BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for Approval of their Direct Renewable Participation Service Tariff.	))))	Docket No. 18-WSEE-190-TAR

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION (PUBLIC VERSION)

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively), having investigated the issues presented in this docket, hereby files its Report and Recommendation (R&R). Staff recommends that the Commission approve the Direct Renewable Participation Service (DRPS) Tariff on the condition that the same be revised to reflect the specific wind farm and kWh rate that Staff reviewed. Furthermore, Staff recommends the Commission limit its approval solely to the single wind farm project that Staff reviewed and require Westar to seek Commission approval through a new Application for any additional Purchased Power Agreements (PPAs) or wind farms built by Westar for use under the DRPS Tariff. Finally, Staff recommends that if the DRPS Tariff is approved, that Westar's Wind Generation Service (WGS) Tariff be cancelled.

WHEREFORE, Staff submits its R&R dated June 5, 2018, attached hereto, for Commission consideration.

Respectfully Submitted,

Michael Neeley, S. Ct. #25027
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STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Michael Neeley, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Michael Neeley # 25027
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 7th day of June, 2018.

PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2019

Notary Public

My Appointment Expires: August 17, 2019

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REPORT AND RECOMMENDATION
UTILITIES DIVISION
[PUBLIC VERSION]

TO: Shari Feist Albrecht, Chair
Jay Scott Emler, Commissioner
Dwight D. Keen, Commissioner

FROM: Josh Frantz, Senior Research Economist
Darren Prince, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Bob Glass, Chief of Economics and Rates
Jeff McClanahan, Director, Utilities Division

DATE: June 5, 2018

SUBJECT: Docket No. 18-WSEE-190-TAR: In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for Approval of their Direct Renewable Participation Service Tariff

EXECUTIVE SUMMARY:

On November 6, 2017, Westar filed its Application requesting the Commission approve its Direct Renewable Participation Service (Direct Renewable) Tariff. Currently, Westar has three renewable energy programs: the Renewable Energy Programs (RENEW) Rider for all customers supplied at one delivery point; the Community Solar Program for customers who want solar energy specifically; and the Wind Generation Service for large energy users. The Direct Renewable Tariff is designed to provide renewable energy to large energy users and replace the Wind Generation Service Tariff that has failed to attract any customers.

According to Westar's Application, the Direct Renewable Tariff's energy price will either be based upon: 1) the actual PPA price for the new wind generation resource(s), or the levelized average cost of the new wind generation source(s) owned by Westar; (2) a payment for the cost to move the power to the customer based on estimated transmission and related costs over the term of the agreement; and (3) an additional payment, applicable, to cover the cost of balancing wind generation with the customer's load. The tariff will require participants to have at least a 500 kW average monthly peak, subscribe to a fixed monthly kW amount from the wind farm, and sign a contract for a substantial period of time.

Since filing its Application, Westar has signed a fixed cost PPA with the ** [redacted] ** that will be the basis of the Direct Renewable Tariff's energy price for customers subscribing up to the available 200 MW capacity of the farm. Thus, for purposes of Staff's review of Westar's Application, Westar provided its analysis of the Direct Renewable Tariff with respect to a fixed cost PPA with ** [redacted] ** specifically. Thus, Staff's review was limited to the viability of the Direct Renewable Tariff solely with respect to the ** [redacted] **.

With respect to participant pricing under the Direct Renewable Tariff for customers signing on to a contract for energy from the ** [redacted] **, participants will pay 1.8¢ per kWh for the energy generated by their subscribed portion of the wind farm that will then substitute for an equivalent amount of energy ordinarily paid through the RECA. The cost of the Direct Renewable Tariff compares favorably with the forecasted RECA cost of about 2¢ for the next 5 years.[1] In addition, the Direct Renewable Tariff price of 1.8¢ per kWh is considerably less than the current Wind Generation Service Tariff price of 3.657¢ per kWh.

If the demand for the Direct Renewable Tariff exceeds the amount of capacity provided by the ** [redacted] ** and, if Westar responds to that demand by signing another wind farm for the tariff, then the price new participants pay for energy would be based off of the PPA price of the new wind farm, not the price associated with the ** [redacted] **. Analysis of the Direct Renewable Tariff with respect to the ** [redacted] ** demonstrates that it will provide a benefit to participants by replacing their RECA costs with lower cost energy and to non-participants by reducing their RECA payments. Furthermore, the Direct Renewable Tariff will not result in cross-subsidization. Thus, Staff finds the Direct Renewable Tariff to be just and reasonable and recommends the Commission approve the tariff.

As Staff's review was limited only to evaluating the ** [redacted] ** project, Staff recommends that Westar be authorized to utilize the Direct Renewable Tariff for that specific project but seek Commission approval for any additional PPAs to be used or wind farms to be built by Westar for usage under the tariff. Staff recommends that the Commission require Westar to rewrite the Direct Renewable Tariff so that it identifies the ** [redacted] ** and the specific rate that will be charged participants in lieu of the RECA. In addition, if the Commission approves the Direct Renewable Tariff, Staff recommends that Westar eliminate the Wind Generation Service Tariff, which is not being used.

BACKGROUND:

Westar filed the Direct Renewable Tariff in this Docket on November 6, 2017. Westar already has three current renewable programs. To see how the Direct Renewable Tariff fits in with Westar's existing renewable portfolio, Westar's existing renewable programs will be briefly described.

[1] The current cost of the RECA is 1.8831¢ and it has averaged 2.0708¢ for the past 4 years. Westar forecasts the RECA at 2.005¢ for the next 5 years.

CURRENT WESTAR RENEWABLE ENERGY PROGRAMS FOR CUSTOMERS

The Renewable Energy Program Rider (RENEW)

The Renewable Energy Program Rider (RENEW) is the oldest renewable energy program and is available "to any customer using electric service supplied at one point of delivery."[2] The charge for the renewable energy is either 25¢ per 100 kWh block or .025¢ per kWh if renewable energy is purchased as a percentage of customer usage.[3] The renewable energy charge is in addition to all other charges on the customer bill—i.e. the customer pays extra for renewable energy.[4] In the Commission Order Approving Stipulation and Agreement in Docket No. 15-WSEE-115-RTS (2015 Westar rate case), the renewable energy charge was reduced from $1.00 per 100 kWh to its current rate, and as a result, participation jumped from 43 customers in 2015 to over 20,000 customers in September 2017.[5]

The Community Solar Program

The Commission Order in the 2015 Westar rate case established the other two renewable energy programs: the Community Solar program and the Wind Generation Service program. The Community Solar program is available to residential, commercial, and industrial customers.[6] Because utility scale solar projects have economies of scale, the Community Solar program provides relatively cheaper solar options for customers than smaller individual customer systems.[7] As of October 2017, the Community Solar program had 417 customers enrolled.[8]

The Wind Generation Service

The Wind Generation Service tariff is designed for customers with at least 200 kW average monthly peak demand, but because of its relatively high cost, no customers have signed up for the program.[9] The charge for the Wind Generation Service is currently 3.657¢ per kWh and is based on a weighted average of Westar's previously signed purchase power agreements (PPA) with wind farms. Participants would need to subscribe to a fixed monthly kW amount in one kW increments. The energy from the subscribed kW amount is then substituted for an equivalent amount of the

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[2] Renewable Energy Program Rider tariff, sheet 1.

[3] Originally, the program only allowed the purchase of renewable energy in blocks of 100 kWh. However, among the changes made to the program in 2015, a "Sustainability Program Option" was added that allowed customers "to take a portion of their renewable energy as a percentage of their total monthly energy use." In addition, the sustainability customers with proper certification could receive up to a 30% discount of their renewable charge which would reduce their renewable charge from 0.25¢ per kWh to 0.175¢ per kWh. Renewable Energy Program Rider tariff, sheet 2.

[4] Renewable Energy Program Rider tariff, sheet 1.

[5] Chad Luce, Direct Testimony, Docket No. 18-WSEE-190-TAR (Luce Direct), p. 2.

[6] "Solar Pilot service is available to any Westar Energy customer taking service under one of the following tariffs: Standard Residential, Residential Demand Plan, Residential Stability Plan, Small General Service, Medium General Service, Standard Educational Service, or Small General Service - Church Option. This schedule is not available to restricted rate schedules or to backup, breakdown, security lighting, standby, supplemental, short term, resale or shared electric service." Community Solar Tariff, Sheet 1.

[7] The Community Solar program offers customers the option of paying on a demand (Solar kW) basis or on an energy (Solar kWh) basis. Cross-subsidization of the program is prevented by including a premium in the price of the demand or energy purchased to reflect the additional cost of solar energy. Luce Direct, pp. 16-18.

[8] Luce Direct, p. 2.

[9] Luce Direct, pp. 2-3.

energy ordinarily paid through the RECA. Unfortunately for the Wind Generation Service program, the RECA has averaged around 2¢ per kWh for the last several years.[10] Therefore, the program would be relatively expensive for large customers who want to make substantial renewable energy purchases.

The lesson learned from experience with the Wind Generation Service tariff is that for a renewable program to be a viable option for large business customers, besides being renewable, the program must not result in additional cost to participants. In response, Westar developed and filed the Direct Renewable Tariff in this Docket.

THE DIRECT RENEWABLE PARTICIPATION SERVICE TARIFF PROPOSAL

The Direct Renewable Tariff proposal provides large Westar customers with the opportunity to sign a long-term contract for large blocks of renewable energy capacity at a reasonable price. Westar has signed a fixed cost PPA with the ** [redacted] ** that will be the basis of the Direct Renewable Tariff's energy price. The tariff will require participants to have at least a 500 kW average monthly peak and participants will need to subscribe to a fixed monthly kW amount from the wind farm for a fixed, substantial period of time.[11] The fixed subscribed amount will be in 500 kW increments up to 2,000 kW, and thereafter in 1,000 kW increments, until the 200 MW available is fully subscribed.[12]

Participants will pay 1.8¢ per kWh for the energy generated by their subscribed portion of the wind farm that will then substitute for an equivalent amount of energy ordinarily paid through the RECA. The Direct Renewable Tariff price of 1.8¢ per kWh is considerably less than the current Wind Generation Service Tariff price of 3.657¢. In fact, the Direct Renewable price will be competitive with the RECA and, as of right now, is less than the RECA.[13]

If the demand for the Direct Renewable Tariff exceeds the capacity provided by the ** [redacted] **, and if Westar responds to that demand by signing another wind farm PPA for the tariff, then the price the new participants would pay for energy will be based off of the PPA price of the new wind farm and not the price associated with the ** [redacted] **. In other words, as soon as the energy from the ** [redacted] ** is fully subscribed, the price associated with that wind farm will not be available to new participants joining the program.

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[10] The relatively high cost of the Wind Generation Service is a result of Westar being an early adaptor of wind generation when its costs were high and efficiency was less than current wind farms.

[11] "The term of the agreement will be negotiated between Customer and Company, not to exceed the expected life of the project. Each project will have a limited quantity; therefore, preference will be given to those customers signing up for the life of the project." Attached to Application, Direct Renewable Participation Service, Tariff Sheet 1 (Tariff Sheet 1).

[12] Tariff Sheet 1.

[13] Tariff Sheet 1.

ANALYSIS:

JURISDICTION

Pursuant to K.S.A. 66-101, the Commission is given full power, authority, and jurisdiction to supervise and control electric public utilities (as defined in K.S.A. 66-101a) doing business in Kansas and is empowered to do all things necessary and convenient for the exercise of such power, authority, and jurisdiction. Pursuant to K.S.A. 66-101a, electric public utility means any public utility (as defined in K.S.A. 66-104) that generates or sells electricity. Pursuant to K.S.A. 66-104a, "public utility" is defined (in relevant part) as all companies for the production, transmission, delivery, or furnishing of heat, light, water, or power. Pursuant to K.S.A. 66-101h, the Commission is granted, among other things, general supervision over all electric public utilities doing business in the state.

Kansas law grants broad authority to the Commission to ensure public utilities provide reasonably efficient and sufficient services and facilities at just and reasonable rates.[14] The provisions of the Public Utilities Act and all grants of power, authority, and jurisdiction made to the Commission, are liberally construed, and the Commission is expressly granted "all incidental powers necessary to carry into effect the provisions of this act".[15]

STANDARD OF REVIEW

K.S.A. 66-101b requires every electric public utility to have reasonably efficient and sufficient service with just and reasonable rates, classifications, and regulations. Or stated in the negative, any rates, classifications, and regulations must not be "unjust or unreasonably discriminatory or unduly preferential." The terms "just" and "reasonable" imply flexibility and are not intended to bind regulatory discretion to an absolute or mathematical formula. Just and reasonable can be interpreted as striking a balance between the interests of the utility and its customers.

Commission Staff evaluates any proposed new tariff or tariff revisions made by electric public utilities to determine their justness and reasonableness. In addition, Staff reviews previous Commission Orders that contain Commission Policy statements about the issues involved in the analysis of proposed new tariffs or tariff revisions.

PROGRAM ANALYSIS

When Westar filed its Application in the current Docket, it did not know which specific wind farm it would choose for the Direct Renewable Tariff. Accordingly, the Application and the attached proposed tariff are written in general terms. Westar has now signed a PPA with the **[redacted]** for a specific price over twenty years. Thus, Staff's review was limited only to evaluating the **[redacted]** project.

[14] K.S.A. 66-101, 66-117.
[15] K.S.A. 66-101g.

The Direct Renewable Tariff as an Economic Development Tool

Westar's primary argument for the Direct Renewable Tariff is that it would "foster economic development in Kansas utilizing the abundance of renewable energy in Kansas to attract and retain businesses that value access to clean energy for their operations."[16] As evidence of the potential effectiveness of the Direct Renewable Tariff, Westar witness Chad Luce notes that "Many of [Westar's] large customers are members of the Corporate Renewable Energy Buyers' Principles."[17]

The Corporate Renewable Energy Buyers list six advantages it is seeking from the marketplace.[18] The most relevant of these advantages for the current Docket is, "Cost competitiveness between traditional and renewable energy rates." The problem with the existing Wind Generation Service Program was that its price is significantly above the current RECA, which it would substitute for. As the Corporate Renewable Energy Buyers state, "[B]usinesses face a variety of challenges accessing cost-effective projects on favorable terms." Put another way, Corporate Renewable Energy Buyers want to be green at a competitive price.

Some members of the consortium of Corporate Renewable Energy Buyers have already purchased wind generation either through direct ownership or PPAs. IKEA states on its website that it owns more wind turbines than it has stores internationally. Mars owns two wind farms including the 200 MW Mesquite Creek Wind Project in Texas. Google owns a 407 MW wind farm in Council Bluffs, Iowa. Numerous other large corporations have purchased wind energy either through ownership of a wind farm or through PPAs. Without a Direct Renewable Tariff, large corporations in Kansas would have greater incentive to purchase wind energy on their own.

Benefits to Participants and Non-Participants in the Direct Renewable Tariff [19]

Benefits to Participants

The Direct Renewable Tariff rewards businesses in two dimensions: expected lower RECA cost and the public perception of being more environmentally friendly. Westar solved the cost problem by setting up the Direct Renewable Tariff so that the energy would come from a newly developed wind farm: a less costly and more efficient wind farm. As a result, the Direct Renewable Tariff

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[16] Application, p. 1.

[17] Luce, p. 5. Mr. Luce has included the brochure by the consortium that lays out its six principles. Exhibit CL-1

[18] The six advantages, as listed on page two in the Application, are:

1) More cost competitive renewable options;
2) Long-term contracts to avoid fuel price volatility;
3) Renewable additionality - meaning their investment results in new renewable power generation, including bundled energy and RECs;
4) Procurement of local renewable energy;
5) Purchase of renewable energy that reflects the net costs and benefits to the system, without impacting other non-participating utility customers; and
6) The opportunity to work with utilities and regulators to expand choices for buying renewable energy.

[19] Staff's discussion of the non-participant benefits of the Direct Renewable Tariff is based on Westar's response to Data Request KCC-04 and the attached Excel workbook "Confidential – KCC-04 Direct Renewable Tariff savings 042418." The discussion of benefits from the subscribed and unsubscribed portions of the ** [redacted] ** is an explication of the model in the workbook.

price will be 1.8¢ per kWh with no escalator for 20 years and, given Westar's forecast of the RECA for the next 5 years is about 2¢ per kWh, the cost advantage of the tariff is obvious.[20] Additionally, the tariff price of 1.8¢ per kWh is considerably less than the current Wind Generation Service Tariff price of 3.657¢ per kWh. Further, Westar eliminated much of the risk by using a PPA rather than Westar owning the wind farm itself. The result is that Westar will be able to offer its large customers a substitute for the RECA that is expected to be less than the RECA. Thus, the Direct Renewable Tariff meets the competitive price criteria while providing a long-term contract with a fixed cost.

To give an example of the estimated value of savings from the Direct Renewable Tariff, consider a company that uses 50,000,000 kWh per year. The Direct Renewable Tariff is 1.8¢ per kWh and; if the RECA is assumed to be 2¢ per kWh, then switching to the Direct Renewable Tariff would save the company about $100,000 per year.[21] The savings is simply the difference between the RECA and the Direct Renewable Tariff multiplied by the participant's subscribed load.

In nearly all cases, rate design is a zero sum game: when one group receives lower rates, someone else has their rates increased. Thus, it is natural for Staff to ask who makes up for the lost RECA revenue due to participation in the Direct Renewable Tariff. Put another way, would non-participants of the Direct Renewable Tariff be subsidizing participants? The answer is no. In fact, as a result of the Direct Renewable Tariff, not only do participants pay a lower RECA, but non-participants also will have a lower RECA.

Non-participants benefit because of the relationship among Westar's portfolio of generation assets, Westar's customer load, Southwestern Power Pool Integrated Marketplace (Marketplace), and Westar's RECA. Initially, Westar bids its generation portfolio into the Marketplace and buys from the Marketplace the energy to service its load. Now, assume that only part of the wind farm is subscribed under the tariff. Non-participants benefit from both the energy from the unsubscribed and subscribed portions of the wind farm.

The energy from the unsubscribed portion of the wind farm flows through the RECA and reduces the RECA when the price Westar would pay to serve the load is greater than the PPA price of the wind farm. The energy from the subscribed portion of the wind farm indirectly increases the per kWh value of the revenue created by Westar's selling its generation portfolio into the Marketplace. The revenue created by Westar's generation flows through the RECA which reduces the cost of the RECA to non-participants. Each of these savings channels are discussed below in more detail along with equations to illustrate how each channel works.

Non-Participant Savings from Unsubscribed Portion of the Wind Farm

The value of the unsubscribed wind farm energy will lower the cost of the RECA as long as the PPA price is less than the Marketplace price that Westar pays to serve its load. The difference

[20] As noted in the Executive Summary, the current cost of the RECA is $0.018831 and the RECA rate has averaged $0.020708 for the past 4 years. Westar forecasts the RECA at $0.02005 for the next 5 years.

[21] The savings of the Direct Renewable Tariff is $0.02 - $0.018 = $0.002. The calculation is simply 50,000,000 kWh × $0.002 = $100,000. Because of the simple linear relationship, it is easy to see that 100,000,000 kWh results in $200,000 saved.

between the PPA price and the hourly Marketplace price is multiplied by the hourly energy from the unsubscribed portion of the wind farm to create the hourly value of the unsubscribed energy.

$$(1)\quad \begin{pmatrix} Hourly\ Value\ of \\ Unsubscribed \\ Energy \end{pmatrix} = \left[\begin{pmatrix} Hourly\ Price \\ of\ Westar \\ Load \end{pmatrix} - \begin{pmatrix} PPA\ Price \\ of\ Wind \\ Energy \end{pmatrix}\right] \times \begin{pmatrix} Participants' \\ Hourly\ Unused \\ Wind\ Energy \end{pmatrix}$$

Then the value of all of the hours for the life of the wind farm are summed and discounted using Westar's weighted cost of capital to provide the net present value of the unsubscribed wind energy.

$$(2)\quad \begin{pmatrix} Total\ Net\ Present \\ Value\ to\ Non-Participants \\ of\ the\ Unsubscribed \\ Energy \end{pmatrix} = \sum_{i=1}^{175{,}205} \frac{\begin{pmatrix} Hourly\ Value\ of \\ Unsubscribed \\ Energy \end{pmatrix}_i}{\left[1 - \begin{pmatrix} Westar\ Cost \\ of\ Capital \end{pmatrix}\right]^i}$$

Where 175,205 is the number of hours between January 1, 2021, and December 31, 2040.

The result is the total net present value to non-participants of the unsubscribed wind farm energy which lowers the RECA.

Non-Participant Savings from the Subscribed Portion of the Wind Farm

Non-participant savings from the subscribed portion of the wind farm is a more complex calculation. Again starting with the Marketplace, Westar bids its generation portfolio into the market and receives revenue from the market for those generation assets that are used. The bids Westar makes are based on the costs of each generation asset. The difference between the revenue Westar receives for its generation assets and the costs of those assets is Westar's Portfolio Margin.[22] The Portfolio Margin flows through the RECA and, because the Portfolio Margin is positive, it reduces the cost of the RECA to non-participants.

To estimate the non-participants' increase in the per kWh value of Westar's Portfolio Margin, first note that tariff participants substitute wind farm energy for RECA energy or RECA load. The calculation of the per kWh benefit of this substitution by tariff participants requires subtracting the Portfolio Margin divided by the RECA load from the Portfolio Margin divided by the RECA load minus participant load lost due to the substitution. Equation (3) below shows this calculation.

$$(3)\quad \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} = \left(\frac{Portfolio\ Margin}{RECA\ Load - Participant\ Load}\right) - \left(\frac{Portfolio\ Margin}{RECA\ Load}\right)$$

Because the RECA load minus the participant load will be smaller than the RECA load and both numbers are in the denominators, the resulting subtraction will result in a positive number. Thus, the result is a positive dollar per kWh value for the benefit of the Direct Renewable Tariff to non-participants. See Equation (4) below.

[22] Data Request KCC-007.

$$(4)\quad \left(\frac{Portfolio\ Margin}{RECA\ Load - Participant\ Load}\right) \geq \left(\frac{Portfolio\ Margin}{RECA\ Load}\right) \xrightarrow{yields} \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} \geq 0.$$

To get the total estimated benefit over 20 years, multiply the dollar per kWh benefit by the total 20 year estimated RECA load minus the 20 year wind farm production. This calculation is in Equation (5) below.

$$(5)\quad \begin{pmatrix} Subscribed\ Energy's \\ Total\ Value\ for \\ Non - Participants \end{pmatrix} = \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} \times \left[\begin{pmatrix} Total\ 20\ year \\ RECA\ load \end{pmatrix} - \begin{pmatrix} Total\ 20\ year \\ Participant\ Load \end{pmatrix}\right]$$

Since Westar Portfolio Margin and Renew Generation ≥ 0, Equations (3), (4), and (5) imply

$$(6)\quad \begin{pmatrix} Total\ Benefit\ to\ Non - Participants \\ of\ the\ Subscribed\ Energy \end{pmatrix} \geq 0 \xrightarrow{yields} \begin{pmatrix} Lower\ RECA \\ for\ Non - Participants \end{pmatrix}.$$

Non-Participant Savings from the Unsubscribed and Subscribed Portion of the Wind Farm

The total benefit to non-participants is the savings from the unsubscribed energy plus the savings from the subscribed energy of the wind farm. If no one subscribes to the wind farm, then the benefits of the subscribed energy become zero and the non-participants simply benefit from the reduction in the RECA because the wind farm PPA is less than the average hourly price that Westar must pay to serve its load. If the complete wind farm is subscribed, then the benefits from the unsubscribed energy become zero and the non-participants only benefit from the increased Benefit per kwh caused by the participants' substitution of wind farm energy for their RECA load.

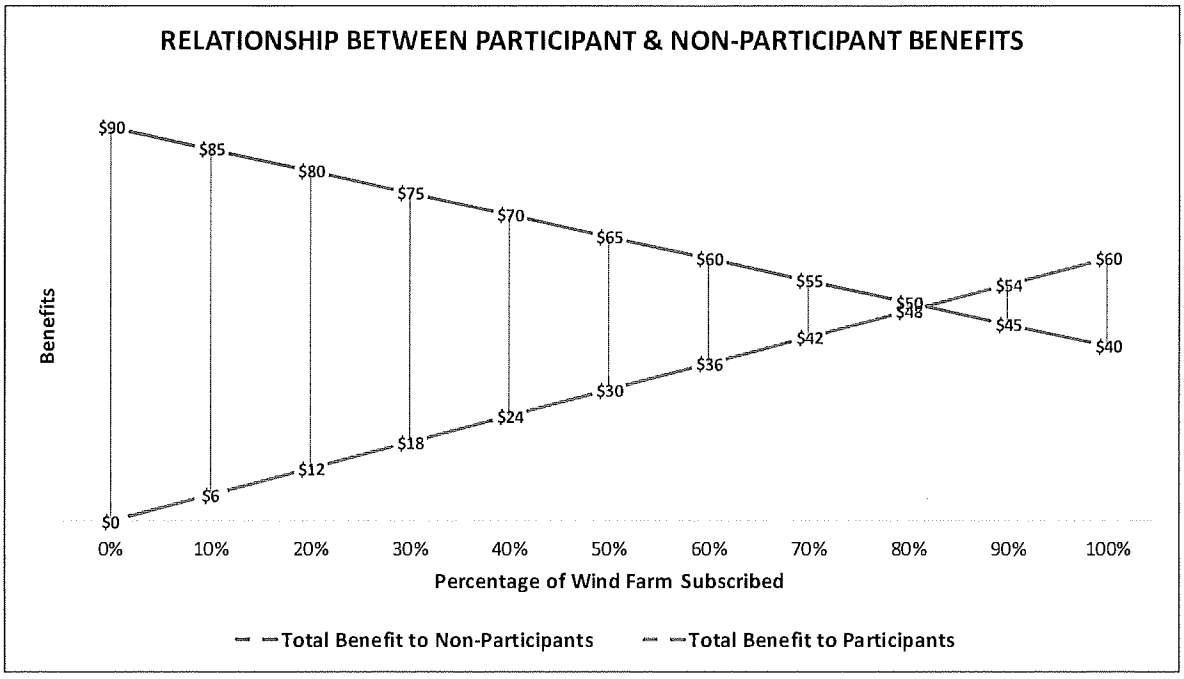
The Relationship between Participant and Non-Participant Benefits

With the **[redacted]**, non-participant benefits will be greater as fewer participants sign up for the Direct Renewable Tariff because non-participant benefits decline as customers sign up for the tariff. As shown in Figure 1,[23] the non-participants' benefits decline from $90 to $40 as the subscription rate for the wind farm increases from 0% to 100%. However, the participants' benefits increase from $0 to $60 as wind farm subscription increases from 0% to 100%.

In this illustrative example, as in the Westar model, participants' benefits increase more ($60) than non-participants' benefits decline ($50), which indicates that as wind farm subscription increases the total benefits for all customers increases. Thus, although benefits to non-participants are declining, total benefits to all customers are increasing as more of the wind farm is subscribed. Non-participants are not directly subsidizing the participants of the tariff because there is no cost-shifting from the participants to the non-participants. However, it is true that non-participants would be better off with the wind farm and no tariff participants.

[23] The values used in the example are proportional to the actual values in Westar's model but much smaller and rounded for explanatory purposes.

Figure 1



Additionally, non-participants potentially benefit from the Direct Renewable Tariff because large corporations will have less incentive to seek competitively priced renewable energy outside of the Westar system. The result of large corporations purchasing renewable energy without going through Westar would be two-fold. First, these corporations would reduce their RECA costs by reducing their load on the Westar system. Second, the corporations would also reduce their contribution to fixed costs because of their reduced energy and demand requirements. The reduced fixed cost coverage by the large customers would cause other customers to have to make up the lost revenue that pays for those fixed costs.

RECOMMENDATION:

Staff recommends approval of the Direct Renewable Tariff because it provides an efficient mechanism for large Westar customers to use renewable energy without the burden of paying significantly higher costs. As demonstrated above, the Direct Renewable Tariff should provide an additional economic development tool for Kansas without creating a cross-subsidization problem. Thus, the tariff passes the just and reasonable standard of review.

Because Staff's review was limited only to evaluating the ** [redacted] ** project, Staff recommends that Westar be authorized to utilize the Direct Renewable Tariff for that specific project but seek Commission approval for any additional PPAs to be used or wind farms to be built by Westar for future usage under the tariff. Accordingly, Staff recommends that the Commission require Westar to rewrite the Direct Renewable Tariff so that it identifies the ** [redacted] ** and the specific rate that participants will be charged in lieu of the RECA.

Staff believes the currently proposed Direct Renewable Tariff is only for the ** [redacted] ** for 1.8¢ per kWh rate. If the ** [redacted] ** becomes fully subscribed and Westar wishes to extend the program to additional customers by adding a new wind farm, Staff believes that the new wind farm with a new tariff rate will require a new Application for Commission approval.

If the Commission approves the Direct Renewable Tariff, Staff further recommends that Westar eliminate the Wind Generation Service Tariff. The Wind Generation Service Tariff currently has no customers and, with the approval of the Direct Renewable Tariff, the Wind Generation Service Tariff does not appear to serve a meaningful role in Westar's renewable portfolio.

CERTIFICATE OF SERVICE

18-WSEE-190-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 7th day of June, 2018, to the following:

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