

**BEFORE THE STATE CORPORATION COMMISSION
OF KANSAS**

IN THE MATTER OF THE JOINT APPLICATION	)	
OF WESTAR ENERGY, INC. AND KANSAS GAS	)	
AND ELECTRIC COMPANY FOR APPROVAL TO	)	DOCKET NO. 18-WSEE-328-RTS
MAKE CERTAIN CHANGES IN THEIR	)	
CHARGES FOR ELECTRIC SERVICE	)	

CROSS-ANSWERING TESTIMONY

STEVE W. CHRISS

ON BEHALF OF

WALMART INC.

JUNE 22, 2018

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1 **Introduction**

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

3 A. My name is Steve W. Chriss. My business address is 2001 SE 10th St.,
4 Bentonville, AR 72716-0550. I am employed by Walmart Inc.¹ as Director, Energy
5 and Strategy Analysis.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7 A. I am testifying on behalf of Walmart Inc. ("Walmart").

8 **Q. ARE YOU THE SAME STEVE W. CHRISS THAT FILED DIRECT TESTIMONY IN THIS**
9 **DOCKET?**

10 A. Yes.

11 **Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?**

12 A. Yes. I am sponsoring the exhibit listed in the Table of Contents.

13

14 **Purpose of Testimony and Summary of Recommendations**

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

16 A. The purpose of my testimony is to respond to the direct testimonies filed by the
17 Brian Kalcic on behalf of the Citizens' Utility Ratepayer Board ("CURB") and Dorothy
18 Myrick on behalf of the Kansas Corporation Commission Utilities Staff ("Staff").

¹ Effective February 1, 2018, Wal-Mart Stores, Inc. changed its corporate legal name to Walmart Inc.

1 **Q. PLEASE SUMMARIZE WALMART’S RECOMMENDATIONS TO THE COMMISSION**
2 **FROM YOUR DIRECT TESTIMONY.**

3 A. Walmart’s recommendations to the Commission are as follows:

4 1) Walmart supports the use of the Average & Excess (“A&E”) allocator based
5 on the Company’s four coincident peaks (“CP”) (together, “A&E 4CP”) as a
6 reasonable methodology for allocating fixed production plant costs among
7 the customer classes.

8 2) Walmart does not take a position on the other facets of the Company’s
9 proposed cost of service model at this time. However, to the extent that
10 alternative cost of service models or modifications to the Company’s cost
11 of service model are proposed by other parties, Walmart reserves the right
12 to address such changes in accord with the Commission’s procedures in this
13 docket.

14 3) For the purposes of this docket, at the Company’s proposed revenue
15 requirement, Walmart does not oppose the Company’s proposed revenue
16 allocation.

17 4) If the Commission determines that the appropriate revenue requirement is
18 less than that proposed by the Company, the Commission should maintain
19 the movement towards cost of service proposed by the Company and

1 determine the extent to which the revenue requirement for each class can
2 be moved closer to its respective cost of service.

3 5) For the purposes of this docket, Walmart proposes the following MGS rate
4 design methodology:

5 a) Walmart does not oppose the Company's proposal to increase the
6 customer charge to \$128/customer/month;

7 b) After accounting for the revenue impact of the increase in the
8 customer charge, the Commission should require the following:

9 i. In the case of an increase in revenue requirement, the entire
10 increase in revenue should be assigned for recovery through
11 the demand charge; and

12 ii. In the case of a decrease in revenue requirement, the entire
13 decrease in revenue should be assigned as a reduction to the
14 energy charges.

15 **Q. AFTER REVIEWING THE DIRECT TESTIMONY OF OTHER PARTIES, DOES WALMART**
16 **HAVE ANY CHANGES TO THE ABOVE RECOMMENDATIONS?**

17 **A. No.**

1 **Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION**
2 **ADVOCATED BY ANOTHER PARTY INDICATE WALMART’S SUPPORT?**

3 A. No. The fact that an issue is not addressed herein or in related filings should not be
4 construed as an endorsement of, agreement with, or consent to any filed position.
5

6 **Cost of Service Study and Production Capacity Cost Allocation**

7 **Q. WHAT IS WALMART’S POSITION ON SETTING RATES BASED ON THE UTILITY’S COST**
8 **OF SERVICE?**

9 A. As I stated in my direct testimony, Walmart advocates that rates be set based on the
10 utility’s cost of service for each rate class. This produces equitable rates that reflect
11 cost causation, send proper price signals, and minimize price distortions.

12 **Q. WHAT IS YOUR GENERAL UNDERSTANDING OF THE COMPANY’S PROPOSED**
13 **METHODOLOGY FOR PRODUCTION DEMAND COST ALLOCATION?**

14 A. My understanding is that the Company proposes to allocate production demand
15 costs using an Average & Excess (“A&E”) allocator based on the Company’s four
16 coincident peaks (“CP”) (together, “A&E 4CP”). See Direct Testimony of Ronald J.
17 Amen, page 25, line 12 to line 14.

1 **Q. IT IS YOUR UNDERSTANDING THAT STAFF DOES NOT SUPPORT WESTAR’S**
2 **PROPOSED A&E 4CP METHODOLOGY?**

3 A. Yes. My understanding is that Staff proposes a modified form of the peak and
4 average methodology that classifies generation types as base load or peaker and
5 assigns portions of generation cost to a demand-based allocation or an energy-
6 based allocation based on the classification. See Direct Testimony of Dorothy J.
7 Myrick, page 10, line 9 to line 21. In total, Staff’s methodology is essentially a hybrid
8 of the peak and average methodology and the Base / Intermediate / Peak (“BIP”)
9 methodology, as, in my experience, a traditional average and peak methodology
10 does not perform specific generation resource assignments and instead uses the
11 methodology to allocate the entire generation portfolio.

12 **Q. IS IT YOUR UNDERSTANDING THAT CURB DOES NOT SUPPORT WESTAR’S**
13 **PROPOSED A&E 4CP METHODOLOGY?**

14 A. Yes. CURB opines that they would prefer a base-intermediate-peak (“BIP”)
15 methodology but for the purposes of this docket does not propose a specific BIP
16 allocation methodology and instead relies on Staff’s methodology. See Direct
17 Testimony of Brian Kalcic, page 8, line 16 to line 22.

1 **Q. DOES WALMART CONTINUE TO SUPPORT THE USE OF THE A&E 4CP PRODUCTION**
2 **DEMAND COST ALLOCATOR?**

3 A. Yes. As I stated in my direct testimony, Walmart supports the use of the A&E 4CP as
4 a reasonable methodology for allocating fixed production plant costs among the
5 customer classes.

6 **Q. SHOULD THE COMMISSION APPROVE THE USE OF STAFF'S PROPOSED**
7 **METHODOLOGY?**

8 A. No. As I describe below, the A&E 4CP methodology proposed by Westar better
9 represents the fixed nature of production capacity costs while ensuring that all
10 customer classes do have some portion of those costs allocated to them than does
11 Staff's proposed allocator.

12
13 ***Production Capacity Cost is Fixed Cost***

14 **Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF PRODUCTION CAPACITY COST**
15 **ALLOCATION?**

16 A. Production capacity cost allocation is the process of allocating to each customer class
17 the fixed costs of a utility's generation assets. Fixed costs are defined as costs that do
18 not vary with the level of output and must be paid even if there is no output.

1 **Q. DO A UTILITY’S FIXED PRODUCTION CAPACITY COSTS VARY WITH CHANGES IN THE**
2 **AMOUNT OF ELECTRICITY GENERATED?**

3 A. No. The utility’s fixed production capacity costs do not vary with changes in the amount
4 of electricity generated. For example, if a baseload unit is not dispatched and produces
5 no energy, the fixed costs are not avoided by the utility or customers. Generation units
6 can be built and operated for different reasons, such as lower fuel costs, peaking needs,
7 or reliability, but the way in which a generation unit is operated does not change the
8 fact that the fixed costs are, in fact, fixed, and should be treated as such in the
9 production capacity cost allocation.

10 **Q. IS IT YOUR UNDERSTANDING THAT PRODUCTION CAPACITY IS SIZED TO MEET THE**
11 **MAXIMUM DEMAND IMPOSED ON THE SYSTEM BY THE COMPANY’S CUSTOMERS?**

12 A. Yes. It is my understanding that the timing and size of a utility’s production plant
13 capacity additions are made to meet the maximum demand placed on the utility’s
14 system by all customer classes, also known as its coincident peak (“CP”). All of a utility’s
15 generation units are needed to meet that demand, and removing any of the units from
16 that stack will limit the utility’s ability to do so.

17 **Q. WHY IS IT IMPORTANT FOR THE ALLOCATION OF PRODUCTION CAPACITY COST TO**
18 **RECOGNIZE THAT PRODUCTION CAPACITY IS DESIGNED TO MEET SYSTEM PEAK?**

19 A. Basing the allocation of production capacity cost on the utility’s system peak ensures
20 that the resulting rates reflect cost causation and minimizes cost responsibility shifts
21 between rate classes. Allocation of fixed production capacity costs on a variable, or

1 energy, basis can introduce shifts in cost responsibility from lower load factor classes to
2 higher load factor classes. Under an energy allocator, two customer classes can cause
3 the same level of coincident peak demand in the test year and cause the Company to
4 incur the same amount of fixed cost to meet that demand, but because one class uses
5 more kWh than the other, that class will pay more of the demand cost than the class
6 that uses fewer kWh. Additionally, use of an energy allocator implies that the
7 generation plant to which that allocator is applied has no fixed cost, which is plainly not
8 the case.

9 **Q. IS THERE AN ADDITIONAL REASON WHY THE USE OF AN ENERGY ALLOCATOR, IN**
10 **ADDITION TO SPECIFIC RESOURCE ASSIGNMENTS AS PROPOSED BY STAFF, IS AN**
11 **ISSUE?**

12 A. Yes. The use of an energy allocator penalizes high load factor customers for more
13 efficiently and fully utilizing the utility system, as they are assigned additional
14 production plant costs for using fixed capacity during off-peak hours. Additionally, the
15 use of specific resource assignments, without reallocating fuel to match the production
16 capacity cost allocation, means that higher load factor customer classes are allocated
17 more of the costs of the high fixed cost plants but do not get the specific fuel benefits
18 associated with those plants.

19 **Q. DOES WESTAR'S OPERATION AS PART OF THE SPP INTEGRATED MARKETPLACE ("SPP**
20 **IM") CALL INTO QUESTION THE RELEVANCE OF SPECIFIC RESOURCE ASSIGNMENTS?**

1 A. Yes. Prior to the introduction of the SPP IM, utilities dispatched generating units
2 according to the economics of the utility's generating fleet. This typically meant that
3 units were dispatched in the following order: baseload units, followed by intermediate
4 units and finally by peaking units. Thus, there were some observable differences
5 between the utility's various units. With the introduction of the SPP IM, those
6 differences have largely disappeared. Now, the SPP IM centrally dispatches a
7 utility's generation units without regard to the administrative base, intermediate, and
8 peak designations, and as such the generating units could be dispatched outside their
9 designated manner. Effectively, the resource designations proposed by Staff have
10 become archaic as reflective of a former dispatching paradigm. The key is that,
11 regardless of the changes in the SPP IM, drivers of economic dispatch, policy changes, or
12 a move to environmental dispatch, ***a utility's fixed production costs will have not***
13 ***changed, but a general rate case would be required for the Staff's production allocator***
14 ***to be adjusted so that rates can reflect those changes.*** This is not a basis for just and
15 reasonable rates and is not the best possible use of limited Company, regulatory, and
16 intervenor resources.

17 **Q. HAVE OTHER UTILITIES RECOGNIZED THE IMPACT OF THE SPP INTEGRATED**
18 **MARKETPLACE ON THE USE OF THE LOGIC OF TRYING TO CLASSIFY GENERATING UNITS**
19 **AS SPECIFIC TYPES?**

20 A. Yes. In its testimony in its pending rate case, KCPL specifically references the
21 introduction of the SPP IM, and the archaic nature of trying to label units as baseload,

1 intermediate or peaking, as a reason for moving away from the BIP and, instead,
2 proposing the Average and Excess production allocator.

3 Q: Would you please describe the production allocation changes that the Company
4 has proposed in the past?

5 A: The Company began regular rate cases in 2005 with the initiation of the
6 Comprehensive Energy Plan ("CEP"). The CEP initiative resulted in the building
7 of the Spearville Wind Generation Facility, the Iatan 2 Generating Station,
8 environmental retrofits at LaCygne and Iatan 1, as well as distribution system
9 enhancements and the deployment of demand side programs. The CEP
10 contemplated a series of rate cases to bring these investments into rate base
11 and adjust rates accordingly. With the first case, Docket 06-KCPE-828-15-RTS,
12 the Company prepared a CCOS study to support rate design utilizing an Average
13 & Peak ("A&P") methodology for allocation of production plant.

14 Use of the A&P method continued until 2010 when in case Docket 10-KCPE-18-
15 415-RTS the Company prepared its CCOS study using the Base-Intermediate-
16 Peak (BIP) methodology. The BIP methodology, which was introduced but not
17 offered in in Docket No. 09-KCPE-246-RTS, represented a more detailed means
18 to assign the Company's generating assets and allocate them depending on their
19 use in meeting customer loads. Individual generating plants were assigned to
20 the base, intermediate, or peak segments and then allocated using varying
21 methods that aligned with that individual segment's purpose. As the BIP
22 method continued to rely on a combination of energy and demand allocation,
23 the transition remained true to the intent of the blended allocation method
24 started with the A&P approach.

25 Subsequently, the BIP method was offered and adopted by the Commission in
26 Docket No. 10-KCPE-415-RTS.

27 Use of the BIP method continued until 2015 when, in case Docket No. 15-KCPE-
28 116-RTS, the Company prepared its CCOS study using an equal blending of the
29 A&P methodology with the BIP methodology. **Expressing concern that the**
30 **transition SPP to an Integrated Marketplace with centralized dispatch would**
31 **make it difficult to accurately assign the generating units into base,**
32 **intermediate, and peak groups based on their use,** the Company proposed the
33 blended approach. The Company did not consider this lightly, acknowledging
34 the past value of the BIP approach. However, the Company could not ignore the
35 impact of the SPP Integrated Marketplace and changes observed in the

1 utilization of generating resources. (Lutz Direct, Case No. 18-KCPE-480-RTS,
2 pages 5-6) (emphasis added)

3 **Q. CAN YOU GIVE AN EXAMPLE TO SHOW THAT PRODUCTION CAPACITY COSTS ARE**
4 **DESIGNED TO MEET SYSTEM PEAK DEMAND RATHER THAN JUST ENERGY NEEDS?**

5 **A.** Yes. If energy needs were the primary driver of production capacity, utilities would
6 simply rely on the generation type with the lowest incremental variable cost, such as
7 wind. That said, wind generation is not necessarily producing when the utility is
8 experiencing its peak demand. For this reason, utilities rely on a combination of
9 generation facilities. Clearly, it is the need to meet peak demand and not simply energy
10 needs that drives the utility's decision to construct and operate generation facilities.
11 Given this, the allocation of the costs of constructing generation facilities should rely
12 principally on peak demand and not energy usage.

13 **Q. IN YOUR EXPERIENCE, IS IT COMMON FOR PRODUCTION CAPACITY COSTS TO BE**
14 **ALLOCATED ON A CP BASIS?**

15 **A.** Yes. Allocating costs on a CP basis reflects the fact that generation is built to meet
16 system peak. This can range from consideration of a one month peak (1CP) to the peaks
17 of all twelve months (12CP), depending on the specific characteristics of a given utility.
18 For instance, a distinctly summer peaking utility may reflect consideration of the four
19 summer months while a summer/winter peaking utility may consider all monthly peaks.
20 In my experience, a rule of thumb is to identify the month with the highest CP in the
21 year and count that month plus any additional month that has a CP demand within 10
22 percent of the overall CP demand.

1 **Q. BASED ON YOUR ANALYSIS, HOW MANY CP SHOULD BE INCLUDED IN A CP-BASED**
2 **PRODUCTION COST ALLOCATOR FOR WESTAR?**

3 A. Based on my analysis of Westar's monthly peaks, a CP-based production cost allocator
4 should use 4CP, as the CPs for June through September are significantly higher than
5 the CPs for the remaining months. See Direct Testimony of Ronald J. Amen,
6 Appendix B, page 9. As such, Westar's need for generation units is primarily driven
7 by its customers' demand in those four months and not during the rest of the year.

8 **Q. DOES THE USE OF A CP-BASED PRODUCTION COST ALLOCATOR CORRECTLY REFLECT**
9 **BOTH THE FIXED NATURE OF PRODUCTION COSTS AND THE USE OF ALL GENERATION**
10 **PLANT TO MEET SYSTEM PEAK DEMAND?**

11 A. Yes, and optimally this would be the production cost allocator used. However, some
12 commissions have determined that adding an energy component to the production
13 capacity cost allocator is important to ensure that all customer classes – even those that
14 do not contribute to the system peaks – receive some allocation of production capacity
15 cost. There are several ways to do this, but the most reasonable is the use of the A&E
16 methodology, as opposed to the methodology proposed by Staff.

17
18 ***The A&E Allocator is a Reasonable Production Capacity Cost Allocator***

19 **Q. WHAT IS AN A&E ALLOCATOR?**

20 A. An A&E allocator is an allocator that recognizes the contribution of each class to average
21 demand (i.e., energy), as well as the relative peak demand of each class. The CP or non-

1 coincident peak (“NCP”) peak demand value, such as 1NCP or 4CP, for each class is
2 subdivided into both an average demand and excess demand component. The average
3 demand, or energy portion for each class, is weighted by the system load factor. The
4 excess demand portion, which is the difference between the average demand and peak
5 demand for each class, is weighted by 1 minus the system load factor.

6 As system load factor increases, the weighting of the average demand
7 portion of the allocator increases. That is, as the system load factor increases, more
8 weight is given to the energy portion of the allocator. At a theoretical maximum of 100
9 percent system load factor, the A&E allocator is essentially an energy allocator. As such,
10 this methodology allows the Commission, if it deems necessary, to signal that
11 production plants are used to meet peak demand as well as provide energy.

12 **Q. DOES CURB NOTE THAT THE A&E 4CP ALLOCATOR CAN PRODUCE RESULTS**
13 **EQUIVALENT TO A 4CP ALLOCATOR?**

14 A. Yes, and this is a valid concern when using an A&E allocator. For test years in which a
15 customer class – usually lighting – makes no contribution to any of the CP used in the
16 model, the mathematics of the A&E model can result in an allocator equal to the results
17 of the CP-based allocator. If, for example, lighting has an average demand of 50 MW
18 and makes no contribution to the CP used in the model, its excess demand will be -50
19 MW, which sums to zero when the allocator is calculated. As a result, if lighting makes
20 no contribution to the CP used in the A&E 4CP model, the results will be equal to the CP

1 model.² In my experience this issue can be remedied by using NCP instead of CP in the
2 model or by not allowing excess demand to be negative, which prevents excess demand
3 from cancelling out average demand.

4 **Q. DO WESTAR'S A&E 4CP MODEL RESULTS SHOW THIS TYPE OF OUTCOME?**

5 A. No. An examination of Westar's cost of service study results show that the Company
6 has included a remedy in their A&E 4CP model, as the lighting and interruptible classes
7 are assigned production capacity costs. See Schedule RJA-4, page 2.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 A. Yes.

² See Table 4-10B in the National Association of Utility Regulatory Commissions Electric Utility Cost Allocation Manual as an illustration of this outcome.