BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

LARRY WILKUS

WESTAR ENERGY

DOCKET NO. 18-WSEE-328-RTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Lawrence ("Larry") M. Wilkus, 818 South Kansas Avenue, Topeka, Kansas 66612.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Westar Energy, Inc. ("Westar") as Director, Retail Rates.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. In 1985, I received a B.S. in Mechanical Engineering from the University of Kansas. I also attended the University of Missouri – Kansas City, where I earned an M.B.A. with emphasis in Finance in 1991 and a M.S. in Accounting in 1999. I am a Certified

Management Accountant and Certified in Financial Management as well as a member of the Institute of Management Accountants.

I joined Westar Energy as Director, Retail Rates in January 2016. From August 1997 to January 2016, I was employed by Kansas City Power & Light and Aquila and held various financial management, regulatory, and asset management positions. From January 1995 to August 1997, I held financial management positons at the City of Kansas City, Missouri Water Services Department and Missouri Gas Energy where my responsibilities included developing utility rates. Prior to that, I was employed by AlliedSignal AeroSpace Company in Kansas City, Missouri in various engineering positions in manufacturing and facilities operations.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION OR ANY OTHER REGULATORY COMMISSION PREVIOUSLY?

A. Yes. While employed at Aquila, I filled testimony in the States of Colorado and West Virginia related to class cost of service, changes in general terms and conditions, and other issues in support of general rate case filings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will:

1. Introduce the sponsors of accounting adjustments in the application;

2. Present the financial and accounting data taken directly from the accounting records that support this Application, and sponsor all schedules in sections 3 through 6, 8 through 10, 12 through 14, 16 and 17 of the Application;

3. Discuss our proposed two-step rate change approach in this case to provide our customers the benefits of tax reform as early as possible and to capture two major known and measurable items that will have an impact on base rates in February 2019;

4. Discuss the impact of tax reform on revenue requirements for rates effective September 2018 and the proposed bill credit for the net benefits from January 1, 2018 to when rates become effective;

5. Sponsor the Weather Normalization adjustment;

6. Sponsor the Customer Annualization adjustment;

7. Sponsor the Knock and Collect adjustment;

8. Introduce the sponsors of the class cost of service study, describe our approach to allocating the revenue surplus in the first step and deficiency in the second step to the rate classes in this two-step rate change request, and present Westar's proposed revenue changes by rate class;

9. Introduce the sponsors of the residential rate design changes being proposed, including new rate offerings;

10. Sponsor changes to the Property Tax Surcharge (PTS) and Retail Energy Cost Adjustment (RECA) tariffs;

11. Sponsor changes to the General Terms and Conditions of Service; and

12. Discuss an alternative rate making approach for the Western Plains wind farm that would benefit customers.

II. ACCOUNTING DATA AND ADJUSTMENTS

Q. ARE YOU SPONSORING ANY SCHEDULES TO THIS APPLICATION?

A. I am sponsoring all of the schedules in Sections 3 through 6, 8 through 10, 12 through 14, 16 and 17 of the Application.

Q. ARE OTHER WITNESSES SPONSORING THE SCHEDULES IN SECTIONS 7 AND 11?

A. Westar witnesses Mr. Somma and Ms. McGrath will sponsor all schedules in Section 7, which includes capital structure and cost of money. Westar witness Mr. Devin will sponsor all schedules in Section 11 - Tax - and the tax impact of all accounting adjustments.

Q. WHAT IS THE SOURCE OF THE DATA IN THE AFOREMENTIONED SCHEDULES?

A. The data in these schedules are sourced from Westar's official books and records.

Q. WHICH WESTAR WITNESSES WILL BE SPONSORING ADJUSTMENTS IN THIS APPLICATION?

A. Exhibit LMW-1 lists the accounting adjustments and the witness sponsoring each adjustment.

III. TWO-STEP RATE CHANGE

Q. WHY ARE YOU REQUESTING A TWO-STEP APPROACH FOR THE PROPOSED RATE CHANGES WITH THIS FILING?

A. For two reasons. First, the impact of tax reform is included in our filing. Rather than delaying the case until later in the year, we decided to accelerate the process of providing those benefits to our customers earlier rather than later. Second, there are two major drivers of our case – the expiration of the Mid-Kansas Electric Cooperative (MKEC) wholesale contract and the expiration of some of our wind generation federal production tax credits (PTCs) – that do not occur until January 2019 and February 2019, respectively. However, under the 240-day time period the Commission has to issue its order in the case, the rate increase that results from this case would be effective in late September 2018, four months before Westar experiences the impact from these revenue losses. As a result, we are proposing a two-step rate change with the first rate change – a rate decrease – to become effective in September 2018, 240 days after the filing of this Application. The first step would not include the impact associated with the MKEC contract and the expiring PTCs. We would then implement a second step, effective February 1, 2019, a rate increase that would add in the revenue requirement associated with the MKEC contract and the expiring PTCs.

Q. HOW DID YOU HANDLE THE TWO-STEP RATE CHANGE WHEN YOU PREPARED YOUR FILING IN THIS CASE?

A. We prepared two revenue requirement models, the first without the impact from the expiration of the MKEC contract and the expiring PTCs and the second that includes those impacts. We had our class cost of service consultant, Westar witness Amen, prepare two class cost of service (CCOS) studies – one for each of the two revenue requirements – and we are proposing allocations of the revenue requirements to the classes for each of the rate changes. We have also designed two sets of rates for each customer class, with the first set to be effective in September 2018 and the second set to be effective February 1, 2019.

Q. WHY IS IT REASONABLE FOR WESTAR TO REQUEST THIS TWO-STEP RATE CHANGE?

A. The revenue requirement impact associated with the expiration of the MKEC contract and the PTCs is known and measurable today, despite the fact that the loss of that revenue will not occur until January 2019 and February 2019. The amount of that impact on Westar's revenue requirement is significant – about $54 million. Additionally, the approach we have taken enables us to pass along the benefits of tax reform to our customers as soon as possible while avoiding filing another rate case to adjust our rates for these items immediately after we receive a decision in this case. This ensures that our customers do not pay the additional costs until Westar actually experiences the loss in revenues in February 2019 while avoiding the costs of a second rate case that would ultimately be included in our customers' rates.

IV. TAX REFORM

Q. IS THE IMPACT OF THE FEDERAL TAX CUTS AND JOBS ACT (TAX REFORM) REFLECTED IN REVENUE REQUIREMENTS IN THIS RATE REQUEST?

A. Yes. The drop in the corporate tax rate from 35% to 21% as well as the impact to accumulated deferred income tax liabilities and assets that became effective January 1, 2018 are reflected in the filing.

Q. WILL CUSTOMERS RECEIVE THE BENEFIT OF TAX REFORM FOR THE PERIOD FROM JANUARY 1, 2018 THROUGH WHEN RATES BECOME EFFECTIVE IN SEPTEMEBER 2018?

A. Yes. In accordance with the Commission's Order Opening General Investigation and Issuing Accounting Authority Order Regarding Federal Tax Reform in Docket No. 18-GIMX-248-GIV, Westar has calculated the difference in its cost of service as determined in our last general rate case (Docket No. 15-WSEE-115-RTS) using the new federal corporate tax rate. As required by the order, Westar will be accruing the monthly difference in a deferred revenue account through the end of September 2018, when the first rate change from this case becomes effective.

Q. PLEASE EXPLAIN THE BENEFIT THAT WESTAR CUSTOMERS WILL RECEIVE FROM TAX REFORM.

A. Westar customers will see the benefit through a reduction of approximately $74 million in Westar's annual revenue requirement after the first step rate change in this case, and this level of benefit will continue to be reflected in rates in the future with the permanent reduction in the corporate tax rate. Additionally, customers will receive a one-time bill credit for the accrued revenue balance partially offset by other cost of service increases (the net accumulated balance or credit amount) for the period of January 1, 2018 through the end of September 2018. This one-time bill credit is projected to be approximately $7.1 million.

Q. WHAT DO YOU MEAN WHEN YOU SAY THAT OTHER COST OF SERVICE INCREASES PARTIALLY OFFSET THE ACCRUED REVENUE BALANCE THAT WILL BE PROVIDED AS A CREDIT TO CUSTOMERS?

A. In its Order opening the generic investigation regarding tax reform, the Commission indicated that

> any affected utility that believes that other components of their cost of service have more than offset the decrease in its income tax expenses will have the ability to file such information and supporting data with the Commission to be considered on a case-by-case basis. The Commission's intention here is not to

> materially impact regulated utilities' profitability, but rather, ensure that the affected utilities are neither positively nor negatively impacted by the passage of federal income tax reform.

Id. at ¶ 11. In other words, the Commission will consider whether any revenue deficiency should partially offset the decrease in income tax expenses. *Id*.

Q. PLEASE EXPLAIN HOW THE CREDIT AMOUNT WAS CALCULATED.

A**.** First, Westar calculated the difference in revenue requirement from the last general rate case (Docket No. 15-WSEE-115-RTS) using the new 21% corporate tax rate. Then monthly retail base revenue was used as a basis to determine the appropriate monthly amounts to accrue as deferred revenue. For the nine-month period of January 1, 2018 through September 30, 2018, the projected amount that will be deferred is $48.7 million.

Second, to quantify the impact of cost increases that offset a portion of this deferral amount, we calculated Westar's 2017 financial results, looking at Westar's earned regulated return on equity for 2017 and comparing that to our current Commission authorized return on equity. This annual amount was adjusted for the nine-month period using the same methodology as the deferred revenue accrual. The total cost increase offset – or the total amount of Westar's revenue deficiency as of the end of 2017 adjusted for a nine-month period – is approximately $41.6 million. The net of the tax reform benefit and the corresponding offset is approximately $7.1 million. This is the amount we propose to provide to customers as a one-time bill credit within 120 days after the Commission issues its order on this Application.[1]

Q. HOW DO YOU PROPOSE TO ALLOCATE THE BILL CREDIT TO CUSTOMERS?

A. We propose to allocate the total amount of the bill credit to the customer classes based on the revenue provided by each class during the test year. Within the residential class, we propose to allocate the bill credit amount as an equal amount to each customer. For all other customer classes, we propose to allocate the bill credit amount within each class based on the customer's billed kWh during the test year.

Q. PLEASE EXPLAIN WHY THE CREDIT IS NOT INCLUDED IN THE REVENUE REQUIREMENT IN THIS FILING?

A. Since it pertains to a period prior to when new rates become effective in September 2018, the net accumulated balance is not an ongoing

[1] Westar proposes to issue the bill credit within 120 days of the Commission Order in order to allow its billing and programming departments time to calculate and administer the credit, including any time necessary to program Westar's billing system to provide the credit to customers.

cost of service and is best treated as a bill credit. This approach helps ensure our customers will receive the benefit quicker.

V. WEATHER NORMALIZATION ADJUSTMENT

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-1

A. This income statement adjustment is required to restate test year revenues and related income taxes to remove the effect of weather that deviated from normal. The weather during the test year, July 2016 through June 2017, was warmer than normal, resulting in higher sales volumes and revenue than would be the case under normal conditions. As such, in this case an adjustment is required to reduce sales revenues. Normal is defined as the 30-year normal established by the National Oceanic and Atmospheric Administration (NOAA) for the period ending June 2017. This definition of "normal weather" has been used by Westar and Staff in each of the most recent four cases.

Because NOAA only updates the 30-year normal every 10 years, the data used is the most recently available.

Q. WHAT METHODOLOGY WAS FOLLOWED IN WESTAR'S WEATHER NORMALIZATION ANALYSIS?

A. The methodology continues to use regression coefficients developed jointly by Westar and the Commission Staff. The methodology is the same as the one accepted by the Commission in several past general rate cases including Westar's most recent case, Docket No. 15-WSEE-115-RTS.

Q. PLEASE EXPLAIN THE METHODOLOGY.

A. A summary of the methodology is provided in Exhibit LMW-2.

Q. HAS THE COMMISSION PROVIDED GUIDANCE REGARDING THE USE OF A 30-YEAR AVERAGE?

A. Yes. In Westar's 2006 general rate case, Docket 05-WSEE-981-RTS, the Commission accepted Staff's weather normalization adjustment, as corrected, which used the then-current NOAA 30-year average.

Q. HOW WAS ADJUSTMENT NO. IS-1 DEVELOPED?

A. Each tariff's monthly energy rate was multiplied by the estimated monthly energy weather adjustment for the given tariff.

Q. WHAT IS THE EFFECT OF ADJUSTMENT NO. IS-1?

A. Because test-year actual weather was different than the 30-year average, Adjustment No. IS-1 serves to decrease revenue by $9,681,475 and income taxes by $2,568,495. Thus, in normalizing for weather, this analysis recognizes that our sales were actually higher in the test year than would have been expected in more normal conditions.

VI. CUSTOMER ANNUALIZATION

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-2.

A. This adjustment, titled Customer Annualization, is necessary to account for the fact that the number of customers was not constant during the test year. The adjustment recognizes the level of operating income that would have been earned from the number and type of customers receiving service at the end of the test year as if those customers had received the same service throughout the entire test year. By recognizing that a change in the number and type of customers will generate a change in revenue in the future for Westar compared to test-year revenue, the adjustment in test year revenue increases the revenue deficiency and the related rate change request of Westar.

Q. BRIEFLY EXPLAIN HOW THE ADJUSTMENT WAS DETERMINED.

A. This adjustment was developed by following the method first accepted by the Commission in Docket Nos. 193,306-U and 193,307-U. Westar proposed and the Commission accepted similar adjustments utilizing this method in Westar's last four general rate cases in Docket Nos. 05-WSEE-981-RTS, 08-WSEE-1041-RTS, 12-WSEE-112-RTS, and 15-WSEE-115-RTS.

Under this method, the net change in the number of customers from July 2016 to June 2017 is calculated for each residential and commercial rate schedule and for the small general service industrial rate schedule. Then, the change in customer count for each rate schedule is assumed to have occurred at a constant rate throughout the test year – in other words, the number of new customers added is the same each month. Next, the total revenue that would have resulted from that levelized change in customer count for each rate schedule is calculated. The calculation includes both customer charges (based purely on the number of customers per month at the fixed monthly charge) and energy charges (based on average weather normalized energy per customer per month) that would have been realized in that month. The total revenue change for all rate schedules are added together to determine a system-wide total revenue change.

Q. PLEASE PROVIDE AN EXAMPLE.

A. If a rate schedule experienced growth of 1,200 customers from July 1, 2016 through June 30, 2017, it is assumed that 100 customers were added each month. The revenue for an additional 100 customers each month is then calculated. The customer additions are cumulative, so that, relative to the customer count at the start (July 1, 2016), the total increases by 100 customers during July, and by another 100 customers during August for a total customer increase of 200 customers during August), and so on for each of the twelve months. Thus, for each month, revenue associated with having 100 more customers than the month before is added to the total revenue, so that by June 2017, the revenue includes the addition of all 1,200 new customers. Table 1 below illustrates this example further.

TABLE 1

Month	Active Customers	Customers Added Monthly in Test Year	Number of Customers for Which Revenue is Added
Jun-16	500,000		
Jul-16	500,100	100	1,200
Aug-16	500,200	100	1,100
Sep-16	500,300	100	1,000
Oct-16	500,400	100	900
Nov-16	500,500	100	800
Dec-16	500,600	100	700
Jan-17	500,700	100	600
Feb-17	500,800	100	500
Mar-17	500,900	100	400
Apr-17	501,000	100	300
May-17	501,100	100	200
Jun-17	501,200	100	100

Q. DOES THE MODEL ASSUME THAT ALL NEW CUSTOMERS IN A MONTH COMMENCE SERVICE ON THE FIRST DAY OF THE MONTH?

A. No. The model assumes that the change in customer count is evenly distributed throughout the entire month. Thus, continuing the example above, it is assumed that the 100 new customers connected each month commence service evenly throughout the month, or that roughly three new customers are added each day. Given this linear distribution of new customers across each period, the total additional revenue and expense for each month is half of the amount associated with the full addition of 100 customers.

Q. HOW WAS THE TOTAL ADJUSTMENT CALCULATED?

A. For the first month, one-half the monthly change in customers for a given rate schedule was multiplied by the monthly weather normalized energy use per customer for each rate schedule. For each successive month, the calculation was repeated on a cumulative-customer-count basis, to determine a total change in kWh per rate schedule for the twelve-month period. The price per kWh for each schedule was multiplied by the change in kWh sales for each schedule by month to determine the revenue from the additional energy sales. The price per kWh includes energy and, if applicable, demand charges. Customer charge revenues were determined by taking the customer charge for each tariff schedule times the number of customers added or removed each month by rate schedule. The total revenue adjustment is the sum of energy and customer charge revenues associated with the new customers on all rate schedules for the twelve months.

Q. WHAT IS THE IMPACT OF THE CUSTOMER ANNUALIZATION ADJUSTMENT?

A. The adjustment decreases revenue and pretax operating income by $2,667,252.

VII. KNOCK AND COLLECT

Q. PLEASE EXPLAIN THE KNOCK AND COLLECT ADJUSTMENT NO. IS-37.

A. In Docket No. 15-GIMX-344-GIV, the Commission approved a three-year pilot program for a temporary waiver to the Electric and Natural

Gas Billing Standards for customers with digital meters. The temporary waiver is intended to replace live on-premises contact, referred to as “knock and collect,” prior to service disconnection for non-pay. As part of the temporary waiver, the Company agreed to additional customer contact attempts, a lower disconnect fee, and no reconnect fee. This adjustment includes the annualized cost of the additional contact attempts, less revenue from lower disconnect and wavier of the reconnect fee, as well as the annualized savings from the decrease in cost of live on premise contacts. The adjustment decreases pre-tax operating income by $528,128.

VIII. REVENUE ALLOCATION

Q. DID WESTAR PERFORM A COST OF SERVICE STUDY FOR THIS CASE?

A. Yes. The cost of service study is sponsored by Westar witness Mr. Amen.

Q. WHAT IS THE PURPOSE OF THE COST OF SERVICE STUDY?

A. It provides useful guidance for determining the allocation of the revenue change to each rate class. Cost of service is not, however, the only consideration in determining the portion of the revenue surplus or deficiency allocated to each rate class. Other considerations include principles such as gradualism to avoid sudden changes, competitive considerations, customer satisfaction initiatives, regulatory obligations, and avoiding or minimizing the potential for inappropriate rate switching.

Q. HOW HAVE YOU TAKEN THE ABOVE FACTORS INTO ACCOUNT IN RECOMMENDING THE LEVEL OF RATE CHANGE FOR EACH RATE CLASS?

A. As in prior rate cases, the process for determining the proposed change for each class includes several steps.

First, from the cost of service study, we determined whether any classes are producing a return significantly above or below the requested return at current rates.

Second, for step one, we allocated the overall decrease using the class cost of service study as a guide. As a result, all classes except for residential DG and lighting receive a decrease. Residential DG receives an increase in this step to address the cross-subsidy issue while lighting as a class remains unchanged given the consolidation of rate areas.

For the step two rate increase, we again determined the reasonable upper limit above the requested overall revenue requirement increase for any class producing less than the allowed return. In this case, no class will receive an increase of greater than one and a half times the average increase based on the roll-in of property taxes in base rates.

Third, we began with the idea that each class should receive cost allocation that allows for gradual movement closer to its allowed return. We followed that principle by recommending that each class receive a rate change that considers both the class contribution to Westar's total revenue requirement and the class share of the rate change relative to the other classes and the system on the whole, in conjunction with the concepts of avoiding rate shock and embracing gradualism.

Fourth, we considered the effects of particular rate design issues. In particular, we took into account the rate design proposals for the residential DG rate class as described by Westar witness Dr. Faruqui in his direct testimony and for the street light rate class as described by Westar witness Mr. Wolfram in his direct testimony.

Finally, we adjusted the remaining allocations such that the proposed rates generate the proposed revenue requirement at the requested rate of return. I will discuss in greater detail the revenue allocation of first step and second step. The proposed revenue change by rate class, both in dollars and as a percent, is shown in Table 2 below, for the total revenue decrease request to be effective in September 2018.

Table 2
Proposed Base Rate Change by Rate Class – September 2018

Rate Class	Current Rate of Return	Proposed Base Revenue Change	Percentage Change
Residential	4.91%	$ (325,757)	-0.04%
Residential - DG	0.48%	$ 42,155	17.23%
Small General Service	7.24%	$ (453,936)	-0.11%
Medium General Service	8.44%	$ (270,472)	-0.11%
Large General Service	11.96%	$ (345,077)	-0.11%
Industrial & Large Power Service	6.69%	$ (87,833)	-0.11%
Interruptible Contract Service	0.43%	$ (1,497)	-0.11%
Special Contracts	1.93%	$ (63,336)	-0.11%
Large Tire Manufactorer	10.05%	$ (9,716)	-0.11%
Schools	0.45%	$ (43,498)	-0.08%
Churches	-2.90%	$ (720)	-0.04%
Lighting	20.29%	$ -	0.00%
Total	6.46%	$ (1,559,687)	-0.08%

*This is the percentage increase without the property tax surcharge roll-in to base rates.

Q. DID YOU ALSO PREPARE A PROPOSED ALLOCATION FOR THE RATE CHANGE THAT WILL OCCUR ON FEBRUARY 1, 2019?

A. Yes. The total revenue change by rate class to be effective February 1, 2019 is shown in Table 3, which reflects the net increase from the step one decrease and step two increase.

Table 3
Proposed Base Rate Increase by Rate Class
February 2019

Rate Class	Rate of Return	Proposed Base Revenue Increase	Percentage Increase
Residential	4.91%	$ 38,322,632	4.60%
Residential - DG	0.48%	$ 48,214	19.70%
Small General Service	7.24%	$ 5,606,850	1.42%
Medium General Service	8.44%	$ 2,932,746	1.24%
Large General Service	11.96%	$ 3,209,692	1.07%
Industrial & Large Power Service	6.69%	$ 662,454	0.87%
Interruptible Contract Service	0.43%	$ 12,672	0.97%
Special Contracts	1.93%	$ 245,383	0.44%
Large Tire Manufactorer	10.05%	$ 70,999	0.84%
Schools	0.45%	$ 1,387,160	2.50%
Churches	-2.90%	$ 83,335	4.52%
Lighting	20.29%	$ -	0.00%
Total	6.46%	$ 52,582,137	2.63%

*This is the percentage increase without the property tax surcharge roll-in to base rates.

Q. PLEASE EXPLAIN WESTAR'S PROPOSED REVENUE ALLOCATION FOR WESTAR'S FIRST STEP RATE CHANGE AND SUBSEQUENT SECOND STEP RATE CHANGE.

A. In the first step rate change, Westar used the class cost of service as a guide in allocating the overall revenue requirement decrease of ($1,559,687). The decrease was allocated to all of the rate classes except the RSDG, due to the existing cross-subsidy issue, and the lighting class, which was not included in the allocation because of the rate consolidation as discussed in Westar witness John Wolfram's testimony. Then the property tax roll-in to base rates was allocated to the customer classes based on adjusted test year kWh usage. This allocation method was used because the property tax surcharge is billed on the basis of kWh usage. The last part of the first step rate change was the allocation of the Interruptible Service Rider (ISR) credit between the classes. This allocation was based on the net revenue change that resulted from the overall revenue decrease and property tax roll-in allocations discussed above.

The second step rate change was used to allocate the overall base rate change from step one and step two. The revenue requirement increase was allocated using the class cost of service as a guide but also considering the ratemaking principle of gradualism. Westar's particular guideline in this regard is that rate classes with a relative rate of return less than the system average would receive no more than one and a half times the overall system average increase with the property tax roll-in included in base rates. This included the residential and church classes. The school class was allocated the system average and the remaining revenue requirement change was allocated to the remaining classes on an equal percentage basis (with the exception of lighting which did not include an increase due to the consolidation of the North and South lighting tariffs, as discussed previously).

Q. WERE THERE ANY EXCEPTIONS TO THE GUIDELINE AND IMPACTS AS DISCUSSED ABOVE?

Yes. There are some sub-classes that experience an increase greater than one and a half times the system average due the structure of the tariffs. This includes the Residential Conservation subclass in the Residential class and the Unmetered and Short-Term Service subclasses in the SGS class. In addition, there are three large industrial customers with specially-designed rates with rates of return below the system average rate of return. Two of these are special contract customers and the third is on the Interruptible Contract Service Rate Schedule ICSR. These were allocated less than the system average increase because of the unique nature of both their consumption and their contractual service arrangements.

Q. DO THE PROPOSED REVENUE ALLOCATIONS FOR THE RATE CLASSES RESULT IN RATES THAT ARE FAIR, JUST AND REASONABLE?

A. Yes. The proposed rates were developed with guidance from the cost of service study but also take into consideration the attributes of sound rate design and consistency with traditional ratemaking practices adopted by the Commission in previous rate cases.

IX. RATE DESIGN

Q. WHAT GUIDELINES OR CRITERIA DOES WESTAR EMPLOY TO EVALUATE ITS RATE SCHEDULES?

A. In this case, as in previous rate cases, Westar generally adheres to the principles outlined by ratemaking scholar James C. Bonbright in his formative work, *Principles of Public Utility Rates.* This approach is described in more detail by Westar witness Mr. Wolfram in his direct testimony.

Q. IS WESTAR PROPOSING REVISIONS TO ITS RATE SCHEDULES?

A. Yes. Westar is proposing the following changes:

- increasing the basic service fee for residential customers by $4.00 and an for commercial and industrial customers at a similar percentage;

- restructuring the Residential Standard Distributed Generation (RSDG) rate to a three-part rate;

- adding the Electric Transit (ETS) rate for public transit customers utilizing electric transit vehicles;

- adding the Public Electric Vehicle Charging Station Service (CCN) rate for electric vehicle (EV) charging stations;

- adding an optional demand rate for residential customers, the Residential Peak Efficiency Rate (RPER);

- adding the Residential Electric Vehicle (REVR) rate for customers with electric vehicles; and

- restructuring our street lighting rates to complete rate consolidation between the Company's North and South territories.

The structure of all other residential, commercial, and industrial rates will remain unchanged.

Q. PLEASE DISCUSS WHY THERE IS NEED TO INCREASE THE BASIC SERVICE FEES FOR ALL CUSTOMER CLASSES.

A. A large portion of costs incurred to serve our customers is fixed while only a small portion of those fixed costs are recovered through the basic service fee. As such, fixed and variable charges, which are based on customer usage, need to be better aligned. The proposed basic service fee increases, which will occur only in the first step of our requested two-step rate change, makes progress toward better aligning fixed costs to fixed cost recovery. Westar witness Mr. Amen's class cost of service study provides support for this proposal.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED REVISIONS TO THE RSDG RATE.

A. Pursuant to the Commission's findings in Docket No. 16-GIME-403-GIE, Westar is proposing to revise the RSDG tariff in order to add a demand charge, reduce the energy charge, and eliminate the block rate structure. Westar witness Dr. Faruqui addresses the changes to the RSDG rate in great detail in his direct testimony.

Q. DID WESTAR CONDUCT ANY ADDITIONAL REVIEWS OF QUANTIFIABLE OR AVOIDED COSTS FOR THE RSDG CLASS?

A. Yes. Experts in our generation and distribution groups reviewed the impacts of residential DG customers on the Westar system. At this point, no quantifiable or avoided costs were identified.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED ETS RATE.

A. Late last year, the Topeka Metro Transit Authority ("TMTA") approached Westar to explore the concept of a public transit electric rate schedule. The TMTA is contemplating converting a portion of its bus fleet to electric vehicles. Westar is proposing a new ETS rate schedule to support this initiative; the rate schedule is applicable for transit use in support of charging electric transit vehicles during off-peak periods. Westar witness Mr. Wolfram addresses this proposed rate in more detail in his direct testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED CCN RATE.

A. Westar is proposing a new rate for EV charging stations. Kansas City Power & Light Company offers a rate schedule for EV charging stations that are located at utility-owned or third-party-owned sites. The rate was approved in Docket No. 16-KCPE-160-MIS. Westar expects continued growth and customer interest in the EV space and anticipates the need for providing electric service to EV charging stations in the Westar service territory. The proposed Rate Schedule CCN is based on the KCP&L tariff. Westar witness Mr. Wolfram addresses this proposed rate in more detail in his direct testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED RPER RATE.

A. Westar is proposing a new rate offering called the RPER rate. The RPER rate is aimed at promoting off-peak residential efficiency initiatives. The rate is an optional three-part rate that provides an incentive for residential customers to shift demand to the off-peak hours. It is possible that offering this optional rate will introduce the revenue impacts of rate switching. Westar proposes to address this in two ways. First, if a customer switches to the RPER rate, the customer cannot switch back to the RS rate for one year, in order to mitigate the adverse effects of rate switching. However, given the lack of experience with this type of tariff for some customers, Westar will allow a one-time opt-out of the one-year requirement. If the customer determines that the tariff is not the best fit based on their circumstances, the customer can request to switch back to their prior rate schedule and not have to wait the full year. Second, Westar seeks to defer the difference in revenue in comparison to the RS rate to a deferred regulatory asset/liability account for inclusion in the next rate case. Westar witness Mr. Wolfram addresses this proposed rate in more detail in his direct testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED REVR RATE.

A. Westar is proposing a new rate offering called the REVR rate. In this case, we are proposing that the tariff be identical to the Residential Peak Efficiency Rate but with different terms and conditions. This tariff is aimed at promoting off-peak charging of EVs. The tariff establishes our intent to implement different rates for residential customers charging an electric vehicle at their residence during off-peak hours. At this time, we do not have sufficient data to determine an appropriate difference in rates for the tariff. Like the proposed RPER rate, Westar is requesting that this tariff be also be included in the rate switching deferral approach. Westar witness Mr. Wolfram addresses this proposed rate in more detail in his direct testimony.

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED REVISIONS TO THE STREET LIGHTING RATE SCHEDULES.

A. Westar is proposing to complete the consolidation of street lighting schedules for the Westar North and Westar South rate areas. This is described in detail in the testimony of Westar witness Mr. Wolfram. Westar is not proposing other incremental base rate increases to the lighting schedules in this case.

Q. DOES THE COMPANY PLAN TO IMPLEMENT A CUSTOMER EDUCATION PROGRAM ALONG WITH THE NEW RATE STRUCTURES?

A. Yes. In accordance with the order in Docket No. 16-GIME-403-GIE, Westar will be implementing a customer education program as soon as practical for all existing and new customers taking service under the RSDG rate schedule upon approval by the Commission in this docket. Likewise, customer education for the new RPER and REVR rates will be provided as well.

Q. PLEASE EXPLAIN WESTAR'S CURRENT AND FUTURE CUSTOMER EDUCATIONAL ACTIVITIES.

A. Westar currently educates customers on rates through customer email, bill inserts, and rate information on the Westar website. For demand charges, the current dashboard that resides on the website can help a customer better understand what demand means. Future educational activities will include an energy cost estimator located on the website dashboard that a residential customer can utilize. It will clearly explain the demand component and how it impacts their monthly bill. Additionally, the customer will be provided information on the best ways to manage their bills through modifying consumption behavior, which allows the customer to be in better control of their electric bills. Additional details on current and future customer education activities are reflected in Exhibit LMW-4

X. CHANGES TO THE PROPERTY TAX SURCHARGE AND RETAIL ENERGY COST ADJUSTMENT RIDERS

Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED REVISIONS TO THE PROPERTY TAX SURCHARGE (PTS) AND RETAIL ENERGY COST ADJUSTMENT (RECA) RIDERS?

A. We propose to remove wind generation Payments in Lieu of Taxes (PILOT) and royalty payments from test year operating expense and instead recover them in the PTS rider and RECA, respectively. These adjustments are detailed in Westar witness Bouzianis direct testimony. Although wind generation is exempt from property taxes in Kansas, Westar makes PILOT payments to counties and school districts where Westar owns wind generation. As PILOT payments are in lieu of property taxes, it is appropriate to include them in the PTS rider. Westar also makes royalty payments to land owners where wind facilities are located. These payments are based on actual energy produced. Because such payments are based on production, consistent with fuel and purchased power, these costs are appropriate for inclusion in RECA. If the Commission approves this request, Westar will file compliance tariffs to effect these two changes. Other proposed changes to RECA regarding treatment of wholesale contracts are discussed in Westar witness Fowler's direct testimony.

XI. GENERAL TERMS AND CONDITIONS

Q. PLEASE EXPLAIN THE PROPOSED CHANGES TO WESTAR'S GENERAL TERMS AND CONDITIONS OF SERVICE.

A. These are all minor and non-substantive changes to language in the Index and Sections 2, 3, and 12. In the Index, the reference to customer charge should be corrected to basic service fee; Section 2 is to update the company mailing address for notices; Section 3 is to add "may" to the initial customer deposit requirement; and Section 12 is to correct references to other sections.

XII. ACCOUNTING TREATMENT FOR WESTERN PLAINS WIND FARM ALTERNATIVE RATEMAKING OPTION

Q. PLEASE EXPLAIN WHAT YOU MEAN BY ALTERNATIVE RATEMAKING FOR THE WESTERN PLAINS INVESTMENT?

A. As mentioned in Westar witness Ruelle's testimony and further described in Westar witness Bridson's direct testimony, an alternative approach to ratemaking for the wind farm would be to set a level annual revenue requirement over the projected 20-year life of the investment. Such an approach avoids the inherent volatility in annual revenue requirements that result from realization of production tax credits (PTC) from wind farm ownership and avoids rate shock when those credits expire. Under the approach, we propose that customers will pay a stable price for this generation resource over the next 20 years. This is effectively treating the wind farm like a purchase power agreement for the benefit of our customers.

Q. IF THE COMMISSION ACCEPTS THE LEVELIZED APPROACH, WHAT WOULD BE THE IMPACT ON WESTAR'S REVENUE REQUEST IN THIS PROCEEDING?

A. As requested in this filing, the revenue requirement for Western Plains in the test year under traditional ratemaking is $31.8 million. As reflected in Exhibit LMW-3, under the levelized approach, the revenue requirement would decrease to $26.3 million – a benefit of $5.5 million that customers would realize immediately when rates become effective in late September, 2018.

Q. TO TAKE ADVANTAGE OF THIS APPROACH, WOULD THERE NEED TO BE SPECIAL ACCOUNTING TREATMENT FOR WESTERN PLAINS?

A. Yes. An Accounting Authority Order (AAO) would be required to record the annual difference in revenue requirements under the traditional ratemaking approach and the levelized approach as either a regulatory asset or regulatory liability over the life of the project. This annual difference, as shown in Exhibit LMW-3, would be recorded as a regulatory asset when traditional revenue requirements are greater than levelized and a regulatory liability when traditional revenue requirements are lower than levelized. At the end of the project life, the cumulative result will be a zero regulatory asset-liability balance. This will result in Westar's customers neither overpaying or underpaying for the benefits received from the investment in this generation resource.

Q. IS THIS THE BEST ALTERNATIVE RATEMAKING APPROACH FOR WESTERN PLAINS?

A. It is the best approach for customers when placing the wind farm in rate base for cost recovery, but not the best approach for matching costs and benefits of a wind farm or other zero fuel cost generation resources for our customers.

Q. WHAT WOULD BE THE IDEAL APPROACH TO MATCH COSTS AND BENEFITS OF THE WIND FARM FOR WESTAR'S CUSTOMERS?

A. The ideal approach would be for customers to start paying for the cost of the wind farm at the time they start receiving benefits. Since the benefits of this zero fuel cost generation resource started flowing through the Retail Energy Cost Adjustment (RECA), to the benefit of our customers, as soon as Western Plains was operational in February 2017, a mechanism to start recovery of the investment at that same time would be an improvement rather than deferring inclusion to the time of the next general rate case. Without that matching, the customers will experience unnecessary volatility in their electric bills – first, through a lower RECA rate, then followed by higher base rates to recover the investment that provided those lower RECA rates. A smoothing of the rate impact by including the costs of the wind farm in rates at the same time the benefits flow to customers is the best approach.

Q. ARE YOU INTRODUCING AN ALTERNATIVE RATE RECOVERY MECHANISM FOR FUTURE WIND RESOUCES TO ALIGN WITH WESTAR'S RECA?

A. No. I am not introducing that at this time but it is something for future consideration. As the electric industry continues to evolve and there is more customer demand to bring on zero fuel cost renewable resources as fast as possible, there will be a requirement from those that provide the capital for these investments to earn a fair return sooner.

Q. THANK YOU.