

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

TESTIMONY IN SUPPORT OF THE SETTLEMENT AGREEMENT

OF

BRADLEY D. LUTZ

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE GENERAL INVESTIGATION TO
EXAMINE ISSUES SURROUNDING RATE DESIGN FOR
DISTRIBUTED GENERATION CUSTOMERS**

DOCKET NO. 16-GIME-403-GIE

1 **Q:** Are you the same Bradley D. Lutz that provided Initial and Reply Comments on
2 behalf of Kansas City Power & Light Company (“KCP&L” or “Company”) in this
3 case?

4 **A:** Yes, I am.

5 **Q:** What is the purpose of your Testimony in Support of the Settlement Agreement?

6 **A:** The purpose of my testimony is to provide support on behalf of KCP&L of the Non-
7 Unanimous Stipulation and Agreement submitted by the Signatory Parties for approval to
8 the State Corporation Commission of the State of Kansas (“Commission”) on June 16,
9 2017 in this docket (“Stipulation”). I will do so by:

- 10 • describing the background leading up to this docket;
11 • describing the terms of the Stipulation; and

- addressing the five factors under which the Commission reviews a stipulation and agreement, to the extent they may be relevant to this proceeding.

I. BACKGROUND

Q: Please provide background leading up to this docket?

A: On March 11, 2016, Staff filed a Motion to Open Docket in the above-captioned docket, attaching a Report and Recommendation in support of its motion. This step was taken consistent with a Stipulation and Agreement in Westar Energy's ("Westar") 2015 General Rate Proceeding, Docket No. 15-WSEE-115-RTS (the "15-115 Docket"), which provided a generic docket be opened to research and evaluate how distributed generation ("DG") customers should be treated, along with other specific issues related to DG.

On July 12, 2016, the Commission issued an Order opening this general investigation docket in order to examine various issues surrounding rate structure for Kansas DG customers. The Commission ordered the parties to the docket "to file comments on how the general investigation should proceed to minimize the need for extensive comment periods." Following receipt of those procedural comments in August of 2016, the Commission issued an Order Setting Procedural Schedule on February 16, 2017, requiring parties to file initial substantive comments with supporting affidavits by March 17, 2017 ("Initial Comments"), and reply comments with supporting affidavits by May 5, 2017 ("Reply Comments").

Initial Comments were filed by Commission Staff, the Citizens' Utility Ratepayer Board ("CURB"), Westar, KCP&L, Empire District Electric ("Empire"), Midwest Energy, Inc. ("Midwest Energy"), Southern Pioneer Electric Company ("Southern Pioneer"), Kansas Electric Cooperatives ("KEC"), Sunflower Electric Power Corporation and Mid-

1 Kansas Electric Company (“Sunflower and Mid-Kansas”, collectively), Cromwell
2 Environmental, Inc. (“Cromwell”), Brightergy, LLC (“Brightergy”) United Wind, Inc.
3 (“United Wind”), and Climate + Energy Project (“CEP”).

4 Reply comments were filed by Commission Staff, CURB, Westar, KCP&L,
5 Empire, Midwest Energy, Southern Pioneer, KEC, Sunflower and Mid-Kansas, Cromwell,
6 Brightergy, CEP, and the International Brotherhood of Electrical Workers Local 304
7 (“IBEW 304”).

8 Two roundtable meetings were held for discussions among the parties. The
9 meetings were held on March 30, 2017, and April 13, 2017.

10 On April 28, 2017, the parties filed a Joint Motion to Modify Procedural Schedule,
11 seeking time for the parties to discuss the potential for settlement. The modification
12 converted the prehearing conference scheduled for June 5, 2017, into a settlement
13 conference to give the parties the opportunity to meet and discuss settlement, and
14 rescheduled the prehearing conference for June 9, 2017. On May 19, 2017, the
15 modifications were approved.

16 On June 5, 2017, the parties met in person and by phone to discuss potential
17 settlement of the various issues in the docket. Settlement discussions continued by Email
18 through June 16, 2017. A large number of the parties were able to reach agreement on how
19 they believe the Commission should address the issues in this generic docket.¹ That
20 agreement resulted in the non-unanimous Stipulation filed on June 16, 2017.

¹ The parties to the Stipulation are Staff, Westar, KCP&L, Empire, Southern Pioneer, Midwest Energy, Sunflower and Mid-Kansas, KEC, and IBEW 304 (“Signatory Parties”).

II. TERMS OF THE STIPULATION

Q: Would you please provide an overview of the Stipulation?

A: This docket is structured to establish policy around rate design for customers deploying DG. As such, the terms of the Stipulation are structured to provide clarity, boundaries, and assumptions to support future rate design considerations. The Stipulation seeks to establish guidance concerning the representation of DG customers within the ratemaking process, identify appropriate rate design alternatives, and address how a transition to the new approaches may be accomplished. The Stipulation addresses the Commission's desire to define an appropriate rate structure for DG while providing the flexibility needed for cooperatives and investor-owned utilities alike.

Q: Does the Stipulation address how DG rates should be established?

A: Yes. The Stipulation provides that a class cost of service ("CCOS") study is sufficient to support the development of DG rates, and that a distinct class/sub-class within the CCOS modeling process is appropriate. The Stipulation identifies appropriate rate structures and sets expectations as to how they would be proposed and implemented.

Q: Does this approach allow for the inclusion of benefits?

A: Yes, to the extent a benefit can be characterized within the normal cost structures of the utility. For example, to the extent that DG reduces the DG customers' class contribution to system peak, the DG class will be allocated a correspondingly lower portion of costs allocated using class peaks, such as system generation capacity costs. The CCOS study results, in turn, would be used to help set the individual rates.

1 **Q: Would you please explain the terms of the Stipulation?**

2 **A:** Yes. For efficiency I will note each of the terms and provide a short response as to
3 KCP&L's position and interpretation of the term.

4 ***(a) DG customers should be uniquely identified within the ratemaking process because***
5 ***of the potentially significant different usage characteristics. Utilities may create a***
6 ***separate residential class or sub-class for DG customers with their own rate design,***
7 ***which appropriately recovers the fixed costs of providing service to residential private***
8 ***DG customers, or a utility may continue to serve residential private DG customers within***
9 ***an existing residential rate class if the utility determines there are too few DG customers***
10 ***to justify a separate residential private DG class or sub-class or determines that other***
11 ***justification exists to retain those customers in the existing rate class. A separate rate***
12 ***class for DG customers is not meant to punish those customers, rather such a rate class***
13 ***would serve to provide clarity for both utilities and customers.***

- 14
15 ▪ ***Specific to Westar, Westar's Distributed Generation Residential Rate Schedule***
16 ***implemented in Westar's last rate case shall remain in place and effective for all***
17 ***residential customers installing distributed generation on or after October 28,***
18 ***2015, and shall be treated as a separate class for purposes of future class cost of***
19 ***service studies and ratemaking generally.***

20 KCP&L is of the opinion that unique identification of the DG customers within a
21 class or sub-class is the key to properly recognizing the cost and quantifiable benefits of
22 DG. A distinct class or sub-class is beneficial as costs and revenues may be allocated to
23 that group of customers and the balance identified for ratemaking purposes. Said another
24 way, unique identification within a CCOS study provides a clear path to associate costs
25 (including reduction of costs) to revenues. Without a distinct class or sub-class, DG
26 customer information is co-mingled with the general residential population and, therefore,
27 is not identifiable.

28 With that said, KCP&L recognizes that each utility might have different conditions
29 and different needs. This term is structured to allow flexibility, allowing the utility to
30 propose an option that suits their respective needs. This term also includes a provision
31 specific to Westar, that allows them to address details from their last rate case.

1 ***(b) The current two-part residential rate design is problematic for utilities and residential***
2 ***private DG customers.***

3 KCP&L believes this to be true. The two-part rate's reliance on volumetric
4 consumption combined with traditional ratemaking results in problems for revenue
5 recovery and for cost shifting between rates. Stated another way, many of the costs
6 associated with providing service are fixed, yet under the two-part rate approach, the
7 customer charge, as set for KCP&L, is inadequate to recover the level of fixed costs being
8 incurred by the utility for service to the customers; rather, much of the cost recovery occurs
9 via the energy/volumetric component. A DG customer, particularly a net metering
10 customer, has the potential to offset all or part of their load, avoiding the volumetric
11 component of a bill and the cost recovery it represents. As most of the costs to serve a DG
12 customer are fixed and still incurred by the utility, as noted, these costs, when not recovered
13 via the volumetric component are necessarily collected from other non-DG customers by
14 virtue of a higher energy charge. NARUC acknowledges this cost shifting issue on page 67
15 of their manual on Distributed Energy Resource Rate Design and Compensation.² The
16 lack of alignment between costs and rates is problematic and under increasing deployment
17 of DG causes problems for customers and utilities alike, an issue that has been the subject
18 of an increasing number of regulatory proceedings and industry publications. As noted in
19 KCP&L's Initial Comments, the issue is not one of intentional cost-avoidance, but
20 fundamentally a pricing problem with the two-part rate.

21 ***(c) The following rate design options are appropriate for residential private DG***
22 ***customers to better recover the costs of providing service to that class or sub-class of***
23 ***customers:***
24

² KCP&L filed for official notice of the NARUC manual in this docket on Nov. 17, 2016.

- 1 ▪ *A cost of service based three-part rate consisting of a customer charge, demand*
- 2 *charge, and energy charge;*
- 3 ▪ *A grid charge based upon either the DG output or nameplate rating; and*
- 4 ▪ *A cost of service-based customer charge that is tiered based upon a customer's*
- 5 *capacity requirements.*

6 *The above list is not meant to preclude a utility from proposing other appropriate rate*
7 *designs within that individual utility's rate case proceeding.*

8 In its Initial and Reply Comments, KCP&L advocated for the use of a three-part
9 rate for DG customers. KCP&L supports the three-part rate because it recognizes the
10 capacity requirements placed on the system by a customer and utilizes a specific charge for
11 the capacity they demand. In the case of DG customers, where DG energy production can
12 offset the energy purchased from the utility, the use of a Demand Charge is a better charge
13 to represent the grid services received by DG customers that support and backup their
14 renewable system. Furthermore, all customers could benefit from the use of a three-part
15 rate. As noted in KCP&L's Initial Comments, KCP&L believes that demand rates would
16 be an appropriate rate structure for all residential customers, and would provide customers
17 with a better indicator of how their usage influences the energy grid, recognizing the impact
18 of the timing and concentration of energy use on cost.

19 With that said, KCP&L recognizes that each utility might have different conditions
20 and different needs. As noted by CURB affiant, Mr. Brian Kalcic, in his Initial comments,
21 a number of alternatives could be useful, including a Grid Access Charge, Minimum Bill,
22 Standby/Backup Charges, and unbundled charges. This term of the Stipulation is
23 structured to allow flexibility for a variety of alternatives, allowing the utility to propose
24 an option that best suits its respective needs.

1 ***(d) A customer education program must be implemented whenever new residential***
2 ***private DG rate structures are ordered, and that program should be completed as soon***
3 ***as practical after the Commission approves a new rate design.***

4 KCP&L supports customer education on the rate structures. If the Commission
5 were supportive, KCP&L sees benefit in starting the customer education process in
6 advance of a rate structure approval. Expecting that some period of time would be needed
7 to engage customers, an early education effort might prove more successful.

8 ***(e) Rates for private residential DG customers should be cost-based and any***
9 ***unquantifiable value of solar resource approach should not be considered when setting***
10 ***rates. A class cost of service study provides sufficient support for design of a residential***
11 ***private DG tariff, and no further study is necessary for the purpose of this docket.***

12 KCP&L believes cost-based rates are a fundamental attribute of good rate design.
13 Being able to clearly identify quantifiable costs will ensure that rates for all customers will
14 be equitable while encouraging efficient use of resources and minimization of unnecessary
15 cross-subsidization between customers. Concerning solar valuation efforts, state-level DG
16 benefit valuation has been proven to provide inconsistent results based upon the valuation
17 of external drivers. Bringing these points together, KCP&L believes the CCOS study is
18 the appropriate method to acknowledge costs and the impact of benefits on those costs for
19 the purpose of ratemaking.

20 ***(f) To the extent that a value of resource study (i.e. cost-benefit analysis) is ordered by***
21 ***the Commission to be completed in a future proceeding as a consideration in the***
22 ***ratemaking process for DG customers, the Settling Parties agree that such a study should***
23 ***be utility-specific, and (i) occur within a utility-specific rate case docket; and (ii) include***
24 ***only quantifiable market-based costs and benefits to the utility.***

25 As noted previously, state-level DG benefit valuation has been proven to provide
26 inconsistent results based upon the valuation of external drivers. If the Commission
27 believes additional consideration is worthwhile, the Signatory Parties to the Stipulation
28 agree that the study should focus on market-based, quantifiable costs. Other unquantifiable

costs such as societal costs, are not suitable for ratemaking purposes. Consideration of societal costs are best addressed within testing, such as within the Total Resource Cost Test and Societal Cost Test where the cost-effectiveness is evaluated to make decisions regarding program implementation, not in the setting of rates.

(g) Present DG rate design policy is best determined in this docket (instead of delaying further) in order to provide certainty to all parties for the benefit of the orderly development of the private DG market in Kansas. However, electric utilities that do not currently have DG tariffs shall have the option to propose DG tariffs consistent with the principles established in this general investigation in subsequent general rate case filings for approval by the Commission.

The primary driver of this docket is “to determine the appropriate rate structure for DG customers”. The need for Westar to be able to provide customers clarity as to the rate design that will be proposed was borne out of Westar’s last rate case. The Signatory Parties seek Commission recognition of an appropriate DG rate design so that in future rate proceedings utilities may approach the Commission with a suitable rate design proposal for our customers. If no determination is made in this docket as to an appropriate DG rate structure, that question remains open, and the discussion will serve to undermine rate design proposals in future rate proceedings and distract from discussion of the rate design proposal itself.

(h) Any DG-specific rate design implemented subsequent to this proceeding to serve residential private DG customers would apply to those customers adding DG systems on or after the effective date of those tariffs. Customers with distributed DG systems implemented and operating prior to that date and served by other rate designs will be allowed to remain on those preexisting rates until January 1, 2030, to the extent permitted by Kansas law. On and after January 1, 2030, all distributed generation customers will be subject to the then current residential DG rate design.

- ***Specific to Westar, the settlement approved by the Commission in Westar’s last general rate case regarding the creation of the “Residential Standard Distributed Generation” tariff is still effective and customers who added DG on or after October 28, 2015, will be subject to the rate design change that occurs in future rate case dockets based on the policy established in this docket.***

1 This term sets clear timeframes for the implementation of new DG rates structures,
2 both new implementations and as important, a future closing date. This “grandfathering”
3 period is important to provide a transition to the new rates, while protecting customers
4 served under the old designs from unanticipated changes. This protection is limited to
5 allow for an eventual unification of rate structures for DG customers. Using the January 1,
6 2030 date is appropriate as this date is set by statute as the date when methods used to
7 compensate excess generation under net metering are unified under a single method.

8 *(i) This Stipulation, if approved by the Commission in this Docket, provides guidance to*
9 *the cooperatives that have elected to be self-regulated pursuant to K.S.A. 66-104d, but*
10 *such self-regulated cooperatives shall not be bound by the Stipulation.*

11 As the Signatory Parties include cooperative utilities, it is important to
12 acknowledge that their regulation structure is different, and identify how this Stipulation
13 impacts them.

14 **Q: How do you envision this Stipulation being put into action?**

15 A: This Stipulation is design to be used within a future rate case proceeding. As contemplated
16 by K.S.A. 66-1265 (e), a utility would have the option to propose a new rate structure for
17 any customer-generator which began operating its renewable energy resource under an
18 interconnect agreement with the utility on or after July 1, 2014.³ In that rate proceeding
19 the utility would make its proposal, with consideration toward the terms defined in the
20 Stipulation. Rate designs and cost studies will be offered to reflect DG customers and the
21 rest of the rate proceeding would occur normally.

³ With regard to Westar, the Stipulation provides that Westar’s Distributed Generation Residential Rate Schedule implemented in Westar’s last rate case will remain in place and effective for all residential customers installing distributed generation on or after October 28, 2015.

1 **III. COMMISSION'S REVIEW STANDARDS FOR STIPULATIONS**

2 **Q: Are you familiar with the factors the Commission considers when reviewing a**
3 **proposed stipulation and agreement?**

4 **A:** Generally yes, I am. It is my understanding that the five factors the Commission uses when
5 reviewing a non-unanimous stipulation are as follows: (1) whether there was an
6 opportunity for the opposing parties to be heard on their reasons for opposition to the
7 stipulation and agreement [contested settlements only]; (2) whether the stipulation and
8 agreement is supported by substantial competent evidence; (3) whether the stipulation and
9 agreement conforms with applicable law; (4) whether the stipulation and agreement results
10 in just and reasonable rates; and (5) whether the results of the stipulation and agreement
11 are in the public interest, including the interest of the customers represented by the parties
12 not consenting to the agreement [contested settlement only].⁴

13 **FACTOR (1) - OPPOSING PARTIES TO BE HEARD ON THEIR REASONS FOR**
14 **OPPOSITION TO THE STIPULATION AND AGREEMENT [CONTESTED**
15 **SETTLEMENTS ONLY].**

16 **Q: Who are the parties to this docket?**

17 **A:** The parties to this docket are Staff, CURB, Westar, KCP&L, Sunflower and Mid-Kansas,
18 Southern Pioneer, KEC, Midwest Energy, Empire, Brightergy, United Wind, IBEW 304,
19 Cromwell, and CEP.

20 **Q: Who is opposing the Stipulation?**

21 **A:** CURB, Cromwell, and CEP are the parties opposing the Stipulation.

⁴ Docket No. 08-ATMG-280-RTS, Order issued May 12, 2008, ¶ 11.

1 **Q: Have these parties been provided the opportunity to be heard on their respective**
2 **positions?**

3 A: Yes. CURB, Cromwell, and CEP offered Initial and Reply Comments, participated in the
4 roundtable discussions, and participated in the settlement discussion. Further, these parties
5 were included in the email exchanges that took place in the week following settlement
6 discussion and leading up to the filing of the Stipulation, and they have the opportunity to
7 file opposing testimony at the same time the Signatory Parties file testimony in support.
8 Finally, it is my understanding that these parties will be participating at the Evidentiary
9 hearing being held later this month. As such, these parties have been and will be heard on
10 their positions.

11 **FACTOR (2) - THE STIPULATION AND AGREEMENT IS SUPPORTED BY**
12 **SUBSTANTIAL COMPETENT EVIDENCE.**

13 **Q: Is there substantial competent evidence in the record of this docket to support the**
14 **Stipulation submitted by the parties?**

15 A: Yes. As noted previously, numerous parties have offered Initial and Reply Comments in
16 this proceeding. The Affiants offered by the parties are knowledgeable in rate design and
17 DG-related issues, and the terms of the Stipulation fall within the various positions of the
18 parties. In addition, the other parties to the Stipulation will offer additional testimony in
19 support of the Stipulation.

20 **Q: Are the terms of the Stipulation consistent with the testimony filed in the docket?**

21 A: Yes.

FACTOR (3) - THE STIPULATION AND AGREEMENT CONFORMS WITH APPLICABLE KANSAS LAW.

Q: Does the Stipulation conform to applicable Kansas law?

A: Yes. I am not an attorney, but my counsel has confirmed for me that the Stipulation is in conformance with applicable Kansas law.

FACTOR (4) - THE STIPULATION AND AGREEMENT RESULTS IN JUST AND REASONABLE RATES.

Q: Does the Stipulation result in just and reasonable rates for KCP&L's customers?

A: This question does not yet apply as this proceeding does not set new rates as part of the outcome. With that said, I do believe that when these terms are applied within the context of a rate proceeding, they will contribute to the establishment of just and reasonable rates.

FACTOR (5) - THE RESULTS OF THE STIPULATION AND AGREEMENT ARE IN THE PUBLIC INTEREST, INCLUDING THE INTEREST OF THE CUSTOMERS REPRESENTED BY ANY PARTY NOT CONSENTING TO THE AGREEMENT [CONTESTED SETTLEMENT ONLY].

Q: Is the Stipulation in the public interest?

A: Yes. Each party to this proceeding has a duty to protect the interests of the party it represents. The investor-owned utilities have a duty to both their customers and shareholders. Likewise, the cooperative utilities have a duty to their membership. The Staff and the Commission are in the unique position of being required to weigh and balance the interests of the utilities, the ratepayers, and any other parties to a proceeding. It is KCP&L's position that the "total effect" of the terms of the Stipulation, when applied within a future rate proceeding, will result in just and reasonable rates and that it represents an equitable balancing of the interests of all parties. Thus, the Stipulation is in the public interest.

1 **Q: What about the second part of this factor regarding fairness to customers represented**
2 **by parties not consenting to the Stipulation?**

3 A: I would represent that all utility customers are represented by the groups agreeing to the
4 Stipulation. The Stipulation provides for a cost-based approach to setting DG rates in
5 future proceedings. Further, the Stipulation identifies a variety of appropriate DG rate
6 structures that provide Kansas utilities with the flexibility to propose the DG rate structure
7 best suited for the given utility. The benefit of the Stipulation, as noted previously, is that
8 the Commission will have determined that certain DG rate structures are appropriate for
9 use by the utilities. When a utility later comes in to establish DG rates, the Commission
10 will not have to determine whether the particular structure introduced is appropriate, rather,
11 the Commission will be able to focus on the just and reasonableness of the rate itself. And
12 because the actual DG rates will be set in a future proceeding, the non-Signatory Parties
13 will have the opportunity to participate in the setting of those rates.

14 **Q: Does that conclude your testimony?**


15 A: Yes, it does. Thank you.

In the Matter of the General Investigation to)
Examine Issues Surrounding Rate Design) Docket No. 16-GIME-403-GIE
For Distributed Generation Customers)


STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

1. My name is Bradley D. Lutz. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Manager, Regulatory Affairs

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Bradley D. Lutz

Subscribed and sworn before me this 20th day of June 2017.


Notary Public

My commission expires: 4/26/2021

