BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

JEFFREY L. MARTIN

WESTAR ENERGY

DOCKET NO. _________

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Jeff Martin, 818 South Kansas Avenue, Topeka, Kansas 66612.

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

A. Westar Energy, Inc., (Westar), Vice-President, Regulatory Affairs.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. I have a Bachelor of Science in Electronic Engineering Technology degree from Pittsburg State University and a Masters of Business Administration degree from Kansas State University. I have been with Westar for over twenty-three years and have held various positions in Field Operations, Information Technology, and Regulatory Affairs. My current title is VP, Regulatory Affairs and I am responsible for leading Westar's Regulatory Affairs team in all aspects of our regulatory state and federal activities at the Kansas Corporation Commission, the Federal Energy Regulatory Commission and the North American Electric Reliability Corporation.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will:

1. Provide an overview of Westar's filing and the authority for it;
2. Summarize the four components of Westar's application in this docket;
3. Discuss the effect of the change in revenue requirement on customers.

I. SUMMARY OF THE FILING

Q. HOW IS THIS FILING DIFFERENT FROM A GENERAL RATE CASE?

A. We are making an "abbreviated filing" under provisions of the Commission's regulations that allow applicants to avoid duplicating information provided in the immediately prior, recent general case. To follow the process under the applicable regulation, we must be "willing to adopt all the regulatory procedures, principles, and rate of return established by the Commission in that order." K.A.R. 82-1-231(b)(3)(A). We were also required to obtain permission from the Commission to file in this manner, K.A.R. 82-1-231(b)(3)(B).

Q. IS WESTAR WILLING TO ADOPT ALL THE REGULATORY PROCEDURES, PRINCIPLES, AND RATE OF RETURN

ESTABLISHED BY THE COMMISSION IN THE PRIOR RATE ORDER?

A. Yes.

Q. DID WESTAR RECEIVE PERMISSION FROM THE COMMISSION TO MAKE AN ABBREVIATED FILING?

A. Yes. *See* Order Approving Stipulation and Agreement (S&A), Docket No. 15-WSEE-115-RTS (115 Docket), at ¶¶ 113-116 (Sept. 24, 2015). Specifically, the S&A approved by the Commission in the 115 Docket indicated that Westar would address the following issues in this abbreviated rate case:

1. an update to rates to include capital costs incurred by Westar related to environmental projects at La Cygne that were approved by the Commission in Docket No. 11-KCPE-581-PRE, up to the amount of costs approved by the Commission in that docket but not included in rates previously; and
2. an update to rates to reflect the capital costs related to the projects at Wolf Creek described in the Direct Testimony of John Bridson filed in the 115 Docket; and
3. an update to rates to reflect the costs associated with the investment in grid resiliency projects discussed in Paragraph 20 of the 115 Docket S&A; and
4. an update to rates to incorporate the final roll-in of environmental costs incurred in 2015 that were previously

noticed to the Commission and would have been recovered through the ECRR.

See S&A, at ¶¶ 35-36.

Q. DID THE S&A ADDRESS COST ALLOCATION OR RATE DESIGN FOR THIS ABBREVIATED RATE CASE?

A. Yes, it provided that:

1. no part of the increase in revenue requirement in the abbreviated rate case associated with investments in grid resiliency will be allocated to the LGS, ILP, LTM, IS or special contracts customer classes. That amount is to be allocated to the remaining customer classes based on the same percentages reflected in Appendix A to the Stipulation and Agreement but adjusted proportionally to reflect the exclusion of the LGS, ILP, LTM, IS and special contracts customer classes;
2. the remainder of the increase in revenue requirement in the abbreviated rate case will be allocated to all customer classes based on the percentages reflected in Appendix A to the Stipulation and Agreement;
3. the basic service fees for residential classes will not be adjusted in the abbreviated rate case; and
4. Westar would continue discussions regarding a potential multi-site rate for medium general service customers and, if

appropriate, propose such a rate structure in this abbreviated rate case.

See S&A at ¶¶ 40, 43-45.

Q. WHEN DID THE COMMISSION AUTHORIZE THE COSTS ASSOCIATED WITH THE ENVIRONMENTAL PROJECTS AT LA CYGNE THAT YOU ARE INCLUDING IN RATES IN THIS DOCKET?

A. In Docket No. 11-KCPE-581-PRE, the Commission approved Westar's recovery of costs associated with the installation of environmental controls at La Cygne up to $1.23 billion ($615 million reflecting our 50% share). *See* Order Granting KCP&L Petition for Predetermination of Rate-making Principles and Treatment, Docket No. 11-KCPE-581-PRE (August 19, 2011). Costs related to the La Cygne environmental project have been included in Westar's rates in Docket Nos. 12-WSEE-112-RTS, 13-WSEE-629-RTS, and 15-WSEE-115-RTS. The remainder of Westar's costs associated with this project will be included in rates as a result of this proceeding which are $75 million below the original authorized costs.

Q. ARE THE COMPONENTS OF WESTAR'S FILING IN THIS DOCKET CONSISTENT WITH THE ISSUES IDENTIFIED IN THE S&A APPROVED BY THE COMMISSION IN THE 115 DOCKET?

A. Yes. Our filing addresses each of the items from the S&A in the 115 Docket. We updated the revenue requirement with adjustments related to the environmental projects at La Cygne, the capital costs of the projects at Wolf Creek, the environmental costs previously noticed under the ECRR procedure, and the costs of the grid resiliency investments made pursuant to the Commission Order in the 115 Docket. We allocated costs among classes as required by the Commission Order approving the S&A and placed all of the rate increase in the energy components of the rates, not changing any of the basic service fees for the customer classes.

Q. HOW WOULD YOU DESCRIBE THE NATURE OF WESTAR'S FILING IN THIS DOCKET?

A. Westar's filing is straight-forward and serves as the final step to incorporate costs associated with projects already approved by the Commission. The Commission and the Parties to the S&A in the 115 Docket have already reviewed the prudence and reasonableness of the environmental work being done at La Cygne, the capital projects completed at Wolf Creek, the environmental projects that would have been recovered through the ECRR, and Westar's investments in grid resiliency. The adjustments being made in this proceeding serve to true-up the amounts to be included in Westar's rates for those projects. Because the Parties agreed to – and the Commission approved – the cost allocation and rate design issues for this case in the S&A in the 115 Docket, Westar was able to take the revenue requirement increase and allocate it pursuant to the parameters set in the 115 Docket without any subjectivity involved.

Q. HAVE YOU PROPOSED A PROCEDURAL SCHEDULE FOR THE COMMISSION TO ADOPT IN THIS PROCEEDING?

A. We will be working with Staff and CURB to file a joint request for a procedural schedule shortly after we file this Application. We will not be proposing a public hearing in this schedule, consistent with the procedure the Commission used in Kansas City Power & Light Company's (KCP&L) last abbreviated rate case, Docket No. 14-KCPE-272-RTS. Similar to that KCP&L docket, the adjustments at issue in Westar's current case are simply a calculation of revenue requirement impact that results from projects already approved by the Commission. Westar's residential, commercial and industrial customer classes were all represented in the 115 Docket and all supported the S&A that established this procedure.

II. ADJUSTMENTS TO WESTAR'S REVENUE REQUIREMENT

Q. WHAT IS THE ADJUSTMENT TO REVENUE REQUIREMENT IN THE FILING?

A. We are requesting an increase of $17.4 million. This constitutes a less than 1% increase in revenue requirement, and results in a monthly increase to a typical residential customer of about $1.54 per month.

Q. EARLIER IN YOUR TESTIMONY YOU MENTION THAT THE REQUESTED INCREASE IN REVENUE REQUIREMENT

CONSISTED OF FOUR COMPONENTS. WHAT IS THE FIRST COMPONENT?

A. We have updated the revenue requirement to include the investment we have made for the approved environmental projects at La Cygne that had not already been placed into rates. Westar witness Mark Mayworm provides a more detailed explanation of the environmental upgrades at La Cygne and the costs that have been incurred. Westar witness Rebecca Fowler explains the accounting adjustments necessary to include these costs in rates. This component makes up approximately $7.7 million of the requested revenue requirement increase.

As Ms. Fowler explains, we projected costs through March 1, 2017, because actual costs will be available for audit well before Staff and other intervenors file their direct testimony in this docket. This is consistent with the Commission's practice in other dockets, including decisions in Docket Nos. 08-WSEE-1041-RTS, 12-KCPE-764-RTS, 13-WSEE-629-RTS, and 15-WSEE-115-RTS.

Q. WHAT IS THE SECOND COMPONENT OF THE ADJUSTMENT TO REVENUE REQUIREMENT?

A. We updated the revenue requirement to include the remaining capital costs for the projects at Wolf Creek that were completed during the 2014 mid-cycle outage and the Spring 2015 refueling outage as described in the Direct Testimony of John Bridson in the

115 Docket. They were all necessary in order to ensure that Wolf Creek continues to provide zero-emission, stable-cost power to customers. Westar witness Mark Mayworm describes these projects in more detail and Ms. Fowler describes the adjustment related to these projects. This component makes up approximately $0.2 million of the requested revenue requirement increase.

Q. WHAT IS THE THIRD COMPONENT OF THE ADJUSTMENT TO REVENUE REQUIREMENT?

A. We updated the revenue requirement to reflect in rates the environmental costs incurred in 2015 that would have been recovered through the ECRR absent our agreement in the 115 Docket to discontinue the ECRR. Pursuant to the procedure required under its ECRR, Westar provided notice to the Commission on March 31, 2015, in Docket No. 09-WSEE-737-TAR of the environmental projects it expected to begin in 2015. Under the provisions of the ECRR, Westar would have filed in March, 2016 to update its rates to reflect the costs incurred in 2015 for these projects. As part of the S&A in the 115 Docket, Westar agreed to discontinue use of the ECRR. However, the Parties agreed and the Commission ordered that Westar would perform a final update of environmental costs into base rates for the costs associated with the projects identified in the March 31, 2015 Notice. We calculated the revenue requirement impact associated with these environmental projects using the same method we would have used under the ECRR. Ms. Fowler discusses the accounting adjustment made to incorporate these costs into rates. This component makes up approximately $3 million of the requested revenue requirement increase.

Q. WHAT IS THE FOURTH COMPONENT OF THE ADJUSTMENT TO REVENUE REQUIREMENT?

A. We updated the revenue requirement to incorporate the capital investment associated with the grid resiliency projects we completed between October 28, 2015, and March 1, 2017. Pursuant to the terms of the Commission Order in 115 Docket approving the S&A, ¶20, Westar is permitted to

> recover up to $50 million of capital investment in grid resiliency improvements completed between October 28, 2015, and March 1, 2017, consistent with those improvements proposed as part of the EDGR program discussed in the Direct Testimony of Bruce Akin and the report sponsored by Mr. Cummings. Such plant in service less the associated accumulated depreciation and deferred income taxes will be reflected in rates as a result of the abbreviated rate case . . .

As Westar witness Martin Jones discusses in his Direct Testimony, Westar has successfully completed a number of grid resiliency projects as part of the pilot program authorized in the 115 Docket and will be wrapping up others by March 1, 2017. The costs of those projects are being included in rates in this case. Ms. Fowler discusses the accounting adjustment related to these grid resiliency projects in her Direct Testimony. As she explains, we have used actual costs incurred for these projects through August 31, 2016, and have projected the costs that will be incurred from that date through March 1, 2017, consistent with the Commission Order authorizing this abbreviated case. Actual costs for the entire period will be available for audit well before Staff and other intervenors file their direct testimony in this docket. This component makes up approximately $6.5 million of the requested revenue requirement increase.

Q. DID WESTAR PERFORM A STUDY REGARDING A POTENTIAL MULTI-SITE RATE FOR MEDIUM GENERAL SERVICE CUSTOMERS AS CONTEMPLATED IN THE S&A FROM THE 115 DOCKET?

A. Yes. We retained a consultant, John Wolfram, to perform this study. A memorandum summarizing his conclusions regarding a multi-site rate is attached hereto as Exhibit JM-1.

Q. DOES WESTAR PROPOSE SUCH A RATE STRUCTURE IN THIS ABBREVIATED RATE CASE?

A. No. We do not believe that the abbreviated case is the appropriate filing to make such a request which is supported in the conclusion of the study. As Mr. Wolfram explains in his memorandum, Exhibit JM-1:

> At this juncture, the hurdles to moving forward with a multi-site rate offering in the abbreviated rate case are

> significant. The interpretation of the procedural limitations of the abbreviated rate case, the intra-class cost shifting, and the potential unforeseen consequences of rate unbundling all point to deferring consideration of the multi-site rate offering to the next full retail rate case, where all of the issues may be given consideration on a comprehensive basis in a cost of service study and rate design initiative. At that time, the limitations of the legacy billing system and the plans for replacing that system will likely be more certain and can be better taken into account by Westar and its stakeholders in the cost of service and rate design process.

Westar will study the possibility of implementing a multi-site rate at the time it files its next general rate case and will make a proposal in that docket if appropriate.

III. RATE IMPACTS

Q. WHAT IS THE AVERAGE INCREASE FOR EACH CLASS UNDER WESTAR'S PROPOSAL?

A. The overall increase to Westar's revenue requirement as a result of this filing will be less than 1%. Pursuant to the provisions of the S&A, this increase will be allocated to the customer classes as shown below in Table 1, which shows the average increase for each customer class.

Table 1

Customer Class	Revenue Requirement Increase ($)	Percentage Increase from Revenue Requirement Increase
Residential	9,809,961	1.2%
Small General Service	3,091,978	0.74%
Medium General Service	1,650,791	0.68%
LGS/ILP/LTM	1,633,393	0.43%
Interruptible Contract Service	19,969	0.66%
Special Contracts	188,467	0.32%
Schools	507,472	0.95%
Churches	14,968	0.93%
Lighting	528,708	1.81%

Q. HOW WILL THE PROPOSED REVENUE REQUIREMENT INCREASE IMPACT RESIDENTIAL CUSTOMERS?

A. For the average residential customer, the increase will be about $1.54 a month or only about 5 cents per day.

Q. THANK YOU.

Westar Energy Retail Rate Design
August 30, 2016

Multi-Site Commercial Rate

I. Issue

On September 24, 2015, the Kansas Corporation Commission ("KCC") approved the Stipulation and Agreement ("S&A") filed by Westar on August 6, 2015 in Docket No. 15-WSEE-115-RTS ("115 Docket").

Paragraph 45 of the S&A states as follows:

> Westar agrees to continue discussions regarding a potential multi-site rate for medium general service customers and, if appropriate, propose such a rate structure in the abbreviated rate case.

The purpose of this review is to further consider the issues related to the possibility of implementing a multi-site commercial rate, in preparation of continued discussions on this topic prior to the filing of the abbreviated rate case.

II. Kroger Proposal

In testimony in the 115 Docket, Kroger witness Kevin Higgins proposed that Westar should consider offering a Multi-Site Rate in which an aggregation of billing demand applies to the fixed costs of production. He agreed with Westar that such aggregation would not be appropriate for recovering fixed transmission and distribution costs. Testimony excerpts on this issue are provided in Appendix A.

Mr. Higgins provides a specific example; he states that Consumers Energy in Michigan has such a rate, called the Aggregate Peak Demand Service Provision. This program is available to any customers with 7 accounts or more who take service under the General Service Primary Demand Rate and who desire to aggregate their On-Peak Billing Demands for power supply billing purposes.

Mr. Higgins acknowledged that implementing a multi-site rate would require some limited unbundling of fixed production costs within the applicable rate schedules (e.g. MGS), but noted that this can be accomplished through rate design, and he recommended that the KCC remain open to adopting a multi-site commercial rate, similar to that of Consumers Energy, in a future proceeding.

In subsequent discussions, Mr. Higgins agreed that if Westar implemented the multi-site rate as a provision of the MGS tariff, without any other rate changes, the multi-site customers would experience bill savings, and Westar would collect reduced MGS revenues. Mr. Higgins explained his expectation that to address this, Westar would, when determining the actual per-unit charges for multi-site or aggregated customers, use their billing determinants (in conjunction with those of the balance of MGS customers) to revise the current MGS demand charge so that the entire MGS class (aggregate customers and other customers combined) would remain revenue neutral. In other words, the other customers in the MGS class would pick up the costs saved by the multi-site customers under the new offering. Since the number of multi-site customers is likely small relative to the total MGS customer base, the MGS demand rate revision is likely to be very minor.

III. Consumers Energy Tariff

Consumers Energy offers the Aggregate Peak Demand Service Provision ("GAP") as a provision of the General Service Primary Demand Rate. It is not a standalone offering available to all rate classes. The General Service Primary Demand Rate separates Power Supply charges from Power Delivery charges, for both demand and energy. It also employs a time-differentiated energy rate, under Rule C.14 on the Consumers Energy tariff (i.e. it includes On-Peak and Off-Peak hourly periods, plus holidays) and applies capacity charges only to the On-Peak Billing Demand. The Power Supply demand charge does not employ a demand ratchet; the Power Delivery demand charge is based on the Maximum Demand, which is the maximum demand of the current month or previous 11 months (aka 12-month rolling maximum demand ratchet).

This program is available to any customer with 7 accounts or more who desire to aggregate their On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW. The aggregated accounts are billed under the same rate schedule and service provisions which apply to the individual sites, with the aggregate maximum capacity to all customers limited to 200,000 kW.

The specific tariff language is provided in Appendix B.

IV. Issues for Westar

Adopting a rate structure like the Consumers GAP would create several requirements for Westar, in the categories that follow.

1. Tactical Issues

    a. Ratemaking

        i. The GAP requires that the retail demand rate be unbundled into separate components related to Power Supply and Power Delivery (i.e. production/purchased power and transmission/distribution). This means that Westar would have to split the current MGS demand charge into two parts, and separately calculate (a) the fixed production and purchased power portion and (b) the fixed transmission and distribution portion of the MGS demand charge. The MGS demand charge is currently set at $15.615204 per kW. Determining how much of this is related to Power Supply would require a review of the last cost of service study and the rate case settlement. It would also require some speculation, because the unbundled rate components of the MGS demand charge were not specifically agreed-upon in the settlement of the case.

ii. Because Westar will experience a revenue decrease stemming from multi-site customer bill savings, the current MGS demand rate must be increased slightly in order to maintain revenue neutrality within the MGS class. The scope of the abbreviate rate filing is limited by the language in the S&A. The S&A allows Westar to propose a multi-site rate structure but it is not clear whether that may include a change to the rate for *all* MGS customers – thus it is not clear whether a revision to the base MGS demand charge is permissible given the narrow scope of the abbreviated rate filing.

iii. The current MGS tariff includes a demand ratchet. Specifically, the monthly billed demand is the maximum of the actual adjusted demand, the contract demand, or the "ratcheted demand" which is 50% of the billed demand from the previous summer (June through September) period. The MGS ratchet is applied today on the total demand charge. The Consumers Energy GAP includes a demand ratchet on the Power Delivery component but not on the Power Supply component. Westar would need to resolve the MGS ratchet question if the demand charge for multi-site customers is unbundled.

iv. Westar must review any applicable adjustments and surcharges that are applied on a demand basis (e.g. TDC), to ensure that those mechanisms are applied to the appropriate demand billing determinants for the multi-site rate in order to recover the appropriate costs.

b. Metering

The GAP requires Westar to install interval metering at all participant premises, so that hourly On-Peak and Off-Peak data can be separately collected and made available to the billing calculations. (On-Peak and Off-Peak are defined sets of hours, and also take holidays into account.) This amounts to installing MV90 meters on all aggregated premises.

c. Billing

The GAP requires that Westar be able to

i. Identify aggregated accounts;
ii. Perform calculations for the aggregated accounts in which all accounts are summarized for each interval time period registered
iii. Perform a comparison to determine the on-peak time at which the summarized value of the aggregated accounts reached a maximum for the billing month.

iv. Bill the individual aggregated accounts for their corresponding On-Peak Billing Demand occurring at the hour of the peak total aggregated demand.

The Westar legacy billing system does not currently include this functionality. A preliminary review of the issue indicates that while Westar *may* be able to identify the accounts to aggregate, calculate the aggregate demand, and identify the demand for each individual customer at the hour of maximum aggregate demand, the actual billing of those demands to each individual customer will require manual intervention and review.

There may also be challenges associated with storing the demand data, since the system right now is not configured to store two separate billed demand amounts -- one billed at the power supply demand charge (the aggregated demand) and one billed at the power delivery demand charge (the maximum or NCP demand). Further investigation is required on this point.

2. Strategic Issues

a. Rate Unbundling

Westar's current rates are bundled rates. Unbundling the fixed production costs for the purpose of this rate offering outside of a full retail rate case could create equity issues within the MGS class and among the other classes for which no unbundling will occur. This could also result in significant unintended consequences.

b. Cost Shifting

If Westar agrees to implement the multi-site offering as a provision of the MGS tariff, Westar must increase the base MGS demand charge in order to maintain revenue neutrality within the class. This amounts to a cost shift from the multi-site MGS customers to the other MGS customers. Those other customers and their representatives would likely oppose such a cost shift, however minor it may be, particularly outside of a full retail rate case.

c. New CIS Project

A major tactical challenge is the limitation on billing options in the current billing system. The scope and timing of the new CIS Project should be considered. For scope, it is reasonable to assume that the new CIS could support the GAP billing functionality (although it is too early to determine that definitively).

Overall, the degree to which the rate design issues contemplated here differ from the existing rate structure are not minor; as noted, they involve the unbundling of fixed production costs from the bundled rate, as well as a cost shift within the MGS rate class. They could also result in incremental costs for Westar associated with the manual billing process.

The appropriate venue to consider rate design changes of this magnitude is a full retail rate case, in which Westar takes into consideration (a) Westar's costs to serve all customer classes, (b) the functional assignment of costs into the production, transmission, and distribution categories, (c) the rate design for all rate classes, and (c) potential inter-class and intra-class subsidization, if any, for all of Westar's customer classes.

V. Conclusion

Westar agreed to continue discussions regarding a potential multi-site rate for medium general service customers and, if appropriate, propose such a rate structure in the abbreviated rate case. Kroger suggested implementing a rate offering like the Consumers Energy GAP provision, which aggregates customer demand for purposes of billing the fixed production costs. Several challenges exist for Westar to implement this type of offering. Strategically, adopting the GAP provision introduces unbundled rates, creates cost shifting within the MGS class, and potentially creates incremental costs for Westar associated with manual billing. The chief tactical challenge is likely billing, due to the limitations of the legacy customer information system.

At this juncture, the hurdles to moving forward with a multi-site rate offering in the abbreviated rate case are significant. The interpretation of the procedural limitations of the abbreviated rate case, the intra-class cost shifting, and the potential unforeseen consequences of rate unbundling all point to deferring consideration of the multi-site rate offering to the next full retail rate case, where all of the issues may be given consideration on a comprehensive basis in a cost of service study and rate design initiative. At that time, the limitations of the legacy billing system and the plans for replacing that system will likely be more certain and can be better taken into account by Westar and its stakeholders in the cost of service and rate design process.

VI. Appendix A: Testimony Excerpts

WESTAR: John Wolfram Direct

Q. DID WESTAR CONSIDER THE POSSIBILITY OF IMPLEMENTING A MULTI-SITE COMMERCIAL RATE?

A. Yes.

Q. WHAT IS THE PURPOSE OF A MULTI-SITE COMMERCIAL RATE?

A. Traditionally, multi-site commercial rates allow a customer with more than one premise to combine its demand and energy at all sites into a single set of billing determinants – a condition known as conjunctive billing.

Conjunctive billing includes totalized metering, additive billing, plural meter billing, conjunctional metering, and all like or similar billing practices which seek to combine, for billing purposes, the separate consumptions and registered demands of two or more points of delivery serving a single customer.

Q. IS A MULTI-SITE COMMERCIAL RATE THE SAME AS SUMMARY BILLING?

A. No. Summary billing is the combination of separately-calculated billings for multiple sites into a single summary bill, in order to simplify the payment process for the customer. The total billing amount is not changed by summary billing; this is a presentation issue, not a calculation issue. Westar currently offers summary billing for its HLF and MGS customers with multiple premises.

Q. HOW WOULD A MULTI-SITE COMMERCIAL RATE AFFECT THE RECOVERY OF WESTAR'S ENERGY AND DEMAND COSTS?

A. Westar bills its energy costs on a per-unit basis in cents-per-kilowatt-hour. This per-unit billing approach means that the energy consumption of multiple sites can be combined without any advantage or disadvantage to the customer or Westar. Thus, absent a change in the per-unit approach, multi-site billing for energy serves no substantive purpose.

Westar bases its demand charges for HLF and MGS customers on the Non-Coincident Peak ("NCP") demand of the particular premise – as opposed to billing at the Coincident Peak ("CP") demand, which is the demand measured at the time of the overall Westar system peak. This means that each site is billed for demand based on the monthly peak demand of that specific site, regardless of when the overall peak demand for Westar occurs. If this approach remained unchanged and the peak demands of multiple sites were combined, it would provide no advantage to the customer or disadvantage to Westar. However, if Westar were to depart from NCP billing and move to CP billing for HLF and MGS under a multi-site rate, the multi-site customer could take advantage of load diversity (i.e. differences in the timing of the peak demands at various sites) such that the bill for combined multi-site CP demands would be lower than the sum of the bills for individual site CP demands. If the demands at the various sites did not follow the same hourly pattern, or otherwise did not peak in the same hour as the overall Westar system, then the customer could potentially bear less than its fair share of Westar's fixed costs associated with providing service to the various sites.

Q. IS WESTAR PROPOSING A MULT-SITE COMMERCIAL RATE IN THIS CASE?

A. No. With a CP demand rate, conjunctive billing would permit customers to take unfair advantage of differences in the timing of peak demands at numerous sites such that combined peak demands result in the under-recovery of fixed costs for transmission and distribution from some customers and over-recovery of those costs from other customers.

The effect of totalized demand on the minimum bill and the demand ratchet could also have an adverse effect, which would then place an unfair cost burden on Westar's single-site customers. Under the existing NCP demand rate, a multi-site rate provides no advantage to the customer and thus serves no substantive purpose. In this case Westar is proposing to maintain the NCP demand-rate structure for HLF and MGS. For these reasons, Westar is not proposing the implementation of a multi-site commercial rate in this proceeding.

KROGER: Kevin Higgins Direct

Q. WHAT HAS WESTAR STATED IN ITS TESTIMONY REGARDING A MULTI-SITE COMMERCIAL RATE?

A. Westar witness John Wolfram indicates that the Company considered such a multi-site commercial rate, but decided not to offer it because "it would permit customers to take unfair advantage of differences in the timing of peak demands at numerous sites such that combined peak demands result in the under recovery of fixed costs for transmission and distribution from some customers and over- recovery of those costs from other customers."

Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THIS CONCLUSION?

A. I believe this conclusion misses the main point of a multi-site commercial rate. A multi-site commercial rate is not directed to transmission or distribution cost recovery but to recovery of fixed production costs. A multi-site commercial rate is entirely appropriate for recovery of fixed production cost.

Q. PLEASE EXPLAIN.

A. First, I agree with Mr. Wolfram's description that a multi-site commercial rate allows a customer with more than one premise to combine its demand and energy at all sites into a single set of billing determinants - a condition known as conjunctive billing. But the key distinction for an appropriate multi-site rate is that the aggregation of billing demand would apply only to the fixed costs of production, not distribution. (Demand aggregation or conjunctive billing is also arguably applicable to transmission, but to be conservative, I will limit my discussion to fixed production costs.)

To be clear, by "demand aggregation" I am referring to measuring the billing demand for a multi-site customer as if it were a single-site customer; that is, by determining the multi-site customer's billing demand each month based on the hour-by-hour cumulative demand of its various facilities rather than by simply summing the maximum demands of each individual facility.

Q. WHY WOULD IT BE APPROPRIATE TO APPLY A MULTI-SITE COMMERCIAL RATE TO FIXED PRODUCTION COSTS AS DISTINCT FROM DISTRIBUTION COSTS?

A. Each facility owned by a multi-site customer causes unique distribution costs and therefore it is appropriate to recover those costs based on the peak demand of each individual facility. But that is not the case for fixed production costs. At the power supply level it makes no difference whatsoever whether 10 MW in a given hour is going to a single-site customer with a 10 MW load or to a multi-site customer with five facilities taking 2 MW each. The cost to produce the 10 MW in that hour is identical in both cases.

For a multi-site customer, it would not be unusual for each of its sites to be peaking at a different hour in each month. This means that the customer's cumulative billing demand for fixed production costs would exceed the customer's actual aggregated peak demand measured on an hour-by-hour basis (as if it were a single-site customer). In other words, the multi-site customer might be billed, say, for 11 MW of fixed production demand based on the sum of the individual peaks of each of its sites (occurring at different hours), whereas in fact, the customer's actual aggregate demand for fixed production demand in any hour might be no greater than 10 MW. A multi-site rate can simply correct for this upward bias in the billing demand that would otherwise be charged to a multi- site customer by aggregating the customer's billing demands for peak demand measurement purposes. With the proper metering in place, this correction simply charges multi-site customers for the fixed production service that they actually use and places them on an equal footing with single-site customers: in a well- designed multi-site rate, a multi-site customer that has the same aggregate demand for power supply as a single-site customer pays exactly the same rate and dollar amount for power supply as that single-site customer.

Q. ARE YOU AWARE OF ANY WELL-DESIGNED MULTI-SITE CUSTOMER RATES?

A. Yes. Consumers Energy in Michigan has such a rate, called the Aggregate Peak Demand Service Provision. This program is available to any customer with 7 accounts or more who desire to aggregate their On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW. The aggregated accounts are billed under the same rate schedule and service provisions which apply to the individual sites, with the aggregate maximum capacity to all customers limited to 200,000 kW.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING A MULTI-SITE COMMERCIAL RATE?

A. Westar's discussion of this rate concept misses the main point of such a rate. The potential benefits of adopting such a rate in the future should not be dismissed based on the Company's treatment of this rate in this case.

Implementing a multi-site rate would require some limited unbundling of fixed production costs within the applicable rate schedules (e.g. MGS), but this can be readily accomplished through rate design. Moreover, rate unbundling is useful even in states that do not have, or intend to have, direct access service. As Mr. Wolfram notes, "with or without retail competition, rate unbundling also allows customers to evaluate self-supply alternatives on a comparable basis." I recommend that the Commission remain open to adopting a multi-site commercial rate, similar to that of Consumers Energy, in a future proceeding.

WESTAR: John Wolfram Rebuttal

Q. IN HIS DIRECT TESTIMONY ON PAGE 11, MR. HIGGINS RECOMMENDS THAT THE COMMISSION "REMAIN OPEN TO ADOPTING A MULTI-SITE COMMERCIAL RATE, SIMILAR TO THAT OF CONSUMERS ENERGY, IN A FUTURE PROCEEDING." DO YOU AGREE?

A. Yes.

Q. DO YOU THINK THE COMMISSION SHOULD ADOPT SUCH A RATE DESIGN IN THIS PROCEEDING?

A. No. Mr. Higgins correctly explains on page 8 that the key distinction for an appropriate multi-site rate is that the aggregation of billing demand would apply only to the fixed costs of production, not distribution. As Mr. Higgins notes on page 11, doing so would require some limited unbundling of fixed production costs. At this juncture, Westar does not support such unbundling, nor does any witness in this case propose rate calculations to support doing so. In fact, Mr. Chriss specifically states on page 8 of his testimony that in this docket he is "not recommending unbundling of the MGS tariff, as it is important for the existing components of the tariffs to first reflect the underlying cost of service, and that is not the case" at this juncture. Thus, there is no compelling reason to adopt such a rate at this time.

Q. THANK YOU.

VII. Appendix B: Consumers Energy GAP Tariff Excerpt

CONSUMERS ENERGY COMPANY
GENERAL SERVICE PRIMARY DEMAND RATE GPD

Availability:

Subject to any restrictions, this rate is available to any customer desiring Primary Voltage service, either for general use or resale purposes, where the On-Peak Billing Demand is 25 kW or more. This rate is also available to any political subdivision or agency of the State of Michigan, either acting separately or in combinations permitted under the laws of this state, for Primary Voltage service for potable water pumping and/or waste water system(s). This rate is not available to a Primary Rate Customer where the Company elects to provide one transformation from the available Primary Voltage to another available Primary Voltage desired by the customer.

This rate is also not available for lighting service, for resale for lighting service, or for new or expanded service for resale to residential customers.

Nature of Service:

Service under this rate shall be alternating current, 60-Hertz, single-phase or three-phase (at the Company's option) Primary Voltage service. The Company will determine the particular nature of the voltage in each case.

Where service is supplied at a nominal voltage of 25,000 Volts or less, the customer shall furnish, install and maintain all necessary transforming, controlling and protective equipment.

Where the Company elects to measure the service at a nominal voltage above 25,000 Volts, 1% shall be deducted for billing purposes, from the demand and energy measurements thus made.

Where the Company elects to measure the service at a nominal voltage of less than 2,400 Volts, 3% shall be added for billing purposes, to the demand and energy measurements thus made.

Interval Data Meters are required for service under this rate. Meter reading will be accomplished electronically through telecommunication links or other electronic data methods able to provide the Company with the metering data / billing determinants necessary for billing purposes.

Aggregate Peak Demand Service Provision (GAP):

This provision is available to any customer with 7 accounts or more who desire to aggregate their On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW and be located within the same billing district. The customer's aggregated accounts shall be billed under the same rate schedule and service provisions. The aggregate maximum capacity of all customers served under this provision shall be limited to 200,000 kW.

This provision commences with service rendered on and after June 20, 2008 and remains in effect until terminated by a Commission Order.

Customers on this provision shall require a written contract, with a minimum term of one year, and shall be evaluated annually to determine whether or not the accounts shall remain on the service provision.

Interval Data Meters are required for service under this provision.

The aggregated accounts shall be summarized for each interval time period registered and a comparison shall be performed to determine the on-peak time at which the summarized value of the aggregated accounts reached a\ maximum for the billing month. The individual aggregated accounts shall be billed for their corresponding On-Peak Billing Demand occurring at that point in time.

Rule C14. Provisions Governing the Application of On-Peak and Off-Peak Rates

Schedule of On-Peak and Off-Peak Hours

Except where otherwise provided, the following schedule shall apply Monday through Friday (except holidays). Weekends and holidays are off-peak.

(1) On-Peak Hours: 11:00 AM to 7:00 PM
(2) Off-Peak Hours: 7:00 PM to 11:00 AM

Holidays Designated by the Company

- New Year's Day - January 1
- Memorial Day - Last Monday in May
- Independence Day - July 4
- Labor Day - First Monday in September
- Thanksgiving Day - Fourth Thursday of November
- Christmas Day - December 25

Whenever January 1, July 4 or December 25 falls on Sunday, extended holiday periods such as Monday, January 2; Monday, July 5 and Monday, December 26 shall not be considered as holidays for application of off-peak hours.