**BEFORE THE STATE CORPORATION COMMISSION**

**OF THE STATE OF KANSAS**

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# DIRECT TESTIMONY

# OF

# KEVIN KONGS

# WESTAR ENERGY

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**DOCKET NO. 18-WSEE-328-RTS**

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## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. Kevin Kongs. 818 South Kansas Avenue, Topeka, Kansas 66612.

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

A. Westar Energy, Inc. ("Westar" or "Company") as Vice President Controller.

**Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.**

A. I hold a B.B.A with an emphasis in Accounting from Washburn University. I have an M.B.A. also from Washburn University. I am a Certified Public Accountant and a Certified Management Accountant. I worked five years public accounting before joining Westar in 1989. While at Westar, I have worked seven years in the corporate income tax department and twenty-one years in various roles within the accounting department. In my current position, I am responsible for overseeing the preparation and oversight of Westar's financial records.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. The purpose of my testimony is to sponsor the following accounting adjustments in the Minimum Filing Requirements (MFRs):

1. La Cygne AAO Adjustment (RB-9),
2. Interest Synchronization (IS-47),
3. Construction Work in Progress (RB-3),
4. 800 Kansas Second Floor (RB-1 and IS-26),
5. Insurance Premium Increase (IS-34),
6. Merger Savings (RB-5 and IS-23),
7. Annualized Depreciation (IS-24),
8. Depreciation Study (IS-7),
9. Difference in Depreciation Rates (RB-6),
10. Elimination of AROs (EA-1),
11. Analog Meter Retirements (IS-10),
12. Transition Costs (IS-16).

I also will discuss the deferral of lost revenue for one of our largest customers that occurred as a result of the Commission's approval of a special contract for that customer.

## II. LA CYGNE AAO ADJUSTMENT

**Q. PLEASE PROVIDE AN OVERVIEW OF WESTAR'S ADJUSTMENTS RELATED TO ITS INVESTMENT IN ENVIRONMENTAL EQUIPMENT AT LA CYGNE.**

A. In Docket No. 15-GIME-025-MIS, the Commission approved a jointly filed application of Westar, Kansas Gas and Electric Company (KGE), Kansas City Power & Light Company (KCP&L), Commission Staff (Staff) and the Citizens' Utility Ratepayers Board (CURB) permitting Westar to use Construction Accounting for its investment in environmental equipment at La Cygne Unit 1 and La Cygne Unit 2.

Construction Accounting provides a deferral mechanism for monthly depreciation, amortization expense and carrying costs related to this equipment. The rate used to calculate carrying costs associated with this investment is tied to Westar's Kansas jurisdictional AFUDC rate. The Commission also ordered Westar to defer these costs in account 182.3 – Other Regulatory Assets and include them in rate base.

The Order Approving the Joint Application stated the following:

> 11. The Joint Applicants request approval for Westar to utilize Construction Accounting for its investment in the Project not previously included in rates in the 12-112 Docket and 13-629 Docket. Construction Accounting treatment would provide a deferral mechanism for the monthly depreciation and amortization expense

> recorded for the Project. Depreciation expense would be calculated based on previous Commission-approved rates. Amortization expense associated with Westar's interest in La Cygne Unit 2 would be based on the remaining life of the La Cygne Unit 2 lease. Construction Accounting treatment would provide a deferral mechanism for carrying costs associated with the Project at a rate tied to the Kansas jurisdictional AFUDC rate
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> 12. For additions placed in-service prior to the 2015 general rate case filing date that are not in rates, the Joint Applicants seek deferral of both depreciation/amortization and carrying costs beginning on the filing date and continuing through the anticipated effective date of the rates determined through the general rate case. For those additions placed in-service from the filing date through the update date, Joint Applicants seek deferral calculation beginning on the in-service date and continuing through the anticipated effective date of the rates determined through the general rate case.
>
> 14. Joint Applicants request that Westar be permitted to include in rate base in Westar's upcoming general rate case those costs expected to be accumulated in Account 182.3 up to the effective date of rates based upon construction costs incurred up to May 31, 2015, the anticipated update date for the upcoming general rate case.

**Q. PLEASE EXPLAIN ADJUSTMENT RB-9 ENTITLED "LA CYGNE ACCOUNTING AUTHORITY ORDER (AAO)."**

A. In Adjustment RB-9, I make an adjustment to increase rate base for the deferred depreciation, amortization expense and carrying costs accumulated in Account 182.3 – Other Regulatory Assets pursuant to the Commission's order. This adjustment increases rate base by $12,487,795.

## III. INTEREST SYNCHRONIZATION

**Q. PLEASE EXPLAIN ADJUSTMENT IS-47 ENTITLED "INTEREST SYNCHRONIZATION."**

A. Adjustment IS-47 synchronizes with rate base the interest expense used in computing taxable income. The amount is determined by applying the weighted cost of debt for Westar to the adjusted rate base at the end of the test year. The net effect of pro forma Adjustment IS-47 is to increase current taxes by $9,016,528 for the first step rate change that will occur in September 2018 and by $9,074,653 for the second step rate change that will occur in February 2019.

## IV. CONSTRUCTION WORK IN PROGRESS (CWIP)

**Q. PLEASE EXPLAIN ADJUSTMENT RB-3 ENTITLED "CONSTRUCTION WORK IN PROGESS (CWIP)."**

A. This adjustment is in accordance with K.S.A. 66-128. The relevant provisions of K.S.A. 66-128 state

> (b)(1) For the purposes of this act, **except as provided by subsection (b)(2)**, property of any public utility which has not been completed and dedicated to commercial service shall not be deemed to be used and required to be used in the public utility's service to the public.
>
> (2) Any public utility property described in subsection (b)(1) **shall** be deemed to be completed and dedicated to commercial service if: (A) **Construction of the property will be commenced and completed in one year or less**; (B) the property is an electric generation facility that converts wind, solar, biomass, landfill gas or any other renewable source of energy; (C)

> **the property is an electric generation facility or addition to an electric generation facility**; or (D) the property is an electric transmission line, including all towers, poles and other necessary appurtenances to such lines, which will be connected to an electric generation facility.

(Emphasis added.)

The bolded statutory language above allows Westar to include CWIP in rate base if it is related to (1) construction projects that can be completed in one year or less and (2) construction of an electric generation facility or an addition to an electric generation facility. This adjustment reflects such short-term and power plant construction activity that had commenced but was not completed at June 30, 2017, the end of the test year. This adjustment excludes CWIP related to income-producing projects, such as transmission projects, the costs of which are recovered in the Transmission Delivery Charge. The projects covered by this adjustment will be placed in service to benefit customers within 12 months from the end of the test year.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment RB-3 increases rate base by $233,924,824.

## V. 800 KANSAS SECOND FLOOR

**Q. PLEASE EXPLAIN ADJUSTMENTS RB-1 AND IS-26 ENTITLED "800 KANSAS SECOND FLOOR."**

A. Consistent with the approach we have used in prior cases, these adjustments remove costs of refurbishing executive office space at

800 South Kansas Avenue more than a decade ago. The adjustment removes any amount from rate base in excess of the inflation-adjusted cost incurred in 1992 to renovate the current executive offices. The appropriate amount of depreciation expense and accumulated depreciation has also been excluded.

**Q. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?**

A. Adjustment RB-1 decreases plant in service by $5,003,239 and decreases accumulated depreciation by $2,787,655 for a total decrease in rate base of $2,215,584. Adjustment IS-26 decreases depreciation expense by $130,664.

## VI. INSURANCE PREMIUM INCREASE

**Q. PLEASE EXPLAIN ADJUSTMENT IS-34 ENTITLED "INSURANCE PREMIUM INCREASE."**

A. These adjustments reflect increases in insurance premiums for property and liability coverage. These adjustments are necessary to reflect known and measurable changes that will occur during calendar year 2018. Westar will provide Staff and the other parties with an update of our property and liability insurance costs as of March 31, 2018, which is the expected true-up date for our filing. This will allow the Staff and the other parties to verify and incorporate the actual costs into their direct testimony.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment IS-34 increases operating expense by $315,000.

## VII. MERGER SAVINGS

**Q. PLEASE EXPLAIN ADJUSTMENT IS-23 ENTITLED "MERGER SAVINGS."**

A. This adjustment reflects the sharing of merger savings with Westar's shareholders, approved by the Commission in its January 15, 1997, Order in Docket Nos. 196,306-U and 196,307-U, related to the merger between Westar (then known as Western Resources) and KGE. This adjustment represents the amount of imputed savings recognized by the Commission. This adjustment increases amortization expense by $5,458,213.

**Q. PLEASE DESCRIBE RB-5 RELATED TO MERGER SAVINGS.**

A. The adjustment incorporates a portion of the Accumulated Deferred Income Taxes related to the Merger Premium as a cost-free component as discussed by Westar witness Mr. Devin.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment RB-5 reduces rate base by $28,736,051

## VIII. ANNUALIZED DEPRECIATION

**Q. PLEASE EXPLAIN ADJUSTMENT IS-24 ENTITLED "ANNUALIZED DEPRECIATION."**

A. This adjustment reflects annualized depreciation expense for plant-in-service at the end of the test year. Depreciation expense was calculated by applying the current depreciation rates to plant in service to determine the annual depreciation expense amount. This amount was compared to amounts charged to depreciation expense in the test year for each appropriate asset account balance. The difference between the amount calculated and the amount recorded during the test period represents the necessary cost of service adjustments to annualize depreciation expense.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment IS-24 increases depreciation expense by $16,771,380.

## IX. DEPRECIATION STUDY

**Q. PLEASE EXPLAIN ADJUSTMENT IS-7 ENTITLED "DEPRECIATION STUDY."**

A. Pursuant to the Commission's Order in Docket No. 08-GIMX-1142-GIV, Westar is required to file a depreciation study "every five to seven years. These depreciation studies should be filed either concurrent with or just before a rate case." Order Closing Docket, Docket No. 08-GIMX-1142-GIV, ¶ 8, (Aug. 1, 2013). Westar has not filed a depreciation study in approximately seven years and is therefore required to file a study in this docket. We retained Dr. Ron White to perform a depreciation study and he sponsors that study with his direct testimony in this case.

This adjustment reflects the effect on operating income of the depreciation rates supported by Dr. White. This adjustment reflects the difference between (1) depreciation expense calculated by using Dr. White's proposed depreciation rates to the pro forma plant-in-service and (2) the annualized depreciation expense. The previously mentioned calculation supports an adjustment to increase depreciation expense by $64,007,087. However, since the calculated amount of the adjustment is substantial, Westar determined that we should reduce the adjustment by $8.0 million to facilitate a more moderate impact to customer prices. The revised adjustment increases depreciation expense by $56,007,087.

**Q. DOES THE DEPRECIATION ADJUSTMENT ABOVE INCLUDE COST ESTIMATES FOR DISMANTLING GENERATING UNITS?**

A. No.

**Q. WHAT ARE DISMANTLING COSTS?**

A. Dismantling costs are costs to be incurred by Westar for the ultimate demolition and abatement of generating units at the end of their useful life. Dismantling costs will be incurred by Westar at the end of the generating unit's useful life to eliminate potential safety risks and environmental hazards of non-active generating units that have not been completely demolished.

**Q. WHY YOU HAVE NOT INCLUDED DISMANTLING COSTS IN YOUR DEPRECIATION ADJUSTMENT?**

A. I believe it is appropriate to include dismantling costs for generating units in depreciation rates as a matter of intergenerational equity. The costs to ultimately dismantle generating units should be included in customer prices at the same time as customers are receiving the benefits of utilizing the generating units. This methodology was used by Dr. White in his depreciation study which resulted in approximately $37 million of dismantling costs being included in net salvage rates.

However, because the impact of the depreciation study is significant even without including dismantling costs, Westar determined that we should take a more gradual approach to implementing rate changes related to dismantling costs and did not include them in our request in this docket.

## X. DIFFERENCE IN DEPRECIATION RATES

**Q. PLEASE EXPLAIN ADJUSTMENT RB-6 ENTITLED "REG ASSET - DIFFERENCE IN DEPRECIATION RATES."**

A. This adjustment is based on two separate items that have been recommended by Staff and approved by the Commission in prior dockets:

First, in 2002, the Commission ordered us to reduce our depreciation rates (Docket No. 01-WSRE-436-RTS). We appealed this order due to management's belief that the rates were so low as to cause us to be out of compliance with Generally Accepted Accounting Principles (GAAP). Pending the appeal, we delayed adopting the new rates for the period from August 2001 through March 2002. This delay resulted in our continued use (for GAAP purposes) of depreciation rates that were in effect prior to the 2002 rate order. We lost that appeal. Accordingly, the adjustment recognizes the effect of the delay by including the appropriate amount of accumulated depreciation in rate base which corresponds with the level ordered by the Commission. In addition, the adjustment corrects the amortization expense associated with this item. This treatment is the same as that ordered by the Commission in our 2005 and subsequent rate cases.

Second, similarly, in April 2002, Westar management believed the KCC ordered depreciation rates for La Cygne unit 2 leasehold improvements that were not in accordance with GAAP, because the depreciable life adopted exceeded the remaining term of our leasehold interest in La Cygne unit 2. We established a regulatory asset for the difference between the Commission-ordered depreciation rates based on a 55-year plant life and depreciation rates based on the term of the La Cygne unit 2 lease that ends in September 2029. In December 2005, the Commission accepted our position and subsequently ordered depreciation rates for La Cygne unit 2 leasehold improvements based on the remaining term of the lease (Docket No. 05-WSEE-981-RTS). The adjustment is consistent with Staff's recommendation for the effect of differences between the depreciation rates originally approved by the Commission and depreciation rates based on the term of the La

Cygne unit 2 lease by including the appropriate amount of accumulated depreciation in rate base.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment RB-6 increases rate base by $11,448,678.

## XI. ELIMINATION OF AROS

**Q. PLEASE EXPLAIN ADJUSTMENT EA-1 ENTITLED "ELIMINATION OF AROS."**

A. This adjustment reduces rate base by $188,587,389 related to asset retirement obligations (AROs) included in plant in service for items such as asbestos removal, ash disposal ponds, PCB oil, and dismantling costs associated with a substation and two wind farms. There is also a corresponding adjustment reducing the accumulated provision for depreciation by $28,993,972.

**Q. WHY ARE YOU PROPOSING THIS ADJUSMENT?**

A. In accordance with Generally Accepted Accounting Principles, we are required to record *legal obligations* associated with the retirement of tangible long-lived assets that result from their acquisition, construction, development and/or normal operation. This entails measuring the future cost to retire an asset and recognizing that cost in the financial statements as a liability, and correspondingly, in plant in service. Since plant-related AROs do not represent property used to provide electric service to our customers, we have excluded these amounts from rate base.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. Adjustment EA-1 decreases rate base by $159,593,417.

## XII. ANALOG METER RETIREMENTS

**Q. PLEASE EXPLAIN ADJUSTMENT IS-10 ENTITLED "REG ASSET - ANALOG METER RETIREMENTS."**

A. This adjustment seeks to recover the unrecovered cost of analog meters replaced by digital meters as part of an advanced metering infrastructure program.

**Q. WHAT IS THE ADVANCED METERING INFRASTRUCTURE PROGRAM?**

A. Westar is replacing analog meters with digital meters. The digital meters will provide numerous customer service and operational benefits including allowing customers to better monitor their energy usage, providing enhanced capability to identify and restore outages, allowing timelier meter reading and providing the ability to automate service orders in a far more efficient manner (e.g., without having to dispatch crews).

**Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE RECOVERY OF ANALOG METERS RETIRED?**

A. Yes. In Docket No. 15-WSEE-115-RTS (115 Docket), Westar and Staff, along with the other parties to the Stipulation and Agreement filed in that docket, proposed and the Commission approved the accounting treatment whereby the unrecovered cost of analog meters retired was to be recorded as a regulatory asset and be amortized over five years. The amortization of the unrecovered cost was to be included in base rates in Westar's next general rate case. The order also prevented Westar from earning a return on the regulatory asset.

**Q. HOW DID YOU CALCULATE THE AMORTIZATION EXPENSE?**

A. I used the actual unrecovered analog meter cost at the end of the test year and projected the additional unrecovered meter costs that are expected to be incurred through March 31, 2018, the expected true-up date in this docket. That amount was amortized over five years as prescribed in the Stipulation and Agreement in the 115 Docket.

**Q. HOW WILL RATE BASE BE AFFECTED BY ANALOG METER RETIREMENTS?**

A. Per the Stipulation and Agreement in the 115 Docket, unrecovered costs of analog meters are not to be included in rate base. As analog meters are retired, their original cost and accumulated depreciation need to be removed from rate base and deferred as a regulatory asset. Additionally, ADIT related to the meters needs to be removed as a cost free item. I have included an adjustment to decrease rate base by $26,063,269 to true-up the net book value of meters physically retired to book balances plus the net book value for estimated retirements from the end of the test year through March

31, 2018. Removing the related ADIT has the effect of increasing rate base by $6,606,164. The adjustment to rate base and the corresponding amortization expense for analog meter retirements will need to be updated on the actual true-up date in this docket to reflect the actual amount of analog meters retired and the unrecovered cost to be recovered.

**Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?**

A. IS-39 increases amortization expense by $ 7,188,701 for the annual amortization of the regulatory asset for the unrecovered cost of retired analog meters. In addition, RB-10 reduces rate base by $19,457,105 to reflect the projected net book value of remaining meters as of March 31, 2018.

## XIII. OXY CONTRACT REVENUE DEFERRAL

**Q. PLEASE EXPLAIN THE PROPOSED DEFERRAL OF OXY CONTRACT REVENUE LOSS.**

A. In Docket No. 17-KGE-352-CON, the Commission approved an amendment to an Energy Supply Agreement (ESA) between Kansas Gas and Electric Company d/b/a Westar Energy and Occidental Chemical Corporation (OXY) that reduced rates paid by OXY for the existing ESA set to expire in June 2018. This change in OXY's rates was approved by the Commission on June 27, 2017. In addition to reducing rates charged to OXY, Westar requested and was granted the ability to defer as a regulatory asset the amount of revenue lost due to the amended ESA. Westar witness Michael Rinehart proposes an adjustment to this case to amortize the balance of the regulatory asset.

Although the current OXY ESA expires in June 2018, Westar and OXY recently filed a new ESA for approval with the Commission in Docket No. 18-KG&E-303-CON. The new ESA is essentially an extension of the current ESA with no substantive changes – the rates OXY will pay under the new agreement are the same as the rates it pays under the current ESA. Therefore, it is reasonable to assume that the decrease in revenue from OXY as a result of the June 2017 Amendment to the ESA will continue and should be reflected in rates going forward. In order to ensure that the accurate amount of revenue from OXY is reflected in rates after the current ESA expires in June 2018 and a new ESA is approved, Westar proposes to establish a regulatory liability or regulatory asset to track any difference between the amount of OXY lost revenue included in rates in this case and the amount of OXY lost revenue Westar actually realizes after a new ESA is approved. In the event that the new ESA results in Westar having less revenue lost from OXY than the amount included in rates in this case, Westar would create a regulatory liability for the difference and return that amount to customers in the next general rate case. In the event Westar has more revenue lost from OXY than the amount included in rates in this case, Westar would create a regulatory asset for the difference and recover that amount from customers in the next general rate case.

## XIV. TRANSITION COSTS

**Q. PLEASE EXPLAIN ADJUSTMENT IS-XX ENTITLED "TRANSITION COSTS."**

A. As the Commission is aware, our Application for approval of a merger with Great Plains Energy, Inc. (GPE) is currently pending before the Commission in Docket No. 18-KCPE-095-MER (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, we have already experienced significant savings in terms of our payroll expense. Those savings are reflected in our test year expenses and will flow through to customers in this rate case.

In our Application in the Merger Docket, we indicated that we 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 we could establish that the merger savings flowing to customers through rates were greater than the amortized amount of transition costs we were proposing to include in rates. *See* Application, Appendix H, Commitment No. 19, Docket No. 18-KCPE-095-MER (Aug. 25, 2017). In this case, we have 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 we have incurred when amortized over five years. Therefore, we are requesting recovery of the amortized transition costs in this case.

**Q. HOW DID YOU CALCULATE THE AMOUNT OF MERGER SAVINGS THAT IS INCLUDED IN YOUR TEST YEAR EXPENSE?**

A. First, we took Westar's payroll expense from the test year for our last general rate case, which was October 1, 2013 through September 30, 2014, and escalated that amount by 3% annually in order to account for standard merit increases. Then we compared that amount to the payroll expense from the test year in this rate case after it had been annualized and adjusted for merit increases. The adjusted payroll expense from this test year was $11.1million less than our adjusted payroll expense from the test year for our last case. As a result, we concluded that the merger savings reflected in our test year expense for this case was $11.1 million.

**Q. HOW DID YOU CALCULATE THE AMOUNT OF TRANSITION COSTS TO BE INCLUDED IN RATES IN THIS CASE?**

A. Both Westar and GPE have been separately tracking the transition costs we are incurring. We determined the total amount of transition costs incurred by both companies as August 31, 2017 and then projected the amount of transition costs we are expecting to incur through March 31, 2018, the expected true-up date for this docket.

In total, Westar and GPE have or are expecting to incur $35,667,952 of transition costs by the end of March 2018.

We then determined how much of the total transition costs should be allocated to Westar. We determined the allocation percentages by reviewing the charters that were included in the savings model presented as part of our filing in the merger docket. Those charters included line item detail so we were able to assign allocation drivers to each line item based on the type of cost the savings dealt with. Savings were either directly assigned to a utility or allocated across the utilities based on allocation drivers including number of customers, transmission miles, and the Massachusetts formula (which is one of the allocation factors currently used to allocate common costs to Great Plains' operating utilities). These items were calculated using 2016 FERC Form 1 data. We assigned allocators to each line item for the period between 2018 through 2022. We then totaled the amounts allocated to Westar, KCPL-KS, KCPL-MO and KCPL-GMO jurisdictions and non-regulated affiliates and divided each by the total savings to come up with the allocation percentages. Westar's resulting total was 53.5%. Therefore, Westar's share of the total transition costs expected to be incurred by March 2018 is 53.5% of $35,667,952, or $19,082,354.

We are proposing to amortize this amount over five years which means the amount to be included in rates in this case is

$3,816,471. This amount is significantly less than the $11.1 million of savings that will be included in customers' rates in this case; thus, Westar has met the requirement, pursuant to the commitment made in the Merger Docket, to establish that the savings in rates exceed the transition costs we propose to recover.

**Q. WHY ARE YOU REQUESTING RECOVERY OF TRANSITION COSTS FOR A MERGER THAT HAS NOT YET BEEN APPROVED BY THE COMMISSION?**

A. Although the Commission will not have issued its decision on our merger application at the time we file our Application in this case, under the procedural schedule in the Merger Docket, the Commission will issue its order well before a decision is required in this case. As a result, if the Commission approves the merger, the merger would have closed prior to the time the proposed rates from this case go into effect. Since we have demonstrated that these merger savings exceed the amortization of transition costs we are proposing, it is reasonable to include that amount in rates at the time they become effective in late September 2018.

**Q. THANK YOU.**