BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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

JOINT APPLICATION

COME NOW Westar Energy, Inc. (Westar Energy) and Kansas Gas and Electric Company (KGE), (Westar Energy and KGE collectively referred to herein as "Westar"), pursuant to K.S.A. 66-117 and K.A.R. 82-1-231 and file this Joint Application to make changes to their charges for electric service. Westar requests that the proposed rate changes become effective in accordance with the statute and regulation. Westar respectfully states as follows:

I. Introduction

1. This Joint Application presents Westar's request for rate adjustments necessary to cover costs prudently incurred for Westar to continue providing reliable, efficient service at a reasonable cost to customers, all in accordance with its public service obligations. This case demonstrates Westar's commitment to its customers and to the State of Kansas. As part of this Application, Westar is passing through the benefits of the recent change in the federal corporate tax rate to customers. In fact, with this Application, Westar will be the first public utility in Kansas to reflect the benefits of the new federal tax rate in its prices for customers. Westar is also proposing to give customers a one-time bill credit to provide them with the net benefit of the tax law change from January 1, 2018, through the date that rates from this Application become effective, after consideration of other changes to Westar's cost of service during that time period.

2. As a responsible public utility, Westar acts and invests with the long-term future of Kansas in mind. The nature of Westar's investment in fixed infrastructure requires a commitment to planning ahead decades to ensure clean, safe, reliable service at just and reasonable rates. This commitment is illustrated by Westar's pursuit of a merger with Great Plains Energy (GPE) in Docket No. 18-KCPE-095-MER (Merger Docket) in order to better manage rising costs in the future in the context of flat to declining energy sales. Westar's commitment is also reflected by continued investment in the reliable electric infrastructure necessary for the continued economic success of its customers and Kansas, and continued support of and investment in Kansas renewable resources.

3. In particular, this case reflects Westar's commitment to renewable energy in Kansas. Westar's investment in Kansas renewable resources advances three important goals: (1) sustaining local economies with more jobs and by enhancing local revenue streams; (2) helping to keep energy costs affordable, stable and predictable; and (3) leveraging Kansas's natural resources to both efficiently meet customers' demand for cleaner energy and to plan for future environmental requirements.

II. Westar's Application

4. Westar is proposing to implement the rate change that results from this Application in two steps. First, Westar proposes a rate decrease of $1.56 million to be effective in September 2018, at the time of the Commission's order in this docket. This amount includes the reduced revenue requirement that occurs as a result of the reduction in the federal corporate tax rate as a result of the Tax Cuts and Jobs Act of 2017 and as a result of the refinancing of debt at lower cost since the last rate case, the impact of the revenue requirement associated with Westar's investment in the Western Plains wind farm and the impact of the change in

depreciation rates proposed by Westar in this case. Second, Westar proposes a rate increase of $54.2 million to be effective on February 1, 2019. This amount includes the impact of the expiration of the production tax credits (PTCs) associated with Westar's initial investment in wind generation 10 years ago which expire in February 2019 and the impact of the expiration of a wholesale agreement that will occur in January of 2019.

5. Westar's overall request after the two-step rate change is for a rate increase of approximately 2.6%, or $52.6 million. This request is supported by the schedules filed with this Joint Application, based upon normalized operating results for the 12 months ending June 30, 2017, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes. The proposed revenues are just and reasonable and necessary to ensure continuing, adequate and efficient utility service and to maintain Westar's financial integrity.

6. Westar is proposing to implement the rate change associated with this Application in two steps in order to ensure that customers receive the benefits associated with the new federal tax law as soon as possible. By filing this Application at this time, those benefits will begin to flow to customers beginning at the end of September 2018. However, certain significant changes in Westar's revenue discussed below will occur early in 2019, the impacts of which are already known and measurable – the expiration of a wholesale contract and the expiration of the PTCs associated with Westar's initial investment in wind. These impacts are significant enough that Westar would be required to file a second rate case in order to adjust rates for their impact. Rather than filing another rate case to adjust our rates for these items immediately after the Commission issues its decision in this case, it is more efficient and less costly to establish rates for these known and measureable changes in this docket but to do

so in a way that ensures customers do not pay the additional costs until Westar actually experiences the changes in February 2019. Because the costs of rate cases are ultimately passed on to customers, this approach ensures that rates can be set in an efficient and cost-effective manner in a way that protects the interests of customers and Westar.

A. <u>Drivers of the Change in Westar's Revenue Requirement</u>

7. The first driver of Westar's revenue requirement in this case is the change in the corporate tax rate implemented by the Tax Cuts and Jobs Act of 2017, which reduces Westar's revenue requirement by $74 million. This includes the impact from the reduced tax rate going forward as well as the return of a portion of Westar's accumulated deferred income taxes (ADIT) to customers. As discussed below, as part of this Application, Westar is also proposing to return the net reduction in its cost of service caused by the change in the corporate tax rate between January 1, 2018, and the date rates associated with this Application become effective (after consideration of the impacts of other changes in Westar's cost of service) to customers as a one-time bill credit.

8. A second driver of Westar's request relates to the costs associated with Westar's investment in the Western Plains wind farm. Customers have already been receiving the benefits associated with this wind farm through reduced fuel costs (in the Retail Energy Cost Adjustment (RECA), despite the fact that Westar will not begin recovering its $417 million investment until rates are adjusted in this case, approximately 19 months after customers began receiving the benefits of reduced fuel costs. The revenue requirement effect associated with the Western Plains wind farm is approximately $31.8 million.

9. A third driver of Westar's request is Westar's efforts to aggressively refinance debt since our last rate case. The resulting interest expense savings of almost $29 million annually is reflected in the revenue requirement in this Application.

10. Another significant driver of Westar's request is an increase in depreciation expense, which is the result of a periodic Commission-required study[1] of depreciation rates to ensure that they reflect reasonable levels consistent with fully and appropriately recovering investments Westar has made to serve customers. An important part of such a depreciation study is to ensure that depreciation expenses correspond with the service customers expect to receive and do not unduly burden one generation of customers (*e.g*., future customers) because rates today may not be set correctly. The revenue requirement impact associated with the portion of the depreciation study Westar is including in this filing is approximately $56 million.

11. As the Commission is aware, Westar's Application for approval of a merger with Great Plains Energy, Inc. (GPE) is currently pending before the Commission in the Merger Docket. In that Application, Westar and GPE explained that the proposed merger would result in significant savings for customers. Because Westar has been holding positions open in anticipation of the merger closing, Westar has already experienced significant savings in terms of our payroll expense. Those savings – of about $11 million – are reflected in Westar's Application and will flow through to customers in this rate case.

12. In the Application in the Merger Docket, Westar and GPE indicated that they would only request recovery of transition costs (defined as the "costs incurred to integrate Westar and GPE, and include integration planning, execution, and 'costs to achieve'") if they

[1] The Commission requires that "the natural gas and public utilities shall file a depreciation study on their assets every five to seven years. These depreciation studies should be filed either concurrent with or just before a rate case." Order Closing Docket, ¶ 8, Docket No. 08-GIMX-1142-GIV (Aug. 1, 2013).

could establish that the merger savings flowing to customers through rates were greater than the amortized amount of transition costs we were proposing to put in rates. *See* Application, Appendix H, Commitment No. 19, Docket No. 18-KCPE-095-MER (Aug. 25, 2017). In this case, Westar has determined that the amount of savings that will be reflected in rates as a result of this case will be greater than the amortized portion of the transition costs Westar has incurred when amortized over five years. Therefore, Westar is requesting recovery of the amortized transition costs in this case.

13. The final two drivers of Westar's request – which will be reflected in the second step of the proposed rate change – relate to revenue credits customers have been receiving, or offsets to the cost of service, that either already have or will soon expire. These are the credits associated with a wholesale agreement that will expire early in 2019 and the credit in rates for PTCs associated with Westar's initial investment in wind energy ten years ago, which will expire early in 2019. Both items have benefitted customers with lower rates for many years; however, because Westar will no longer receive these benefits, they will no longer exist as an offset to the cost of service. Because the last of these revenue credits does not expire until February 2019, Westar is proposing to implement the rate change caused by these items on February 1, 2019. The revenue requirement impact associated with the expiration of the wholesale agreement is approximately $41.5 million and the impact associated with the expiration of the PTCs is approximately $12.7 million.

B. <u>Bill Credits related to Tax Reform</u>

14. Westar has calculated the difference in its cost of service as determined in the last general rate case (Docket No. 15-WSEE-115-RTS) and its cost of service using that same model but updating the federal corporate tax rate to reflect the change from the Tax Cuts and

Jobs Act of 2017. As required by the Commission, Westar is accruing this amount, calculated through the date that rates will change as a result of this Application in September – in a deferred revenue account. See Order Opening General Investigation and Issuing Accounting Authority Order Regarding Federal Tax Reform in Docket No. 18-GIMX-248-GIV, at ¶ 7 (Jan. 18, 2018).

15. In its Order opening the generic investigation, the Commission also indicated that "any affected utility that believes that other components of their cost of service have more than offset the decrease in its income tax expenses will have the ability to file such information and supporting data with the Commission to be considered on a case-by-case basis. The Commission's intention here is not to materially impact regulated utilities' profitability, but rather, ensure that the affected utilities are neither positively nor negatively impacted by the passage of federal income tax reform." *Id*. at ¶ 11. In other words, the Commission will consider whether any revenue deficiency should partially offset the decrease in income tax expenses. *Id*. Therefore, Westar has calculated the amount of its annual revenue deficiency as of December 31, 2017, by calculating its earned return on equity for 2017 and comparing that to its current Commission authorized return on equity. Westar then adjusted this annual calculation to reflect the deficiency for the nine months at issue – January through September. This calculation demonstrates that changes in other components of Westar's cost of service have partially offset the decrease in cost of service associated with the change in the corporate tax rate.

16. The amount Westar will accrue in its deferred revenue account is expected to be approximately $48.7 million by the time rates from this Application go into effect in September 2018. Based on current calculations, Westar estimates the amount of its revenue

deficiency for the nine months between January 1, 2018, and September 2018, to be approximately $41.6 million.[2] Therefore, the resulting net tax benefit to customers between January 1, 2018, and the end of September 2018 will be approximately $7.1 million. Westar proposes to refund this net amount to customers as a one-time bill credit, allocated to customers as discussed by Mr. Wilkus in his direct testimony. Westar proposes to issue the bill credits to customers within 120 days after the Commission issues its order on this Application.[3]

C. Rate Design Issues

17. Westar is proposing changes to existing rate structures and offering new rate choices to better meet customer preferences. For example, Westar is proposing an optional three-part rate for residential customers and an optional three-part rate for residential customers with electric vehicles (EV).[4] Under these optional rates, the customer's demand would be measured during the peak hours of 2:00 p.m. to 7:00 p.m., encouraging all customers to manage their peak loads in a way that benefits Westar's system and specifically encourages customers with electric vehicles to charge those vehicles during off-peak hours. Westar is also proposing a rate for cities that utilize electric buses, which will help facilitate cities' investment in electric transportation, and a rate for electricity consumed at EV charging stations that will help facilitate the roll-out of additional charging stations in Westar's territory.

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[2] Westar will continue to review this calculation and provide any additional information developed to Staff and other intervening parties by the true-up date so that the calculation can be addressed in the parties' direct testimony in this case.

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

[4] Initially, the optional three-part rates for residential customers with and without EVs will be identical. Over time, the rates may diverge depending on the results of future class cost of service studies.

18. As the Commission authorized in Docket No. 16-GIME-403-GIE, Westar is proposing to change the rate schedule already in place for non-grandfathered residential customers with distributed generation (DG) to implement a three-part rate for those residential DG customers. As indicated in the Stipulation and Agreement approved by the Commission in that docket, "Westar's Distributed Generation Residential Rate Schedule implemented in Westar's last rate case shall remain in place and effective for all residential customers installing distributed generation on or after October 28, 2015, and shall be treated as a separate class for purposes of future class cost of service studies and ratemaking generally." Stipulation and Agreement, ¶9(a), Docket No. 16-GIME-403-GIE (June 16, 2017). In its Order approving the Stipulation and Agreement, the Commission agreed that a "cost of service based three-part rate consisting of a customer charge, demand charge, and energy charge" is "appropriate for residential private DG customers to better recover the costs of providing service to that class or sub-class of customers." Final Order, ¶ 23, Docket No. 16-GIME-403-GIE (Sept. 21, 2017). Westar has included DG customers as a separate class in its class cost of service study and is proposing a cost-based rate for the class based on the results of that study. *See id.*, ¶ 26 ("The Commission finds a class cost of service study provides sufficient support for design of a residential private DG tariff and no further study is necessary for the purpose of this docket because the class cost of service study takes into consideration benefits in the form of avoided costs"). The Commission found that DG customers "use the electric grid as a backup system resulting in their consuming less energy than non-DG customers, which results in DG customers not paying the same proportion of fixed costs as non-DG customers. The Commission finds **DG customers are thus being subsidized by non-DG customers**." *Id.*, ¶ 22 (emphasis added). The rate proposed by Westar for non-grandfathered residential DG

customers would eliminate most of the cross-subsidy that the Commission has found exists in favor of residential customers with DG.

19. Westar is proposing to consolidate its lighting rate schedules (for streetlights and security area lights), which are the only set of rate schedules that remain different between Westar North and Westar South. As part of the consolidation process, Westar is also proposing to modernize the lighting rate schedules in a way that accommodates Westar's plan to shift towards use of the more efficient LED (Light-emitting diode) lights. In the long-run, this shift will benefit customers by providing them with more efficient lighting at a reasonable rate.

D. Alternative Ratemaking Options

20. Westar is also offering two alternative options to adjusting base rates for two of the major drivers of this case. First, as an alternative to adjusting base rates to reflect the loss of revenue from recently expired and soon-to-expire wholesale agreements, Westar is proposing a minor change to the RECA tariff that would allow the loss of the wholesale revenue credits to be reflected through the RECA, in the very same way that the benefits of new wholesale revenue credits flow through to benefit customers, instead of through an adjustment to base rates.

21. Second, Westar is offering an alternative to the traditional method of calculating the revenue requirement for Western Plains and its corresponding PTCs. Because the wind farm has a longer useful life than the limited 10-year life of the associated PTCs, Westar's alternative option would levelize the entire revenue requirement for the investment and the PTCs to help eliminate the intergenerational inequities that result from the mismatch of the 10-year life of production tax credits and the much longer life of the wind farm investment. As Westar witness Wilkus explains, the ideal recovery mechanism for such a levelized revenue

requirement would be to treat it similar to the way expenses of a purchased power agreement (PPA) are treated, that is, reflecting such costs through Westar's RECA. This would match the cost recovery of the levelized revenue requirement with customers' receipt of the benefits that result from the fuel savings associated with the wind farm – which also flow through the RECA – and smooth the rate impact for customers.

E. Impact of Westar's Application on Customers

22. Changing circumstances in the industry are challenging, but, with constructive Commission decision-making and collaborative execution, Westar can continue to be well positioned to meet them for the public interest. In part, this is due to the fact that, in both relative and absolute terms, Westar's rates, while having risen, are still comparatively low. On a combined basis and adjusted for inflation, Westar's average total retail rates for electricity after the second step rate change in February 2018 (approximately 10.63 cents per kWh) would be consistent with the national average.

23. While no price increase is ever welcome, this increase is key to Westar's ability to access competitive capital markets and to make timely investment decisions optimized to address both present and long-term infrastructure needs in Kansas – thereby providing a foundation for economic development and jobs creation. The Commission's decision will affect future financing costs that will be reflected in rates and Westar's ability to make sound decisions to build and maintain facilities to address basic infrastructure needs that ultimately determine the reliability of Westar's service to customers today, and for decades to come.

F. Testimony Overview

24. The testimony of 18 witnesses and the schedules required by K.A.R. 82-1-231 are filed in support of this Joint Application. Westar Energy and KGE have filed combined

schedules and Minimum Filing Requirements as authorized by the Commission in its Order dated April 1, 2011 in Docket No. 10-WSEE-258-GIE. The names of the witnesses and the subject of each witness' testimony are:

Mark Ruelle, President and CEO	Policy
John Bridson, Sr. VP, Generation and Marketing	Western Plains wind farm, expiring wholesale contracts
Tony Somma, Sr. VP, CFO and Treasurer	Return on equity
Robert Hevert, ScottMadden, Inc.	Return on equity
Susan McGrath, Director, Corporate Finance	Capital structure, rate of return, decommissioning trust funding levels
Larry Wilkus, Director, Retail Rates	Accounting adjustments and rate design overview
Kevin Kongs, VP, Controller	Accounting adjustments
Rebecca Fowler, Senior Regulatory Analyst	Accounting adjustments
Andy Devin, Executive Director, Tax and Compliance	Tax issues and calculations
Jeanette Bouzianis, Director, Financial Accounting	Accounting adjustments
Michael Rinehart, Director, Customer Account Services	Accounting adjustments
Miranda Dick, Manager, Benefits Accounting	Accounting adjustments
Robin Allacher, Regulatory Analyst	Accounting adjustments
Mo Awad, Director, Regulatory Compliance	Transmission adjustments
Ronald Amen, Black & Veatch	Cost of service and cost allocation

John Wolfram, Catalyst Consulting LLC	Rate design
Ahmad Faruqui, Brattle Group	Rate design for customers with distributed generation and optional three-part rate for residential customers
Dr. Ronald White, Foster Associates Consultants, LLC	Depreciation study

25. Westar has filed a class cost of service and proposed rate design for two sets of rates – the first to be effective in September 2018 and the second to be effective on February 1, 2019 – and a combined cost of service and minimum filing requirements for Westar as a whole.

III. Standard for Commission Review of Westar's Application

26. As a regulated utility, Westar has special rights and responsibilities assigned by the legislature. Westar has the legal obligation to serve all customers willing to pay the regulated rate. This means that Westar cannot ever refuse a customer, and must be ready to serve customers at any time in the amount they demand. As a result, Westar also has the right to recover prudently incurred costs. "The KCC may not arbitrarily disallow an actual, existing expense incurred during a test year." *Columbus Tel. Co. v. Kansas Corp. Comm'n*, 31 Kan. App. 2d 828, 835, 75 P.3d 257, 262 (2003).

27. Westar also has right to have an opportunity to earn a reasonable return commensurate with returns earned by investors in other enterprises having similar risks. *See Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679, 689-90 (1923). It is important to recognize that an authorized return is simply a permission, not a guarantee. The returns for investors are residual – investors receive only what is left over after all other costs are paid; costs which for decades have been rising between rate cases, and which further reduce the likelihood of Westar ever being able to earn the authorized rate of return.

28. Due process requires the Commission to balance the interests of customers with the interests of investors when making decisions regarding Westar's recovery of costs and allowed return. *Danisco Ingredients USA, Inc. v. Kansas City Power & Light Co.*, 267 Kan. 760, 773 (1999) ("In establishing rates, the KCC is required to balance the public need for adequate, efficient, and reasonable service with the public utility's need for sufficient revenue to meet the cost of furnishing service and to earn a reasonable profit").

IV. Westar's and KGE's Standing to do Business as a Utility in Kansas

29. Westar Energy and KGE are corporations duly organized under the laws of the State of Kansas engaged, among other things, in the business of electric public utilities, as defined by K.S.A. 66-104, in legally designated areas within the State of Kansas. The facilities used to provide such services are owned by two corporate entities. In that portion of Westar's service territory that previously had been referred to as "KPL" or "Westar North," service is provided through transmission and distribution facilities owned by Westar Energy, Inc. In central and portions of southeast Kansas, the transmission and distribution facilities through which electric service is delivered are owned by KGE, a wholly owned subsidiary of Westar Energy.

30. Westar holds certificates of convenience and necessity issued by this Commission authorizing it to engage in such utility business. Throughout this Joint Application, in testimony and accompanying documents, the term "Westar" will refer to the combined operations of Westar Energy and KGE.

31. Westar Energy and KGE have previously filed with the Commission certified copies of their Articles of Incorporation under which each was organized and all amendments thereto and restatements thereof, and the same are incorporated herein by reference.

WHEREFORE, Westar Energy, Inc. and Kansas Gas and Electric Company request the Commission to issue an order:

1. permitting their revised schedules of rates for electric service to become effective as proposed, in order to decrease the annual revenues for electric service for Westar by $1.56 million in September 2018 and increase the annual revenues for electric service for Westar by $54.2 million in February 2019, based on the test year ending June 30, 2017, and in accordance with the provisions of K.S.A. 66-117 and rules of the Commission;
2. approving Westar's calculation of the net impact of the reduction in the corporate tax rate on Westar's cost of service between January 1, 2018, and the date rates associated with this Application become effective after consideration of other changes in Westar's cost of service and approving Westar's proposal to issue one-time bill credits to customers within 120 days after the Commission issues its order on this Application;
3. approving Westar's proposed cost allocation and rate design for each class of customers, changes to the existing rate schedules, and the creation of the new rate schedules as proposed in Westar's Application; and
4. for such other and further relief as the Commission deems just and reasonable.

Respectfully submitted,

WESTAR ENERGY, INC.
KANSAS GAS AND ELECTRIC COMPANY

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VERIFICATION

STATE OF KANSAS)) ss: COUNTY OF SHAWNEE)

Cathryn J. Dinges, being duly sworn upon her oath deposes and says that she is one of the attorneys for Westar Energy, Inc. and Kansas Gas and Electric Company; that she is familiar with the foregoing **Joint Application**; and that the statements therein are true and correct to the best of her knowledge and belief.

Cathryn Dinges
Cathryn J. Dinges

SUBSCRIBED AND SWORN to before me this 1st day of February, 2018.

Donna G. Quinn
Notary Public

My Appointment Expires: 8/28/2020

Donna G. Quinn
NOTARY PUBLIC—STATE OF KANSAS
MY APPT EXP: 8/28/2020