

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

**DIRECT TESTIMONY
OF
TERRANCE D. WILSON
ON BEHALF OF
WESTAR ENERGY, INC.**

Received
on
APR 15 2013
by
State Corporation Commission
of Kansas

DOCKET NO. 13-WSEE-629-RTS

I. INTRODUCTION

1

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

3 **A.** Terrance D. Wilson, 818 S. Kansas Avenue, Topeka, Kansas.

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

5 **A.** Westar Energy, Inc. (Westar). I am Executive Director, Customer &
6 Community Relations.

7 **Q. PLEASE DESCRIBE YOUR ELECTRIC UTILITY EXPERIENCE
8 AND YOUR EDUCATION.**

9 **A.** I have worked for 35 years in Customer Relations for Westar
10 Energy. I hold a B.S. in Education from the University of Kansas.

11 **II. SUMMARY OF TESTIMONY**

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

1 A. I will discuss Westar's proposal to cancel its existing Economic
2 Development Rider (EDR) and create the Promote Kansas
3 program. Our proposal will allow Westar to more actively
4 participate in economic development and job creation in Kansas
5 and will benefit our customers, the communities we serve, and the
6 State of Kansas.

7 **III. PROMOTE KANSAS PROPOSAL**

8 **Q. WHAT IS PROMOTE KANSAS?**

9 A. Promote Kansas is a new economic development tariff that is one
10 piece of Westar's overall rate design proposal in this docket.
11 Promote Kansas is a collaborative partnership with state and local
12 economic development organizations to promote Kansas in the
13 communities and area Westar provides retail electric service.
14 Promote Kansas will provide Westar with more flexibility than our
15 existing EDR, enabling us to tailor the benefits provided to
16 customers to meet economic development needs and create jobs.
17 Promote Kansas will supplement existing state and local economic
18 development efforts, not replace them.

19 Westar's Promote Kansas proposal includes two
20 components – one that will enhance Westar's ability to contribute to
21 economic development efforts and job creation in the state and one
22 that will provide assistance to lower-income customers by
23 supplementing existing energy assistance efforts.

1 **Q. HOW WILL THE FIRST COMPONENT OF PROMOTE KANSAS**
2 **WORK?**

3 A. The economic development portion of the proposal would permit
4 Westar, at its option, to provide economic development assistance
5 in the form of discounted electric service to new customers and
6 existing customers with planned expansions if three conditions are
7 met: (1) the customer adds new jobs to its work force, (2) the
8 customer brings new capital equipment and plant to a new or
9 expanded facility and (3) the economic development effort is
10 supported and backed by a state organization such as the Kansas
11 Department of Commerce or a local economic development
12 organization.

13 **Q. HOW WILL PROMOTE KANSAS PROVIDE WESTAR WITH**
14 **FLEXIBILITY TO ADDRESS ECONOMIC DEVELOPMENT**
15 **NEEDS ON A CASE-BY-CASE BASIS?**

16 A. If approved, Promote Kansas will allow Westar to adjust the
17 economic incentive – in the form of reduced electric rates –
18 provided to a customer based on the circumstances involved. This
19 is a change from Westar's existing EDR, which provides for a fixed
20 percentage discount of 25 percent to the customer's electric bill in
21 the first year. The incentive credit declines by five percent per year
22 over a mandatory five year period. After the fifth year of service,
23 the customer pays the full cost of their electric service. Westar has

1 no flexibility to adjust the amount of the incentive credit level or
2 duration under the current EDR.

3 We believe that the fixed percentage under the existing EDR
4 is too rigid. In some situations, the customer may not require the
5 entire 25 percent reduction in its electric bill, or a full five years of
6 reduced electric rates, in order to move forward with an expansion
7 or relocation to Kansas. In these cases, the rigidity of the existing
8 EDR tariff results in either contributing more than needed to attract
9 the new customer or encourage the expansion, or not offering the
10 incentive at all. The current EDR tariff was developed over a
11 quarter century ago, tailored to specific circumstances that no
12 longer exist. It was based on past exigencies, and it is time to
13 revise it to meet today's priorities and business environment.

14 Promote Kansas would contain a variable incentive credit. If
15 Westar decides to provide the incentive credit to a customer, it
16 would range from five percent to 25 percent the first year and would
17 then decline over no more than a five-year period. This will allow
18 Westar flexibility to determine how much incentive is necessary to
19 attract the new customer or the expansion. Westar will be able to
20 actively participate in negotiations with potential new businesses
21 along with other economic development organizations in order to
22 develop the best package of benefits for the customer's specific
23 situation.

1 **Q. WHAT IS THE SECOND COMPONENT OF PROMOTE KANSAS?**

2 **A.** The second component of Promote Kansas will be the creation of a
3 fund for low-income energy assistance. This will complement the
4 existing funding and support Westar has provided for low-income
5 assistance through Project Deserve and other efforts. As with
6 Project Deserve, this effort will be managed and administered by a
7 third party with experience in screening applicants based on
8 established criteria.

9 **Q. HOW WILL PROMOTE KANSAS BE FUNDED?**

10 **A.** As the Commission is aware, when Westar makes as-available
11 wholesale sales to other utilities, Westar credits the benefit of such
12 sales (asset-based margins) to reduce our customers' fuel costs
13 through the Retail Energy Cost Adjustment (RECA). Under
14 Westar's proposal, we would take a portion of the asset based
15 margins and, rather than use that portion of the asset based
16 margins to reduce fuel costs generally, direct it specifically toward
17 the Promote Kansas fund and to provide further low-income energy
18 assistance.

19 Under Westar's Promote Kansas proposal, 60% of the asset
20 based margins would continue to flow through the RECA back to
21 Westar's customers, in the same fashion as they do today. We
22 would then use 10% of the asset based margins to create the fund
23 for low-income energy assistance and 30% of the margins to fund

1 the economic development component of the Promote Kansas
2 program.

3 **Q. WHAT IS THE AMOUNT OF ASSET BASED MARGINS EARNED**
4 **BY WESTAR AND CREDITED TO REDUCE RETAIL CUSTOMER**
5 **BILLS IN THE LAST FEW YEARS?**

6 A. Table 1 below shows the amount of asset based margins Westar
7 credited to retail customers in 2010, 2011, and 2012. Results from
8 asset-based margins vary significantly from year to year based on
9 wholesale power prices, weather, native load demands, and power
10 plant maintenance schedules and activities, but in any given year,
11 typically range from a few to tens of millions of dollars.

12 Table 1

<u>Year</u>	<u>Asset Based Margins</u>
2010	\$24.0M
2011	\$19.4M
2012	\$6.2M

13 Additionally, the Southwest Power Pool, Inc. (SPP) is
14 planning to implement its new Integrated Marketplace with a
15 second day market in March 2014. It is difficult to predict the
16 impact that the new SPP market will have on Westar's ability to
17 generate asset based margins.

1 Q. WOULD THERE BE ANY LIMITS ON CONTRIBUTIONS TO THE
2 PROMOTE KANSAS FUND?

3 A. Yes. Because the level of economic development in the state
4 fluctuates from year to year, establishing a fund with a maximum
5 and minimum funding amount is critical to the success of the
6 program. We are proposing that the Commission establish an
7 upper limit of \$25 million for the economic development portion of
8 the fund and a lower limit of negative \$5 million.

9 If the fund were to reach the upper limit of \$25 million,
10 Westar proposes that it cease directing any further asset-based
11 margins to the fund and instead revert back to using those asset
12 based margins to reduce the RECA, until the balance in the
13 Promote Kansas fund again falls below the maximum level. If the
14 fund reaches the lower limit of negative \$5 million, Westar would
15 cease awarding any new economic development incentives to
16 customers until the balance in the fund were to regain a positive
17 balance.

18 Westar proposes that it continue contributing 10% of the
19 asset based margins to the low-income energy assistance fund
20 regardless of the levels of the economic development portion of the
21 fund.

1 **Q. HOW DOES THE FUNDING PROPOSED BY WESTAR FOR**
2 **PROMOTE KANSAS DIFFER FROM THE FUNDING FOR THE**
3 **CURRENT EDR?**

4 A. In its Order on Rate Applications in Docket No. 05-WSEE-981-RTS,
5 the Commission required 60% of Westar's current EDR to be
6 funded by Westar's shareholders. The remaining 40% is funded by
7 Westar's customers. The Commission accomplished this by
8 requiring Westar to impute as revenue 60% of the economic
9 development discounts provided under the current EDR. This
10 requirement creates a disincentive for Westar to work with state
11 and local economic development organizations and utilize the
12 current EDR to promote economic development. Because so much
13 of the cost of service is represented by fixed costs, it is in all
14 customers' interest for us to encourage economic development and
15 electric sales to new customers.

16 Under Westar's Promote Kansas proposal, the economic
17 development discounts will be included in the cost of service, but
18 rather than being funded by base rate tariffs, instead will be funded
19 by excess margins resulting from opportunistic wholesale sales.

20 **Q. WHAT ARE THE BENEFITS OF WESTAR'S PROMOTE KANSAS**
21 **PROPOSAL?**

22 A. This proposal provides several benefits to our customers, the
23 communities we serve, and the State of Kansas. First, the creation

1 of an economic development fund demonstrates that the state of
2 Kansas, its local economic development organizations, and its
3 largest electric utility are unified and serious about growing our
4 economy, creating new jobs, seeking investment in Kansas, and
5 diversifying the businesses in the state and the communities that
6 Westar serves. The creation of a flexible approach such as
7 Promote Kansas allows Westar to enhance its contribution to the
8 existing economic development efforts. By using a flexible
9 incentive mechanism, the assistance from Westar will be tailored to
10 the need to attract the potential new customer or help an existing
11 customer expand, rather than the one size fits all approach that
12 exists today, which could potentially lead to incentives larger than
13 necessary or discourage incentives that are necessary. As Westar
14 witness Greg Greenwood discusses, energy costs, though seldom
15 the sole or highest consideration, are a factor in a business'
16 decision to build a new facility or expand an existing facility. Our
17 Promote Kansas proposal is part of our overall effort in this docket
18 to better align our rate structure with the goals of job creation and
19 retention in Kansas.

20 Second, promoting economic development that includes job
21 creation is essential to providing opportunities for those who have
22 been temporally displaced by the recent recession. This, when
23 coupled with new income tax incentives in Kansas, provides a

1 further opportunity to attract new families and workers to our state
2 and to expand and grow the tax and economic bases of our
3 communities.

4 Third, the proposal creates an additional funding source for
5 low-income assistance. We were one of the first utilities to create a
6 public/private low-income assistance partnership. That effort in the
7 early 1980s created Project Deserve. We also work directly with all
8 of the energy assistance organizations to help them best serve our
9 customers. These organizations provide the necessary screening
10 so that assistance is provided based on the qualifications of each
11 program, such as income, disability, or age. Our vision for this is a
12 helping hand in a temporary time of need, not just a hand out.

13 Finally, the majority of the asset based margins will continue
14 to be used to offset fuel costs for the benefit of all of Westar's
15 customers. Directing a small portion of the asset based margins
16 away from the RECA will not have a significant impact on overall
17 retail rates, but we believe could create a disproportionately large
18 economic development benefit for Kansas; one targeted and
19 tailored to job creation, and provide targeted assistance to those
20 customers most in need.

21 **Q. THANK YOU.**