

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

Before Commissioners:                    Jay Scott Emler, Chairman  
   Shari Feist Albrecht  
   Pat Apple

In the Matter of the Joint Application of    )  
Westar, Inc. and Kansas Gas and Electric    )     Docket No. 15-WSEE-421-ACA  
Company for Approval of Their Annual       )  
Energy Cost Correction Adjustment Factor.    )

**ORDER APPROVING ANNUAL ENERGY COST ADJUSTMENT**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the files and records and being duly advised in the premises, the Commission makes the following findings:

1.     On March 18, 2015, Westar Energy, Inc. (Westar North) and Kansas Gas and Electric Company (Westar South) (collectively, Westar) filed an Application seeking approval of an Annual Correction Adjustment (ACA) factor under Westar's Retail Energy Cost Adjustment (RECA) tariff.

2.     On March 7, 2016, Commission Staff (Staff) submitted a Report and Recommendation (R&R) analyzing and recommending approval of Westar's requested 2014 ACA factor.<sup>1</sup> Staff's R&R was filed in this docket on March 10, 2016 and is incorporated herein.

3.     Staff's R&R summarizes the testimony of two Westar witnesses, Rebecca A. Fowler and Jerry D. Kroeker, noting that Westar's Application supported an over-recovery of \$33,555,318 during 2014, upon which Westar calculates an ACA factor of (0.1586) cents per kWh.<sup>2</sup> Mr. Kroeker in particular discussed how the implementation of the Southwest Power Pool

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<sup>1</sup> Staff Report & Recommendation, p. 1 (Mar. 7, 2016) (Staff R&R).

<sup>2</sup> Staff R&R, p. 2.

(SPP) Integrated Marketplace (IM) has impacted Westar's cost to serve retail customers.<sup>3</sup> Staff also provides background on the SPP IM and the nature of Westar's IM participation.<sup>4</sup>

4. Staff conducted Westar's audit along two lines: (1) the traditional fuel and purchased power review, and (2) the SPP IM review.<sup>5</sup> For the months of June, July, August and September 2014, Staff audited Westar's Application by:

- verifying the accuracy of each of the monthly settlement computations by ensuring the ACA factor calculated by Westar reflects the actual over/under-recoveries and the actual kWh sales to Kansas jurisdictional customers;
- ensuring that the actual fuel, purchased power, and emissions costs recovered through the ECA are actual costs supported by vendor invoices and general ledger entries;
- verifying that sample costs reviewed are just and reasonable;
- verifying that the ECA factor used to calculate the customer's bill agrees with the calculation that the Company files with the Commission.

Staff found no material irregularities based on this portion of the audit.<sup>6</sup>

5. For the SPP IM portion of the audit, Staff sought to make the following determinations with respect to Westar's participation in the IM:

- a. Determine whether Westar has robust control procedures in place to validate the accuracy of the billing statements it receives from SPP;
- b. Determine whether Westar is diligently managing the risks associated with the IM and taking the steps necessary to maximize the possibility for success in the IM;
- c. For the months being audited in this year's ACA audit, determine whether Westar has accurately accounted for IM costs/revenues pursuant to the provisions of the current RECA tariff;
- d. Determine whether Westar's participation in the IM is providing benefits to its ratepayers.

Staff's R&R provides the details of Staff's process and analysis for this portion of the audit.<sup>7</sup>

6. Based on discovery responses, Staff interviews with Westar personnel, examination of Westar's processes verifying all Bilateral Settlement Schedules (BSS) involving

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<sup>3</sup> Staff R&R, p. 2.

<sup>4</sup> Staff R&R, p. 3.

<sup>5</sup> Staff R&R, p. 3.

<sup>6</sup> Staff R&R, p. 3.

<sup>7</sup> See Staff's R&R, pgs. 4-8.

Westar as a party are submitted to the SPP IM Portal, and examination of Westar's SPP dispute processes, Staff believes Westar has several robust control procedures in place to verify the accuracy of the billing statements it receives from SPP for its activity in the IM.<sup>8</sup> According to Staff, Westar confirmed that its Integrated Asset Manager (IAM) software product allows Westar to prepare and submit load bids and generation resource offers for the SPP day-ahead and real-time balancing markets for each applicable load and resource in Westar's fleet. This software also allows Westar to perform shadow settlements for daily SPP IM activity, which aid Westar in independently verifying the SPP IM invoices it receives and investigating any differences should they arise.<sup>9</sup> Staff also looked at Westar's process for reconciling all SPP IM data received from SPP's Electric Quarterly Report (EQR) back to Westar's internal Triplepoint system to verify the accuracy and completeness of the reported data. According to Staff, Westar uses additional software to collect and analyze meter data from various sources, enabling Westar to catch errors and anomalies. Westar also conducts daily and monthly internal and external checks, and Westar's Transmission Accounting group examines various private reports, to ensure the accuracy of meter data.<sup>10</sup> Finally, Staff examined Westar's processes for submitting and monitoring disputes with SPP.<sup>11</sup> Thus, Staff believes Westar has a comprehensive process to verify meter data with internal and external counterparties and with SPP, to verify all BSS are submitted to SPP and to submit and monitor disputes with SPP.<sup>12</sup>

7. Regarding Westar's SPP IM risk management strategies, Staff conducted extensive discovery into the details of Westar's procedures for determining the profitability of incremental sales into the SPP IM.<sup>13</sup> Staff also reviewed Westar's strategy for offering its

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<sup>8</sup> Staff's R&R, pgs. 4-5.

<sup>9</sup> Staff's R&R, p. 4.

<sup>10</sup> Staff's R&R, pgs. 4-5.

<sup>11</sup> Staff's R&R, p. 5.

<sup>12</sup> Staff's R&R, p. 5.

<sup>13</sup> Staff's R&R, p. 5.

generating resources into the IM and bidding for the daily load necessary to serve customers.<sup>14</sup> Finally, Staff looked at Westar's hedging strategies and procedures regarding the Auction Revenue Rights (ARRs) and Transmission Congestion Rights (TCRs) congestion management processes within the SPP IM. Staff stated that Westar's strategies allowed it to hedge against 98% of its day-ahead congestion costs in 2014.<sup>15</sup> Thus, Staff believes Westar diligently managed its IM risks in 2014 and is positioned to succeed in the IM going forward.<sup>16</sup>

8. Regarding Westar's accurately accounting for IM costs/revenues pursuant to the provisions of its current RECA tariff, Westar provided Staff with a reconciliation that documented and verified all Westar IM activity for the audited months. This reconciliation relied on the KCC Monthly IM Activity Reports Staff had been requiring from Kansas' vertically-integrated, investor-owned electric utilities prior to the IM's "go-live" date. It also relied on weekly SPP Settlement Statements and Westar's reconciliation spreadsheet tying net general ledger accounting data for the month back to the corresponding Settlement Statement and KCC Monthly IM Activity Report.<sup>17</sup> Staff concluded the financial impact of the SPP Settlement Statements and the KCC Monthly IM Activity Report were accurately reported on Westar's general ledger, and this data was tied back to Westar's ACA Application for the months covered in the audit.<sup>18</sup>

9. Regarding ratepayer benefits from Westar's IM participation, Staff stated that Westar's all-in RECA factor for 2014 was 1.62% less than the equivalent factor in 2013, despite an 18% increase in the SPP region for the average on-peak, day-ahead, spot price of electricity during that period.<sup>19</sup> Moreover, Staff reports that Westar's IM participation during the period of

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<sup>14</sup> Staff's R&R, p. 5.

<sup>15</sup> Staff's R&R, p. 6.

<sup>16</sup> Staff's R&R, p. 6.

<sup>17</sup> Staff's R&R, p. 7.

<sup>18</sup> Staff's R&R, p. 7.

<sup>19</sup> Staff's R&R, p. 8.

March 1, 2014, through December 31, 2014, produced an estimated \$29.5 million savings.<sup>20</sup> Thus, Staff is convinced Westar's IM participation benefitted Westar's Kansas customers in 2014.<sup>21</sup>

10. Staff recommends the Commission approve Westar's ACA factor of (0.1586) cents per kWh for the period of April 2015 through March 2016, as filed. Staff will continue to monitor Westar's performance and participation in the SPP IM and provide periodic updates to the Commission regarding this issue as often as is desired.

11. Upon review of the record as a whole, the Commission finds all of Staff's findings and recommendations to be reasonable and hereby adopts the same.

**IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:**

A. Westar's ACA factor of (0.1586) cents per kWh for the period of April 2015 through March 2016, as filed, is approved.


B. The parties have fifteen (15) days, plus three (3) days if served by mail, from the date this order was served, to petition the Commission for reconsideration.<sup>22</sup>

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further orders, as necessary.

**BY THE COMMISSION IT IS SO ORDERED.**

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: APR 14 2016

  
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Amy L. Green  
Secretary to the Commission

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<sup>20</sup> Staff's R&R, p. 8.

<sup>21</sup> Staff's R&R, p. 8.

<sup>22</sup> K.S.A. 66-118; K.S.A. 77-529(a)(1).

**Order Mailed Date**

**APR 15 2016**

## CERTIFICATE OF SERVICE

15-WSEE-421-ACA

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of first class mail/hand delivered on APR 14 2016.

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