

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY
OF
MIKE RINEHART
WESTAR ENERGY

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DOCKET NO. 12-WSEE-112-RTS

I. INTRODUCTION

- 1
- 2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 3 A. Mike Rinehart, 818 South Kansas, Avenue, Topeka, Kansas 66612.
- 4 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?
- 5 A. Westar Energy, Inc. (Westar) as Director Customer Account
- 6 Services.
- 7 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR
- 8 EDUCATIONAL BACKGROUND AND PROFESSIONAL
- 9 EXPERIENCE.
- 10 A. I received a Bachelor of Science degree with majors in accounting
- 11 and business administration from Emporia State University. I
- 12 joined Westar in August 1989. While at Westar, I have served in
- 13 various financial accounting, budgeting, and customer
- 14 accounting/service roles. In my current position, I am responsible

1 for oversight of our retail billing, credit and collections, revenue
2 protection, and revenue accounting departments.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. I sponsor certain adjustments in the Minimum Filing Requirements
5 (MFRs), specifically the RECA/fuel elimination (EA-2), State Line
6 adjustments (RB-7 and IS-28), unbilled revenue (IS-3), energy
7 efficiency demand response program rider (IS-32), and bad debt
8 expense (IS-22). In support of the adjustment to bad debt expense,
9 I will discuss the trend of bad debt expense and arrears balances
10 over the last three years and the efforts we take to assist customers
11 with paying for the electricity they use.

12 **II. RECA/FUEL ELIMINATION ADJUSTMENT**

13 **Q. WHAT IS THE RETAIL ENERGY COST ADJUSTMENT (RECA)?**

14 A. The RECA is a mechanism established and approved by the
15 Commission that allows an electric utility to recover its actual cost
16 of fuel used at its generation facilities to generate electricity. It also
17 allows an electric utility to recover its actual cost of purchased
18 power. The RECA, with its annual cost adjustment, assures that
19 customers pay only the actual fuel cost or purchased power costs
20 incurred by the electric utility. The RECA also allows for the utility
21 to send the proper pricing signals to its customers as it relates to
22 the utility's fuel cost and purchased power costs by allowing those
23 costs to be reflected in rates in a more timely manner.

1 **Q. PLEASE EXPLAIN ADJUSTMENT NO. EA-2 "RECA/FUEL**
2 **ELIMINATION."**

3 A. This adjustment removes the RECA over/under true ups recorded
4 during the test year relating to costs incurred outside the test year.
5 It also includes the true ups related to the test year period that were
6 recorded during the second quarter of 2011. On a monthly basis,
7 we calculate the over/under recovery of RECA-related costs and
8 record them in the general ledger. That calculation includes
9 estimates in order for us to close our accounting books in a timely
10 manner. This adjustment allows for the test year to include only
11 amounts related to the test period.

12 **Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

13 A. This adjustment reduces pretax operating income by \$859,622.

14 **III. ADJUSTMENT RELATING TO THE STATE LINE COMBINED**
15 **CYCLE GENERATING STATION**

16 **Q. PLEASE DISCUSS THE ADJUSTMENTS RELATED TO STATE**
17 **LINE WHICH INCLUDE ADJUSTMENT NOS. RB-7 AND IS-28**

18 A. The State Line Combined Cycle Generating Station (State Line) is
19 an electric generating facility owned 60% by The Empire District
20 Electric Company and 40% by a wholly owned subsidiary of
21 Westar, Westar Generating, Inc. (Westar Generating). Under a
22 Federal Energy Regulatory Commission (FERC) approved tariff,
23 and as approved in Docket No. 02-WSRE-692-ACT ("02-692
24 Docket") by the Kansas Corporation Commission (Commission),

1 Westar is authorized, for the term of its purchase power agreement
2 with Westar Generating, to accumulate and defer for potential
3 recovery in subsequent rate proceedings before the Commission,
4 together with carrying costs equal to Westar's cost of capital
5 allowed in its most recent retail rate proceeding before the
6 Commission, the difference between Westar's annual cost of
7 purchasing capacity and energy from Westar Generating and the
8 annual amount of the cost of such purchases included in Westar's
9 retail electric rates. The amounts accumulated reflect changes that
10 may be made from time to time in rates established by the FERC
11 and the Commission in subsequent dockets, including, as
12 appropriate, changes in the allowed carrying costs.

13 The annualized regulatory liability, representing the net over
14 recovery since the last rate case, is \$747,191. I am recommending
15 a three-year amortization of this amount. This results in an annual
16 increase to pretax operating income of \$249,064.

17 During the test year, the net amortization of the Regulatory
18 Asset and Liability related to State Line decreased pretax operating
19 income by \$313,368. Therefore, in accordance with the order
20 issued by the Commission in the 02-692 Docket, Adjustment No.
21 IS-28 is made resulting in an increase to pretax operating income of
22 \$562,432. Adjustment No. RB-7 reflects the projected regulatory
23 liability of \$747,191 and removes the balances in the regulatory

1 asset and regulatory liability that will be fully amortized at January
2 31, 2012.

3 **IV. UNBILLED REVENUE ADJUSTMENT**

4 **Q. WHAT IS UNBILLED REVENUE?**

5 A. Unbilled revenue represents the estimated dollars associated with
6 energy delivered to retail customers after their meter read date
7 through the end of the calendar month. This entry is recorded each
8 month in order to reflect proper revenue matching of delivered
9 energy with generation and purchased power costs. The entry is
10 reversed in the following month and a new estimate is recorded for
11 that period.

12 **Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-3 "UNBILLED
13 REVENUE."**

14 A. This adjustment is made to remove the net effect of the unbilled
15 revenue estimate recorded during the test year period in order to
16 reflect revenues that were actually billed.

17 **Q. WHAT IS THE EFFECT OF THE ADJUSTMENT FOR "UNBILLED
18 REVENUE"?**

19 A. This adjustment decreases pretax operating income by \$2,138,000.

20 **V. ENERGY EFFICIENCY DEMAND RESPONSE PROGRAM RIDER**

21 **Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-32 RELATING TO THE
22 ENERGY EFFICIENCY DEMAND RESPONSE PROGRAM
23 RIDER."**

1 A. Westar's Energy Efficiency Demand Response Rider (EEDR)
2 allows for recovery of the program costs of our Commission-
3 approved energy efficiency programs. These programs are
4 discussed in detail by Mr. Ludwig. One program, the EEDR allows
5 any participant to earn a credit related to the amount of demand
6 response available for use by Westar for the benefit of all
7 customers. The monthly credit is recorded as a Regulatory Asset
8 and the offsetting entry is to revenue. During 2010, we did not
9 credit revenue until the order related to the EEDR was issued that
10 ensured recovery of the EEDR credit was allowed by the
11 Commission. In November 2010, upon receiving the order, we
12 recorded the credit to revenue for the EEDR credits that were given
13 from January through November. This adjustment removes the
14 amount related to January through March 2010 which is outside the
15 test year period.

16 **Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

17 A. This adjustment decreases pretax operating income by \$925,716.

18 **VI. BAD DEBT EXPENSE**

19 **Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-22 BAD DEBT**
20 **EXPENSE.**

21 A. This adjustment normalizes bad debt expense for the test year
22 period. The adjustment utilizes a three-year average of net charge-
23 offs as a percentage of retail revenue. The three years included in
24 the average calculation were actual calendar year 2009 and 2010,

1 and an annualized amount for calendar year 2011. The 2011
2 calendar year annualized amount for bad debt expense includes six
3 months of actual data (January through June) and our budgeted
4 amount for the remaining six months. This number can be updated
5 and adjusted using the best available information prior to the
6 issuance of the final order in this proceeding.

7 **Q. WHY ARE YOU USING 2011 ANNUALIZED INFORMATION IN**
8 **CALCULATING THE THREE YEAR AVERAGE?**

9 A. The three-year period ending December 2011 provides a better
10 reflection of the recent historical trend than the period ending March
11 30, 2011.

12 **Q. WHAT IS THE EFFECT OF THE BAD DEBT EXPENSE**
13 **ADJUSTMENT?**

14 A. This adjustment decreases bad debt expense by \$809,753.

15 **Q. PLEASE DISCUSS THE TREND IN WESTAR'S BAD DEBT**
16 **EXPENSE AND ARREARS SINCE THE MOST RECENT RATE**
17 **REVIEW.**

18 A. Our net charge-offs as a percentage of revenues increased from
19 0.31% in 2007 to 0.44% in 2010. This represents a \$3 million
20 increase in bad debt expense. The arrears balances including pay
21 agreement accounts increased from \$12.0 million at the end of
22 2007 to \$19.5 million at the end of 2010.

1 **Q. HOW DOES WESTAR ASSIST CUSTOMERS WHO HAVE**
2 **DIFFICULTY IN PAYING FOR THE ELECTRICITY THEY HAVE**
3 **CONSUMED?**

4 A. We have several educational and energy efficiency programs,
5 described in Mr. Ludwig's testimony, to help customers achieve
6 more comfort and convenience from their energy expenditures.
7 Also, we work hard at helping customers identify and secure
8 various types of energy assistance.

9 Our customer service group realized during the winter of
10 2008/2009 that amounts owed by many of our customers that
11 routinely incur difficulties in staying current were rising and that
12 additional traditionally good pay customers were falling into arrears.
13 As we came out of the Cold Weather Rule period in spring 2009,
14 we felt that additional payment options beyond the minimums
15 required by the Commission's Billing Standards were needed for
16 customers that did not qualify for a 12-month pay agreement.

17 In spring 2009, we provided an option that allowed
18 customers to avoid disconnection if they paid half their total account
19 balance instead of the entire arrears balance. We offered this
20 option for the following month as well in order to allow customers to
21 bridge the gap until they were eligible for a 12-month agreement.
22 This option is neither required – nor prohibited – by Westar's Tariff
23 or the Billing Standards.

1 The half-payment option has proven popular with customers
2 and has been supported by Commission Staff. We have continued
3 a version of that plan during the last two years as well. We offer a
4 one time half-payment option versus full arrears during the non-
5 Cold Weather Rule period. We have also allowed customers with
6 previously good pay history to reset their 12-month agreement if
7 they cure the default by making a payment equal to their missed
8 payment(s).

9 During 2010, we began an outreach program to assist
10 customers in applying for LIEAP (Low Income Energy Assistance
11 Program) funds. Our customer advisors work with agencies across
12 our service territory to hold walk-in application assistance days.
13 Our customer advisors participate in these events in order to assist
14 customers who have difficulty with the application process. There
15 has been a significant increase in the number of customers who
16 have applied for LIEAP funds during the last two years. Our credit
17 department has helped to ensure that the customers that most
18 need this assistance are aware of the opportunity and are provided
19 help with the application process.

20 We also assisted with the Laid-Off Worker's Center in
21 Wichita that was established in 2009 by the United Way to provide
22 information and assistance to the large number of people who had
23 been laid-off during the recession.

1 We have increased communication with customers on pay
2 agreements by making calls reminding them their payment is due.
3 This call reminds the customers of the due date and that payment
4 is needed so the pay agreement can remain in place. Most
5 recently we implemented a Project Care program to assist
6 customers that were dealing with the effect of the extreme heat
7 experienced in our service territory that increased their demand
8 resulting in higher than normal summer bills. Our customer
9 advisors set up care stations in multiple communities that allowed
10 customers to meet with them personally and review potential
11 assistance such as eligibility for pay agreements or moving to
12 average pay.

13 **Q. IN WHAT OTHER EFFORTS HAS WESTAR BEEN INVOLVED?**

14 A. Our Customer Advisor staff works with over 125 different agencies
15 across our service territory in identifying individuals that need
16 assistance and meet the criteria for the various forms of aid offered.
17 For example, we have assisted the City of Topeka with its
18 Homelessness Prevention Rapid Rehousing Program. This
19 includes working at the City's intake sessions and providing up-to-
20 date utility balance information on-site for the people applying. We
21 have also worked to provide notice of this program to the
22 customers who can benefit.

1 We continue to offer a life support program for those
2 customers who have essential medical equipment that requires
3 electricity. This program is not intended to allow nonpayment but
4 does allow customers additional time to find payment assistance or
5 make alternative living arrangements prior to disconnection for
6 nonpayment. We also voluntarily implement disconnection
7 moratoriums during periods of extreme heat during the summer
8 months.

9 **Q. THANK YOU.**