

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**In the Matter of the Joint Application)
of Westar Energy, Inc. And Kansas Gas) Docket No. 18-WSEE-328-RTS
and Electric Company for Approval to)
Make Certain Changes in Their)
Charges for Electric Service)**

**NON-UNANIMOUS SETTLEMENT
OPPOSITION TESTIMONY OF
PAUL L. CHERNICK
ON BEHALF OF
SIERRA CLUB**

Resource Insight, Inc.

JULY 18, 2018

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1 **I. Identification & Qualifications**

2 **Q: Mr. Chernick, please state your name, occupation, and business address.**

3 A: My name is Paul L. Chernick. I am the president of Resource Insight, Inc., 5 Water
4 St., Arlington, Massachusetts.

5 **Q: Are you the same Paul Chernick that filed direct and cross-answering**
6 **testimony in this proceeding?**

7 A: Yes.

8 **II. Introduction and Purpose of Testimony**

9 **Q: On whose behalf are you testifying?**

10 A: I am testifying on behalf of Sierra Club.

11 **Q: What is the purpose of your settlement opposition testimony?**

12 A: This testimony addresses the Non-Unanimous Stipulation and Agreement (the
13 “Settlement Agreement”) filed by various parties on July 17, 2018, noting that it
14 does not address the serious concerns I raised via direct testimony submitted in
15 June 2018 and thus should not be approved. Moreover, this testimony explains
16 that information received since my direct testimony only reinforces my original
17 findings and recommendations.

18 **III. The Settlement Revenue Requirement Includes the Costs of Continuing to**
19 **Operate Uneconomic Coal Units.**

20 **Q: Does the Settlement Agreement address the concerns underlying your direct**
21 **and cross-answering testimony?**

1 A: No. The Settlement Agreement does not in any way address my concerns that the
2 hundreds of millions of dollars in coal plant investments and expenditures at issue
3 in this case (Chernick Direct, pp. 4–6)—and projected going forward (Chernick
4 Direct, pp. 14–19)—are likely to burden ratepayers. The Settlement Agreement is
5 based upon a revenue requirement that incorporates significant capital and fixed
6 O&M expenditures on coal units for which Westar has not demonstrated cost-
7 effectiveness. As I demonstrate in my Direct Testimony, these coal units are likely
8 to be uneconomic. (Chernick Direct, pp. 6–9). As a result, the Settlement
9 Agreement simply accepts continued and significant investments in coal units
10 without any showing that continued spending of significant levels of capital
11 expenditures on those units is reasonable and prudent.¹

12 **Q: Does the Sierra Club support the Settlement Agreement?**

13 A: No. I have recommended that Sierra Club object to the Settlement Agreement.

14 **Q: Why does Sierra Club object to the Settlement Agreement?**

15 A: Given my prior testimony, I understand that Sierra Club objects to the aspects of
16 the Settlement Agreement that would establish a revenue requirement and rates
17 that reflect significant levels of capital and fixed O&M spending on Westar’s coal
18 generating units, without any showing that such units are economic or that the
19 spending is reasonable and prudent. I understand that another witness will provide
20 additional reasons for Sierra Club’s objections.

¹ With respect to the 8% interest in Jeffrey Energy Center, the Settlement Agreement is primarily concerned with its ratemaking treatment whereas my testimony recommends that Westar decline to renew the lease or acquire the resource without a cost-effectiveness showing. (Chernick Direct, p. 12, lines 7–11; p. 40, lines 5–7).

1 **IV. Westar's Additional Responses on Coal-Plant Capital Requirements.**

2 **Q: Have you learned anything new about Westar's coal fleet since filing your**
3 **direct and cross-answering testimony?**

4 A: Yes. On July 13, 2018, Westar responded to discovery propounded by Sierra Club
5 (SC DRs 5.01 – 5.05). Each of these responses is marked confidential, so I will
6 not cite the values, but these detailed responses confirm that Westar plans to spend
7 hundreds of millions of dollars in capital additions to its coal plants over the next
8 five years.

9 **Q: Has this new information changed your original conclusions and**
10 **recommendations?**

11 A: No. In response to SC DR 5.04, Westar provided updated numbers for its
12 Lawrence and Jeffrey capital cost projections.² Westar's projection for
13 Lawrence's five-year capital costs have increased significantly, while its forecast
14 for Jeffrey's capital costs have decreased very slightly. Neither of these
15 adjustments alter my conclusion that the costs of keeping these two coal plants
16 operating are likely to exceed the value of the plants to ratepayers.

17 Further, in response to SC DR 5.01, Westar provided projected fixed O&M
18 and capital costs for La Cygne, which it also marked confidential. These data also
19 support my original conclusions.

20 **Q: Have Westar's projected coal plant investments been shown to be**
21 **advantageous for ratepayers?**

22 A: No. As I explained in detail via direct testimony, the costs of running each of
23 Westar's coal plants appear to exceed the market value of the plant's energy

² Although Westar's original projections, responsive to SC DR 3.08 and summarized in my direct testimony at Table 7, were public, Westar designated its updated numbers in SC DR 5.04 as confidential.

1 (Chernick Direct, p. 6, lines 7–20). In other words, Westar’s coal fleet is losing
2 money, so any incremental spending on the plants are likely to increase the net
3 cost to Westar’s ratepayers, for what appear to be imprudent spending on
4 uneconomic plants. Neither Mr. Bridson’s rebuttal testimony nor the Settlement
5 Agreement address these concerns. The Commission should order Westar to
6 conduct a thorough cost-effectiveness accounting of the Company’s coal units and
7 an evaluation of the least-cost plan for replacing uneconomic units with purchases
8 from existing resources and additions of renewables, efficiency, demand response,
9 and storage.

10 **V. Westar’s Rebuttal**

11 **Q: Please briefly summarize Bridson’s rebuttal testimony as it concerns Sierra**
12 **Club’s arguments.**

13 A: Mr. Bridson posits that Sierra Club’s arguments are “extreme,” alleging that Sierra
14 Club’s position would “impose onerous reporting and evaluation requirements on
15 Westar’s coal plants in order to force Westar to remove its coal plants from
16 service,” and further opining that Sierra Club “wants to achieve this result without
17 consideration of cost impacts for customers, impacts on reliability or the value of
18 diversity in the generation fleet.” (Bridson Rebuttal, p. 25, lines 2–10).

19 **Q: Do you agree with Mr. Bridson’s characterization of your prior testimony in**
20 **this case?**

21 A: No. Mr. Bridson could have responded to my prior testimony by providing a cost-
22 effectiveness analysis that Westar conducted as part of its continuing obligation
23 to provide reliable service to its ratepayers at just and reasonable rates, providing
24 a new cost-effectiveness analysis, or even pointing out any specific errors he
25 detected in my analysis. He did none of these things. Instead, Mr. Bridson

1 mischaracterizes and dismisses my recommendations as “extreme” or “onerous.”
2 Mr. Bridson essentially erects and attacks a straw man argument that is completely
3 divorced from my prior testimony.

4 For example, contrary to Mr. Bridson’s assertion that I did not consider cost
5 impacts for customers, my direct testimony was primarily concerned with
6 comparing the costs of the coal plants (Chernick Direct, pp. 13–20) to the costs
7 of alternatives (Chernick Direct, pp. 30–37). This is why I ultimately
8 recommended that the Commission “carry out a comprehensive review of the
9 *cost-effectiveness* of each of the remaining coal units and a least-cost plan for
10 replacing the uneconomic plants” (Chernick Direct, p. 39, lines 21-23
11 (emphasis added)). Such an inquiry necessarily incorporates reliability and fuel
12 diversity considerations as well.

13 Sierra Club has served discovery to determine how and why Mr. Bridson
14 came to his conclusions about my testimony, and I understand that Westar’s
15 responses are due on July 20, after the deadline for this testimony. At present, I
16 can only conclude that Westar has not conducted any comprehensive and reliable
17 cost-effectiveness analyses of its generation units, and thus the Company has
18 simply not supported its bid to recoup from ratepayers tens of millions of dollars
19 of capital spending on likely uneconomic coal plants.

20 **Q: Mr. Bridson implies that the reporting requirements that Sierra Club seeks**
21 **in this docket would be duplicative of the Integrated Resource Plan (IRP)**
22 **reporting framework being developed as a consequence of the merger docket.**
23 **Do you agree?**

24 A: No. I have no insight into the IRP framework that Westar, KCP&L, Staff, and
25 CURB are developing, though I do believe that any reasonable and reliable IRP
26 process would necessarily include analyses similar to those I recommended.

1 What is clear from *this* proceeding is that Westar has not completed the
2 requisite analysis to support its coal plant investments. Since this docket is likely
3 the last Westar rate case before the Commission for several years, the Commission
4 should ensure that Westar is on notice that any capital additions to its coal plants,
5 other than to address immediate health and safety concerns, are subject to
6 retrospective prudence review.

7 **VI. Conclusions.**

8 **Q: What else do you recommend to the Commission?**

9 A: I incorporate by reference my direct and cross-answering testimony and
10 recommend that:

- 11 • The Commission initiate a proceeding to determine how much Westar
12 should be willing to spend on each of its coal units, and what level of
13 maintenance costs or capital additions should trigger prompt retirement of
14 each unit. Any future capital additions to the coal plants, other than to
15 address immediate health and safety concerns, should be subject to
16 retrospective prudence review, with Westar bearing the burden of
17 demonstrating that continued investments are cost effective. In conjunction
18 with that analysis, the Commission should carry out a comprehensive
19 review of the cost-effectiveness of each of the remaining coal units and a
20 least-cost plan for replacing the uneconomic plants with purchases from
21 existing resources and additions of renewables, efficiency, demand
22 response, and storage.
- 23 • To support rational and efficient retirement decisions, the Commission
24 should ensure that Westar is not penalized for prudently retiring
25 uneconomic power plants. Ratepayers are better off paying for the

1 undepreciated investment in an uneconomic plant, rather than paying for
2 operating costs and capital additions to keep the plant open, as well as the
3 depreciation and return on that investment.

4 • At this point, the portion of Jeffrey owned by Wilmington Trust appears to
5 have a negative value; unless Wilmington Trust pays Westar to take the
6 capacity back, Westar should not acquire that 8% entitlement.

7 • Westar should stop scheduling and dispatching its coal units
8 uneconomically.

9 **Q: Does this conclude your opposition testimony?**

10 A: Yes.

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of July 2018, a true and correct copy of the above and foregoing Non-Unanimous Settlement Opposition Testimony of Paul L. Chernick on Behalf of Sierra Club was electronically delivered to the following individuals:

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