechanisms

Q. What is the difference between a shared savings mechanism and a lost revenue recovery mechanism?

A. A lost revenue recovery mechanism allows a utility to recover the non-fuel margins that are lost because of successful implementation of energy efficiency programs. A shared savings mechanism is one type of performance incentive. Unlike a lost revenue recovery mechanism, a shared savings mechanism does not replace all lost margins, but rather provides or pays the utility a portion of verifiable savings to be shared, more like an incentive for achieving positive results.

Q. What is the Commission's current policy for shared savings mechanisms?

A. In its Order in the 441 Docket, the Commission indicated that among available performance incentive mechanisms that encourage energy efficiency programs, it favors a shared savings mechanism because it "provides for the sharing of some percentage of the net benefits of an energy efficiency program with the utility."[62]

Q. Has the Commission set forth specific requirements that programs must meet before it will consider any sort of performance benefits?

A. Yes. The Commission's Order in the 441 Docket explained that it would consider performance benefits "for an application involving energy efficiency program proposals that meet either or both of the following goals: (1) proposals for programs that target low and fixed income customers, and renters. The Commission believes these groups are vulnerable, particularly in the face of an economic downturn, and may be unable to undertake energy efficiency measures on their own for various reasons. (2) Proposals that target new and existing residential housing and demonstrate a potential for long-term energy savings utilizing a comprehensive whole house concept, pursuant to Commission policy as expressed in the 442 Order."[63]

Q. Does Westar's SBL program meet the Commission's guidelines for a shared savings mechanism?

A. No. The SBL program does not meet the Commission guidelines for a shared savings mechanism. The SBL program is not available to low and fixed-income customers, nor does it require that energy efficiency improvements be made using a whole house concept. If participants in the SBL program choose to make energy efficiency improvements based upon the result of an energy audit, there is no requirement that the

[62] November 14, 2008, Final Order, KCC Docket 08-GIMX-441-GIV, at ¶50.
[63] November 14, 2008, Final Order, KCC Docket 08-GIMX-441-GIV, at ¶97.

participants implement recommended improvements in a manner that is logical and cost-effective from a whole-house concept. Participants can choose which measure they would like to install from a list of prescriptive measures, but there is no requirement that improvements be made in a logical sequence.

Because the SBL program does not target low and fixed-income customers and it does not achieve long-term energy savings utilizing a comprehensive whole house concept, the SBL program would not qualify for performance incentives, such as a shared savings mechanism.

Q. Does the Targeted EE Program meet the Commission's guidelines for a shared savings mechanism?

A. Yes, it appears that the Targeted EE program would meet the Commission's whole house guidelines to be considered for a shared savings mechanism. However, Westar's proposal is not to share in any net benefits achieved from the successful implementation of the Targeted EE program. Rather, Westar is seeking a lost margin recovery mechanism for the Targeted EE program. As I have previously testified, the Targeted EE program is not eligible for a lost margin recovery mechanism because the margins lost do not cause a significant detrimental impact to Westar's finances.

c. Westar's Proposed Lost Margin Recovery Mechanism

Q. If the Commission approves Westar's request to recovery margins lost from implementation of the SBL and Targeted EE programs, how will Westar determine the amount of lost margins?

A. According to its application, Westar will first estimate the number of measures that will be installed over the year. Then Westar will multiply the estimated number of measures by the deemed (estimated) energy savings per measure. The product of this calculation will represent estimated kWh savings from the program. The estimated kWh will then be multiplied by the result by the non-fuel rate to determine the amount of margins lost.

Q. If the Commission approves Westar's lost margin recovery mechanism, how much would Westar recover in lost margins?

A. If the Commission approves Westar's proposed lost margin recovery mechanism, Westar would be allowed to recovery $1,731,193 in lost margins from the SBL program, and $493,905 in lost margins from the Targeted EE program. Westar's response to CURB DR 106 indicates that Westar will include these forecasted lost margins in its annual EER application.

Q. How did Westar forecast the amount of margins that would be lost through the SBL and Targeted EE program?

A. The forecasted lost margins in the SBL program are based upon achieving 100% participation, using savings estimates provided by Franklin. Westar's application estimates that by offering the SBL program for three years it will decrease sales by 21,396,530 kWh.

The estimates for lost margins in the Targeted EE program are based upon an estimated savings achieved per household weatherized by KHRC. According to Westar's application, the Targeted EE program will decrease sales by 5,845,030 kWh.[64]

Q. Were either of the estimates calculated using DEER estimates of savings, as ordered by the Commission in the 442 Docket?

A. No.

Q. Did you request Westar re-run its model using DEER estimates?

A. Yes, I did. In its response to CURB DR 110, assuming 100% participation, the SBL program will result in energy savings of 12,921,613 kWh. Using Westar's non-fuel rate of $0.0899/kWh, the estimated lost margins for the SBL program is $1,161,653 – or 33% lower than Franklin's estimate. Westar did not provide an updated energy savings for the Targeted EE program using DEER estimates.

Q. Does Westar's proposal include any verification of actual margins lost due to the implementation of the SBL program?

A. No. Westar's proposal to recover margins lost as a result of its SBL programs lacks a plan to verify actual savings achieved. In fact, Westar is proposing that it be allowed to collect lost margins based solely upon Franklin's estimates before an EM&V is

[64] Westar response to CURB DR 59.

completed. As I previously testified, it is unclear from Westar's application when and how an EM&V of the SBL program's performance might take place.

Q. If the Commission approves Westar's lost margin recovery mechanism as proposed, will Westar be allowed to recover $1,731,193 in forecasted lost margins, without a plan to verify actual savings achieved from the program?

A. Yes.

Q. If Franklin's estimates are overstated, or results are otherwise less than forecasted, will Westar's customers overpay?

A. Yes.

Q. Should the Commission approve a lost margin recovery mechanism, or a shared savings mechanism, without an EM&V plan to verify actual savings or benefits achieved from an energy efficiency program?

A. No, it should not. Without an EM&V or any other plan to verify actual savings, Westar customers would be required to pay a forecasted value, which in this case, could be overstated by 33%.

Q. Has Westar previously been granted a shared savings mechanism, which allowed it to recover an estimated level of lost margins?

A. Yes. In the Docket No. 10-WSEE-775-TAR ("775 Docket"), the Commission approved Westar's proposal for a "shared savings mechanism."[65] The approved shared savings mechanism allowed Westar to recover margins lost due to its Simple Savings program.

Q. Did Westar provide an estimate of how much it would lose due to participation in the Simple Savings program?

A. Yes. In the 775 Docket, Westar estimated that lost margins from its Simple Savings program would be $22,200.[66]

Q. How much was Westar allowed to recover through the approved shared savings mechanism?

A. Westar recovered $48,370 in lost margins.[67]

Q. Did Westar's shared savings mechanism include a requirement to conduct EM&V to true up estimate lost margins to actual program savings?

A. Yes. The Commission approved Westar's application, which included an EM&V plan to true up the estimated lost margins to actual savings. According to the application, "(i)f

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[65] January 31, 2011, Order Approving, 10-WSEE-775-TAR, at page 19 (B).
[66] Docket 10-WSEE-775-TAR, October 1, 2010, Harden Direct Testimony, at page 24.
[67] $860 was approved for recovery in Docket No. 12-WSEE-063-TAR; $47,510 was approved for recovery in Docket No. 13-WSEE-033-TAR

EM&V later indicates that the participant actually saved 550 kWh or 450kWh the calculation can be updated with savings data that has passed EM&V."[68]

Q. Did Westar ever perform the EM&V to determine why the amount collected through the approved shared savings mechanism was 118% more than its original estimate?

A. No. Westar has not conducted an EM&V of the Simple Savings program to determine whether its original estimate of $22,200 was too low, or if the recovery of $48,370 was too high.

Q. Did Westar actually lose $48,370 in margins due to the Simple Savings program?

A. It is unclear whether Westar actually experienced $48,370 in lost margins from its Simple Savings programs. The margins lost were estimated based upon the installed energy efficiency measures that were recommended by an energy auditor. However, an EM&V of the program has never been performed, so there is no way of knowing whether Westar even lost a single dollar in lost margin.

Q. Do you think Westar actually lost margins because of its partnership with Simple Savings?

A. No. It is possible that Westar may have experienced lost margins from its Simple Savings program, but I think it is probable that the actual lost margins were less than projected. On the other hand, I also think it is possible that Westar actually increased its sales

[68] June 4, 2010, Docket No. 10-WSEE-775-TAR, Application, at Appendix C.

because of the Simple Savings program, and did not experience any loss of margin. In both scenarios, ratepayers were required to overpay for estimated lost margins.

Q. Please explain why you think the margins lost due to implementation of the Simple Savings program are likely less than projected.

A. Westar's estimate of margins lost from implementation of the Simple Savings program was based upon installation of certain energy efficiency improvements. As a very simple example using hypothetical numbers, assume a participant installed new energy efficient windows and had insulation blown in the attic. The auditor may have estimated that these two improvements would reduce the participant's electricity usage by 2,000 kWh per year. Let's further assume that the same participant also installed a high efficiency electric heat pump. This improvement would decrease a participant's natural gas consumption while at the same time increasing their electricity usage by 1,700 kWh per year. Because an EM&V has not been performed, it is unclear whether Westar estimated the margins lost as 2,000 kWh, or whether estimates margins lost was the difference between savings measures and load building measures (300 kWh).

If, using my very simple example, Westar estimated lost margins based upon the electricity savings gained from the installation of energy efficiency windows and attic insulation without taking into account the installation of an electric heat pump – which caused usage to increase – then the amount of lost margins was overstated. Westar customers overpaid for lost margins.

Q. How could Westar's Simple Savings program have increased Westar's sales?

A. The Simple Savings program allowed Westar to build load by installing electric heat pumps. Because the Simple Savings program was a partnership with the Efficiency Kansas program, it was fuel neutral – meaning heating appliances could be switched out based upon efficiency, without regard to the fuel source. In its response to CURB Data Request No. 5, Westar provided a Simple Savings database. This database provides simple overview of the measure installed in the home of each participant. Of the 431 projects listed in the database, 241 included the installation of electric heat pumps. It is possible that the even though some participants were able to reduce electric energy consumption because of insulation, or higher efficiency air conditioning units, that these kWh losses did not exceed the kWh increases that occur because of the addition of an electric heat pump.

Q. So it's possible that Westar increased sales due to the Simple Savings program, and yet was still able to recover estimated lost margins?

A. Yes, it's possible.

Q. Does Westar's proposed lost margin recovery mechanism include an EM&V plan to ensure that Westar's customers don't over pay for forecasted lost margins in the SBL and the Targeted EE programs?

A. No it does not. Instead, Westar plans to develop a detailed EM&V plan after the filing has been approved and the programs are operational.[69]

Q. Based upon the experience of the shared savings mechanism granted in the Simple Savings program, should the Commission approve Westar's lost recovery mechanism without an EM&V plan?

A. No. Westar was allowed to recover forecasted lost margins in Simple Savings, which exceeded their original estimate by 118%, without any effort to identify actual lost margins. No one can say with certainty whether or not customers overpaid Westar for lost margins. The Commission should not approve Westar's lost margin recovery mechanism without an EM&V plan that verifies and trues-up the actual margins lost due to implementation of energy efficiency programs.

Q. Do you recommend the Commission approve Westar's lost margin recovery mechanism?

A. No. The Commission should deny Westar's request to recover lost margins if it approves the SBL and Targeted EE programs because:

- the Commission has stated in its policy orders that it will not allow for lost revenue recovery mechanisms;

[69] Westar Response to CURB DR 105.

- the SBL program does not have a significant detrimental impact to Westar's finances;
- the Targeted EE program does not have a significant detrimental impact to Westar's finances;
- the SBL program does not meet the Commission's guidelines for a program to qualify for a shared savings mechanism because it does not target fixed or low-income customers and does meet the Commission's whole house requirement;
- Westar's proposal to recover lost margins does not use DEER estimates;
- Westar does not include an EM&V plan to verify actual margins lost due to the successful implementation of energy efficiency programs; and
- Westar failed to adequately estimate and true-up lost margins allowed by the Commission in the Simple Savings program.

X. FINAL RECOMMENDATION

Q. Please summarize your conclusions and recommendations.

A. Based upon the testimony presented, I recommend the Commission deny Westar's application in its entirety. Each of my conclusions and recommendations is listed below:

1. WattSaver:
   - customers spent $24 million creating the WattSaver program – which Westar says saves 52 MW on peak – but Westar does not use the program;
   - if the Commission determines the WattSaver program is economic, with benefits for Westar's system as a whole, then the Commission should include language in

its order requiring Westar to utilize WattSaver program, as it may be the least-cost, most-efficient way to serve customer's needs;

- if the Commission determines that the WattSaver program is not used and useful, is not economic, and does not provide a benefit to consumers, then the Commission should terminate the WattSaver program and order Westar to refund the $24 million customers paid for the WattSaver program;

2. Proposed programs:
   - the Commission should deny the SBL program as presented because:
     - as proposed, the parameters of the program are too broadly defined and allows the cost of energy efficiency improvements at big businesses to be subsidized by other ratepayers;
     - the cost to manage the program is 38% of the overall budget, which is too costly for a small business lighting program;
     - the cost of "free" measures provided through the program are greatly inflated;
     - there is no plan for the EM&V of program results; and
     - the SBL program is not cost-effective and does not pass the TRC or RIM tests.
   - the Commission should deny the HEA program because a participant is not required to implement recommended improvements in a comprehensive and logical way, making any energy efficiency savings from the program unreliable, in the sense of a resource;
   - the Commission should deny the Targeted EE program because:

- it is a social program that should not be funded by ratepayers;
- there is no evidence that the proposed $3 million budget is an effective way to address the needs of the program; and
- there is no assurance that the $3 million provided in the Targeted EE program will be used to increase weatherization services in Westar's service territory.

- if the Commission approves any of the programs proposed in the application, the Commission should deny Westar's request to provide future budgets upon request and, instead should specify that the programs expire when the approved operating budgets expire;
- if the Commission approves any of the programs proposed in Westar's application, the Commission should deny Westar's request to change the third-party provider at its own discretion;
- if the Commission approves any of the programs prosed in Westar's application, the Commission should specify that the programs are "pilot programs" and that the determination as to whether the program will become a "permanent program" will be made after a complete EM&V has been conducted and approved by the Commission.

3. Lost Margin Recovery Mechanism

- The Commission should deny Westar's request for a lost margin recovery mechanism because:
  - the Commission has stated that it will not allow for lost revenue recovery mechanisms;

- the SBL program does not qualify for a lost margin recovery mechanism because the margins lost from the implementation of the program do not have a significant detrimental impact to Westar's finances;
- the Targeted EE program does not qualify for a lost margin recovery mechanism because the margins lost from the implementation of the program do not have a significant detrimental impact to Westar's finances;
- The SBL program does not meet the Commission's guidelines for a program to qualify for a shared savings mechanism;
- Westar's proposal to recover lost margins does not use the Database for Energy Efficient Resources ("DEER") estimates and instead uses deemed savings, which inflates the lost margin recovery;
- Westar's proposal to recover forecasted lost margins does not include a plan to verify actual margins lost due to the successful implementation of energy efficiency programs; and
- Westar failed to adequately estimate and true-up lost margins allowed by the Commission in the Simple Savings program – the only instance the Commission approved a shared savings mechanism.

Q. Does this conclude your testimony?

A. Yes.

<u>VERIFICATION</u>

STATE OF KANSAS)

COUNTY OF SHAWNEE) ss:

I, Stacey Harden, of lawful age and being first duly sworn upon my oath, state that I am a regulatory analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.

Stacey Harden

SUBSCRIBED AND SWORN to before me this 18th day of March, 2015.

Notary Public

DELLA J. SMITH
Notary Public - State of Kansas
My Appt. Expires January 26, 2017

My Commission expires: 01-26-2017.

CERTIFICATE OF SERVICE

15-WSEE-181-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 18th day of March, 2015, to the following:

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