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BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

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OF

MIKE HEIM

WESTAR ENERGY

DOCKET NO. 12-WSEE-112-RTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Mike Heim. 818 South Kansas, Avenue, Topeka, Kansas 66612.

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

A. Westar Energy, Inc. (Westar) as a Coordinator, Regulatory.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from Kansas State University with a B.S. in Economics. I initially started with Westar in 1985. I have held various positions in the accounting, regulatory and operations areas at Westar including Supervisor Special Projects, Revenue Requirements Coordinator, Manager of Market and Pricing Analysis and

Accounting Manager of Rangeline, a former subsidiary of Westar. I have been in my current position since August of 2001.

Q. HAVE YOU PROVIDED TESTIMONY PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes. I provided testimony in Docket No. 08-WSEE-1041-RTS.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I sponsor the following adjustments to retail revenue in the Minimum Filing Requirements (MFRs): the ONEOK purchased power agreement capacity sale (RB-8 and IS-31), the Aquila consent fee (RB-9), customer annualization (IS-2), the out-of-period adjustment to match revenues with services (IS-4), the economic development rider (IS-5), the advertising elimination IS-15), Edison Electric Institute (EEI) dues (IS-18), expense elimination related to outside services (IS-19), and relocation expenses (IS-20).

II. ONEOK PPA

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-8 AND ADJUSTMENT NO. IS-31 ONEOK PPA.

A. These adjustments relate to a sale of capacity from Westar's Spring Creek Energy Center (Spring Creek) to ONEOK Energy Services (the ONEOK PPA). Spring Creek is a 300 megawatt gas-fired power plant that Westar purchased from ONEOK in 2006.

Q. WHY DID WESTAR DECIDE TO SELL CAPACITY FROM SPRING CREEK TO ONEOK?

A. When we purchased Spring Creek from ONEOK, ONEOK had committed 75 MW of capacity to the Oklahoma Municipal Power Authority (OMPA) under a purchased power agreement. In order to enable ONEOK to meet its obligations after it sold the plant to Westar, we agreed to a 75 MW capacity sale to ONEOK that matched the terms of ONEOK's capacity sale to OMPA and for which ONEOK makes a capacity payment to Westar. We refer to our contract with ONEOK as the ONEOK PPA.

Q. HOW IS THE CAPACITY SALE UNDER THE ONEOK PPA ACCOUNTED FOR AND TREATED IN RATES?

A. Westar recorded the value of the capacity sale under the ONEOK PPA on its corporate books at the time of acquisition as an asset. We are amortizing that value over the life of the ONEOK PPA. The capacity sale has been treated as a regulatory asset for the purpose of establishing rates. Likewise, the amortization of the asset is considered an expense just like depreciation in setting rates. Finally, the payment for the capacity is treated as wholesale revenue similar to other capacity sales. The revenue received from ONEOK under the ONEOK PPA is credited to the cost of service and reduces our revenue requirement.

Q. WHAT IS THE EFFECT OF THIS TRANSACTION IN THIS FILING?

A. The unamortized value of the ONEOK PPA is $3,637,520. The amortization amount is $909,380 and the amount of revenue received and reflected is $4,546,900. The unamortized value of the ONEOK PPA is shown as Adjustment No. RB-8 of Westar's MFRs. The amortization expense is shown as Adjustment No. IS-31. The revenue received is booked in Account 447 and credited to the cost of service.

III. AQUILA CONSENT FEE

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-9 "AQUILA CONSENT FEE."

A. This adjustment recognizes as cost free capital the unamortized portion of the consent fee that Westar received from Aquila related to the purchase of Aquila's 8% interest in Jeffrey Energy Center (JEC). The amortization of the regulatory liability has been booked to account 451 - Other Revenues - during the test year and is included in the cost of service. Therefore no income statement adjustment is required.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT?

A. The adjustment decreases total rate base by $3,075,758.

IV. CUSTOMER ANNUALIZATION

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-2.

A. This adjustment, entitled 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 of customers receiving service at the end of the test year as if those customers had received service throughout the entire test year.

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 two general rate cases in Docket Nos. 05-WSEE-981-RTS and 08-WSEE-1041-RTS.

Under this method, the net change in the number of customers from April 2010 to March 2011 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 April 1, 2010, through March 31, 2011, it is assumed that an even 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 (April 1, 2010), the total increases by 100 customers during April, and by another 100 customers during May (for a total customer increase of 200 customers during May), 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 March 2011, 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
Mar-10	500,000		
Apr-10	500,100	100	1200
May-10	500,200	100	1100
Jun-10	500,300	100	1000
Jul-10	500,400	100	900
Aug-10	500,500	100	800
Sep-10	500,600	100	700
Oct-10	500,700	100	600
Nov-10	500,800	100	500
Dec-10	500,900	100	400
Jan-11	501,000	100	300
Feb-11	501,100	100	200
Mar-11	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 included energy and, if applicable, demand components. 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 ARE THE IMPACTS OF THE CUSTOMER ANNUALIZATION ADJUSTMENTS?

A. The adjustment increases revenue by $868,644.

V. OUT-OF-PERIOD ADJUSTMENT TO MATCH REVENUES WITH SERVICES

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-4 OUT-OF-PERIOD ADJUSTMENT TO MATCH REVENUES WITH SERVICES.

A. The Out-of-Period Adjustment matches the revenue booked with the service provided for the test period. The adjustment will (a) exclude some revenue booked in the test period for service provided prior to the test period, and (b) include revenue for service provided during the test period but recorded outside the test period.

Q. WHAT IS THE EFFECT UPON OPERATING INCOME OF THE OUT-OF-PERIOD ADJUSTMENT?

A. This adjustment decreases revenue for Westar by $3,549,388.

VI. ECONOMIC DEVELOPMENT RIDER

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-5 ECONOMIC DEVELOPMENT RIDER.

A. The Economic Development Rider Adjustment is necessary to ensure consistency with the Commission's order in Docket No. 05-WSEE-981-RTS. Simply put, the adjustment allows for the recovery from all rate classes of a portion of the rate discount provided to certain customers pursuant to the Economic Development Rider. Specifically, the adjustment increases test year revenue for 40% of the amount of the discounts to be reflected from those customers during 2011 as a result of the Economic Development Rider tariffs. The rider provides a rate discount to certain customers who qualify for service and satisfy the terms set forth in the rider. The rider was developed to encourage economic development in Kansas. Currently, two customers take service under the economic development rider. The adjustment increases revenues by $128,589.

VII. ADVERTISING ELIMINATION

Q. PLEASE EXPLAIN THE ADJUSTMENT NO. IS-15 "ADVERTISING ELIMINATION."

A. This adjustment removes any expense for advertising, where the purpose of the advertising is principally to promote Westar's image. Historically, the Commission has not permitted Westar to include such expenses in the cost of service. This adjustment decreases operating expense by $125,983.

VIII. EEI DUES

Q. PLEASE EXPLAIN THE EDISON ELECTRIC INSTITUTE (EEI) DUES ADJUSTMENT NO. IS-18..

A. The EEI dues adjustment is the net of two adjustments.

We make our dues payments to EEI quarterly and allocate 21% of our dues below the line to Account 426 because that amount has been determined by EEI to be related to non-deductible legislative advocacy expenditures. Unadjusted test year expense reflected four quarterly payments to EEI but five credits each equal to 21% of the quarterly payment. We increased expense by $30,191 to remove one of the credits.

Second, we allocated 6% of the amount paid for the Utility Solid Waste Activities Group (USWAG) membership in the amount of $1,680 to Account 426 in accordance with EEI's determination of our USWAG costs related to non-deductible legislative advocacy expenditures. The net adjustment for EEI dues is an increase in operating expense of $28,511.

IX. ELIMINATION OF EXPENSES RELATED TO OUTSIDE SERVICES

Q. WHAT IS ADJUSTMENT NO. IS-19 "EXPENSE ELIMINATION."

A. This adjustment removes expenses related to outside services provided to some former officers. The adjustment decreases operating expense by $25,331.

X. RELOCATION EXPENSES

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-20 "RELOCATION EXPENSES."

A. During Westar's last rate case Docket No. 08-WSEE-1041-RTS, the Commission made an adjustment to the employee relocation expenses included in Westar's test year. Staff had concluded that the relocation expenses were abnormally high for the test year. The Commission accepted an adjustment that normalized the amount of employee relocation expenses included in Westar's cost of service over a five-year period. The adjustment increases operating expense by $278,695.

Q. THANK YOU.