BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

DICK F. ROHLFS

WESTAR ENERGY

DOCKET NO. ______________

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Dick F. Rohlfs, 818 South Kansas Avenue, Topeka, Kansas 66612.

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

A. Westar Energy, Inc. I am Director, Retail Rates.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated from the University of Northern Iowa with a B.A. in Accounting. My utility experience began in 1976 when I was employed by the Iowa State Commerce Commission as a Utility Analyst. In 1980, I joined the staff of the State Corporation Commission of Kansas. In 1982, I accepted a position with Kansas Gas and Electric Company (KG&E) as a Rate Auditor, advancing to Senior Regulatory Accountant. In 1992, with the merger of The

Kansas Power and Light Company (KPL) and KG&E, I accepted a position of Regulatory Coordinator before advancing to Senior Manager in February 1996. In June 2001, I assumed my current position.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to:

(1) present the financial and accounting data taken directly from the accounting records of Westar North and South that support the Joint Application, and sponsor all schedules in the following sections of the Minimum Filing Requirements (MFRs) of Westar North and South: 3 through 10, 12 through 14, and 16 through 18. Mr. Stadler sponsors Section 11;

(2) directly sponsor, or introduce the sponsors, of adjustments in Westar North's and South's MFRs as follows:

a. I sponsor Adjustment No. 15 of Section 9 in both MFRs, Nos. 33 and 34 in Section 9 of Westar South's MFRs and Adjustment No. 3 in Sections 4 and 5 of Westar South's MFRs.

b. Mr. Oakes sponsors Adjustment No. 4 in Section 4, 5 and 6, Adjustment No. 5 in Section 6, Adjustment No. 5 in Section 10, Adjustment No. 3 in Section 6 and Section 9 of Westar North's MFRs, and Adjustment Nos. 6, 7 and 28 in Section 9 of both MFRs.

c. Mr. Stadler sponsors Adjustments Nos. 26, and 30 through 32 in Section 9 in both MFRs;

d. Mr. Seelye sponsors Adjustments 10 and 27 in Section 9 in both MFRs; and the adjustments related to the implementation of Westar's Transmission Delivery charge. These adjustments are:

Adjustment 4 in Section 4,

Adjustment 4 in Section 5,

Adjustment 5 in Section 6,

Adjustment 28 in Section 9, and

Adjustment 5 in Section 10 in both MFRs

e. Mr. Kongs sponsors all remaining adjustments;

(3) explain why the unamortized gain from the LaCygne 2 sale/leaseback should not be deducted from rate base;

(4) explain the merits of recovering the cost associated with economic development credits provided under Westar's Economic Development Rider in the retail cost of service;

(5) provide an overview of the current Westar North and South rate schedules;

(6) describe our efforts to conform rate schedules and terms and conditions of service between Westar North and South;

(7) describe the guidelines for establishing rates or rate initiatives incorporated in this filing; and

(8) propose and describe the overall rate changes for Westar North and South.

My testimony is organized into the following seven sections:

I. Introduction

II. Accounting Adjustments

III. LaCygne 2

IV. Economic Development

V. Rate Schedule Overview

VI. Consolidation of Rate Schedules and General Terms and Conditions

VII. Rate Design

Q WHAT IS THE TEST YEAR USED IN THESE FILINGS?

A The test year is the 12 months ended December 31, 2004, adjusted to include certain known and measurable changes.

Q HOW DO WESTAR NORTH AND SOUTH MAINTAIN THEIR BOOKS AND RECORDS?

A Westar North and South maintain separate books and records, each in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts.

II. ACCOUNTING ADJUSTMENTS

Q. PLEASE EXPLAIN ADJUSTMENT NO. 15 IN SECTION 9, OF WESTAR'S MFRS IDENTIFIED AS "HOMELAND SECURITY."

A. These adjustments reflect a three-year amortization of quantifiable incremental O&M expenses resulting from additional security measures taken by Westar to increase security at our power plants and offices after September 11, 2001. The majority of the costs are requirements imposed on Wolf Creek Generating Station (Wolf Creek) by the Nuclear Regulatory Commission. Mr. Sterbenz, discusses this in more detail in a confidential portion of his testimony. Additionally, there has been an increase in insurance premiums related specifically to the September 11, 2001 attacks.

Q. WHAT IS THE IMPACT OF THESE ADJUSTMENTS?

A. The impact of these adjustments is shown on confidential Exhibit ____ (DFR-1C).

Q. PLEASE EXPLAIN ADJUSTMENT NO. 33 OF SECTION 9 OF WESTAR SOUTH'S MFRS.

A. This adjustment reflects an appropriate amount of the Corporate Owned Life Insurance (COLI) revenue stream in Westar South's revenue requirement.

Q. PLEASE DESCRIBE WESTAR SOUTH'S CORPORATE OWNED LIFE INSURANCE PLAN.

A. As part of KG&E's post-Wolf Creek Rate Stabilization Plan, which I will discuss further, KG&E purchased corporate owned life insurance on 82 of its directors, officers and key employees on June 18, 1986. The annual premium on such insurance is $23 million. This premium has been entirely funded by shareholders.

Over the first 40 years of the policies, the actuarially determined income stream from such insurance is estimated to be approximately $800 million. Since the policies were purchased, the actuarially determined income stream has been imputed as a credit to Westar South's cost of service thereby reducing rates paid by Westar South's customers.

Q. WHY WAS THE COLI PROGRAM PROPOSED BY KG&E AND APPROVED BY THE COMMISSION IN 1986?

A. KG&E was searching for methods that would allow it to live within the austere constraints of the Commission's Wolf Creek rate order in Docket No. 142,098-U. The COLI program was one step taken by KG&E to include more of Wolf Creek's prudent costs in rate base without increasing prices to customers as KG&E was directed to do by the Commission.

Q. PLEASE ELABORATE ON INITIATIVES TAKEN BY KG&E TO SATISFY THIS DIRECTIVE.

A. The initiatives occurred in three phases: First year response; rate stabilization plan; and the LaCygne 2 sale/leaseback.

Q. WHAT STEPS DID KG&E TAKE IN THE FIRST YEAR?

A. The steps were:

1. Taking appropriate appeals,
2. Cutting the common dividend in half, eliminating 200 jobs, cutting 20% of KG&E's construction budget,

freezing officers' salaries, eliminating most management incentives, reducing civic and charitable contributions, curtailing involvement in industry and professional associations, and initiating cost control measures over all expenditures not directly related to providing electric service to customers. The impact of these cuts was estimated to have been approximately $5 million on annual net income.

3. Engaging in extensive refinancing to both lower the embedded cost of debt and retire a majority of preferred stock. This economic refinancing reduced KG&E's 1986 interest charges by approximately $12.6 million and preferred stock dividends by $4.7 million. KG&E also benefited from lower interest rates on its variable rate debt, but was exposed to potential future interest rate increases on this debt.

4. Asking the Commission to approve accounting changes to (a) accelerate the amortization of construction-related tax credits to an eight-year schedule rather than over the entire depreciable life of the property which gave rise to the credits and (b) capitalize the deferred carrying charges that the Commission permitted with respect to KG&E's

physical excess capacity in Wolf Creek using a before-tax (i.e., gross) rate of return for preferred stock and long-term debt rather than the then current net of tax rate.

5. Acting to retain its existing sales base by negotiating to remain the supplier to a number of major customers for whom cogeneration presented a cost savings opportunity. This particular initiative to influence the timing of the addition of cogeneration to its system in a manner that benefited all of KG&E's customers was recognized by the Commission as striking a balance between the interests of cogenerators and other customers.

Q. DID THE COMMISSION ACT ON THE REQUEST TO AMORTIZE TAX CREDITS AND DEFER CARRYING CHARGES?

A. Yes. The Commission's March 19, 1986 Order in Docket No. 149,109-U approved the accelerated amortization of construction related tax credits, while deferring action on the proposal dealing with deferred carrying charges. At page 7 of its Order, the Commission noted that ". . . although the proposal may have merit, we believe that a decision on this component should be deferred until the [Kansas] Supreme Court decision on the appeal is entered."

The Commission also reiterated its desire, originally stated in the September 27, 1985 Wolf Creek Order, to achieve intergenerational equity among KG&E's customers by attempting to match costs of Wolf Creek with its benefits.

Q. WHAT WAS THE EFFECT OF KG&E'S FIRST YEAR RESPONSE?

A. The effect was positive, but only relative to where KG&E initially thought the Wolf Creek rate orders would take it. Relative to where KG&E was in the 10 years prior to those orders, there was a long way to go.

Q. PLEASE EXPLAIN THE RATE STABILIZATION PLAN.

A. While KG&E was satisfied with the progress it made over the first year following the Wolf Creek Order, KG&E had not yet solved the problem in the intermediate or long run. Furthermore, if interest rates had not turned down sharply in the 1985 – 1986 period, the effect of the programs would have been greatly diminished. Nonetheless, KG&E continued to search for additional, incremental steps to restore financial health without additional rate increases.

Importantly, KG&E developed a major opportunity not only to include more of Wolf Creek's prudent costs in rate base without increasing rates but also to provide $100 million of savings to customers over a five-year period. The plan had three interdependent components: (a) more than $100 million of rate increase delays and rate reductions to enhance the economic viability of KG&E's service territory and efficient use of its generating facilities, (b) a specific framework for the full rate recognition of KG&E's prudent investment in Wolf Creek, and (c) amortization of KG&E's Commission-determined imprudent investment in Wolf Creek.

Q. PLEASE DESCRIBE THIS PLAN IN GREATER DETAIL.

A. All components of the plan were and still are dependent upon the approximately $800 million stream of income that KG&E expected to receive over the initial 40 years from the COLI program. KG&E proposed to use this income stream, combined with utility operating revenue, to cover its Kansas jurisdictional cost of service including a minimally adequate return on KG&E's prudent investment in Wolf Creek.

The viability of the plan required that:

(a) KG&E be permitted to retain the benefits of

(i) cost-cutting measures,

(ii) economic refinancing and

(iii) the new federal tax law;

(b) the Commission reconfirm one accounting change and authorize two others:

(i) accelerated amortization of construction-related tax credits,

(ii) accrual of carrying charges on the portion of Wolf Creek that constituted physical excess capacity, and

(iii) extension of Wolf Creek's depreciable life from 30 to 40 years;

(c) the first and second increases under the Commission's phase-in plan be made permanent, the third and fourth increases be delayed;

(d) the revenue impact of the retirement of KG&E's Ripley Station be added to KG&E's third increase;

(e) KG&E be permitted to amortize over five years the allowed costs of operating Wolf Creek from its commercial service date to the effective date of the Wolf Creek rate Orders; and

(f) the Commission find that the plan permitted rate recognition of KG&E's prudent investment in Wolf Creek beginning January 1, 1992.

Q. WHAT WERE THE BENEFITS OF THE PLAN TO CUSTOMERS AND SHAREHOLDERS?

A. KG&E customers benefited from up to $80 million of rate delays; $27 million of rate reductions; KG&E's continued ability to maintain its sales base and avoid shifting fixed costs to customers with relatively inelastic demand; the creation of a realistic cap on the accumulation of carrying charges on the physically excess, but nonetheless prudent, portion of Wolf Creek; and the amortization of those carrying charges without further rate increases.

KG&E's shareholders benefited because the proposed regulatory accounting changes, combined with explicit Commission authorization for KG&E to retain the benefits of economic refinancing, reduced operating costs. Additionally, federal tax law changes permitted KG&E the opportunity to sustain progress toward the restoration of its financial integrity to a minimally adequate level.

Q. THE THIRD PHASE WAS THE SALE/LEASEBACK OF LACYGNE 2. PLEASE DESCRIBE THIS TRANSACTION.

A. In 1987, KG&E entered into a sale/leaseback of its 50% interest in LaCygne 2 to continue the process of restoring its financial health without increasing rates. I will discuss the benefits of this transaction later in my testimony.

Q. RETURNING TO THE DISCUSSION OF THE COLI ADJUSTMENT, WHAT IS THE IMPACT OF THE ADJUSTMENT YOU ARE PROPOSING?

A. The COLI adjustment increases Westar South's revenue by $25,434,502 and increases net income by $15,317,293. This amount reflects one year of amortization of the remaining portion of the $800 million COLI income stream.

Q. DOES THE AMOUNT INCLUDED IN THIS ADJUSTMENT REFLECT A CHANGE FROM THE APPROACH TAKEN IN PREVIOUS RATE PROCEEDINGS?

A. Yes. But the change is necessary to make the COLI amortization consistent with KG&E's and the Commission's original intent.

As I have stated, the COLI component of the rate stabilization plan was designed to match the operating life of Wolf Creek and the inclusion of Wolf Creek costs in KG&E's revenue requirement. To assure the Commission that $800 million of net income would be provided to customers, Westar has used the actuarial stream of net income through 2025 in all rate proceedings prior to this case. The Commission's order in Docket No. 01-WSRE-436-RTS modified Wolf Creek's depreciable life assuming that Westar would request and be granted a license extension of 20 years. This change in life created a timing mismatch in the benefits of the COLI plan and the inclusion of costs for Wolf Creek. Moreover, it creates a disconnect from the September 27, 1986 order that states the Commission's desire to achieve intergenerational equity among KG&E's customers by attempting to match costs of Wolf Creek with any benefits.

Q. DOES YOUR ADJUSTMENT CORRECT THE MISMATCH IN COLI BENEFITS AND WOLF CREEK COSTS?

A. Yes. The proposal matches the remaining amount of the $800 million net income to the currently anticipated life of Wolf Creek – that is, through 2045. In addition, I am proposing to levelize this benefit to stabilize the amount of benefits provided customers by the COLI plan. Without these changes, the rate impact will be $48,902,819 in 2025 because the imputed net income stream from COLI will end but the costs of Wolf Creek will remain in rates.

Q. WHAT IS ADJUSTMENT NO. 34 IN SECTION 9 ENTITLED "777 WEST CENTRAL" IN WESTAR SOUTH'S MFRS?

A. This adjustment allocates to customers a portion of the gain from the sale of land at 777 West Central, Wichita, Kansas. The net gain on the sale of the land was $881,383.

Q. HOW DID YOU DETERMINE THE ALLOCATION OF THE GAIN BETWEEN CUSTOMERS AND COMPANY?

A. I allocated the gain based on the guidelines established by the Kansas Court of Appeals. (*See Kansas Power & Light Co. v. State Corporation Comm'n*, 5 Kan. App. 2d 514 (1980).)

Q. WHAT WERE THE GUIDELINES SET FORTH BY THE COURT OF APPEALS?

A. The Court stated that

> When the utility seeks a rate adjustment ... the KCC should consider the gain as a factor in the ratemaking process. In doing so they [sic] should consider the following guidelines (not intended to be all inclusive) to determine how the gain should be allocated.
>
> (1) The risk of loss of investment capital.

> (2) Contribution by the ratepayers to the value of the property, such as maintenance, upkeep and improvements.
>
> (3) Financial integrity of the company, and the effect of the allocation on the price of the stock and the ability of the company to attract adequate capital.
>
> (4) Increases in the value of the property due to inflation.
>
> (5) Increased value of the property due to improvements in the neighborhood of the facilities sold as a result of special assessments for such things as curbing, guttering, sewage treatment plants, sewers, water, water treatment plants, general street facilities, neighborhood improvement districts, urban renewal, and other matters resulting in increased value of the property which were paid in whole or in part by the ratepayers.

Id. at 528-29.

Q. PLEASE DISCUSS THE FIRST GUIDELINE, RISK OF LOSS OF INVESTMENT CAPITAL.

A. The guideline has two significant phrases contained within it: "risk of loss" and "investment capital." Since this sale involves land, the risk of loss from catastrophic damage is non-existent, therefore the loss of investment capital is non-existent as well. I did not assign any allocation of the gain based on this specific guideline.

Q. PLEASE DISCUSS THE SECOND GUIDELINE, CONTRIBUTION BY CUSTOMERS TO THE VALUE OF THE PROPERTY SUCH AS MAINTENANCE, UPKEEP, AND IMPROVEMENTS.

A. Minimal costs were incurred in the upkeep of this land. The shareholder only received its return on the investment each year the plant was in service. Since upkeep and maintenance was minimal, I excluded this guideline from the consideration of the allocation of gain.

Q, PLEASE DISCUSS THE THIRD GUIDELINE, FINANCIAL INTEGRITY OF THE COMPANY, AND THE EFFECT OF THE PRICE OF STOCK AND THE ABILITY TO ATTRACT ADEQUATE CAPITAL.

A. I believe that stockholders and customers benefit equally from a financially sound utility and that the gain should be allocated evenly between the two on this guideline.

Q. PLEASE DISCUSS THE FOURTH GUIDELINE, INCREASES IN THE VALUE DUE TO INFLATION.

A. This asset was in Westar's rate base for approximately 69 years. Inflation as measured by the Consumer Price Index (CPI) increase at an average annual rate of 2.75% over this time frame. Customers have paid a return to Westar's investors based on the original cost; therefore, the increase in inflation value should remain with investors. The increase in value over inflation needs to be allocated. I recommend that the gain in excess of inflation adjusted original cost should be allocated evenly between Westar and customers under this guideline.

Q. PLEASE DISCUSS THE FIFTH GUIDELINE, INCREASE VALUE OF PROPERTY DUE TO IMPROVEMENTS IN THE

NEIGHBORHOOD OF THE FACILITIES SOLD AS A RESULT OF SPECIAL ASSESSMENTS FOR SUCH THINGS AS CURBING, GUTTERING, SEWAGE TREATMENT PLANTS, SEWERS, WATER, WATER TREATMENT PLANTS, GENERAL STREET FACILITIES, NEIGHBORHOOD IMPROVEMENT DISTRICTS, URBAN RENEWAL AND OTHER MATTERS RESULTING IN INCREASED VALUE OF THE PROPERTY WHICH WERE PAID IN WHOLE OR PART BY CUSTOMERS.

A. Several improvements have been added to the neighborhood of this property. The City of Wichita and the residents of Wichita have funded these improvements. Therefore, I recommend that the gain be allocated to customers under this guideline.

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS.

A. The following table summarizes the gain on the sale of land at 777 West Central and the allocation I propose for each of the guidelines suggested by the Court. The final distribution of the gain between customers and Westar is based on the average of the five guidelines on the following table.

Guideline	Allocation of gain	
	Customer	Company
1	0	0
2	0	0
3	$ 440,691.65	$ 440,691.65
4	$ 401,968.56	$ 479,414.73
5	$ 881,383.30	0
Total	$1,724,043.51	$ 920,106.38
	65.20%	34.80%
Allocated dollars	$ 574,681.17	$ 306,702.13
Amortization period = three years		
	$ 191,560.39	

Q. WHAT ARE YOU RECOMMENDING TO THE COMMISSION?

A. I am recommending that the Commission adopt the above table as a basis for allocating the gain on the sale of land at 777 West Central. The results as shown in this table are 65.20% of the gain to the customer. This translates to $574,681 of the after tax gain. Using a three-year amortization, operating income is increased by $191,560 for Westar South.

III. GAIN ON SALE OF LACYGNE 2

Q. DID WESTAR MAKE AN ADJUSTMENT REGARDING THE GAIN ON THE SALE OF KG&E'S OWNERSHIP INTEREST IN LACYGNE 2?

A. No.

Q. WHY NOT?

A. Because all of the benefits of the sale/leaseback either have been or will be given to KG&E customers over the life of the LaCygne 2 lease.

Q. PLEASE DESCRIBE THE SALE/LEASEBACK TRANSACTION.

A. KG&E sold LaCygne 2 to U.S. West Financial Services, Inc. and generated net cash of approximately $340 million and a book gain of approximately $181 million and leased the plant back.

Q. CAN YOU QUANTIFY THE ANNUAL SAVINGS TO KG&E CUSTOMERS FROM THE SALE/LEASEBACK?

A. Yes. The **annual** net reduction in KG&E's revenue requirement is approximately $14.7 million.

Q. WHAT ARE THE COMPONENTS OF THAT NUMBER?

A. The benefits to KG&E customers were:

1. A $17.4 million annual reduction in KG&E's cost of capital due to the repurchase of common stock, redemption of bonds and retirement of high cost debt;
2. A $3.1 million reduction in KG&E's annual revenue requirements due to the use of tax benefits that would otherwise have been lost;
3. An $11.8 million reduction in KG&E's annual revenue requirement due to the amortization of the book gain on the sale of LaCygne 2;

4. A $7.5 million reduction in KG&E's annual depreciation expense and return on rate base due to the removal of LaCygne 2 from KG&E's books; and

5. A $15.6 million annual reduction due to the elimination of the fourth scheduled step of the Wolf Creek rate phase-in.

KG&E makes an annual lease payment on LaCygne 2 of $40.7 million. The net savings to KG&E customers is $7.7 million – the difference between the sum of the savings – $48.4 million – and the lease payment. Critical to understanding the transaction and its appropriate regulatory treatment is the fact that **all** of the cash generated from the transaction was used to repurchase, redeem or retire securities to reduce KG&E's cost of capital.

In all, KG&E repurchased $199,000,000 of common stock, redeemed $98,712,515 of bonds and retired $56,284,002 of high cost, short-term debt. Exhibit ____ (DFR-2). **Given that 100% of the net proceeds from the sale were used to benefit KG&E customers,** the Commission's treatment of the unamortized gain in the last case as cost-free capital serves to double count and capture twice the value of the gain for customers from the subject transaction. The bottom line is that it simply is not possible for KG&E to have used all of the net cash proceeds to reduce capital costs **and also** have the benefit of cost-free capital from the asset sale.

IV. ECONOMIC DEVELOPMENT CREDITS

Q. DOES WESTAR ENERGY HAVE AN ECONOMIC DEVELOPMENT TARIFF?

A. Yes. Both Westar North and South have Economic Development tariffs.

Q. WHAT IS THE PURPOSE OF THE TARIFF?

A. To promote economic development in Westar's service territory. Economic development attracts capital to the state, diversifies Westar's customer base and creates jobs. The tariff requires eligible customers to increase load requirements by 200 kW. Eligibility is also contingent on the customer increasing permanent employees.

Q. WHEN DID THE COMMISSION APPROVE THE TARIFF?

A. The Commission approved the tariff for Westar North in 1987 and for Westar South in 1988. (Prior to 1988, KG&E had an Industrial Development tariff.)

Q. HOW DOES THE ECONOMIC DEVELOPMENT WORK?

A. Customers served under Economic Development tariff receive a discount from the otherwise applicable rate for the portion of their load that qualifies. The discount starts at 25% in the first year and declines by 5% in each of the next succeeding four years.

Q. HOW ARE DISCOUNTS REFLECTED IN WESTAR NORTH'S AND SOUTH'S REVENUE REQUIREMENTS?

A. The amounts of the discounts have not been imputed into pro forma revenues of Westar North and South.

Q. HAVE THE DISCOUNTS PREVIOUSLY BEEN IMPUTED TO WESTAR NORTH AND SOUTH FOR RATEMAKING PURPOSES?

A. In our previous rate review they were imputed. However, for Westar North, they have not always been imputed.

Q. PLEASE EXPLAIN.

A. In the order approving Westar North's Economic Development rate in 1987, the Commission stated "[w]e believe such a rate would provide an incentive for growth, improve the economy, and create jobs in [Westar North's] service area. Furthermore, the discounts are not so large as to cause any cost shifting to other customers." *In the Matter of the Application of the Kansas Power and Light Company for the Approval of the Commission to Make Certain Changes in its Charges for Electric Service*, Docket No. 136,381-U, Order, at p. 8 (July 31, 1987). Based on its findings, the Commission did not require imputation of the discounts to Westar North.

By contrast, the order approving Westar South's economic development rate stated,

> Because [Westar South's] Economic Development Rider may result in reduced revenue, provisions must be made to protect non-participating customers from any potential costs of the reduced rates. The [Westar South] shareholders must be made responsible for any shortfall in revenues due to the rider.

In the Matter of Application by the Kansas Gas and Electric Co. to make certain modifications to its Industrial Development Rider, Docket No. 87-TAR-460-TAR, Order, at 1 (February 26, 1988).

Q. WHEN DID THE TREATMENT OF WESTAR NORTH'S DISCOUNTS CHANGE?

A. In their first joint rate review application after KPL/KG&E merger, Westar North and South proposed to impute the discounts to Westar North to conform the treatment between Westar North and South.

Q WHY SHOULD THE COMMISSION APPROVE WESTAR NORTH'S AND SOUTH'S REQUESTS TO CEASE IMPUTATION OF THE DISCOUNTS?

A. As the Commission found when it approved our Economic Development rates, our customers and the state benefit from the effects of the Economic Development tariff. However, if the discounts are imputed to Westar North and South, we bear all of the costs associated with providing the discount including a portion of the investment risk associated with building facilities to serve the increased load. Ending imputation would properly allocate the costs and risks associated with the Economic Development rates between Westar North and South and our customers.

Q. ARE THE ECONOMIC DEVELOPMENT TARIFFS FOR WESTAR NORTH AND SOUTH THE SAME?

A. Yes. In 1998, Westar filed revised economic development tariffs for both service areas to conform the approach to offer economic development discounts to potential customers.

Q. WHAT ARE YOU RECOMMENDING?

A. I recommend that the Commission return to the approach adopted when it approved Westar North's Economic Development tariff and cease imputing revenue to Westar.

V. RATE SCHEDULE OVERVIEW

Q. PLEASE PROVIDE AN OVERVIEW OF THE CURRENT RATE SCHEDULES IN BOTH RATE AREAS.

A. The Westar North and South individual rate schedules evolved over the 80 plus years during which they operated as independent companies before the KPL/KG&E merger in 1992. Each company analyzed the changing market and regulatory conditions over that time frame, implementing different strategies to provide service to its own customers.

Both Westar North and South have residential rates, rates designed for commercial and industrial customers and rates designed for lighting service. However, the composition of the rates varies between Westar North and South. Differences include seasonal rates, block rates, demand rates, demand ratchets, eligibility requirements of the rates, and billing determinants used in the calculation of the price paid by the customers.

Q. WHAT ARE SOME OF THE MAIN DIFFERENCES BETWEEN WESTAR NORTH'S AND SOUTH'S RESIDENTIAL TARIFFS?

A. Westar North's residential rate schedule contains three options – Standard Service, Peak Management Service, and Conservation Use Service. Standard Service is the default service and includes a customer charge and an energy charge – the latter seasonally differentiated. The Peak Management Service option provides customers the option of managing their peak usage and thereby potentially lowering their total electric bill. The Peak Management Service option includes a demand charge that is seasonally differentiated plus a customer component and an energy component. The Conservation Use Service option is identical to the Standard Service option except that customers are billed at the winter commodity rate if their daily consumption is less than 40 kWh during the three summer months. If average daily usage by a customer exceeds 40 kWh during any of the summer months, the customer is billed at the Standard Service rate for the remainder of that summer.

Westar South's residential rate schedule has four main options – Standard Service, Home Heating, Apartment Heating and

Conservation Use. All four options contain a customer charge and a seasonally differentiated energy charge. For all four options, the summer rate blocks incline. Rate blocks in the non-summer months are either flat or declining. In addition, Westar South's residential rate schedule permits multi-family dwelling units that were master-metered prior to December 21, 1978, to be considered as residential service. These units would be considered commercial under the Westar North tariffs and billed under the General Service rate schedule.

Westar South's Conservation Use option differs from Westar North's as well. Westar South's rate schedule requires a customer to apply for service under the rate schedule and have average daily consumption of 27 kWh or less during the three summer months. In addition, if a customer taking service under Westar South's Conservation Use rate schedule exceeds the daily use limit, the customer is removed from the rate and is required to take service under the Standard Service rate for the next 12 months.

Q. **WHAT ARE SOME OF THE MAIN DIFFERENCES BETWEEN WESTAR NORTH'S AND SOUTH'S GENERAL SERVICE RATE SCHEDULES?**

A. The Westar North and South General Service (GS) rate schedules have only a few, but significant, differences. Westar North's GS rate schedule currently contains a customer charge, an energy charge with a declining block at 1,650 kWh per billing month, and a seasonally differentiated demand charge for billing demand over 5 kW, measured at 30 minute intervals. The GS rate schedule also contains a Recreational Lighting Service option that contains a customer charge and a commodity charge.

Westar South's GS rate schedule contains a customer charge, a seasonally differentiated demand charge for billing demand greater than 5 kW, measured at 15 minute intervals, and an energy charge with a declining block starting at 1,000 kWh. It also contains a Recreational Lighting Service Option similar to the option in the Westar North GS rate schedule.

Q. WHAT ARE SOME OF THE MAIN DIFFERENCES BETWEEN WESTAR NORTH'S AND SOUTH'S OTHER COMMERCIAL AND INDUSTRIAL RATES?

A. The remaining commercial and industrial rates for Westar North and South vary significantly. Westar North has one main tariff that applies to large customers. It is the Large Power (LP) rate schedule. There are other tariffs that were designed for unique circumstances that I won't address here.

Westar South, however, has at least four tariffs under which customers can take service. They are Large General Service (LGS), Time of Day (TOD), General Service – Total Electric (GTE), and High Load Factor (HLF). There are also other tariffs that were designed for unique circumstances.

Westar South's GTE rate schedule originated in 1965. The TOD rate schedule is a product of the Wolf Creek rate case. It was designed to provide customers with the option of lowering their electric bills by controlling on-peak demand. Unfortunately, this rate schedule does not send the correct price signal and has not had the intended benefits that it could have had. The LGS rate schedule tariff historically served medium load factor customers fitting between GS (designed for low load factor customers) and HLF rate schedules. The HLF rate schedule is designed for customers with large loads taking service at a relatively high load factor on a monthly and annual basis.

In addition to the differences in the quantity and options of tariffs between the two rate areas, the tariffs have different design parameters. Westar North's LP rate schedule uses kVA as the basis for billing demand charges and has an hours of use concept for billing the energy charge. It also relies on a 30-minute interval for establishing the billing demand. Westar South's tariffs use kW as the basis for billing demand with a correction for poor lagging power factor and a 15-minute interval for establishing the billing demand.

The energy and demand components also vary among Westar South's four main tariffs. The HLF rate schedule has one demand component and one energy component. The TOD rate schedule has one energy component, but seasonally differentiated peak/off-peak demand components and a customer charge. The LGS rate schedule contains a customer charge, a seasonally differentiated demand charge and declining block energy charges. The GTE rate schedule contains a demand charge, a flat amount for the first 200 kWh, and declining energy blocks thereafter.

Q. WHAT ARE SOME OF THE MAIN DIFFERENCES BETWEEN WESTAR NORTH'S AND SOUTH'S TARIFFS THAT PERTAIN TO SCHOOLS?

A. Westar North and South both have tariffs that are available exclusively for schools. Westar North's Service to Schools (PS) rate schedule contains a standard option with a customer charge, and a declining block energy charge. Other options under this tariff include separately metered space heating or a calculated energy use for space heating.

Westar South has two rate schedules available for schools. They are Educational Institutional Service (EIS) and Total Electric School and Church (TESC). The EIS rate schedule has a seasonally differentiated energy charge with declining blocks and a customer charge. The TESC rate schedule has a seasonally differentiated energy rate.

Q. WHAT ARE SOME OF THE MAIN DIFFERENCES BETWEEN WESTAR NORTH'S AND SOUTH'S LIGHTING TARIFFS?

A. Both rate areas have a street light tariff and a tariff for private area lighting so customers may illuminate property. Westar North's Private Area Lighting (PAL) rate schedule and Westar South's Private Lighting Service (PLS) rate schedule were conformed approximately five years ago. In the last docket, we conformed the standard type of lights offered under the tariffs.

The street light tariffs also were conformed in the last case. We incorporated a standard set of streetlights. In addition, we incorporated an approach for customers to acquire non-standard lighting that is identical between the two rate areas.

VI. CONSOLIDATION OF RATE SCHEDULES AND TERMS OF SERVICE

Q. HAVE YOU CONFORMED ANY OF THE WESTAR NORTH AND SOUTH TARIFFS AND TERMS OF SERVICE?

A. Yes. Some elements of Westar North's and South's tariffs and the terms of service have been conformed over the last nine years. The following are individual instances in which the Westar North and South rate schedules or the terms and conditions of service have been conformed prior to this application:

1. The Schedule of Miscellaneous Fees. Westar North's General Terms and Conditions (GT&C) Electric – Section 12 and Westar South's Service Regulations (SR) – Section 10. A filing was made on July 1, 1996 to conform this section of the terms of service. In particular, Collection or Disconnection Charge and Meter Test Fee between the electric companies and the then gas business of Western Resources were unified. Docket No. 97-WSRE-012-RRG.

2. Short-Term Service rate schedule. A filing was made on September 17, 1997, to modify Westar North's Short-Term Service rate schedule and Westar South's Service Regulations to unify the approach to short-term service. Docket Nos. 98-KG&E-168-TAR and 98-WSRE-169-TAR.

3. Westar South's rate schedules were rewritten to conform language between Westar North's and South's rates schedules and within Westar South's rate schedules, where possible. Docket No. 193,306-U.

4. Interruptible Service Rider (ISR). Westar South introduced an ISR patterned after Westar North's Large Power Interruptible Service Rider (LPI). These

rate schedules are uniform in approach to incentives, penalties, periods of interruptions and notification provided to customers. Docket No. 193,306-U.

5. <u>Residential Subdivisions Policy</u>. On November 25, 1997, Westar South filed revisions to its Policy for Residential Subdivisions. Westar North has more generic language in its GT&C that permits it to follow the Westar South filed policy. Docket No. 98-KG&E-342-TAR.

6. <u>Recreational Lighting Service</u>. On June 2, 1998, Westar North filed a revision to its GS rate schedule to include a Recreational Lighting Service option nearly identical to the Westar South Recreational Lighting Service option in the Westar South GS rate schedule. Docket No. 98-WSRE-782-TAR.

7. <u>Economic Development Rider</u>. On September 21, 1998, Westar North and South filed revisions to their respective Economic Development Riders to unify the approach to economic development in the Westar North and South service territories. Docket Nos. 99-WSRE-213-TAR and 99-KG&E-214-TAR.

8. <u>Average Pay Plan</u>. On October 23, 1998, revised GT&C's and SR's were filed to improve and make

identical the approach for offering the average payment option available to customers. This eased administration of the program and improved customer understanding of the program. Docket Nos. 99-WSRE-316-TAR and 99-KG&E-317-TAR.

9. GT&C, sheets 56 & 57 and Westar South's SR, sheets 39 & 38. Westar North and South filed revisions to their respective terms of service to incorporate legislation related to Energy Efficiency Standards for buildings. Docket No. 99-WSRE-316-TAR and Docket No. 99-KG&E-317-TAR.

10. Renewable Energy Rider (RENEW). On April 7, 1999, Westar North and South filed uniform rate schedules to provide customers the opportunity to support renewable resources through a voluntary program. Docket No. 99-WSRE-506-TAR and in Docket No. 99-KG&E-506-TAR.

11. Westar North's PAL and Westar South's PLS. Westar North and South filed their respective private lighting service rate schedules that conformed the rate schedules where possible. Docket No. 00-WSRE-744-TAR and Docket No. 00-KG&E-773-TAR.

12. <u>Section 4 of GT&C and SR</u>. Westar North and South filed Section 4 of the GT&C and SR to comply with the KCC order filed in Docket No. 97-GIMG-514-GIG, on billing practices standards. Westar North and South took this opportunity to conform this section of the terms of service where possible. In addition, Westar North and South made additional changes to create uniformity between their terms of service under the framework of billing standards.

13. <u>Westar North Load Management Rider (CA$H) and Westar South Load Management Rider (LMR)</u>. Westar North and South proposed to phase out their respective residential load management programs in Docket No. 193,306-U and 193,307-U. The phase-out process was simultaneously completed on January 26, 2001.

14. <u>Westar North's Parallel Generation Service (PGC) and Westar South Cogeneration and Small Power Production (COG)</u>. Westar North and South filed revisions to their respective PGC and COG rate schedules to comply with legislation passed in the 2000 legislative session. They were approved by the

Commission in Docket Nos. 01-WSRE-1104-CON and 01-KG&E-1103-CON on August 29, 2001.

15. Energy Charge Adjustment. Westar North and South each filed an Energy Charge Adjustment rate schedule using the same language to implement the rate increase/decrease that resulted from the Commission's order in Docket No. 01-WSRE-436-RTS on an interim basis pending the outcome of rate design hearings.

VII. RATE DESIGN

Q. WHAT GUIDELINES OR CRITERIA DO YOU EMPLOY TO EVALUATE RATE SCHEDULES?

A. Rate schedules should be designed with three general principles in mind. First, the rate schedules should be designed to produce stable and predictable revenue; second, the rate schedules should be designed to promote efficient use of facilities, reflect the cost to provide the service, and be equitable among various users of Westar's facilities; and third, the rate schedules should be designed with practical attributes such as simplicity and understandability.

Q. MR. SEEYLE DESCRIBES THE CLASS COST OF SERVICE STUDIES PREPARED FOR THIS FILING. ON THE BASIS OF YOUR REVIEW OF THOSE STUDIES AND THE PRINCIPLES JUST DISCUSSED, WHAT ARE THE OBJECTIVES OF YOUR PROPOSED RATE DESIGN?

A. There are three objectives we are attempting to accomplish. One objective is to move class rates of return closer to the average rate of return using a four Coincident Peak (4CP) allocation study. The second objective is to send proper price signals to customers and to align rate components in the various rate schedules to encourage customers to improve their load factors. The third objective is to simplify and conform rate schedules and terms and conditions of electric service between Westar North and South.

Q. WHAT SPECIFIC PROPOSALS ARE YOU RECOMMENDING FOR WESTAR NORTH AND SOUTH RATE SCHEDULES?

A. In addition to changes in customer, energy and demand rates in the various rate schedules tariffs; I am recommending the following changes:

1. A complete re-write of the residential rate schedule for Westar North and South to include the same customer charge for both Westar North and South, the same energy blocks, and the same approach to conservation use. The residential rate I am proposing is differentiated between summer and winter to encourage off-peak use reflecting the relative seasonal cost to serve. It also switches June from a winter billing month to a summer billing month. The proposal modifies the current conservation use rate to

a uniform approach in both rate areas. Finally, the proposal limits Westar North's Peak Management Service to customers currently served under the rate;

2. A complete restructuring and re-write of rate schedules for commercial and industrial customers. This includes:

   (a.) A complete re-write of the GS rate schedules providing for the same energy rate blocks for both Westar North and South and incorporating a billing demand using the 15-minute increment for both rate areas.

   (b.) The inclusion of a new Medium General Service (MGS) rate schedule in both Westar North and South. The MGS tariff will replace three rate schedules in the Westar South rate area and a large portion of Westar North's Large Power rate schedule.

   (c.) The inclusion of an HLF rate schedule in Westar North and the conversion of Westar South's HLF rate schedule to kVA billing demand instead of kW billing demand;

3. The continuation of the approach taken in Docket No. 01-WSRE-436-RTS to conform Westar North and

South pricing of street lights. In the last case, the Commission approved the Street Light (SL) rate schedules, including a new set of standard lights offered and a consistent approach to billing and installing of non-standard street lights;

4. The continuation of the approach taken in Docket No. 01-WSRE-436-RTS to conform Westar North and South pricing of private area lights. In the last case, the Commission approved the Private Area Lighting Service (PAL) rate schedules, including a new set of standard lights offered and a consistent approach to billing and installing of non-standard private area lights;

5. Elimination of two Westar North rate schedules and their replacement with uniform approaches in both rate areas;

6. Introduction of four rate schedules currently in effect in Westar South to the Westar North rate area;

   a. Restricted Peak Service,

   b. Dedicated Off-Peak Service, and

   c. Generation Substitution Service; and

   d. Religious Institution Time of Day Service.

7. The introduction of three new rate schedules in both the Westar North and South rate areas. These tariffs are:

   (a) The Retail Energy Cost Adjustment,

   (b) The Environmental Recovery Rider, and

   (c) The Transmission Delivery Charge; and

   (d) The Reliability-Based Sharing Rider; and

8. Continued movement of individual class rates of return, as shown on the class cost of service studies, towards the average rate of return. This helps avoid unwarranted migration of customers between tariffs.

Q. PLEASE EXPLAIN THE WORK TO CONSOLIDATE THE GENERAL TERMS AND CONDITIONS.

A. The General Terms and Conditions have gradually been consolidated over the past 10 years. Most of the changes were made in Section 3, Credit and Security Deposit Regulations; Section 4, Billing and Payment; and Section 5, Discontinuation of Electric Service.

In this proceeding I am proposing the final step – the adoption of a single set of General Terms and Conditions for both the North and South rate areas. The following is a summary by section of major items:

(1) Section 1, Definitions – Expanded the list of items defined;

(2) Section 2, Electric Service Availability, Service Agreements, and Notices – conformed language between Westar North and South and added a Connection Charge to Westar South;

(3) Section 3, Credit and Security Deposit Regulations – Minor word changes to conform to billing standards;

(4) Section 4, Billing and Payment – Minor word changes to conform Westar North and South existing language;

(5) Section 5, Discontinuation of Electric Service, Minor wording changes to conform Westar North and South existing language;

(6) Section 6, Customer's Service Obligations – Conformed language and approach;

(7) Section 7, Company's Service Obligations – Conformed language and added a section to assure Westar's right to trim trees in right of way and easements;

(8) Section 8, Line Extension Policy – Created a uniform approach to facilitate extending distribution lines to new residential and non-residential customers;

(9) Section 9, Metering – Minor wording changes to conform North and South existing language;

(10) Section 10, General Clauses – Adopted Westar North language;

(11) Section 11, Change in Character of Service – Adopted Westar North language; and

(12) Section 12, Schedule of Miscellaneous Charges and Amounts – Conformed language and charges.

Q. PLEASE EXPLAIN THE RESIDENTIAL RATE SCHEDULE PROPOSAL IN GREATER DETAIL.

A. The proposed residential rate moves the two rate areas to a common form for customers. Rather than three rate options in Westar North (Standard Service, Peak Management Service, and Conservation Use Service) and four rate options in Westar South (Standard Service, Home Heating Service, Apartment Heating Service and Conservation Use Service), there will be two common rate options (Standard Service and Conservation Use). The Peak Management Service in Westar North will be limited to existing customers. Customers who discontinue that service will not be able to return to it. In addition, the residential rate I am proposing is differentiated between summer and winter to encourage off-peak use (winter) and to reflect the lower cost to provide service during the off-peak period compared to the on-peak period (summer). The proposal also switches June from a winter billing month to a summer billing month in recognition of usage patterns in that month. Finally, the proposal modifies the conservation use rate currently in use to a uniform approach in both rate areas. However, to mitigate the rate impact to existing Westar South's conservation use rate customers, we propose allowing those customers to continue taking service under that rate schedule and to limit the amount of the increase to the service.

Q. PLEASE EXPLAIN THE GENERAL SERVICE RATE SCHEDULE PROPOSAL IN GREATER DETAIL.

A. The proposed General Service Rate Schedules continue the process of conforming this tariff between the two rate areas. The final steps are to establish a common energy rate block for both rate areas and a common billing demand structure. This proposal does both.

Today, the energy blocks in both rate areas have different break points. My proposal establishes a common break point for both rate areas at 1,200 kWh. Second, my proposal unifies the approach to calculating billing demand at 15-minute intervals. Because metering necessary for billing at 15-minute intervals will not be in place for all GS customers, I have included an adjustment factor to the customer's billing demand to coincide with a demand rate calculated on a 15-minute demand interval. Westar plans to have the metering equipment changed to read 15-minute demand intervals by the end of 2008.

Q. PLEASE DESCRIBE THE MEDIUM GENERAL SERVICE (MGS) RATE OPTION.

A. The MGS rate schedule will consolidate three rate schedules in Westar South and convert one rate schedule in Westar North to a uniform billing approach. This will unify the approach for providing service to a large segment of commercial and industrial customers – those customers with average monthly demands greater than 200 kW. These customers currently take service under Westar North's LP or under one of three tariffs in Westar South – GTE, LGS or TOD. The rate structure itself will be the same in both rate areas; that is, use of a 15-minute demand interval for billing demand, summer/winter differentiated energy rates and a customer charge. The demand charge will be power factor corrected at 90%. This is a change from Westar North's LP rate schedule that uses kVA billing and Westar South's tariffs that are power factor corrected at 85%.

Q. PLEASE DESCRIBE THE HIGH LOAD FACTOR (HLF) RATE OPTION?

A. The HLF rate schedule is designed for Westar's largest customers that consistently have a high load factor. Westar South currently has this tariff and it is being included in the Westar North rate area to complete the package of primary commercial and industrial rate options.

Q. ARE YOU PROPOSING THAT OTHER TARIFFS BE AVAILABLE TO THE COMMERCIAL AND INDUSTRIAL CUSTOMER GROUP?

A. Yes. I am proposing that four tariffs currently available to Westar South customers be included in the options available for Westar North customers. These tariffs are Dedicated Off-Peak Service, Restricted Peak Service, Generation Substitution Service, and Religious Institution Time of Day Service. The first two rate schedules provide incentives to reduce use during the peak periods. The next tariff provides an alternative to customers with their own generation. In Westar South, this tariff has been used extensively by water and sewer departments seeking backup generation that is either required or highly recommended for their facilities. These three tariffs are all highly effective demand side management tariffs. The last tariff is also an effective demand side management tariff. This tariff is designed for churches that are willing to control peak usage.

Q. WHAT ARE THE PROPOSED CHANGES TO THE STREET LIGHTING AND PRIVATE AREA LIGHTING SERVICE RATE SCHEDULES?

A. There are minor language changes only to clarify the standard components.

Q. ARE YOU PROPOSING TO ELIMINATE ANY WESTAR NORTH RATE SCHEDULES?

A. Yes. I am proposing to eliminate Large Power, Large Power Time Differentiated (LPTD) and General Service Time Differentiated (GSTD) rate schedules. In theory the two latter two tariffs are demand side management tariffs. However, the incentive to shift demand requirements to off-peak times either is not strong enough or customers do not take advantage of the incentives. Currently there are only four LPTD customers and 23 GSTD customers. I believe that these customers will be better served under one of the three primary rate alternatives or, if they choose, one of the new optional demand side management tariffs.

Q. WHAT OTHER CHANGES ARE YOU PROPOSING FOR WESTAR NORTH AND SOUTH RATE SCHEDULES?

A. There are minor wording changes to conform the applicable tariffs in both rate areas.

Q. HOW DID YOU IDENTIFY CUSTOMERS THAT SHOULD OR WOULD MIGRATE TO THE PROPOSED NEW TARIFFS OR BETWEEN TARIFFS?

A. I reviewed the cost relationship (i.e., average cents per kWh at different load factors) between commercial and industrial tariffs.

The goal was to establish load factor relationships among the three primary commercial and industrial tariffs. In addition, I individually reviewed the larger customer accounts to determine if any could switch to an alternative rate schedule. The larger customers included special contract customers. In the proposed rates, I reflected the migration that will or will likely occur due to the proposed rates or expiring contracts. If additional customers are identified as likely candidates to migrate to another rate schedule or from a special contract to a standard rate schedule, some modification to the proposed rates may be needed. This is the process we followed when the Commission issued its most recent rate order.

Q. PLEASE DISCUSS AND EXPLAIN YOUR PROPOSED ENVIRONMENTAL COST RECOVERY RIDER.

A. Westar expects that changing environmental laws and regulations are likely to require Westar to spend large sums of money for environmental compliance. The Environmental Cost Recovery Rider (ECRR) will phase into rates the revenue requirements associated with environmental upgrades and, in large part, avoid the need to record any Allowance for Funds Used During Construction on these projects.

The ECRR is designed to recover the prudently incurred costs of environmental improvements including a return on the capital deployed, a return of the capital (depreciation), related operation and maintenance expenditures directly tied to the environmental improvement and income taxes.

I have not included property taxes in the proposed tariff for two reasons. First, we have a Property Tax Surcharge that permits us to recover changes in property tax and second, we believe that newly installed pollution control equipment is exempt from property tax for ten years from the initial date of operation.

Recovery of the environmental charge will be divided between rate schedules based on the class cost of service studies filed by Westar in this case. The rate will be shown on a pricing sheet and collected on an appropriate basis. For example, the rate could be set on a per KW or a per kWh basis. The pricing sheet will be filed with the Commission by March 31 of each year for approval of any changes with appropriate supporting documents.

Q. PLEASE DISCUSS AND EXPLAIN YOUR PROPOSED RETAIL ENERGY COST ADJUSTMENT CLAUSE.

A. The proposed Retail Energy Cost Adjustment Clause (RECA) is comprised of two main components. One is the familiar Fuel Adjustment Clause (FAC). The second component is an Off-System Sales Adjustment (OSSA). The FAC is nearly identical to the ECA that was approved by the Commission in the mid-1970s. It includes an estimate for fuel costs per kilowatt-hour (nuclear, fossil fuel, purchased power and net interchange divided by sales). The estimate uses a factor to correct it to actual costs two months later.

The OSSA is a component of the ECA that will provide for a sharing of asset based off-system sales margins in excess of the base level set forth in the tariff. This OSSA also includes a correction amount to reflect the difference between estimated and actual kWh sales.

Mr. Seelye describes in greater detail the RECA and the components in his testimony.

Q. PLEASE DISCUSS AND EXPLAIN YOUR PROPOSED TRANSMISSION DELIVERY CHARGE.

A. Presently the revenue requirement associated with the transmission function is bundled in our retail rates. By implementing the Transmission Delivery Charge (TDC) as a separate tariff we will unbundle transmission service and collect the associated revenue requirement through a distinct charge. Mr. Oakes describes the process of calculating the revenue requirements of Westar's transmission system under a formula rate.

Generally, the TDC first allocates the transmission revenue requirements between retail and wholesale customers. Then the retail revenue requirement is allocated to each rate schedule based on the class contribution to our 12-month coincident peaks. The rate schedules are shown on a pricing sheets. As with the environmental rider, the rate will be set on a per KW basis or on a per kWh basis. Changes to the initial pricing sheet, together with appropriate supporting documents, will be filed with the Commission for approval of any changes.

Q. PLEASE DESCRIBE THE RELIABILITY-BASED SHARING RIDER.

A. The Rider provides the formula for calculating the total amount of rebates to customers under the Reliability-Based Sharing Proposal discussed by Mr. Harrison. The Rider also provides the method through which rebates will be made.

Q. HOW WILL REBATES BE MADE UNDER THIS RIDER?

A. We will pay rebates to our customers on a per-kWh basis using each customer's usage for the most recent twelve months prior to the rebate.

Q. WHAT IS THE LAST INITIATIVE YOU ARE PROPOSING FOR WESTAR NORTH AND SOUTH?

A. I am proposing to continue the progress made in the last rate proceeding of eliminating interclass subsidies. This is important because one of the foremost principles of rate design is to recover costs from the customers that cause the costs.

Q. WHAT IS THE PROPOSAL FOR IMPLEMENTING THE PROPOSED TARIFFS ONCE THE COMMISSION ISSUES ITS ORDER?

A. I am proposing that the tariffs be implemented without proration and that instead they be implemented on a "bills rendered on and after basis."

Q. WHY ARE YOU PROPOSING THIS?

A. As I have discussed, in this proceeding we are implementing a large number of changes to our tariffs to continue the convergence of Westar North's and South's rates. As a result, an unusually large number of customers will be moving between rate schedules. Contract demand amounts for some customers will be measured in ways that differ from past practice. Large customers in Westar North will be billed on a different basis. We are introducing two new large commercial and industrial rate schedules to replace the existing Large Power rate schedule. All of these changes will add complexity to the process of implementing the new rates.

Our customer billing system is a highly reliable and flexible system that has lived up to numerous challenges over the years as our business has changed. It is extremely important to us that the process of implementing new rates is as seamless as possible for our customers. Prorating the many changes in the proposed new rates will introduce a significant level of complexity into the process of calculating customers' bills. It should be our joint goal to minimize the likelihood of billing errors and customer concerns. Avoiding proation serves this end. We respectfully request that the Commission allow us to apply the rates without proration to promote an orderly transition to the new rates.

Q. THANK YOU.

Westar Energy, Inc.
Use of LaCygne 2 Sale Leaseback Proceeds

Date	Repurchase Common Stock	Bond Redemption	Other Borrowings	Description
October 1987 - July 1990	$ 199,000,000			Purchase Common Stock
June 1, 1988		$ 24,000,000		Redemption of 14 7/8% Bond
December 7 - 9 1988			$ 25,000,000	Bankers Trust Revolver
March 15, 1989		$ 50,000,000		Redemption of 13 1/2% Bond
April 26, 1991			$ 15,400,000	Repay Short Term Debt
December 29, 1989		$ 18,500,000		Redemption of 16% Bond
Juanuary 14, 1991		$ 6,212,515		Redemption of 4 7/8% Bond
April 26, 1991			$ 15,884,902	Repay Short Term Debt
Total	$ 199,000,000	$ 98,712,515	$ 56,284,902	