

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

**DIRECT TESTIMONY**

**OF**

**KEVIN KONGS**

**WESTAR ENERGY**

Received  
on

**APR 15 2013**

by  
State Corporation Commission  
of Kansas

**DOCKET NO. 13-WSEE-629-RTS**

**I. INTRODUCTION**

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

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

3

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

4

**A.** Westar Energy, Inc. ("Westar" or "Company") as Assistant  
Controller.

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

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**A.** I hold a B.B.A with an emphasis in Accounting from Washburn  
University. I also have an M.B.A. from Washburn University. I am  
a Certified Public Accountant and a Certified Management  
Accountant. I worked five years in the public accounting industry  
before joining Westar in 1989. While at Westar, I have worked  
seven years in the corporate income tax department and sixteen

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1 years in various roles within the accounting department. In my  
2 current position, I am responsible for overseeing the preparation  
3 and maintenance of Westar's financial records.

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

5 A. I am sponsoring the accounting adjustments in the Abbreviated  
6 Rate Case Minimum Filing Requirements (MFRs). These  
7 adjustments reflect Westar's expenditures for the installation of  
8 environmental controls at the La Cygne Generating Station (La  
9 Cygne), the significant reduction in the amortization of the 2007 ice  
10 storm, and two small adjustments that result from the inclusion of  
11 La Cygne expenditures and increasing rates.

12 **II. LA CYGNE GENERATING STATION**  
13 **ENVIRONMENTAL EXPENDITURES**

14 **Q. PLEASE PROVIDE AN OVERVIEW OF WESTAR'S**  
15 **ADJUSTMENTS RELATED TO THE INSTALLATION OF**  
16 **ENVIRONMENTAL CONTROLS AT LA CYGNE.**

17 A. In Docket No. 11-KCPE-581-PRE, the Commission approved  
18 Westar's recovery of costs associated with the installation of  
19 environmental controls at La Cygne up to \$615 million – Westar's  
20 50% share of the approved amount for the project. In Docket No.  
21 12-WSEE-112-RTS (112 Docket), the Commission approved a  
22 Stipulation and Agreement (S&A) authorizing Westar to utilize the  
23 abbreviated rate case process contemplated by K.A.R. 82-1-  
24 231(b)(3) to include the capital costs for the environmental project

1 at La Cygne up to the amount of costs approved by the  
2 Commission but not included in rates set in the 112 Docket. As  
3 discussed below, Westar is making Adjustments RB-1, RB-2, and  
4 IS-1 in order to fully reflect the capital costs it expects to incur as of  
5 June 30, 2013, to install the preapproved environmental project at  
6 La Cygne.

7 **Q. DO THE ADJUSTMENTS RELATED TO THE ENVIRONMENTAL**  
8 **PROJECT AT LA CYGNE REFLECT ACTUAL COSTS OR DO**  
9 **THEY ALSO INCLUDE SOME COMPONENT OF PROJECTED**  
10 **COSTS?**

11 A. The La Cygne adjustments in this case include predominately the  
12 actual capital costs incurred by Westar as of February 28, 2013, but  
13 also include a relatively small amount of projected costs Westar  
14 expects to incur between February 28, 2013, and June 30, 2013.

15 **Q. WHY DID WESTAR USE PROJECTED COSTS INSTEAD OF**  
16 **THE ACTUAL COSTS AS OF FEBRUARY 28, 2013?**

17 A. Although at the time of Westar's Application in this docket a  
18 component of these adjustments will be projected, the actual costs  
19 as of June 30, 2013, will be known to Staff and other parties to the  
20 docket before their direct testimony is due. As a result, the rates  
21 implemented pursuant to this case will be based on actual costs  
22 incurred by Westar and readily available for audit by Staff and other  
23 parties. This is the same procedure used by Westar, accepted by

1 Staff, and reflected in the Commission's order in Docket No. 08-  
2 WSEE-1041-RTS, the rate proceeding that first incorporated into  
3 retail rates costs associated with the Emporia Energy Center and  
4 Westar's wind generation. This procedure has also been widely  
5 adopted in many other matters before the Commission. Although  
6 we will certainly invest even more by the time the Commission  
7 issues its order in this docket, I selected the June 2013 cut-off date  
8 because it clearly provides adequate time for Staff and other parties  
9 to review and audit the actual cost data before filing their testimony.

10 **Q. WHAT RATE BASE ADJUSTMENTS ARE NECESSARY TO**  
11 **REFLECT WESTAR'S CAPITAL INVESTMENT IN THE LA**  
12 **CYGNE ENVIRONMENTAL PROJECT IN RATES?**

13 A. Two adjustments are necessary in order to fully reflect the capital  
14 costs Westar will have incurred as of June 30, 2013, related to the  
15 environmental projects at La Cygne – one to remove the CWIP  
16 placed in rates in the 112 Docket and one to add the actual  
17 amounts for CWIP and plant in service as of February 28, 2013,  
18 and the projected amounts for CWIIP and plant in service through  
19 June 2013. These two adjustments are made in RB-1 and RB-2.

20 **Q. PLEASE EXPLAIN ADJUSTMENT RB-1 ENTITLED "LA CYGNE**  
21 **CONSTRUCTION WORK IN PROGRESS (CWIP) REVERSAL."**

22 A. Adjustment RB-1, I make an adjustment to remove the CWIP  
23 amounts associated with the La Cygne environmental project that

1           were included in rates in the 112 Docket. This adjustment  
2           *decreases* rate base by \$8,315,732.

3           **Q.   WHAT IS THE PURPOSE OF ADJUSTMENT RB-2?**

4           A.   Adjustment RB-2 adds to rate base the actual capital costs incurred  
5           by Westar as of February 28, 2013, related to the La Cygne  
6           environmental project and the projected capital costs through June  
7           30, 2013. Westar projects total expenditures of \$341,745,586 for  
8           the La Cygne environmental project through June 2013; thus,  
9           Adjustment RB-2 increases rate base by this amount.

10                         Included in this adjustment are the costs associated with two  
11           completed work orders for components that have already been  
12           placed in service and the amount of CWIP projected to be incurred  
13           as of June 30, 2013. The completed work orders are for the  
14           completion of a warehouse and the completion and installation of  
15           low NOx burners on Unit 2, which are already in service. We have  
16           already been incurring depreciation expense which we now reflect  
17           in this docket as Adjustment IS-1.

18           **Q.   PLEASE SUMMARIZE THE EFFECT OF ADJUSTMENTS RB-2**  
19           **AND IS-1.**

20           A.   Adjustment RB-2 increases rate base by \$341,745,586. It consists  
21           of \$310,225,745 of CWIP and \$31,519,841 of plant in service.  
22           Adjustment IS-1 increases depreciation expense by \$1,714,679.

1 Q. WHAT IS THE EFFECT ON A COMBINED BASIS OF ALL  
2 THREE ADJUSTMENTS RELATED TO LA CYGNE  
3 ENVIRONMENTAL EXPENDITURES?

4 A. Collectively, these adjustments increase rate base by \$333,429,854  
5 and increase operating expense by \$1,036,523.

6 III. 2007 ICE STORM

7 Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU MAKE RELATED  
8 TO THE 2007 ICE STORM.

9 A. In early 2008, the Commission granted Westar authority to defer as  
10 a regulatory asset maintenance costs it incurred to restore service  
11 following a significant ice storm that occurred in 2007. The  
12 deferred costs totaled \$47,252,861. In Docket No. 08-WSEE-1041-  
13 RTS, Westar was ordered to amortize the regulatory asset over five  
14 years. Westar began amortizing this regulatory asset in February  
15 2009 and it will be fully amortized at the end of January 2014. In  
16 the S&A approved by the Commission in the 112 Docket, Westar  
17 agreed to use the abbreviated rate setting process to "update to  
18 reflect the expiration of the amortization period for costs associated  
19 with the 2007 ice storm that were initially included in Westar's cost  
20 of service in Docket No. 08-WSEE-1041-RTS." The purpose of this  
21 agreement was to assure that Westar's revenue requirement  
22 reflects the lower cost of service once the deferred ice storm costs  
23 are fully amortized.

1 Westar is proposing in this docket to reflect the amount left  
2 to be recovered in those remaining months as a new regulatory  
3 asset and amortize those costs over a reasonable period of time.  
4 This will ensure that Westar fully recovers its costs, of which the  
5 Commission has previously authorized deferral and recovery.

6 In order to accomplish this, I make two adjustments to rate  
7 base – RB 3 to remove the existing regulatory asset from rate base  
8 and RB-4 to add the newly created, but much smaller, regulatory  
9 asset to rate base – and two corresponding adjustments, IS-2 and  
10 IS-3, to Westar’s income statement.

11 **Q. WHAT ARE THE AMOUNTS OF ADJUSTMENTS RB-3**  
12 **ENTITLED “REGULATORY ASSET – ICE STORM REVERSAL”**  
13 **AND IS-2, WHICH REMOVE THE ORIGINAL REGULATORY**  
14 **ASSET FOR THE 2007 ICE STORM FROM RATES?**

15 A. Adjustment RB-3 decreases rate base by \$19,688,716 and  
16 increases pre-tax operating income by \$9,286,716 in *pro forma*  
17 adjustment IS-2.

18 **Q. HOW DID WESTAR CALCULATE THE VALUE OF THE NEW,**  
19 **MUCH SMALLER, REGULATORY ASSET THAT SIMPLY**  
20 **REFLECTS THE REMAINING THREE MONTH’S PORTION OF**  
21 **THE OLD REGULATORY ASSET?**

22 A. Westar proposes to re-amortize the remaining three months of the  
23 original amortization period over a 24-month period. This will

1 ensure that Westar is able to fully recover its expenses associated  
2 with restoring service following the 2007 ice storm, yet is still  
3 consistent with the intent of the agreement in the 112 Docket to  
4 assure that customers do not pay more than the actual ice storm  
5 costs. The 24-month amortization period will expire close to the  
6 time when Westar expects to be seeking recovery of the remainder  
7 of its investment in the La Cygne environmental project, at which  
8 time the regulatory asset can be completely eliminated from rates.  
9 Therefore, I have included this regulatory asset and amortized it  
10 over 24 months.

11 **Q. WHAT ARE THE AMOUNTS OF ADJUSTMENT RB-4 ENTITLED**  
12 **“REGULATORY ASSET ICE STORM” AND ADJUSTMENT IS-3,**  
13 **WHICH ADD THE REMAINING REGULATORY ASSET BACK TO**  
14 **RATES?**

15 A. Adjustment RB-4 increases rate base by \$2,321,679. The  
16 corresponding adjustment to operating expense, Adjustment IS-3,  
17 increases operating expense by \$1,160,840 and decreases pre-tax  
18 operating income by the same amount.

19 **IV. BAD DEBT EXPENSE**

20 **Q. PLEASE EXPLAIN ADJUSTMENT IS-4 ENTITLED “BAD DEBT**  
21 **EXPENSE.”**

22 A. As Westar’s rates increase, Westar’s bad debts also increase, and  
23 it is longstanding Commission practice to update bad debts in  
24 conjunction with an increase in revenue requirement. Adjustment



1 IS-4 reflects the expected increase in bad debt expense that will  
2 occur when rates are increased as a result of this docket. The  
3 increase to bad debt expense associated with the rate increase  
4 proposed in this docket is \$132,178. This *pro forma* adjustment  
5 decreases Westar's pre-tax operating income by \$132,178.

6 **V. INTEREST SYNCHRONIZATION**

7 **Q. PLEASE EXPLAIN ADJUSTMENT IS-5 ENTITLED "INTEREST**  
8 **SYNCHRONIZATION."**

9 A. Adjustment IS-5 synchronizes the interest expense used in  
10 computing taxable income with rate base. The amount is  
11 determined by applying the weighted cost of debt for Westar to the  
12 adjusted rate base at the end of the test year adjusted for the  
13 changes approved in the 112 Docket. The net effect of pro forma  
14 Adjustment IS-5 is to decrease current taxes by \$3,417,480.

15 **Q. THANK YOU.**