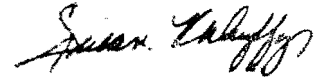


**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

STATE CORPORATION COMMISSION

OCT 01 2010



In the Matter of the Application of)
Westar Energy, Inc. and Kansas Gas)
and Electric Company for an Order)
Authorizing them to participate in)
Efficiency Kansas, Approve the)
SimpleSavings Program Rider, and)
related cost recovery.)

Docket No. 10-WSEE-775-TAR

**DIRECT TESTIMONY
OF
STACEY HARDEN
ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD**

October 1, 2010

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Stacey Harden and my business address is 1500 SW Arrowhead
4 Road, Topeka, KS 66604-4027.

5

6 **Q. By whom and in what capacity are you employed?**

7 A. I am employed by the Citizens' Utility Ratepayer Board ("CURB") as a
8 Regulatory Analyst.

9

10 **Q. Please describe your educational background?**

11 A. I received a Bachelors Degree in Business Administration from Baker University
12 in 2001. I received a Masters Degree in Business Administration from Baker
13 University in 2004.

14

15 **Q. Please summarize your professional experience.**

16 A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February
17 2008. Prior to joining CURB, I was the manager of a rural water district in
18 Shawnee County, Kansas for five years. I am currently an adjunct faculty member
19 at Friends University, where I am an undergraduate instructor in business and
20 accounting courses such as Data Development and Analysis, Financial Decision
21 Making, Fundamental Financial Accounting, Financial Reporting of Debt &
22 Equity, and Managerial Statistics.

23

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS,
3 10-KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, and 10-SUBW-
4 602-TAR.

5

6 **II. PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your testimony?**

8 A. On June 4, 2010, Westar Energy Inc., and Kansas Gas and Electric Company
9 (collectively referred to as “Westar” or “company”) filed an application with the
10 Kansas Corporation Commission (“KCC” or “Commission”) seeking:

- 11 • approval to become an Efficiency Kansas partner utility,
12 • approval of a SimpleSavings loan program, and
13 • a shared savings mechanism.

14 In my testimony, I will evaluate Westar’s request to become an Efficiency Kansas
15 partner utility. In addition, my testimony will evaluate the company’s
16 SimpleSavings loan program as well as its proposed shared savings mechanism
17 and I will provide recommendations for consideration by the Commission. In my
18 evaluation I will assess whether the SimpleSavings program conforms to the
19 recommendations of the Commission’s June 2, 2008, *Order Setting Energy*
20 *Efficiency Policy Goals* in Docket No. 08-GIMX-442-GIV (“442 Docket”) as
21 well as the Commission’s November 14, 2008, *Final Order Regarding Cost*
22 *Recovery and Incentives for Energy Efficiency Programs* in Docket No. 08-
23 GIMX-441-GIV (“441 Docket”).

1 **III. SUMMARY OF CONCLUSIONS**

2 **Q. Please summarize your conclusions and recommendations.**

3 A. Based on my analysis of the Company's filing and other documentation in this
4 case, my conclusions are as follows:

- 5 • The Commission should approve Westar's SimpleSavings program as a pilot
6 program, expiring in April 2012;
- 7 • Westar should increase the administrative fee for SimpleSavings program
8 participants to \$250.00 and charge a one-time administrative fee of \$125.00 to
9 customers that sign up for the SimpleSavings program but do not take out an
10 Efficiency Kansas loan;
- 11 • The Commission should deny Westar's shared savings mechanism because
12 the Commission previously rejected the use of lost revenue recovery
13 mechanisms, it does not conform to the Commission's ruling in the 442
14 Docket, and because the margins lost by Westar's participation in the
15 Efficiency Kansas program cannot meet the Commission's ½% of base
16 revenue requirement for significance.
- 17 • If the Commission decides to approve Westar's shared savings mechanism, it
18 should be recovered on a historical basis and based on an actual verification of
19 savings achieved through the SimpleSavings loan program.

20

21

22

23

1 **IV. DISCUSSION OF THE ISSUES**

2 **A. Efficiency Kansas**

3 **Q. Please describe Westar’s proposal to become an Efficiency Kansas partner**
4 **utility.**

5 A. Westar is seeking approval to become a partner utility in the Efficiency Kansas
6 program. The Efficiency Kansas program is a revolving loan fund that was
7 established in July 2009 by the Kansas Corporation Commission to facilitate
8 energy conservation and efficiency improvements in existing Kansas homes and
9 small businesses. Operated by the State Energy Office (“SEO”), a division of the
10 KCC, Efficiency Kansas was funded with approximately \$34 million in federal
11 economic stimulus dollars, which were authorized by the American Recovery and
12 Reinvestment Act of 2009 (ARRA). Under the program, the utility serves as a
13 conduit between the KCC, which is providing the loan, and the customer
14 receiving the loan.

15 If Westar becomes an Efficiency Kansas partner utility, Westar customers
16 may receive an Efficiency Kansas loan through the SimpleSavings loan program.
17 Using the SimpleSavings program, customers will be able to access Efficiency
18 Kansas funding by contacting Westar and completing several steps, including a
19 home energy audit, completion of a conservation plan, and installation of
20 approved, cost-effective energy-efficiency measures. The customers will then
21 agree to repay the principal amount of the loan and additional administrative fees
22 through a line item on their monthly Westar bill. Westar will then remit the
23 corresponding customer payment to the State Energy Office.

1 Westar is seeking approval to become a full participant in the Efficiency
2 Kansas program under Option 1 of the Efficiency Kansas manual dated
3 November 12, 2009. Efficiency Kansas has two options for partner utilities:

4 • Option 1: In this option, the utility will initially receive funds from the
5 KCC to provide loans to ratepayers, on a regular monthly schedule, only
6 after the State Energy Office has received a signed Certificate of Project
7 Completion for each project. With regard to loan repayment, under
8 Option 1, the utility is responsible for submitting monthly payment to the
9 KCC only upon receipt of payment from the customer. In the event that
10 customers fail to make their monthly payment of the program charge, the
11 utility will be expected to make every effort to collect payment of
12 delinquent program charges. At such time as the utility determines that it
13 has exhausted its means of collection, the utility will notify the SEO and
14 submit the “Verified Statement” form, as stipulated in the Memorandum
15 of Agreement, at which time the KCC will assume the collection process
16 for the defaulted Efficiency Kansas loan.

17 • Option 2: If utilities select this option, they will receive initial funds from
18 the KCC to make the loans earlier in the process—upon approval of the
19 Energy Conservation Plan by the State Energy Office. With regard to
20 repayment, unlike Option 1, under Option 2, the utility is responsible for
21 submitting monthly payment to the KCC, regardless of whether the
22 customer has paid the utility bill. In the event of nonpayment by the
23 customer, the utility will still remit payment to the KCC until the full cost

1 of the approved project has been repaid. The utility will be responsible for
2 collection from customer and can request recovery of bad debts in a
3 regular rate case; such recovery may or may not be approved by the
4 Commission.

5
6 **Q. Do you have general concerns about Westar’s application to become an
7 Efficiency Kansas partner utility?**

8 **A.** Yes. I have three general concerns. First, I am concerned about how the
9 Efficiency Kansas loan program is being communicated to Westar customers.
10 Specifically I am concerned that Westar customers may not fully understand the
11 following issues:

- 12 • An Efficiency Kansas loan may result in a customer’s Westar bill being higher
13 than it currently is. This is because an Efficiency Kansas loan is based upon
14 the home’s total energy savings – not just the savings obtained on their Westar
15 Energy bill. A customer that obtains an Efficiency Kansas loan to complete
16 energy-efficient home improvements will see an overall reduction in their
17 Westar electric service, as well as the home’s natural gas, propane, or other
18 heating supply. When the Efficiency Kansas loan payment is added to the
19 customer’s Westar bill, it is likely that the Westar bill will actually be more
20 than it was before, because a portion of the home’s total energy savings will
21 occur on the customer’s natural gas or propane heating bill.
- 22 • The Efficiency Kansas loan is based upon energy savings at current energy
23 rates. Customers that receive Efficiency Kansas loans to complete energy

1 saving home improvements will not avoid any future rate increases from
2 Westar or other utilities. While future rate increases may have a smaller
3 impact for customers who have completed energy efficiency home
4 improvements, the price of the electricity and natural gas that the customer
5 does consume, may increase in price, causing an increase in the customer's
6 utility bills.

7 The Commission should proactively address these communication issues,
8 prior to allowing Westar to become an Efficiency Kansas partner utility.

9
10 Second, I am concerned that Westar's application fails to address billing
11 and customer service issues. Westar did not sign and file a Memorandum of
12 Agreement ("MOA") with the KCC to participate in the revolving loan services of
13 Efficiency Kansas as part of its application. In addition, Westar did not indicate
14 that it has signed an MOA. The MOA serves not only as an agreement between
15 the KCC and the utility, but also requires the utility to provide a certain number of
16 services related to the Efficiency Kansas loan program.

17 However, even a signed and filed MOA may not adequately address all
18 my concerns relating to Westar customers that participate in the Efficiency
19 Kansas program. While the Efficiency Kansas program manual and the MOA
20 provide some explanations for customer service issues, it is my opinion that there
21 are more issues that require Commission attention, prior to allowing Westar to
22 become an Efficiency Kansas partner utility. These issues include:

- 1 • Will a customer be subject to late fees and eventually disconnection of service
2 even if that customer is able to pay the amount of their home's electric
3 service, but is unable to pay the Efficiency Kansas portion of their bill?
- 4 • If a customer pays an additional \$25 on their monthly bill – will that \$25 be
5 applied to the customer's upcoming Westar electric bill, or will it be applied
6 to the principal balance of their Efficiency Kansas loan?
- 7 • How will the cold-weather rule, level payment plans, and other payment
8 agreements be affected by the addition of an Efficiency Kansas loan payment
9 to a customer's bills?

10 These billing and customer service issues are basic areas of concern for
11 customer service issues that should be resolved by the Commission prior to
12 allowing Westar to become an Efficiency Kansas partner utility.

13
14 Finally, I am concerned that Westar's customers may be paying the
15 administrative costs for a program that may cease to exist in the near future. The
16 Efficiency Kansas revolving loan program is funded through federal ARRA
17 funds, which must be spent by April 2012. While the SEO feels confident that all
18 ARRA funds will be disbursed through the Efficiency Kansas program before the
19 April 2012 deadline, it has presented contingency plans to the Commission in the
20 event that the SEO must deplete the ARRA funds quickly. These contingency
21 plans show that there is a real possibility that a large sum of ARRA funds –
22 initially intended for the Efficiency Kansas revolving loan program – will be

1 distributed to other programs, thereby decreasing the availability of funds in the
2 Efficiency Kansas loan program and making Westar’s participation unnecessary.

3

4 **B. SimpleSavings Loan Program**

5 **Q. Please discuss Westar’s SimpleSavings program.**

6 A. Westar’s SimpleSavings program is a portal for customers to access Efficiency
7 Kansas funding for energy-efficiency home improvements. Westar customers will
8 receive funding for energy-saving home improvement projects through the
9 Efficiency Kansas program, as a result of their participation in Westar’s
10 SimpleSavings program.

11

12 **Q. What is the five-year budget for Westar’s SimpleSavings loan program?**

13 A. Westar’s application does not provide a five-year budget for its SimpleSavings
14 loan program.

15

16 **Q. Why doesn’t Westar include a five-year budget for SimpleSavings loan
17 program?**

18 A. Westar does not include a five-year budget for the SimpleSavings loan program
19 because the expenses are heavily dependent upon the level of participation in the
20 program. Appendix A of Westar’s application attempts to address the incremental
21 costs of the SimpleSavings program. Initially, Westar assumes the incremental
22 costs will be “limited to programming of computer software.” However, in
23 addition to the software costs, the SimpleSavings program will incur other

1 expenses for marketing, incremental labor, and the administrative costs associated
2 with Westar customers that apply for the SimpleSavings loan program, but then
3 do not execute a SimpleSavings loan agreement.

4
5 **Q. What are the marketing costs for the SimpleSavings program?**

6 A. Westar estimates that its marketing costs will be approximately \$40,000 per year
7 for the SimpleSavings program.¹

8
9 **Q. What are the incremental labor costs for the SimpleSavings program?**

10 A. Westar estimates that it will need to hire two additional full-time employees to
11 handle to volume of work associated with the SimpleSavings program. These
12 incremental expenses will be approximately \$75,000 - \$100,000 per year for each
13 employee.²

14
15 **Q. What are the administrative costs for each customer that signs up for the
16 SimpleSavings program, but does not take out a loan?**

17 A. Westar estimates that it will incur \$125.00 in administrative expenses for each
18 person that begins the SimpleSavings loan process and ultimately does not take a
19 loan.³

20

21

¹ Westar's response to CURB Data Request No. 14.

² *Id.*

³ Westar's response to CURB Data Request No. 2.

1 **Q. How many customers does Westar estimate will sign up for the**
2 **SimpleSavings program, but not take out a loan?**

3 A. Westar estimates that only 20% of residential customers that apply for the
4 SimpleSavings program will take out an Efficiency Kansas loan.⁴

5
6 **Q. Can you estimate the total incremental administrative expense that results**
7 **from applicants that do not take out a loan?**

8 A. Yes. The total amount of administrative expenses incurred by Westar for
9 customers that apply for the SimpleSavings program but do not take out a loan, is
10 dependant upon application rates. However, if we assume that 100 Westar
11 customers will apply for the SimpleSavings program each month, and only 20%
12 of those applicants take out a loan, then the remaining 80 customers will have
13 caused Westar to incur an additional \$10,000 in administrative expenses in one
14 month. Obviously as application rates increase, the number of applicants that do
15 not take out a loan will increase as well, causing Westar's incremental
16 administrative expenses to increase.

17
18 **Q. Can you estimate the total expenses for Westar's SimpleSavings loan**
19 **program?**

20 A. Yes. Attached to my testimony are Exhibits SMH-1 and SMH-2. I estimate that
21 the expenses associated with the SimpleSavings program will be between
22 \$438,540 and \$667,080.

23

⁴ Westar's responses to CURB Data Request Nos. 2 and 17.

1 **Q. Why is there such a large range between your estimates for total expenses**
2 **associated with the SimpleSavings program?**

3 A. In order to estimate the total expenses for the SimpleSavings program, I had to
4 rely upon Westar's projections for program participation. However, it was
5 difficult to determine how many customers will actually apply for the
6 SimpleSavings program. In Exhibit SMH-1, I used data provided in response to
7 CURB Data Request No. 4, which assumes 50 applicants per month – 45
8 residential and 5 C&I – will take out a loan. Using Westar's estimate that only
9 20% of residential customers that apply will take out a loan, I was able to
10 conclude that if 45 residential customers take out a loan, then 180 customers will
11 apply for the SimpleSavings program, but not take out a loan each month. In
12 Exhibit SMH-2, I used data provided in response to CURB Data Request No. 3,
13 which estimates 100 customers would apply for the SimpleSavings program each
14 month. Again, relying upon Westar's estimate that 20% of residential customers
15 that apply will take out a loan, I was able to conclude that if 100 customers apply
16 for the SimpleSavings program each month, only 20 will take out a loan, leaving
17 80 customers monthly that will not take out a loan.

18
19 **Q. How will Westar recover its expenses associated with the SimpleSavings**
20 **program?**

21 A. Each participant that wishes to access Efficiency Kansas funding through
22 Westar's SimpleSavings program will be required to pay a one-time fee of \$240,

1 which will be used to help cover the incremental administrative costs that will be
2 dedicated to the implementation of the SimpleSavings program.

3

4 **Q. Will the administrative fees paid by program participants be sufficient to**
5 **recover the expenses associated with Westar’s SimpleSavings program?**

6 A. No. According to Appendix B of the Company’s application, the total
7 administrative cost for each participant that takes out a SimpleSavings loan is
8 \$261.80.⁵ Each participant will pay an administrative fee of \$240.00, which is less
9 than the total cost. In addition, the \$240.00 paid by program participants does not
10 recoup the expenses for marketing, the hiring of two new employees, or the costs
11 of customers that apply but do not take out a SimpleSavings loan.

12

13 **Q. How will Westar recover the expenses that are not covered by the \$240.00**
14 **administrative fee charged to participants?**

15 A. Any amount of expense associated with the SimpleSavings program that is not
16 recovered through the \$240.00 administrative fee charged to program participants
17 will be deferred and collected as part of the company’s next Energy Efficiency
18 Recovery Rider (“EER”) or through the company’s next general rate case.

19

20

21

22

⁵ Application, @ Appendix B.

1 **Q. What amount of incremental expenses will be passed on to all Westar**
2 **customers?**

3 A. Despite collecting \$240.00 from each customer that takes out a SimpleSavings
4 loan, between \$366,540 and \$523,080 in expenses will be passed onto all Westar
5 customers.⁶

6

7 **Q. Is there a way for Westar to reduce the incremental expenses that will be**
8 **passed onto all customers, including those that do not participate in the**
9 **SimpleSavings program?**

10 A. Yes. Westar can reduce the amount of incremental expense that is passed onto all
11 customers by slightly increasing the administrative fee charged to customers that
12 execute a SimpleSavings loan agreement and by charging an administrative fee to
13 customers that apply for the SimpleSavings loan program, but then do not take out
14 a loan for home energy efficiency improvements.

15

16 **Q. Do other utilities pass on a fee to customers that do not execute loan**
17 **agreements?**

18 A. Yes. Midwest Energy, Inc. (“Midwest”) is a partner utility in the Efficiency
19 Kansas revolving loan program and operates the How\$Mart ® program, which
20 was the model for Efficiency Kansas loan program. On September 21, 2010,
21 Midwest received Commission approval to charge a \$200 fee to customers that
22 apply for the How\$Mart ® program, receive an energy audit, and then elect to not
23 take out a How\$Mart ® loan. As part of its approval, the Commission supported

⁶ Exhibits SMH-1 and SMH-2

1 Staff's position that "it is supportive of reasonable efforts by utilities to reduce
2 potential cross-subsidies between energy efficiency program participants and non-
3 program participants."⁷
4

5 **Q. What amount do you recommend Westar charge to participants for**
6 **administrative expenses?**

7 A. I recommend that Westar charge customers that apply for the SimpleSavings loan
8 program and do execute a loan agreement, a one-time administrative fee of
9 \$250.00 – which is only \$10.00 more than Westar's proposed administrative fee,
10 but is closer to Westar's estimate of incremental administrative expenses
11 associated with a customer that executes a SimpleSavings loan agreement. In
12 addition, I recommend that Westar charge customers that apply for the
13 SimpleSavings loan program and then do not execute a loan agreement, a one-
14 time administrative charge of \$125.
15

16 **Q. If Westar followed your recommendations for administrative fees, what is**
17 **the amount of expenses that would be passed onto all Westar customers?**

18 A. If Westar implemented my recommendations, the amount of expenses passed onto
19 all Westar customers would be reduced from between \$366,540 - \$523,080 to
20 only \$243,540 - \$247,080.⁸
21

⁷ September, 21, 2010, *Order Approving Revisions to How\$Mart® Electric Tariffs*, KCC Docket No. 11-MDWE-023-TAR, at page 6.

⁸ Exhibits SMH-3 and SMH-4.

1 **Q. Does Westar provide a summary of benefit-cost tests for the SimpleSavings**
2 **loan program?**

3 A. No, Westar did not provide any of the five Commission required benefit-cost
4 tests.

5
6 **Q. Should the Commission approve an energy-efficiency program without a**
7 **cost-benefit analysis?**

8 A. No. Without a completed cost-benefit analysis, the Commission cannot evaluate
9 the cost-effectiveness of the program and determine whether or not the program is
10 consistent with Commission goals. In the 442 Docket, the Commission found that
11 “utilities should submit the Participant, RIM, PAC, and TRC benefit-cost tests,
12 with a DSM or DR program application and the Commission will evaluate the
13 results on a case-by-case basis in a manner consistent with its stated goals.”⁹

14
15 **Q. What is your recommendation to the Commission about Westar’s proposed**
16 **SimpleSavings loan program?**

17 A. I am extremely hesitant to recommend approval of Westar’s SimpleSavings
18 program because Westar did not provide a budget for the program or a cost-
19 benefit analysis for the program. Further, I am not convinced that the Commission
20 should approve an energy-efficiency program without evidence of its cost-benefit
21 analysis. However, CURB recognizes the uniqueness of this type of program and
22 further recognizes that the SimpleSavings program is a new program that may
23 simply need time to operate in order to better answer certain questions about the

⁹ June 2, 2008 *Order Setting Energy Efficiency Policy Goals* in Docket No. 08-GIMX-442-GIV at ¶ 38.

1 program. Therefore, CURB recommends the Commission approve Westar's
2 application to become an Efficiency Kansas partner utility, and its SimpleSavings
3 program with the following conditions:

- 4 • Westar should be required to track all costs associated with the SimpleSavings
5 program separately and individually from any other energy efficiency
6 programs,
- 7 • Westar should increase the administrative fee for SimpleSavings program
8 participants to \$250.00 and charge a one-time administrative fee of \$125.00 to
9 customers that sign up for the SimpleSavings program but do not take out an
10 Efficiency Kansas loan, and
- 11 • Westar's SimpleSavings program should be approved as a pilot program,
12 which will expire in April 2012.

13
14 **Q. Why do you recommend the SimpleSavings program expire in April 2012?**

15 A. As previously discussed, the Efficiency Kansas revolving loan program is funded
16 with federal ARRA funds, which are required to be spent by April 2012. While
17 the SEO feels confident that all ARRA funds will be disbursed through the
18 Efficiency Kansas program before the April 2012 deadline, there is a real
19 possibility that a large sum of ARRA funds – initially intended for the Efficiency
20 Kansas revolving loan program – will be distributed to other programs, thereby
21 decreasing the availability of funds in the Efficiency Kansas loan program. The
22 Commission should conduct a review of Westar's SimpleSavings program in

1 April 2012, to determine if it makes economic sense to continue operating a
2 program that may have limited funding.

3

4 **C. Shared Savings Mechanism**

5 **Q. Please discuss the company's request for a shared savings mechanism.**

6 A. Westar has requested approval for a shared savings mechanism that is "equal to
7 the margins lost to the company due to the reduction in energy usage that occurs
8 as a result of energy efficiency improvement(s) implemented by participants."¹⁰

9

10 **Q. How will the shared savings be calculated?**

11 A. Utilizing the home energy auditor's report on the amount of kWh of electric
12 energy saved by participants, Westar would multiply the reduction in kWhs by
13 Westar's non-fuel energy rate of approximately 7.4 cents per kWh. This amount
14 would then be recovered through the company's EER.

15

16 **Q. Is Westar's shared savings mechanism a performance incentive mechanism
17 or a lost revenue recovery mechanism?**

18 A. Westar's shared savings mechanism is a lost revenue recovery mechanism. By
19 definition lost revenue recovery mechanisms are designed to recover "(l)ost
20 margins that result as sales fall below test year levels due to the success of energy
21 efficiency programs."¹¹ Simply put, a lost revenue recovery mechanism allows a
22 utility to recover the margins that are lost because of successful implementation of

¹⁰ Dick Rohlfs Direct Testimony, August 6, 2010, KCC Docket No. 10-WSEE-775-TAR, at page 5.

¹¹ Aligning Utility Incentives with Investment in Energy Efficiency: A resource of the National Action Plan for Energy-Efficiency, November 2007 at page 5-10.

1 energy-efficiency programs. While Westar contends that its shared savings
2 mechanism is an incentive mechanism, it is clear that it is a lost revenue recovery
3 mechanism for which Westar is seeking Commission approval.

4
5 **Q. Why does Westar refer to its lost revenue recovery mechanism as a shared**
6 **savings mechanism?**

7 A. Because the Commission rejected the use of lost revenue recovery mechanisms in
8 its 441 Final Order.

9
10 **Q. Why did the Commission reject the use of a lost revenue recovery**
11 **mechanism?**

12 A. In Staff's report to the Commission in the 441 Docket, Staff stated that "(a) lost
13 margin recovery mechanism is too administratively burdensome especially
14 in light of the fact that the Commission has currently limited the evaluation,
15 measurement and verification budget associated with a particular energy program
16 to 5% of the project costs."¹² The Commission stated in its order that it would
17 not favor a lost revenue recovery mechanism because of "the high premium this
18 method places on accurate evaluation of program impacts and the increased
19 potential for expensive and time-consuming litigation arising from disputes.
20 Furthermore, while Commission staff expertise is growing in this highly technical

¹² October 10, 2008, *Notice of Filing Staff's Report to the Commission*, KCC Docket No. 08-GIMX-441-GIV at p. 28.

1 field, at this time the Commission does not have the depth of experience available
2 to consider this method without reliance on outside firms.”¹³

3
4 **Q. Please explain why lost revenue recovery mechanisms are costly and difficult**
5 **to administer.**

6 A. Lost revenue recovery mechanisms rely heavily upon estimates, which take
7 substantial time and resources (e.g. money) to verify. Because estimates are not
8 always accurate, and have the potential to be over-stated, the actual performance
9 may not meet the expectation of estimated savings. If the home energy auditor
10 estimates savings too high, customers will be over- charged and a utility will be
11 allowed to over-collect, compared to its actual lost margins.

12
13 **Q. Does Westar’s lost revenue recovery mechanism conform to the**
14 **Commission’s order in the 442 Docket?**

15 A. No. First, Westar’s proposed lost revenue recovery mechanism is based solely on
16 a home energy auditor’s estimates of energy savings. This is in direct conflict
17 with the Commission’s *Order Following Collaborative* in the 442 Docket, where
18 the Commission found that “DEER (California Energy Commission’s *Database*
19 *for Energy Efficient Resources*) energy savings estimates should be used until the
20 first EM&V review two years after the project is completed.”¹⁴ Because Westar
21 is not using DEER for savings estimates and is instead relying on savings

¹³ November 14, 2008 Final Order in KCC Docket No. 08-GIMX-441-GIV at ¶ 66.

¹⁴ April 13, 2009, *Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement and Verification*, KCC Docket No. 08-GIMX-442-GIV, at ¶88.

1 estimates from home energy auditors, which may be overstated, the Commission
2 should not approve Westar’s lost revenue recovery proposal.

3 Second, Westar’s proposal to recover margins lost as a result of its
4 partnership with Efficiency Kansas lacks a plan to verify actual savings achieved.
5 In fact, Westar is proposing that it be allowed to collect lost margins based solely
6 upon a home energy auditor’s estimate, before a complete evaluation,
7 measurement, and verification (“EM&V”) is completed. It is unclear from
8 Westar’s application when and how an EM&V of the SimpleSavings program’s
9 performance will take place. Appendix A of its Application simply indicates that
10 “Westar will rely on the State Energy Office to perform EM&V as it deems
11 necessary.”¹⁵ Again, Westar’s proposal is in direct conflict with the Commission’s
12 order in the 442 Docket where it was ordered that “EM&V evaluations should be
13 conducted two years after program implementation.”¹⁶ Without an EM&V plan to
14 verify the actual lost margins associated with the SimpleSavings program, the
15 Commission should not approve Westar’s lost revenue recovery mechanism.

16

17 **Q. Does Westar’s application provide an estimate of the margins that will be lost**
18 **as a result of the SimpleSavings program?**

19 A. No. In its application Westar does not provide an estimate of the margins that will
20 be lost as a result of its SimpleSavings program. Westar further elaborates that it
21 “can’t estimate the amount of its margins that will be lost as a result of the
22 SimpleSavings program.” Westar also indicates that it hasn’t “asked for or

¹⁵ Application, @ Appendix A, item 4e.

¹⁶ April 13, 2009, *Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement and Verification*, KCC Docket No. 08-GIMX-442-GIV, at ¶149.

1 received information from the State Energy Office on the number of existing
2 participants in the Efficiency Kansas program, which would be the best source to
3 make an estimate.”¹⁷

4
5 **Q. Has Westar attempted to estimate the amount of lost margins associated with**
6 **the SimpleSavings program?**

7 A. Yes. During a public hearing held in Wichita on September, 23, 2010, Jim
8 Ludwig, Westar’s executive vice president for public affairs and consumer affairs,
9 estimated the first year’s lost revenues would be \$22,200 – or 0.002 percent of the
10 company’s annual sales.¹⁸

11
12 **Q. Will the margins lost due to the implementation of the SimpleSavings**
13 **program have a significant detrimental impact on the company’s finances?**

14 A. No. Westar has an annual base revenue requirement in excess of \$1 billion.
15 Experiencing lost margins of \$22,200 will not have a detrimental impact on
16 Westar’s finances.

17
18 **Q. Should the Commission consider \$22,200 in lost margins significant?**

19 A. In my opinion, no. In its 441 Order, the Commission established that it would
20 consider “significant” costs to be ½% of base revenue, a guideline that has been
21 established by the legislature in K.S.A. 66-2203, as a minimum level of expense

¹⁷ Westar response to CURB Data Request Response No. 8.

¹⁸ The Wichita Eagle, September 24, 2010, “*Consumers Express Ire Over Westar Revenue Plan*”,
<http://www.kansas.com/2010/09/24/1508355/consumers-express-ire-over-westar.html>

1 for approval of a Gas System Reliability Surcharge.¹⁹ Additionally, the
2 Commission also stated that mechanisms which address the throughput incentive
3 – like decoupling and lost revenue recovery mechanisms – should only be
4 considered if “a utility can show that a program will have significant detrimental
5 impact on company finances.”²⁰ Under the Commission’s guidelines for
6 significance, Westar would need to show that it will experience a loss of margins
7 equal to ½% of base revenues – about \$5,000,000 – before they are allowed to
8 recoup lost margins.

9

10 **Q. Is there another reason the Commission should reject a lost revenue recovery**
11 **mechanism?**

12 A. Yes. The approval of a lost revenue recovery mechanism would be a new policy
13 decision by the Commission. Its decision will set a precedent for other regulated
14 utilities in Kansas. The Commission should make new policy decisions carefully,
15 recognizing that other utilities are watching this proceeding and will likely pursue
16 similar lost revenue recovery mechanisms if Westar’s proposal is approved.
17 Further, it is my opinion that the Commission should not make new policy
18 decisions for programs that will not have a significant impact on a company’s
19 finances – in Westar’s case, the lost revenues are only 0.002 percent of Westar’s
20 annual sales.

21

¹⁹ November 14, 2008, *Final Order*, KCC Docket No. 08-GIMX-441-GIV, at ¶ 36.

²⁰ November 14, 2008, *Final Order*, KCC Docket No. 08-GIMX-441-GIV, at ¶ 47.

1 **Q. What is your recommendation to the Commission about Westar's proposed**
2 **shared savings mechanism?**

3 A. I recommend that the Commission deny Westar's shared savings mechanism for
4 the following reasons:

- 5 • The Commission previously rejected the use of lost revenue recovery
6 mechanisms,
- 7 • Westar's lost revenue recovery mechanism does not conform to the
8 Commission guidelines in the 442 Docket, and
- 9 • The margins lost by Westar's participation in the Efficiency Kansas program
10 cannot meet the Commission's ½% of base revenue requirement for
11 significance.

12

13 **Q. Do you have an alternate recommendation if the Commission decides to**
14 **approve Westar's lost revenue recovery mechanism?**

15 A. Yes. If the Commission chooses to approve Westar's lost revenue recovery
16 mechanism, it should do so with the following conditions:

- 17 • The recovery of lost margins should be done only on a historic basis, and not
18 before a full EM&V has been completed,
- 19 • The Commission may wish to consider placing a cap or limit on the amount
20 Westar is allowed to recover through its lost revenue recovery mechanism,
21 and

1 • Westar should only be allowed to recover actual lost margins. Westar should
2 be required to track and evaluate customer usage data for SimpleSavings
3 program participants to determine actual savings and actual lost margins.

4

5 **Q. Does this conclude your testimony?**

6 **A. Yes. Thank you.**

7

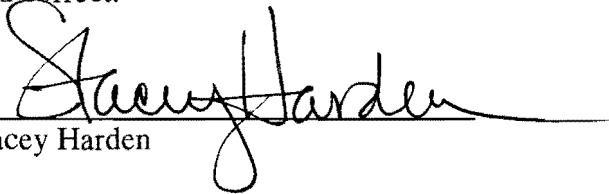
VERIFICATION

STATE OF KANSAS)

COUNTY OF SHAWNEE) ss:

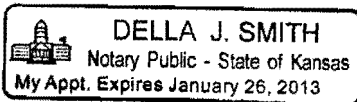
I, Stacey Harden, of lawful age, being first duly sworn upon her oath states:

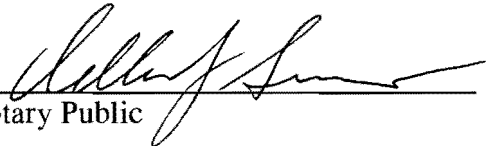
That she is a regulatory analyst for the Citizens' Utility Ratepayer Board, that she has read the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.



Stacey Harden

SUBSCRIBED AND SWORN to before me this 1st day of October, 2010.





Notary Public

My Commission expires: 01-26-2013.

EXHIBIT SMH-1 assumes 45 loans taken out each month - which is 20% of applications	Residential Customers	C&I Lighting Customers
Monthly Applications	225	5
Number of executed Simple Savings loans (monthly)	45	5
Number of applicants not taking a Simple Savings Loan (monthly)	180	0
Total cost per applicant that takes out a Simple Savings loan	\$261.80	\$261.80
Total cost per applicant that does not take out a Simple Savings loan	\$125.00	\$125.00
Total administrative cost of applicants, monthly	\$34,281.00	\$1,309.00
Annual cost of all Simple Savings loan applicants	\$411,372.00	\$15,708.00

Annual cost for all applicants that apply for a Simple Savings Loan	\$427,080.00
Annual salaries for two additional full-time employees that will likely be hired to handle Simple Savings work	\$200,000.00
Annual Simple Savings marketing costs for residential program	\$25,000.00
Annual Simple Savings marketing costs for C&I Lighting program	\$15,000.00
Total Incremental Expenses for the Simple Savings loan program	\$667,080.00
Less annual revenue received from \$240 administrative fee charged to applicants that execute a Simple Savings loan agreement	(\$144,000.00)
Total Annual Expenses for the Simple Savings program, to be recovered through Energy Efficiency Rider or in next general rate case	\$523,080.00

EXHIBIT SMH-2		
assumes 100 applications per month with 20% of those taking out loans	Residential Customers	C&I Lighting Customers
Monthly Applications	100	5
Number of executed Simple Savings loans (monthly)	20	5
Number of applicants not taking a Simple Savings Loan (monthly)	80	0
Total cost per applicant that takes out a Simple Savings loan	\$261.80	\$261.80
Total cost per applicant that does not take out a Simple Savings loan	\$125.00	\$125.00
Total administrative cost of applicants, monthly	\$15,236.00	\$1,309.00
Annual cost of all Simple Savings loan applicants	\$182,832.00	\$15,708.00

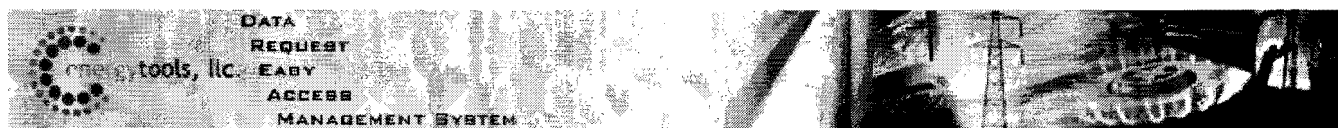
Annual cost for all applicants that apply for a Simple Savings Loan	\$198,540.00
Annual salaries for two additional full-time employees that will likely be hired to handle Simple Savings work	\$200,000.00
Annual Simple Savings marketing costs for residential program	\$25,000.00
Annual Simple Savings marketing costs for C&I Lighting program	\$15,000.00
Total Incremental Expenses for the Simple Savings loan program	\$438,540.00
Less annual revenue received from \$240 administrative fee charged to applicants that execute a Simple Savings loan agreement	(\$72,000.00)
Total Annual Expenses for the Simple Savings program, to be recovered through Energy Efficiency Rider or in next general rate case	\$366,540.00

EXHIBIT SMH-3 assumes 45 loans taken out each month - which is 20% of applications	Residential Customers	C&I Lighting Customers
Monthly Applications	225	5
Number of executed Simple Savings loans (monthly)	45	5
Number of applicants not taking a Simple Savings Loan (monthly)	180	0
Total cost per applicant that takes out a Simple Savings loan	\$261.80	\$261.80
Total cost per applicant that does not take out a Simple Savings loan	\$125.00	\$125.00
Total administrative cost of applicants, monthly	\$34,281.00	\$1,309.00
Annual cost of all Simple Savings loan applicants	\$411,372.00	\$15,708.00

Annual cost for all applicants that apply for a Simple Savings Loan	\$427,080.00
Annual salaries for two additional full-time employees that will likely be hired to handle Simple Savings work	\$200,000.00
Annual Simple Savings marketing costs for residential program	\$25,000.00
Annual Simple Savings marketing costs for C&I Lighting program	\$15,000.00
Total Incremental Expenses for the Simple Savings loan program	\$667,080.00
Less annual revenue received from \$250 administrative fee charged to applicants that execute a Simple Savings loan agreement	(\$150,000.00)
Less annual revenue received from \$125 administrative fee charged to applicants that apply for Simple Savings program, but do not take out a loan	(\$270,000.00)
Total Annual Expenses for the Simple Savings program, to be recovered through Energy Efficiency Rider or in next general rate case	\$247,080.00

EXHIBIT SMH-4 assumes 100 applications per month with 20% of those taking out loans	Residential Customers	C&I Lighting Customers
Monthly Applications	100	5
Number of executed Simple Savings loans (monthly)	20	5
Number of applicants not taking a Simple Savings Loan (monthly)	80	0
Total cost per applicant that takes out a Simple Savings loan	\$261.80	\$261.80
Total cost per applicant that does not take out a Simple Savings loan	\$125.00	\$125.00
Total administrative cost of applicants, monthly	\$15,236.00	\$1,309.00
Annual cost of all Simple Savings loan applicants	\$182,832.00	\$15,708.00

Annual cost for all applicants that apply for a Simple Savings Loan	\$198,540.00
Annual salaries for two additional full-time employees that will likely be hired to handle Simple Savings work	\$200,000.00
Annual Simple Savings marketing costs for residential program	\$25,000.00
Annual Simple Savings marketing costs for C&I Lighting program	\$15,000.00
Total Incremental Expenses for the Simple Savings loan program	\$438,540.00
Less annual revenue received from \$250 administrative fee charged to applicants that execute a Simple Savings loan agreement	(\$75,000.00)
Less annual revenue received from \$125 administrative fee charged to applicants that apply for Simple Savings program, but do not take out a loan	(\$120,000.00)
Total Annual Expenses for the Simple Savings program, to be recovered through Energy Efficiency Rider or in next general rate case	\$243,540.00



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Friday, October 01, 2010

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Docket: [10-WSEE-775-TAR] SimpleSavings Program
Requestor: [CURB] [David Springe]
Data Request: CURB-1.02 :: SimpleSavings loans
Date: 0000-00-00

Question 1 (Prepared by Randy Degenhardt)

a. Please provide an estimate of how many customers will apply for the Simple Savings program, but not take out a Simple Savings loan. b. What will the costs to the Company be for applicants that do not take out a Simple Savings loan? c. How will these costs be paid? d. What will the costs be to the applicants that do not take out a Simple Savings loan? e. How will these costs be paid?

Response:

a. Westar anticipates that with changes recently proposed or implemented by the Kansas Energy Office to Efficiency Kansas, on a combined basis about 50% of the residential customers and commercial lighting customers that apply for the program will take out a loan. Of residential applicants, Westar estimates about 20% will take out a loan. Westar anticipates that nearly all applicants under the commercial and industrial lighting program will take out a loan. b. Westar Energy estimates that it will incur about \$125 in costs for each program applicant who does not proceed to take out a loan. c. Westar Energy funds will pay for these costs until regulatory action incorporates them into the Energy Efficiency Rider, if applicable, or in the next general rate case, if approved. d. Westar Energy will not charge customers who do not enter into a loan agreement. e. Please see Westar's response to part c and d of this request above.

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Docket: [10-WSEE-775-TAR] SimpleSavings Program

Requestor: [CURB] [David Springe]

Data Request: CURB-1.08 :: Lost margins

Date: 0000-00-00

Question 1 (Prepared by Dick Rohlfs)

CURB-8. For years 2010 through year 2013, please quantify the margins that will be lost as a result of the Simple Savings program. Please provide any workpapers related to this response.

Response:

Westar Energy can't estimate the amount of its margins that will be lost as a result of the SimpleSavings Program. We haven't asked for or received information from the State Energy Office on the number of existing participants in the Efficiency Kansas program, which would be the best source to make an estimate. Any estimate would depend on a number of items, including: the number of participants, the energy efficiency measure undertaken by participants, and if the energy efficiency measure was an improvement to a newer facility or an older facility e.g., installing insulation in a 100 year-old home.

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Docket: [10-WSEE-775-TAR] SimpleSavings Program
Requestor: [CURB] [David Springe]
Data Request: CURB-1.14 :: Follow-up to CRUB 1.03 - Applications
Date: 0000-00-00

Question 1 (Prepared by Randy Degenhardt)

Please address the following questions in a follow-up to CURB 1.03. a. Please provide any correspondence, notes, e-mail communications, memorandums, etc. between Westar and the KCC Energy Efficiency Staff, as well as the State Energy Office that supports the estimated application rate of 100 per month. b. Please provide a revised budget and cost-outlook for the Simple Savings program under the assumption of 100 applications per month.

Response:

a. Westar Energy based its estimate of the number of applicants on conversations our Energy Efficiency staff has had with Energy Efficiency auditors and other interested persons. There have been no specific discussions with the KCC Energy Efficiency Staff or the State Energy Office regarding the estimated application rate. b. Westar Energy anticipates incurring approximately \$240 to \$260 of administrative costs per applicant that obtains a loan. Assuming (with new proposed program changes of reduced audit cost to the customer and the proposed addition of a C & I lighting program) 1,200 customers taking initial program steps (the audit) and 600 of those pursuing additional measures and receiving loans, then Westar will likely need to employ two additional full-time employees to handle this volume of work. These incremental expenses will be approximately \$75,000 to \$100,000 per year for each employee, related benefits and additional office supplies. Westar's SimpleSavings marketing costs will be approximately \$25,000 for the residential program and an additional \$15,000 for the C& I lighting program per year initially. This estimate assumes that the State Energy Office provides nearly ready marketing brochures and other material that can be adapted by including Westar's program name into the material.

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Docket: [10-WSEE-775-TAR] SimpleSavings Program
Requestor: [CURB] [David Springe]
Data Request: CURB - 1.17 :: Estimate of how many lighting customers
Date: 0000-00-00

Question 1 (Prepared by Randy Degenhardt)

17. Please provide an estimate of how many Commercial and Industrial lighting customers will apply for, but not take out a Simple Savings loan annually?

Response:

As stated in Westar's response to CURB request no. 2, Westar anticipates most of the nonresidential customers participating in SimpleSavings will take out a loan. We estimate that between 500 and 600 nonresidential customers will participate due to the proposed lighting rebate. We note that the C&I lighting program guidelines, requirements and restrictions have not been finalized and approved by the State Energy Office. In talking to state certified energy auditors and C&I customers, it appears that there is high interest in a lighting program.

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CERTIFICATE OF SERVICE

10-WSEE-775-TAR

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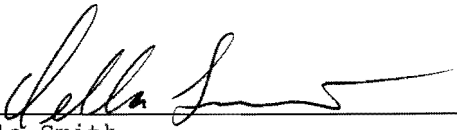
COLLEEN HARRELL, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
c.harrell@kcc.ks.gov
**** Hand Deliver ****

MATTHEW SPURGIN, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
m.spurgin@kcc.ks.gov
**** Hand Deliver ****

MARTIN J. BREGMAN, EXEC DIR, LAW
WESTAR ENERGY, INC.
818 S KANSAS AVENUE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8136
marty.bregman@westarenergy.com

CATHRYN J. DINGES, CORPORATE COUNSEL
WESTAR ENERGY, INC.
818 S KANSAS AVENUE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8136
cathy.dinges@westarenergy.com

MIKE LENNEN, VP REGULATORY AFFAIRS
WESTAR ENERGY, INC.
818 S KANSAS AVENUE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8119
michael.lennen@westarenergy.com



Della Smith