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BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

KEVIN KONGS

WESTAR ENERGY

Received
on
AUG 25 2011
by
State Corporation Commission
of Kansas

DOCKET NO. 12-WSEE-112-RTS

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) as Assistant 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 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 fifteen years in various roles within the accounting department. In my

current position, I am responsible for overseeing the preparation and maintenance of Westar's financial records.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring the following accounting adjustments in the Minimum Filing Requirements (MFRs): Construction Work in Progress (RB-4), 800 Kansas Second Floor (RB-1 and IS-26), Regulatory Asset - Ice Storms (RB-6 and IS-29), Difference in Depreciation (RB-11), Gain on Sale of No. 6 Fuel Oil (RB-10 and IS-30), Interest on Customer Deposits (IS-11), Reserve Normalization (IS-12), Donations (IS-13), SCR Catalysts (IS-21), Merger Savings (RB-5 and IS-23), Annualized Depreciation (IS-24), Depreciation Study (IS-25) and ARO Elimination (EA-1).

II. CONSTRUCTION WORK IN PROGRESS

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-4 CONSTRUCTION WORK IN PROGRESS (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.)

This adjustment reflects generation related plant construction activity and other plant construction activity that had commenced but was not completed at March 31, 2011, the end of the test year. This adjustment excludes CWIP related to income-producing projects, transmission projects and environmental projects incorporated in the Transmission Delivery Charge and Environmental Cost Recovery Rider respectively, with the exception for CWIP related to the La Cygne Phase 2 environmental projects. The non-generation projects covered by this adjustment will be placed in service to benefit customers within 12 months from the end of the test year.

Q. WHY HAVE YOU INCLUDED CWIP FOR LA CYGNE ENVIRONMENTAL PROJECTS IN YOUR ADJUSTMENT?

A. In Docket No. 09-WSEE-737-TAR-CPL-1, we sought recovery of environmental costs including environmental expenditures for La Cygne Units 1 and 2 through our ECRR. In particular, Staff reviewed our request and presented the Commission with three different options to address pre-construction costs associated with

La Cygne Phase 2 environmental retrofits including preventing us from collecting any such costs in the ECRR.

The Commission ruled that we would not be allowed to recover La Cygne Phase 2 retrofit costs in the ECRR until the investigation and analysis of the proposed retrofit was completed. In its order, the Commission stated the following:

> Until that investigation and analysis has been completed [the predetermination of La Cygne Environmental project], the Commission finds Westar will not be allowed to continue collecting through its ECRR tariff any costs related to the La Cygne Phase 2 environmental retrofits, including amounts previously approved for years 2008 and 2009 or any amounts incurred in subsequent years, without further Commission order.

Docket No. 09-WSEE-737-TAR-CPL-1, *Order Approving Revisions to Westar's ECRR Surcharge Tariff as Set Forth in this Orde*r, at ¶¶ 22 (May 27, 2011).

And, in its *Order Granting KCP&L Petition for Predetermination of Rate-Making Principles and Treatment*, Docket No. 11-KCPE-581-PRE, at 46-47 (August 19, 2011), the Commission confirmed that Westar would not be allowed to recover costs related to the La Cygne retrofit through its ECRR.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

A. This adjustment increases rate base by $182,800,616.

III. 800 KANSAS SECOND FLOOR

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-1 AND ADJUSTMENT NO. IS-26 ENTITLED "800 KANSAS SECOND FLOOR."

A. A decade ago Westar did some office refurbishments at 800 South Kansas Avenue that were deemed to be excessive. These adjustments remove costs related to that work above a level consistent with the inflation-adjusted cost incurred in 1992. The appropriate amount of depreciation expense and accumulated depreciation has also been excluded. This adjustment is consistent with Commission orders in Westar's most recent rate cases.

Q. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?

A. Adjustment No. RB-1 decreases plant in service by $4,867,950 and decreases accumulated depreciation by $1,806,853 for a total decrease in rate base of $3,061,097. Adjustment No. IS-26 decreases depreciation expense by $206,677.

IV. ICE STORM RELATED COSTS

Q. PLEASE EXPLAIN ADJUSTMENT NOS. RB-6 AND IS-29 "REGULATORY ASSET – ICE STORMS."

A. These adjustments reduce maintenance expense to reflect the full amortization of previously deferred repair costs associated with the 2002 and 2005 ice storms due to the expiration of the amortization period in January, 2011 and increase rate base for the unrecovered cost of a large ice storm that occurred in 2007.

Q. WHAT IS THE AMOUNT OF THIS ADJUSTMENT?

A. This adjustment increases pre-tax operating income by $6,177,145 and increases rate base by $19,688,716.

V. ADJUSTMENTS TO ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-11 "DIFFERENCE IN DEPRECIATION RATES."

A. These adjustments are based on two separate items that have been recommended by Staff and approved by the Commission in prior dockets:

1. In 2002, the Commission ordered us to lower 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 of depreciation rates that were in effect prior to the 2002 rate order. The adjustment recognizes the effect of the delay by including the appropriate amount of accumulated depreciation in rate base to the level approved by the Commission. In addition, the adjustment corrects the amortization expense associated with this item. The treatment we propose here is identical to what we proposed and the Commission adopted in our 2005 and 2008 rate cases.

2. Similarly, in April 2002, Westar management believed the KCC authorized depreciation rates for La Cygne 2 leasehold improvements were not in accordance with GAAP because the depreciable life adopted exceeded the remaining term of our leasehold interest in La Cygne 2. We established a regulatory asset for the difference between the Commission-approved depreciation rates based on a 55-year plant life and depreciation rates based on the term of the La Cygne 2 lease that ends in September 2029. In December 2005, the Commission approved depreciation rates for La Cygne 2 leasehold improvements based on the 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 2 lease by including the appropriate amount of accumulated depreciation in rate base.

Q. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?

A. Adjustment No. RB-11 increases rate base by $16,131,774 calculated as shown in Table 1 below:

TABLE 1	
Description	Amount
Difference #1 - 8/01 to 3/02	$15,308,300
Difference #2 – La Cygne	823,474
Total	$16,131,774

VI. GAIN ON SALE OF NO. 6 FUEL OIL

Q. PLEASE EXPLAIN ADJUSTMENT NO. RB-10 AND ADJUSTMENT NO. IS-30 "GAIN ON SALE OF NO. 6 FUEL OIL."

A. Westar made two separate sales of No. 6 fuel oil that resulted in gains. One sale was made in 2008 and the other in 2011 subsequent to the test year. There adjustments are made to share the gain on these sales between customers and shareholders in accordance with established precedent, *Kansas Power & Light Co. v. KCC*, 5 Kan. App. 2d 514 (1980). The net gain on the sales was $8,491,816. In its decision, the Court of Appeals indicated the proceeds should be allocated based on five guidelines.

Q. WHAT WERE THE GUIDELINES ESTABLISHED BY THE COURT OF APPEALS?

A. The Court stated the following:

> When the utility seeks a rate adjustment . . . the KCC should consider the gain as a factor in the ratemaking process. In doing so, they [sic] should consider the following guidelines (not intended to be all inclusive) to determine how the gain should be allocated.
>
> (1) The risk of loss of investment capital.
>
> (2) Contribution by the ratepayers to the value of the property, such as maintenance, upkeep and improvements.

(3) Financial integrity of the company, and the effect of the allocation on the price of the stock and the ability of the company to attract adequate capital.

(4) Increases in the value of the property due to inflation.

(5) Increased value of the property due to improvements in the neighborhood of the facilities sold as a result of special assessments for such things as curbing, guttering, sewage treatment plants, sewers, water, water treatment plants, general street facilities, neighborhood improvement districts, urban renewal, and other matters resulting in increased value of the property which were paid in whole or in part by the ratepayers.

Id. at 528-29.

Q. PLEASE DISCUSS THE FIRST GUIDELINE, RISK OF LOSS OF INVESTMENT CAPITAL.

A. The guideline has two key aspects that must be addressed including "risk of loss" and "investment capital." Since the sale involves fuel inventory, the risk of loss in invested capital is based on the volatility of oil prices in the market. This risk is shared between shareholders and customers and therefore, the gain should be allocated evenly based on this guideline.

Q. PLEASE DISCUSS THE SECOND GUIDELINE, CONTRIBUTION BY CUSTOMERS TO THE VALUE OF THE PROPERTY SUCH AS MAINTENANCE, UPKEEP, AND IMPROVEMENTS.

A. This guideline focuses on the value added to property based on contributions made by customers for maintenance, upkeep and improvements. Since No. 6 fuel oil is a commodity and not property

requiring maintenance and upkeep, customers did not make any contributions that met the criteria of this guideline. Therefore, I allocated 100 percent of this factor to the shareholders.

Q. PLEASE DISCUSS THE THIRD GUIDELINE, FINANCIAL INTEGRITY OF THE COMPANY, AND THE EFFECT OF THE PRICE OF STOCK AND THE ABILITY TO ATTRACT ADEQUATE CAPITAL.

A. Customers and shareholders benefit equally from a financially sound utility. Therefore, I allocated the gain evenly between the customers and shareholders for this guideline.

Q. PLEASE DISCUSS THE FOURTH GUIDELINE, INCREASES IN THE VALUE DUE TO INFLATION.

A. The value of No. 6 fuel oil is determined by supply and demand for the product not general inflation in the short run. While inflation impacts the value of No. 6 fuel oil, its impact is minimal. Therefore, I believe the gain should be allocated equally between customers and shareholders under this guideline.

Q. PLEASE DISCUSS THE FIFTH GUIDELINE, INCREASE IN VALUE OF PROPERTY DUE TO IMPROVEMENTS IN THE NEIGHBORHOOD OF THE FACILITIES SOLD AS A RESULT OF SPECIAL ASSESSMENTS FOR SUCH THINGS AS CURBING, GUTTERING, SEWAGE TREATMENT PLANTS, SEWERS, WATER, WATER TREATMENT PLANTS, GENERAL STREET

FACILITIES, NEIGHBORHOOD IMPROVEMENTS DISTRICTS, URBAN RENEWAL AND OTHER MATTERS RESULTING IN INCREASED VALUE OF THE PROPERTY WHICH WERE PAID IN WHOLE OR PART BY CUSTOMERS.

A. The value of No. 6 fuel oil has not been impacted by improvements in the neighborhood where the inventory was located. Therefore, I did not assign any allocation of the gain based on this guideline.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. Table 2 below summarizes the proposed allocation of the gain on the sale using the guidelines suggested by the Court. The final distribution is based on the average of the five guidelines contained within the table.

TABLE 2

Guideline	Gain to Customers	Gain to Shareholders
1	$4,245,908	$4,245,908
2	0	8,491,816
3	4,245,908	4,245,908
4	4,245,908	4,245,908
5	0	0
Total	$12,737,724	$21,229,540
Percent	37.50%	62.50%
Total Gain	$8,491,816	$8,491,816
Allocated Dollars	$3,184,431	$5,307,385
Amortization Period	3 years	
Annual Amortization	$1,061,477	

Q. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?

A. The amortization of the gain increases pretax operating income by $1,061,477 as shown in Adjustment No. IS-30. Additionally, the

unamortized gain decreases rate base by $3,184,431 as shown in Adjustment No. RB-10.

VII. FOSSIL FUEL AND OTHER INVENTORIES

Q. PLEASE DESCRIBE THE PORTIONS OF SECTION 6 RELATED TO FOSSIL FUEL, AND OTHER INVENTORY BALANCES.

A. Materials and Supplies inventory, Prepayments and Working Funds are calculated using the month-end balances then averaging these amounts to derive a 13-month average, consistent with Commission precedent. Nuclear Fuel follows a similar approach with the exception of the use of an 18-month average to reflect a normal refueling cycle. Fossil Fuel inventory for oil is calculated using a 13-month average. Fossil Fuel inventory for coal incorporates a target level recommended in a study by Black and Veatch. Mr. Sterbenz's testimony addresses the Black and Veatch study and target coal inventory levels.

VIII. INTEREST ON CUSTOMER DEPOSITS

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-11 "INTEREST ON CUSTOMER DEPOSITS."

A. This adjustment adopts the Commission's treatment in Westar's 2001 rate proceeding, Docket No. 01-WSRE-436-RTS, of interest on customer deposits. Customer deposits are deducted from rate base and the related interest expense is included in cost of service. The interest expense was determined by using the December 10,

2010, rate pursuant to K.S.A. 12-822 that set the interest rate paid on security deposits at 0.50% for the calendar year 2011.

Q. WHAT IS THE EFFECT UPON OPERATING INCOME OF THE "INTEREST ON CUSTOMER DEPOSITS" ADJUSTMENT?

A. This adjustment decreases operating income by $116,608.

IX. RESERVE NORMALIZATION

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-12 "RESERVE NORMALIZATION."

A. Reserve normalization is comprised of three components: (1) repairing storm damage, (2) environmental costs, and (3) injuries and damages to third parties. Due to the unpredictability of expenses associated with these items, consistent with established Commission precedent, we book an accrual to reserve accounts for each of these items on a monthly basis based on amounts previously authorized in our most recent retail rate case. These adjustments increase the amounts accrued during the test year equal to the average annual cost experienced during the last three years.

In addition, I am proposing a further increase in the storm reserve account. As of the end of the test year, the storm reserve account has a negative (i.e., debit) balance of approximately $3.5 million.

Q. WHY IS THE STORM RESERVE BALANCE NEGATIVE?

A. The storm reserve is negative because actual storm costs were larger than those based on the historical three-year average built into the reserve.

Q. PLEASE EXPLAIN THE CALCULATION THAT IS THE BASIS FOR THE INCREASE IN THE STORM RESERVE.

A. In paragraph 14(iii) of Docket No. 08-WSEE-690-ACT, the Commission stated it would address "the appropriate balance of the property damage reserve account." In reviewing the storm reserve account, I concluded that it was depleted due to the impact of smaller storms and the charges to the storm reserve for a portion of large ice storms that occurred in 2005 and 2007. As of the end of the test year, the storm reserve has a negative balance of approximately $3.5 million.

Table 3 below details the calculation used for the proposed increase in the storm reserve accrual. The proposed increase in the storm reserve accrual is based on the amount of the 2007 ice storm that was originally charged to the reserve. This adjustment will restore the storm reserve over a three-year period. The calculation is as follows:

TABLE 3

Description	Amount
2007 Ice Storm Charged to Reserve	$3,415,000
Recovery Period - 3 Years	3
Annual Reserve Adjustment	$1,138,333

Q. WHY DID YOU ONLY USE THE 2007 ICE STORM CHARGE IN YOUR ADJUSTMENT WHEN TWO LARGE ICE STORMS WERE PREVIOUSLY CHARGED TO THE RESERVE?

A. My adjustment considers the benefits of Westar's expanded vegetation management and maintenance program. As stated by Ms. Williams, expansion of the ReliabiliTree® program will make Westar's distribution system less susceptible to storm-related outage costs that can result in major storms.

Q. WHAT IS THE EFFECT OF THESE ADJUSTMENTS?

A. The adjustments to the storm, environmental and injuries and damages reserves result in a decrease in pre-tax operating income of $2,450,380.

X. DONATIONS

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-13 ENTITLED "DONATIONS."

A. This adjustment reflects 50% of Westar's civic and charitable expenses incurred during the test year in accordance with K.S.A. 66-101f and K.S.A. 66-1,236. This adjustment decreases Westar's operating income by $365,898.

XI. SCR CATALYSTS EXPENSES

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-21 IN WESTAR'S MFRS IDENTIFIED AS "SCR CATALYSTS."

A. This adjustment increases test period expense related to the maintenance, regeneration or replacement of the catalyst in the

Selective Catalytic Reduction (SCR) system at the La Cygne 1 generating unit. The adjustment reflects one-half of the actual expense incurred in the test year and one-half of budgeted costs that will be incurred for catalyst maintenance during the next scheduled outage. The adjustment reflects the amortization of the costs over a period equal to the manufacturer's design life for each catalyst layer. Mr. Sterbenz discusses the SCR and operation and maintenance of the catalyst.

Q. WHY IS THIS ADJUSTMENT NECESSARY?

A. In connection with construction of an SCR system, the initial catalyst is installed and capitalized as a component of the construction process and depreciated over the service life of the SCR system. Replacements and refurbishments of the catalyst, however, are maintenance costs and thus a period expense in accordance with the Electric Plant Instruction 10 of the FERC Uniform System of Accounts.

We incurred costs to replace and maintain a portion of the La Cygne catalyst during the test year. Westar, therefore, requests that it be permitted to record the cost of maintaining and replacing catalyst modules as a regulatory asset and to amortize the asset over its two-year design life in a manner similar to established treatment of nuclear fuel costs.

Q. WHY DID YOU INCLUDE COSTS FOR THE NEXT SCHEDULED OUTAGE IN YOUR ADJUSTMENT?

A. The SCR at La Cygne and the associated catalyst were capitalized and placed in service during 2007 and 2009, respectively. While the test year includes costs to maintain and replace a portion of the catalyst, it does not represent the expected level of the on-going costs that will be incurred to maintain and replace the balance of the catalyst. This adjustment increases maintenance expense by $1,358,208 which represents one half of the catalyst maintenance costs that will be incurred during the next scheduled outage.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

A. This adjustment increases test year maintenance expense by $597,853. The calculation is shown in Table 4 below:

TABLE 4

Line #	Description		Amount
1	Maintenance Expense in Test Year		$1,520,710
2	Projected 2012 Maintenance Expense		2,716,416
3	Total Maintenance Expense	Ln 1 + Ln 2	4,237,126
4	Design Life – Years		2
5	Average Maintenance Expense Per Year	Ln 3 / Ln 4	2,118,563
6	Maintenance Expense in Test Year		1,520,710
7	Adjustment - Increase in Maintenance Expense	Ln 5 – Ln 6	$ 597,853

XII. MERGER SAVINGS

Q. PLEASE EXPLAIN ADJUSTMENT NOS. RB-5 AND IS-23 "MERGER SAVINGS."

A. This adjustment is composed of two components both related to merger savings. The first component reflects the sharing of merger savings, authorized by the Commission in its January 15, 1997, order in Docket Nos. 196,306-U and 196,307-U. This adjustment represents the amount of imputed savings allowed by the Commission. The second component incorporates a portion of the Accumulated Deferred Income Taxes related to the Merger Premium as a cost free component as discussed by Ms. Bouzianis. This adjustment increases pre-tax operating income by $6,625,909 and reduces rate base by $57,976,293.

XIII. ANNUALIZED DEPRECIATION

Q. PLEASE EXPLAIN ADJUSTMENT NOS. RB-5 AND IS-24 "ANNUALIZED DEPRECIATION."

A. This adjustment reflects annualized depreciation expense for *pro forma* plant-in-service. Depreciation expense was calculated by applying the current depreciation rates to *pro forma* plant in service to determine the annual depreciation expense amount. This amount was compared to amounts charged to depreciation expense in the test year. The difference between the amount calculated using *pro forma* plant in service and the amount

recorded during the test year represents the necessary cost of service adjustment to annualize depreciation expense.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT?

A. This adjustment increases pre-tax operating income by $2,049,102.

XIV. DEPRECIATION STUDY

Q. PLEASE EXPLAIN ADJUSTMENT NO. IS-25 "DEPRECIATION STUDY."

A. This adjustment reflects the difference between (1) depreciation expense calculated by applying depreciation rates, as proposed by Dr. White, to the *pro forma* plant-in-service and (2) the annualized depreciation expense. The adjustment increases Westar's pre-tax operating income by $30,704,233.

XV. ARO ELIMINATION

Q. PLEASE EXPLAIN ADJUSTMENT NO. EA-1 ENTITLED "ARO ELIMINATION."

A. This adjustment reduces rate base for asset retirement obligations (AROs) included in net plant for items such as asbestos removal, landfill ponds, PCB oil, and dismantling costs associated with a substation and two wind farms by $7,827,042. There is also a corresponding adjustment reducing the accumulated provision for depreciation by $4,981,302.

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. The net effect of this adjustment decreases rate base by $2,845,740.

Q. THANK YOU.