

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

OCT 01 2007

Susan Lahey Docket Room

DIRECT TESTIMONY

OF

WILLIAM B. MOORE

WESTAR ENERGY

DOCKET NO. 08-WSEE-309-PRE

- 1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A. William B. Moore, 818 South Kansas Avenue, Topeka, Kansas
- 3 66612.
- 4 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**
- 5 A. Westar Energy, Inc. I am President and Chief Executive Officer
- 6 and also serve as a director.
- 7 **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS**
- 8 **EXPERIENCE.**
- 9 A. In 1974, I graduated cum laude from Wichita State University with a
- 10 Bachelor of Business Administration with a concentration in
- 11 Accounting. After my graduation, I worked for Arthur Andersen &
- 12 Company as a Senior Consultant until I was hired by Kansas Gas
- 13 and Electric Company (KG&E) as a Finance Assistant. From 1978
- 14 to 1992, I worked at KG&E at various positions in the finance areas.

1 I was named Vice President, Finance and Chief Financial Officer of
2 KG&E in 1985 and held that position at the time of KG&E's
3 acquisition by Westar. After the Westar/KG&E merger, I served as
4 Vice President, Finance from 1992 to 1995, as President and
5 Chairman of the Board of KG&E from 1995 to 1998 and as
6 Executive Vice President, Chief Financial Officer and Treasurer of
7 Westar, from 1998 to 2000.

8 I left Westar in October 2000 to work as a Managing Director
9 for Saber Partners, LLC and returned to Westar in December 2002
10 as Executive Vice President and Chief Operating Officer. In July
11 2007, I was named President and Chief Executive Officer of
12 Westar.

13 **Q. WHAT IS THE SUBJECT MATTER OF WESTAR'S FILING IN**
14 **THIS MATTER?**

15 A. Through its filing in this docket, Westar seeks a predetermination
16 under K.S.A. 66-1239 of the ratemaking principles that the
17 Commission will apply to the approximately 300 MW of wind
18 generation that Westar is proposing to add to its generation mix.
19 We anticipate that this generation will be online by year-end 2008.
20 This represents the first step in a two-step process to meet our goal
21 of having 500 MW of wind generation by the end of 2010.

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

1 A. The purpose of my testimony is to explain (1) why Westar seeks a
2 determination of ratemaking principles under K.S.A. 66-1239; (2)
3 what ratemaking principles Westar is requesting the Commission
4 predetermine; and (3) the timeframe in which we need a ruling from
5 the Commission.

6 **Q. HOW DOES WESTAR PROPOSE TO ADD THE WIND**
7 **GENERATION TO ITS GENERATION MIX?**

8 A. As stated in our Application and described in detail by Westar
9 witness Greg Greenwood, Westar intends to own approximately
10 half of the 295 MW of wind generation addressed by this
11 Application and to purchase wind-powered generation for the other
12 half under power purchase agreements (PPAs). Westar's goal is to
13 obtain a total of 500 MW of wind generation by the end of 2010.

14 **Q. WHY IS WESTAR PROPOSING TO ADD APPROXIMATELY 300**
15 **MW OF WIND GENERATION?**

16 A. Both the executive and legislative branches of state government
17 have determined that the state and its public utilities should actively
18 work to develop renewable energy resources. Several years ago,
19 the legislature amended K.S.A. 66-117(e) to provide a financial
20 incentive for utility investment in systems "that can be reasonably
21 expected to produce energy from a renewable resource." More
22 recently, Governor Sebelius explained that Kansas has an
23 "amazing opportunity . . . to become a leader in the production of

1 renewable energy,” and set goals for the state to have 1,050 MW of
2 nameplate electric generating capacity from wind power by 2010
3 and 2,100 MW by 2020.

4 We too believe these goals to be in the public interest. Our
5 recently adopted “*Climate Change Policy and Climate Change*
6 *Principles*” are also consistent with this intent. Adding 300 MW of
7 wind generation to our fleet, with a goal of adding a total of 500 MW
8 by the end of 2010, is a significant demonstration of our
9 commitment to implement that new policy.

10 We also believe that the technology necessary to harness
11 wind energy, although continuing to evolve, has been sufficiently
12 tested commercially to warrant substantial investment.
13 Accordingly, Westar and other utilities have committed to support
14 achievement of the 2010 goal. Generation of 300 MW of electricity
15 from wind by year-end 2008 is a significant step towards Westar
16 meeting its proportionate share of the 2010 goal and would nearly
17 double the amount of wind generation now operating in Kansas.
18 The Governor has challenged us to be “good stewards of this state”
19 and to enhance Kansas’ energy security and independence.
20 Development of the wind generation projects that are addressed by
21 the Application is one important way in which Westar, with the
22 Commission’s approval, can accept and meet that challenge.

1 Kansas' goals are also consistent with national energy
2 policy. Congress is considering adoption of either a tax on carbon
3 emissions of some form (usually referred to as a "carbon tax") or
4 market-based restrictions on carbon emissions (usually referred to
5 as a "cap and trade system") or some combination. Other methods
6 for reducing emissions of greenhouse gases as well as action
7 toward adopting some form of renewable portfolio standard are also
8 under consideration. These activities are clear evidence of this
9 developing policy. Westar witness James Ludwig will discuss
10 legislative developments at the national level in his testimony.

11 We also believe there can be inherent value in further
12 diversifying our generation portfolio. In recent years, natural gas,
13 coal and wholesale power prices all have experienced significant
14 volatility and upward trending costs. As a result, wind generation
15 provides value simply for the insurance it furnishes in insulating
16 customers from some of the effects of unexpectedly high and
17 volatile fuel and wholesale energy prices. Apart from the concern
18 for price volatility, depending on assumptions regarding carbon
19 taxes and the cost of fuel, wind power can be competitive with other
20 more established forms of power generation and can allow Westar
21 to postpone perhaps by as much as two to three years the
22 construction of its next base load or intermediate load plant.
23 Westar witness Michael Elenbaas addresses these issues in more

1 depth. As a result, we believe wind generation can be a desirable,
2 long-term complement to our existing coal, nuclear and gas
3 facilities.

4 **Q. WHY DO YOU PROPOSE ACQUIRING WIND GENERATION**
5 **RATHER THAN SOME OTHER FORM OF RENEWABLE**
6 **ENERGY?**

7 A. We believe that wind is the most readily available and most mature
8 renewable generation technology adapted for use in Kansas.
9 Today, Westar and the electric utility industry in general have
10 limited experience with this resource. Nonetheless, we believe the
11 technology is sufficiently mature for us to make the financial
12 commitments necessary to develop 500 MW of wind generation,
13 knowing that wind entails some unique risks including that wind
14 generation technology will continue to evolve.

15 The availability of wind compared with other forms of
16 renewable energy is supported by Westar's experience with the
17 request for proposals (RFP) we issued in February 2007. Our RFP
18 was open to all forms of renewable energy. However, all the
19 responses we received were for wind energy. This is due to the
20 fact that Kansas has suitable wind resources, and that wind
21 generation technology has been commercially demonstrated.

22 Other renewable resources are either unavailable in the
23 quantities we would need to meet the stated goals or would be

1 available only at much higher cost. The Kansas climate and
2 topography are not well suited to either solar power (at least with
3 current technology) or hydropower. These factors probably were
4 largely responsible for the lack of responses to our RFP that were
5 for alternative sources other than wind.

6 **Q. WHAT IS THE BASIS FOR YOUR FILING IN THIS DOCKET?**

7 A. In 2003, the Kansas legislature found it in the public interest to pass
8 K.S.A. 66-1239, which explicitly allows a utility to request and
9 requires the Commission to provide, an advance determination of
10 ratemaking principles to be used to recognize in retail rates the
11 costs of any proposed generating facility or contract to purchase
12 power.

13 **Q. WHY IS WESTAR SEEKING A DETERMINATION OF**
14 **RATEMAKING PRINCIPLES UNDER K.S.A. 66-1239?**

15 A. Given the magnitude of the commitment required to meet the
16 above-enumerated policy goals, without the Commission's
17 predetermination of the reasonableness of this plan and the
18 associated ratemaking principles in setting retail rates, Westar
19 simply cannot implement its proposal. Adding approximately 300
20 MW of wind generation will require Westar directly to invest
21 approximately \$282 million in company-owned generation facilities
22 and to commit to long-term PPAs with developer-owned wind
23 facilities. Whether these commitments are explicitly "on balance

1 sheet” in the case of ownership, or simply represent “off-balance
2 sheet” contract liabilities, each reflects huge financial commitments
3 that will be in place for decades. Before making such
4 commitments, it is essential that both Westar and the Commission
5 agree on the reasonableness of this plan and the appropriate
6 ratemaking treatment related to the proposal.

7 A predetermination of the ratemaking treatment to be applied
8 to the proposed facilities will allow Westar to continue attracting
9 capital on reasonable terms for this and other projects essential to
10 meeting our service obligations – obligations we take very
11 seriously. As the Commission is aware, in addition to the wind
12 projects that are the subject of this Application, Westar is also
13 investing substantial amounts in new generation, transmission
14 facilities, pollution control equipment, and plans to implement
15 energy efficiency and demand side management programs and
16 related equipment. All of these investments will be needed to
17 ensure Westar’s continued ability to reliably meet its customers’
18 needs for energy in an environmentally responsible manner.

19 **Q. HOW WILL GRANTING THE PREDETERMINATION**
20 **APPLICATION AFFECT WESTAR’S CUSTOMERS AND**
21 **INVESTORS?**

22 A. Clarity concerning the ratemaking principles to be applied to
23 Westar’s proposed wind generation will better inform customers of

1 the investment levels and rate implications of adding this new
2 generating source. While Kansas is naturally endowed with wind
3 resources, we also need to recognize that such development is a
4 costly undertaking. Abundant wind is of no value absent the capital
5 investment to take advantage of it. Our customers should know
6 this. Additionally, investors seeking to invest in a basic electric
7 utility with moderate to low service area growth, such as Westar,
8 will continue to supply capital to companies that are regulated
9 under predictable, consistent and constructive terms and seek to
10 avoid investing capital where the rules of the road might be unclear.
11 As the Commission is well aware, lower capital costs are reflected
12 in lower prices for our customers. The converse is also true.
13 K.S.A. 66-1239 provides a framework to demonstrate that Kansas
14 regulation has those important qualities of predictability and
15 consistency.

16 Commission approval will signal investors that their premise
17 for investing in Westar as a basic electric utility has been
18 confirmed. One can reasonably expect that if Westar's requests in
19 this docket are granted, the treatment will result in stronger credit
20 quality over time as well.

21 **Q. WHAT TYPE OF DETERMINATION IS WESTAR REQUESTING?**

22 A. Westar's requests are based on the following ratemaking principles:

- 1 1. That Westar's plan to own 149 MW of wind generation and
2 to enter into PPAs to purchase 146 MW of wind generation
3 is prudent,
- 4 2. That the 295 MW of wind generation included in our
5 Application will be considered used and useful for the
6 provision of service to Westar's customers,
- 7 3. That the actual amount expended to construct the plant, up
8 to \$282 million, for the projects to be owned by Westar will
9 be included in rate base. Amounts spent in excess of the
10 estimate will be subject to prudence review, based on a
11 comparison to the cost of plants of similar vintage and
12 design,
- 13 4. That the two wind PPAs submitted are prudent and the
14 associated costs are approved for recovery through Westar's
15 RECA,
- 16 5. That, in the event Westar files a rate case while developing
17 wind generation plants that it will own, Westar will be allowed
18 to include in rates all of its investment and associated costs
19 related to the plants that are in commercial operation at least
20 120 days before the deadline for the Commission's order in
21 that rate case, and that for plants not having yet reached
22 commercial operation, rate base shall include construction
23 work in progress (CWIP) through such date,

- 1 6. That, pursuant to K.S.A. 66-117(e), the Commission approve
- 2 a rate of return for Westar's investment in the proposed wind
- 3 generation facilities equal to the approved rate of return for
- 4 Westar's KCC-jurisdictional electric business plus 1.0%, and
- 5 7. That the Commission act on this Application no later than
- 6 December 31, 2007.

7 **Q. THE STATUTE GIVES THE COMMISSION SIX MONTHS IN**
8 **WHICH TO RULE ON AN APPLICATION FOR DETERMINATION**
9 **OF RATEMAKING PRINCIPLES. WHY IS WESTAR**
10 **REQUESTING APPROVAL BY DECEMBER 31, 2007?**

11 A. A number of states have implemented mandates for renewable
12 energy and Congress is also debating the merit of imposing legal
13 mandates for renewable energy. As a result, demand for wind
14 turbines is extremely high and the availability of such equipment is
15 tight. In hindsight, it is fortuitous that Westar launched its RFP
16 process when we did. However, because of the high demand for
17 wind turbines, the wind developers who responded to our RFP last
18 spring will only hold their prices and other contractual terms for a
19 short period of time. Additionally, valuable federal production tax
20 credits (PTC's) applicable to wind production currently expire
21 December 31, 2008. Although PTC's may ultimately be extended,
22 neither our customers nor we have any assurance as to what action
23 Congress may take. Approval by year-end 2007 affords developers

1 and Westar the best opportunity to complete projects in time to
2 benefit from these significant economic incentives, minimizing the
3 need for both sides to gauge the risk associated with the possibility
4 that the tax provisions will not be renewed.

5 To put it bluntly, it is a seller's market. If we cannot commit
6 within the time frame we have outlined, the developers will likely
7 take their business elsewhere. In fact, in our contract negotiations,
8 each of the developers insisted on including a provision that allows
9 them to walk away from the deal if Commission approval is not
10 obtained by December 31, 2007.

11 **Q. YOU SAID THAT WESTAR WANTS THE COMMISSION TO PRE-**
12 **APPROVE THE TYPE AND AMOUNT OF THE WIND**
13 **GENERATION. PLEASE EXPLAIN.**

14 A. Westar requests a Commission ruling that it is appropriate for
15 Westar to acquire approximately 300 MW of nameplate wind
16 generation through a combination of ownership and PPAs. More
17 specifically, Westar requests that the Commission determine that it
18 is prudent for Westar to enter into the PPAs it has signed (subject
19 to Commission approval) and agreements based on the term
20 sheets for the development agreements it has executed (again
21 subject to Commission approval) with respect to generators it
22 intends to own. The factors driving Westar's decisions concerning
23 the appropriate mix of ownership and PPAs and the type of wind

1 turbines to be installed are addressed in the testimony of Westar
2 witness Greg Greenwood.

3 **Q. YOU ALSO MENTIONED A REQUEST FOR A COMMISSION**
4 **PREDETERMINATION WITH RESPECT TO THE COST OF THE**
5 **PROPOSED WIND GENERATION. WHAT IS WESTAR'S**
6 **REQUEST REGARDING COST?**

7 A. Westar requests a Commission ruling that the estimated plant cost
8 of up to \$282 million for the 149 MW of wind generation that we will
9 own be included in rate base and that PPAs are prudent and
10 approved. Westar witness Greg Greenwood's direct testimony
11 supports our cost estimates for owned resources and describes the
12 PPAs. In addition, we have corroborated that our cost estimates
13 are comparable to prices being paid throughout the electric industry
14 for wind generation.

15 As with any major long-term construction project, there may
16 be factors beyond the reasonable control of Westar that move costs
17 above current estimates. This is particularly true in the context of
18 the current state and national efforts to develop renewable energy
19 resources that are driving up demand for wind turbines and related
20 labor, materials and equipment. The question of whether any such
21 potential overruns should be recovered in rates should be
22 determined based on whether Westar acted prudently to control

1 costs and whether the resulting costs are reasonable, based on a
2 comparison to the cost of plants of similar vintage and design.

3 Because of all of these uncertainties, it is possible that even
4 with prudent construction practices and oversight, the cost for the
5 proposed project may exceed our current estimate.

6 **Q. YOU SAID THAT WESTAR IS REQUESTING THAT “THE**
7 **COMMISSION APPROVE A RATE OF RETURN FOR WESTAR’S**
8 **INVESTMENT IN THE PROPOSED WIND GENERATION**
9 **FACILITIES EQUAL TO THE APPROVED RATE OF RETURN**
10 **FOR WESTAR’S KCC-JURISDICTIONAL ELECTRIC BUSINESS**
11 **PLUS 1.0%.” PLEASE EXPLAIN WHY YOU ARE MAKING THAT**
12 **REQUEST.**

13 **A.** To implement state policy and to provide significant environmental
14 benefits, Westar is making an unprecedented commitment to wind
15 generation in Kansas. For context, the proposed approximately
16 \$550 million commitment to wind, half of which we plan to invest in
17 directly, compares to Westar’s net utility plant of approximately \$3.3
18 billion. As I noted earlier, with completion of these projects, Westar
19 will nearly double the amount of wind generation now operating in
20 Kansas. Further, we believe that the addition of wind generation
21 will permit Westar to defer for perhaps two to three years the
22 addition of an intermediate or baseload facility – with associated
23 long-term cost and environmental benefits for our customers.

1 With appropriate incentives, wind generation technology is
2 now commercially viable, but it is also continuing to evolve. One
3 indication of these changes is that from 1998-99 to 2006, the
4 average size of installed turbines increased from .75 MW to 1.6
5 MW or 124%. Westar will be installing wind turbines each with a
6 capacity of 2.5 and 3.0 MW. This type of technological change
7 entails incrementally more risk than is typical for utility equipment.
8 It is certain wind facility owners and operators will encounter
9 challenges that would not arise with the more mature generating
10 technologies for which there exist substantial operating experience.

11 To encourage development of renewable energy resources,
12 the legislature made such investments eligible for an additional rate
13 of return allowance from $\frac{1}{2}$ to 2% above the rate of return
14 applicable to the utility's other investment "found by the commission
15 to be used or required to be used in its services to the public." We
16 believe that by requesting an incentive of 1.0%, in the middle of the
17 range specified by the legislature of 0.5% to 2.0%, we have struck
18 a reasonable balance.

19 Because of the risks associated with incorporating new
20 technology into our generation mix and because Westar is
21 proposing to make major investments to achieve state policy
22 objectives approved by the legislature and shaped by the Governor,

1 it is appropriate for Westar to receive the statutory incentive for
2 renewable energy development.

3 **Q. HOW WILL THE ADDITION OF WIND GENERATION AFFECT**
4 **WESTAR'S RATES?**

5 A. Given the dynamics of power and fuel prices in wholesale markets,
6 along with other factors, no one can determine this with precision.
7 Certainly, as with the addition of any new generation facilities, the
8 capital investment in the equipment will serve to increase rates,
9 both to recover the investment and to operate the equipment.
10 However, there are no fuel costs for the wind generation itself. As
11 a result, our fuel cost savings will offset some of the capital
12 investment and operating and maintenance costs and help to
13 mitigate any rate increase. For an average Westar residential
14 customer, we estimate the cost increase in overall rates to be about
15 \$2.00 to \$2.50 per month in the first few years the 2008 projects
16 are in operation. This increase includes costs of the projects we
17 will own as well as our PPA costs. Westar witness Dick Rohlf's
18 provides additional rate information.

19 While this is based on today's prices and tax climate, I
20 should also add that, given the high volatility in fuel prices and the
21 future uncertainty associated with carbon taxes, it is entirely
22 possible the net result of adding wind generation will result in a
23 rate benefit over the life of these contracts and investments.

1 It is worth noting that Westar's rates remain well below the
2 national average and are among the lowest in the region. Even
3 with the addition of wind generation and other investments in
4 generation, transmission infrastructure and environmental upgrades
5 at our existing facilities, we believe our rates will remain reasonable
6 and compare favorably with others. Westar has a long history of
7 maintaining low rates while providing high quality service. That
8 legacy is very important to us and we are constantly aware of the
9 need to maintain our rate advantage even as we invest to meet the
10 needs and challenges of the future.

11 **Q. WHY DO YOU BELIEVE THAT THE LONG-TERM RESULT MAY**
12 **BE POSITIVE IN LIGHT OF YOUR STATEMENT THAT THE**
13 **INITIAL RESULT IS LIKELY TO BE MORE COSTLY?**

14 **A.** We have engaged Black & Veatch to help us analyze numerous
15 scenarios based on variables such as future tax policy,
16 environmental laws, fuel costs and other factors. Based on those
17 analyses, we have concluded that, under certain conditions, the life
18 cycle costs of our proposed wind generation additions can be
19 competitive with other generation resources. Westar witness
20 Michael Elenbaas, our consultant from Black & Veatch, addresses
21 these analyses in more depth.

22 **Q. THANK YOU.**