

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

In the Matter of the 2017 Wolf Creek)	Docket No.
Triennial Decommissioning Financing)	18-WCNE-107-GIE
Plan.)	

**DIRECT TESTIMONY
IN SUPPORT OF NON-UNANIMOUS
SETTLEMENT AGREEMENT**

PREPARED BY

Adam H. Gatewood

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

June 27, 2018

1 **Q. Would you please state your name and business address?**

2 A. My name is Adam H. Gatewood. My business address is 1500 Southwest
3 Arrowhead Road, Topeka, Kansas, 66604.

4 **Q. Who is your employer and what is your title?**

5 A. I am employed in the Utilities Division of the Kansas Corporation Commission as
6 a Managing Financial Analyst.

7 **Q. Did you previously file Direct Testimony in this Docket?**

8 A. Yes, I filed Direct Testimony in this Docket on May 15, 2018.

9 **Q. What is the purpose of your testimony?**

10 A. I am filing testimony in support of the Non-Unanimous Settlement Agreement
11 (S&A) filed on June 22, 2018 in this Docket (Agreement). Specifically I am filing
12 in support of the 2.91% escalation rate that will be applied to the Decommissioning
13 Cost Estimate, which is presented in 2017 dollars, to inflate the estimate to the
14 specific years that the costs are forecasted to occur. Those inflated costs are used
15 to calculate the total cost of decommissioning and the owners' annual funding
16 requirements for their respective decommissioning trust funds.

17 **Q. Why do you support adopting the 2.91% escalation rate?**

18 A. As I discussed in my Direct Testimony¹ the escalation rate of 2.91% was proposed
19 by Mr. Gilligan. It is a weighted-sum of long-run inflation forecasts for specific
20 cost categories of labor, equipment & materials, energy, and a broad category to
21 capture other uncategorized costs. As there is no published forecasts for disposal
22 costs of low-level radioactive waste, the estimate for that cost category relies on

¹ Direct Testimony of Adam H. Gatewood (May 15, 2018); 18-WCNE-107-GIE; p. 2, lines 17-22; p. 3, lines 3-7.

1 historic data. Mr. Gilligan obtained the forecasts and historic data from reputable
2 sources. The forecasts were produced by Moody's Analytics and the historic cost
3 data on low-level waste disposal is published by the Nuclear Regulatory
4 Commission. These forecasts will be updated at each triennial review going
5 forward to reflect the forecasts available at that time.

6 **Q. Are you familiar with the Commission's analysis of non-unanimous settlement**
7 **agreements?**

8 A. Yes. In 2008 the Commission adopted a five factor test to be used when reviewing
9 non-unanimous settlement agreements. Those factors are:

- 10 1. Whether there was an opportunity for the opposing party to be heard on
11 their reasons for opposition to the stipulation and agreement;
- 12 2. Whether the stipulation and agreement is supported by substantial
13 competent evidence;
- 14 3. Whether the stipulation and agreement conforms with applicable law;
- 15 4. Whether the stipulation and agreement results in just and reasonable
16 rates; and
- 17 5. Whether the results of the stipulation and agreement are in the public
18 interest, including the interest of the customers represented by the parties
19 not consenting to the agreement.²

20 **Q. Regarding the 2.91% escalation rate, does the non-unanimous settlement**
21 **agreement satisfy these five factors?**

22 A. Yes. I will address the 2.91% escalation rate and its conformance with the five

² Order Approving contested Settlement Agreement, Docket No. 08-AMTG-280-RTS, ¶11 (May 12, 2008)

1 factor test.

2 **1) Opportunity to Be Heard**

3 The escalation rate contained within the Agreement is the same escalation rate
4 proposed in the Application and recommended for adoption by Staff. The Citizens'
5 Utility Ratepayer Board (CURB) is the only party opposing the Agreement.
6 Throughout this proceeding, CURB has not presented any concerns with the 2.91%
7 escalation rate. CURB elected not to file direct testimony on the Application, and
8 did not file cross-answering testimony on Staff's recommendations. Accordingly,
9 parties opposing the Agreement had opportunities to voice concern on the 2.91%
10 escalation rate.

11 **2) Substantial Competent Evidence**

12 As discussed above, the 2.91% escalation rate is derived from a weighted-sum of
13 long-run inflation forecasts for specific cost categories of labor, equipment &
14 materials, energy, and a broad category to capture other uncategorized costs. When
15 no forecasts are available, historic data is used. In either case, data is obtained from
16 reputable sources. The forecasts were produced by Moody's Analytics and the
17 historic cost data on low-level waste disposal is published by the Nuclear
18 Regulatory Commission. This pool of evidence and supporting testimony
19 represents the most accurate information available for establishing
20 decommissioning costs and escalation rates. Accordingly, the Agreement, which
21 adopts the proposed 2.91% escalation rate, is supported by substantial competent
22 evidence.

1 **3) Applicable Law**

2 As a non-lawyer I cannot render a legal conclusion. I am not an attorney, but Staff
3 did negotiate this Agreement consistent with its understanding of applicable laws.
4 Part of Staff's understanding is based on the Commission's citation of case law
5 that, generally, the law favors compromise and settlement of disputes when parties
6 enter into an agreement intelligently and in good faith. In addition, Staff was
7 represented throughout the settlement process by Litigation Counsel, which helps
8 ensure that the Agreement conforms to applicable laws. Staff counsel will be
9 available at the hearing to address any specific issues or questions that the
10 Commission may have regarding the Agreement's conformity to applicable law.

11 **4) Just and Reasonable Rates**

12 The proposed escalation rate helps ensure the utilities' respective decommissioning
13 trusts are funded to adequate levels. As discussed in Mr. Haynos' Direct
14 Testimony, Staff's recommended decommissioning cost estimate exceeds (in 2017
15 dollars) \$1 billion. As we move closer to the actual decommissioning of Wolf
16 Creek Nuclear Generating Station (Wolf Creek), these costs will increase due to
17 outside factors such as inflation. Ensuring decommissioning costs and
18 corresponding decommissioning trusts escalate to keep pace with these inflationary
19 factors is necessary. Adopting a 2.91% escalation rate aids in establishing just and
20 reasonable rates because it assures decommissioning cost projections will continue
21 to track inflationary pressures. This is necessary to ensure enough funding is set
22 aside in the Wolf Creek owners' respective decommissioning trusts.

23 Additionally, adopting a 2.91% escalation rate in this docket helps prevent

1 intergenerational subsidies. Ratepayers today are receiving the benefits of
2 generation from Wolf Creek and should likewise contribute towards its eventual
3 decommissioning. Setting an escalation rate too high or too low (and subsequently
4 funding decommissioning trusts using this rate) may result in ratepayers paying
5 more or less than their fair and proportional decommissioning costs. Illustrated, if
6 a lower escalation rate were used it's possible to underestimate Wolf Creek's
7 decommissioning costs. Using an appropriate decommissioning escalation rate
8 helps prevent this. The 2.91% escalation rate is the most accurate escalation rate
9 we have at this time. I would note that during the next triennial Wolf Creek
10 decommissioning review the escalation rate will be updated with more timely and
11 accurate information. This allows the Commission further opportunities to make
12 midcourse corrections to both the cost estimates and the annual cost escalation rate
13 over the remaining life of the plant.

14 Determining whether rates are just and reasonable requires determining whether
15 the resulting rates fall within a zone of reasonableness that appropriately balances
16 the interests of utility investors with ratepayers, present ratepayers versus future
17 ratepayers, and the public interest. I address the public interest portion of this
18 analysis below. Any actual ratemaking treatment resulting from this Agreement
19 will occur outside of this docket and in a separate general rate proceeding. Still,
20 the Agreement supports rates falling within the zone of reasonableness for two
21 reasons. First, it ensures the interests of ratepayers and utility investors are
22 protected from large cost increases in future, yet-to-be-filed decommissioning
23 dockets. Second, it balances current and future ratepayer interests by working to

1 eliminate intergenerational subsidies. Combined with my prior discussion, the
2 Agreement supports a finding that any resulting order implementing the terms of
3 the Agreement will result in just and reasonable rates.

4 **5) Public Interest**

5 As a non-attorney, it is my understanding the state cannot become responsible for
6 decommissioning costs for Wolf Creek. Decommissioning costs are born by the
7 utilities and, if prudently incurred, ultimately recovered from ratepayers. Ensuring
8 the Wolf Creek generating station may be decommissioned at the appropriate time
9 necessitates using a reasonable and accurate escalation rate. The public interest is
10 advanced and protected when an appropriate amount of funding is set aside today
11 to ensure Wolf Creek may be responsibly decommissioned in the future. The costs
12 projections and escalation rate adopted in the Agreement allow Wolf Creek's
13 owners, ratepayers, and public at large to be confident enough capital will have
14 been set aside to fully decommission Wolf Creek and return the site to its natural
15 state when the time comes.

16 **Q. Do you have a recommendation regarding the Agreement?**

17 A. Yes. I recommend the Commission approve the Agreement filed in this docket.

18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

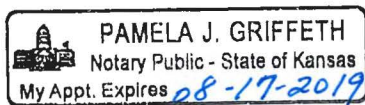
VERIFICATION

Adam Gatewood, being duly sworn upon his oath deposes and says that he is the Managing Financial Analyst for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Direct Testimony in Support of Non-Unanimous Settlement Agreement*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Adam Gatewood
Managing Financial Analyst, Utilities Division
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 27th day of June, 2018.



Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

18-WCNE-107-GIE

I, the undersigned, certify that a true and correct copy of the above and foregoing Direct Testimony in Support of Non-Unanimous Settlement Agreement Prepared by Adam H. Gatewood was served by electronic service on this 27th day of June, 2018, to the following:

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