BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the Application of Kansas Gas and Electric Company for Approval of the Amendment to the Energy Supply Agreement Between Kansas Gas and Electric Company and HollyFrontier El Dorado Refining LLC	)))))	Docket No. 19-KG&E-091-CON

NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION [PUBLIC VERSION]

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and for its Notice of Filing of Staff Report and Recommendation states as follows:

1. Staff hereby files the attached Report and Recommendation dated January 29, 2019, recommending the Commission approve the 2019 Energy Supply Agreement between Kansas Gas and Electric Company and HollyFrontier El Dorado Refining LLC.

WHEREFORE, Staff requests the Commission consider its Report and Recommendation, and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

Phoenix Anshutz, S. Ct. #27617
Litigation Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, Kansas 66604
(785) 271-3312 (Telephone)
E-mail: p.anshutz@kcc.ks.gov
For Commission Staff

1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

Phone: 785-271-3100
Fax: 785-271-3354
http://kcc.ks.gov/

Dwight D. Keen, Chair
Shari Feist Albrecht, Commissioner
Jay Scott Emler, Commissioner

Laura Kelly, Governor

REPORT AND RECOMMENDATION
UTILITIES DIVISION
[PUBLIC VERSION]

TO: Dwight D. Keen, Chair
Shari Feist Albrecht, Commissioner
Jay Scott Emler, Commissioner

FROM: Darren Prince, Managing Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: January 29, 2019

SUBJECT: Docket No. 19-KG&E-091-CON: In the Matter of the Application of Kansas Gas and Electric Company for Approval of the Amendment to the Energy Supply Agreement Between Kansas Gas and Electric Company and Holly Frontier El Dorado Refining LLC

EXECUTIVE SUMMARY:

On August 28, 2018, Kansas Gas and Electric, d/b/a Westar Energy (Westar) and Holly Frontier El Dorado Refining LLC (Frontier) submitted an Application for Commission approval of a special contract (2019 Agreement).[1] The 2019 Agreement, if approved, will replace the existing special contract (2012 Agreement).

Because the Joint Applicants have met the filing requirements and the 2019 Agreement would benefit Westar and its core customers, Staff has determined the 2019 Agreement would result in just and reasonable rates. Therefore, Staff recommends the Commission approve the 2019 Agreement.

BACKGROUND:

Westar and Frontier entered into an Energy Supply Agreement (2005 Agreement) approved by the Commission in Docket No. 05-KG&E-906-CON on June 13, 2005.[2] The 2005 Agreement expired on December 31, 2011, but was extended until December 31, 2012, to allow negotiations for a new agreement to continue.[3] Westar and Frontier reached an agreement and applied for approval of a

[1] Application for Westar Energy, Inc., Docket No. 19-KG&E-091-CON, August 28, 2018.
[2] Order Approving Application for New Agreement, Docket No. 05-KG&E-906-CON, June 13, 2005.
[3] Order Approving Extension to Energy Supply Agreement, Docket No. 12-KG&E-453-CON, February 6, 2012.

new Energy Supply Agreement (2012 Agreement), which the Commission approved in Docket No. 12-KG&E-718-CON.[4]

The 2012 Agreement expired on January 2, 2018, but was extended until January 2, 2019, to allow negotiations to continue.[5] Westar and Frontier reached an agreement and applied for approval of a new ESA (2019 Agreement) in the current docket, Docket No. 19-KG&E-091-CON (Docket 19-091).[6]

On November 30, 2018 Staff, Westar, and Frontier filed a Joint Motion to extend the 2012 Agreement again to allow Staff adequate time to review the 2019 Agreement. Subsequently, on December 6, 2018, the Commission approved extending the 2012 Agreement until the issuance of a final Commission Order.[7] On January 14, 2019, Westar filed an Addendum to the Application.[8] The Addendum updated the proposed rates to the rates currently approved by the Commission.[9]

Description of 2019 Agreement

The proposed 2019 Agreement is for an additional five-year term at the currently effective rates with the following notable changes: (1) Frontier's cogeneration (Cogen) capacity increased from 35 MW to 39 MW; (2) in addition to running their Cogen for steam or reliability, Frontier can run its Cogen up to eight weeks for any reason; (3) Westar can call on Frontier to run its Cogen up to eight weeks for any reason at no cost; (4) unused Cogen calls by Westar can be used by Frontier for any reason up to 16 weeks per year; and (5) Frontier's minimum bill increased from 16 million kWh per year to 14 million kWh per month.[10]

As stated above, the 2019 Agreement does not propose a change to Frontier's current rates. The current rates are shown below in Table 1. If the 2019 Agreement is approved, the rates in Table 1 will remain in effect for the duration of the contract or until the conclusion of Westar's next rate case.

Table 1

[redacted]

[4] Order Approving Energy Supply Agreement, Docket No. 12-KG&E-718-CON, January 2, 2013.
[5] Order Adopting Staff's Report and Recommendation, Docket No. 18-KG&E-112-CON, December 7, 2017.
[6] Application for Westar Energy, Inc., Docket No. 19-KG&E-091-CON, August 28, 2018.
[7] Order Approving Joint Motion for Extension of Energy Supply Agreement, Docket No. 19-KG&E-091-CON, December 6, 2018.
[8] Docket 19-091, Notice of Addendum to Energy Supply Agreement, January 14, 2019.
[9] Order Approving Non-Unanimous Settlement and Agreement, Docket No. 18-WSEE-328-RTS, September 9, 2018.
[10] Direct Testimony of Chad Luce (Luce Direct), p. 2, Docket No. 19-KG&E-091-CON, August 28, 2018.

ANALYSIS:

Standard of Review

Standards for Approval of Special Contracts

Special contracts must meet two basic criteria for Commission approval:

1. *Legislative Standard:* Any tariff filing or special contract filing must be made in compliance with K.S.A. 66-101(c) and K.S.A. 66-117.

2. *Commission Standard:* Any electric special contract filing must comply with the Commission's October 3, 2001, Order Regarding the Filing Requirements and Procedures for the Review and Treatment of Special Contracts in Docket No. 01-GIME-813-GIE (01-813 Docket, 01-813 Order).

K.S.A 66-101c and 66-117: By filing this Application and the attached Agreement with the Commission for review and approval, the Joint Applicants are complying with the requirements of K.S.A 66-101c and 66-117. The Commission will only approve electric rates it determines to be just and reasonable.[11]

01-813 Order: To ensure contract rates are just and reasonable, the Commission has identified a standard process for reviewing contract rates.[12] The 01-813 Order requires the utility to provide the following information when filing a special contract:

A. A narrative explaining why the special contract is necessary and why the price and other terms are just and reasonable;

B. Specific information on the customer's operations and needs;

C. Information on the effect of the special contract on the utility's system over the term of the special contract;

D. A detailed cost analysis of the proposed special contract; and

E. A statement of the benefits from the special contract to the utility and other customers. Further, costs should be separated at a minimum into generation, transmission, and distribution components.

In addition, the 01-813 Order specifies that "In order to be approved, the utility must show that the special contract provides a cost benefit to the remaining core customers."[13]

As discussed below, Staff examined documentation to assess if the Joint Applicants met the filing requirements and conducted an analysis to determine whether the 2019 Agreement benefits Westar's core customers.

Special Contract Analysis

Staff reviewed the Joint Application, Direct Testimony, and responses to discovery Westar and Frontier provided to determine if the filing requirements were met. Once this review was

[11] K.S.A. 66-101b.

[12] 01-813 Order, pp. 2 para. 6-7.

[13] 01-813 Order, p. 2 para. 6.

concluded, Staff conducted a variable cost analysis and a Cogen savings analysis to determine if Westar's remaining customers benefit from the 2019 Agreement.

Filing Requirements

As stated above, the Commission established filing requirements for special contracts. Below Staff details the information Westar and Frontier provided in the Joint Application, Direct Testimony, and responses during discovery.

A narrative explaining why the special contract is necessary and why the price and other terms are just and reasonable

According to Westar, the 2019 Agreement is necessary to maintain Frontier's rates at the current level and to sway Frontier from installing additional Cogen capacity to cover its entire facility load.[14]

Specific information on the customer's operation and needs

Frontier is a refinery located in El Dorado, Kansas, and is one of the largest oil refineries in the plains states. Frontier's complexity and direct access to the Cushing, Oklahoma hub enables it to refine a wide variety of crude oils.[15] Also, Frontier is one of Westar's largest customers with a 12 month average demand of 57 MW and an 86% load factor.[16] Additionally, Frontier owns and operates a Co-gen unit with associated heat recovery steam generation equipment.[17] The Cogen unit is a natural gas unit that was rated at 35 MW output but has been upgraded to 39 MW of output.[18]

Information on the effect of the special contract on the utility's system over the term of the special contract

The 2019 Agreement has two possible effects on Westar's system, reliability and economic. First, the contract can help alleviate reliability issues in the area. Frontier's Cogen provides voltage support if necessary in the event of unplanned contingencies in the El Dorado area.[19] This increases Westar's reliability by helping alleviate transmission congestion in that area. Second, the contract can help mitigate market risk. For example, on June 15, 2018, there was an explosion on the Southern Star natural gas pipeline near Hesston which compromised Westar's owned generation on the Southern Star pipeline due to no gas supply.[20] If Westar could not meet its SPP required demand, it would have to buy from the real time market. This created a market risk for Westar, so Westar called on Frontier to run its Cogen and ramped up other generation units.[21] By doing this, Westar minimized the generation shortfall the SPP covered. In this case, Westar exercised its option to call on Frontier partially mitigating the market risk Westar was exposed to.

A detailed cost analysis of the proposed special contract

Frontier provided a detailed cost analysis upon request, which included: (1) Frontier's costs under the current contract; (2) Frontier's cost on the Industrial and Large Power (ILP) tariff with the

---

[14] Luce Direct, p. 2.
[15] Direct Testimony of Joshua W. Goodmanson (Goodmanson Direct), July 17, 2012, p. 2, Docket No. 12-KG&E-718-CON.
[16] KCC DR 9.
[17] Goodmanson Direct, p. 3.
[18] Luce Direct, p. 2.
[19] KCC DR 10.
[20] Emporia Energy Center is rated at 645 MW; Frontier's Cogen is rated at 35MW.

Interruptible Service rider (ISR); and (3) Frontier's costs using its Cogen facility and Westar as a back-up service.[22]

A statement of the benefits from the special contract to the utility and other customers
According to Westar, the 2019 Agreement will benefit Westar and other customers in the following ways.[23]

a) Westar benefits from the ability to coordinate maintenance outages in conjunction with Westar's summer peak;
b) The ability to count capacity from the Cogen plant toward its SPP reserve margin;
c) A summer/winter pricing differential to reflect Westar's higher fuel and generation costs during the summer months;
d) Contract clauses to ensure that Frontier is subject to all Riders and Surcharges;
e) A requirement for Frontier to pay its pro rata share of any general rate increase; and
f) Increased availability and shorter notification required compared to the standard ISR.

Conclusion
As discussed above, Staff reviewed multiple documents supplied by the Joint Applicants in which Westar and Frontier provided information to satisfy the Commission's filing requirements. Through this review, Staff has concluded the Joint Applicants have met the Commission's filing requirements for special contracts.

The Economic Benefit to Remaining Core Customers
To determine the necessity of the 2019 Agreement, Staff evaluated the Tariffs available to Frontier. The ILP Tariff with ISR Rider is the least economical tariff for Frontier. The most economical tariff for Frontier would be to operate its Cogen facility at capacity and take back-up service from Westar when necessary. Since the contract is necessary, Staff conducted a variable cost analysis and a Cogen savings analysis to determine if the 2019 Agreement benefits Westar's remaining customers.

Variable Cost Analysis
Staff evaluated the benefit of the agreement to core customers by evaluating whether Westar's core customers are better off with Frontier at a discounted rate or better off with Frontier utilizing its Cogen plant to supply its energy needs and relying on Westar for standby service. Determining whether remaining Westar customers are better off with Frontier receiving a discounted rate or going on Westar's standby tariff is appropriate because of Frontier's willingness to do so and Frontier's ability to increase its cogeneration capacity.[24]

To determine the benefit Westar's core customers are receiving from Frontier at the discounted rate, Staff conducted a variable cost analysis. The variable cost analysis will determine Frontier's contribution to Westar's fixed costs under the 2019 Agreement and under Westar's Standby Tariff. To complete the analysis, Staff calculated the extra value created through Westar's ability to call on Frontier to run its Cogen.

---

[22] HFRM Response to DR 8.
[23] Luce Direct, pp. 5-6.
[24] Luce Direct, p. 2.

Staff used total operating expenses and total energy usage from the Special Contracts group in Westar's class cost of service filed in Docket 18-328 to calculate Westar's variable cost floor.[25] The variable cost in Table 3 (below) sets the floor for all tiers of rates and can be used to approximate Frontier's contribution to paying for Westar's fixed costs—base rate revenue divided by annual kWh usage (average rate) minus the variable cost floor times energy usage. This analysis is illustrated in Table 2.

Table 2

[redacted]

2019 Agreement Variable Cost Analysis

For Frontier energy usage data, Staff used January 2017 through December 2017 supplied by Frontier. Staff calculated the average rate for Frontier at [redacted] per kWh.[26] The difference between the average rate and the variable cost floor multiplied by the annual kWh usage provides an approximation of the monetary value of Frontier's contribution to fixed costs. At the proposed rates, Frontier's average price is [redacted][27] greater than the variable price floor and is contributing approximately [redacted] to its fixed costs.[28] This analysis is illustrated in Table 3.

---

[25] Variable cost floor = Total Operating Expenses (minus fuel and purchased power) divided by Total Special Contract kWh [redacted].

[26] Base rate revenue divided by total energy usage [redacted].

[27] Variable cost floor minus average rate / variable cost floor [redacted].

[28] Average rate minus variable cost floor times total energy usage [redacted].

Table 3

[redacted]

Cogeneration Variable Cost Analysis

If Frontier decided to run its Cogen facility full time and rely on Westar for back-up services, it would greatly decrease the amount of energy purchased from Westar. The tariff rate for backup service and the reduction in energy purchased from Westar would affect the amount Frontier would contribute towards fixed costs.

For Frontier, Staff used data provided by Frontier in an analysis calculating the amount of demand and energy needed and the associated costs if Frontier relied on its Cogen.[29] Staff added all applicable charges and divided this by the total energy usage to develop a $/kWh cost. In this scenario, Staff calculated the variable cost at [redacted] per kWh.[30] The difference between this $/kWh and the variable cost floor was multiplied by total usage to calculate Frontier's contribution to fixed costs. If Frontier relied on its Cogen facility and back-up service from Westar, it would contribute approximately [redacted] to Westar's fixed costs.[31] This analysis is illustrated in Table 4.

**Table 4 **

[redacted]

Comparing Table 3 to Table 4, at the proposed rates, Frontier is contributing approximately [redacted] and if Frontier runs its Cogen facility full time and relies on Westar for back-up service only, it will cover [redacted] of its fixed costs.

---

[29] KCC DR 8.

[30] Average rate = total base revenue divided by energy usage; [redacted].

[31] Fixed cost contribution = average rate minus variable cost floor times total usage; [redacted].

Because the decrease in energy use is offset by the increase in price per kWh under the back-up scenario, Frontier will approximately cover [redacted] more of its fixed costs than it would under the 2019 Agreement. However, the contract provides additional value through Westar's ability to interrupt Frontier's service when needed at no cost.

Value of Cogen to Westar

Pursuant to the 2019 Agreement, Westar may request Frontier to run its Cogeneration facility for a total of eight weeks per year at no cost.[32] Staff conducted a Cogen analysis to highlight the savings imputed to Westar from its ability to call on Frontier's Cogen facility at no cost. At Staff's request, Westar provided the number of times it [redacted] Frontier to run its Cogen facility.[33] With the data Westar provided, Staff calculated the savings imputed to Westar.[34] These savings are illustrated in Table 5.

Table 5

[redacted]

Conclusion

Frontier has the capability to reduce its energy demand significantly by relying on its Cogen or by adding enough generation capacity to supply its entire load. Due to these possibilities, Staff believes the 2019 Agreement is necessary to incentivize Frontier from taking these actions. The 2019 Agreement results in net benefits totaling [redacted][35], which benefits Westar's remaining customers. Since Westar's remaining customers will benefit, Staff believes the proposed rates are just and reasonable.

RECOMMENDATION:

The Joint Applicants have met all of the filing requirements established by the Commission when submitting a special contract application. Staff analysis has determined the 2019 Agreement benefits Westar's remaining customers by creating positive net benefits. Therefore, Staff recommends the Commission approve the 2019 Agreement.

---

[32] Joint Application, p.10. Section 4.12, August 28, 2018. Docket No. 19-KG&E-091-CON.

[33] KCC DR 2.

[34] The number of MWhs produced was derived by calculating an average of MWhs produced per day by Frontier when Westar requested them to run their Cogen facility. The average per day was then multiplied times 56 days (8 weeks). The total number of MWhs produced was then multiplied by $75. Savings value to Westar = [redacted]

[35] Total Net Benefits were calculated by subtracting Frontier's contribution to fixed costs on the Standby Tariff from the sum of Frontier's contribution to fixed costs under the 2019 Agreement and the Cogen savings. [redacted].

CERTIFICATE OF SERVICE

19-KG&E-091-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Report and Recommendation was served via electronic service this 1st day of February, 2019, to the following:

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067
Fax: 785-242-1279
jflaherty@andersonbyrd.com

PHOENIX ANSHUTZ, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
p.anshutz@kcc.ks.gov

MICHAEL NEELEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3167
m.neeley@kcc.ks.gov

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

Vicki Jacobsen

Vicki Jacobsen
Legal Assistant