

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

**In the Matter of the Joint
Application of Westar Energy,
Inc. and Kansas Gas and
Electric Company for
Approval to Make Certain
Changes in their Charges for
Electric Services.**

Docket No. 18-WSEE-328-RTS

Testimony in Support of Stipulated Settlement of

Michael P. Gorman

On behalf of

Kansas Industrial Consumers Group, Inc.

July 18, 2018



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STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Verification of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:


1. My name is Michael P. Gorman. I am a Managing Principal with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Kansas Industrial Consumers Group, Inc. ("KIC") in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my testimony in support of the stipulated settlement which was prepared in written form for introduction into evidence in the Kansas State Corporation Commission Docket No. 18-WSEE-328-RTS.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.



Michael P. Gorman

Subscribed and sworn to before me this 18th day of July, 2018.





Notary Public

Docket No. 18-WSEE-328-RTS

Q DOES THE SETTLEMENT MEET KIC'S OBJECTIVES OF A FAIR AND REASONABLE RESOLUTION OF THE CONTESTED ISSUES IN THIS CASE?

A Yes. The Settlement moves toward KIC's objective of making Westar's rates more competitive. The rate settlement results in a decrease in cost of service, and a realignment of industrial rates which will help support more competitive rates for Westar's large energy-intensive customers. Toward meeting this objective, there are certain aspects of the Settlement which we find particularly balanced, including:

1. The reduction to cost of service created by passing on the savings in federal income tax created by the Tax Cuts and Jobs Act of 2017. Reduction of federal income taxes has resulted in a significant reduction to Westar's cost of service in this proceeding.
2. The Settlement includes an incentive-based regulatory plan for the Western Plains Wind Farm. This incentive-based regulatory plan shares the operating risk of this new wind resource between all stakeholders in this proceeding, and results in what is believed to be a low cost source of energy supply for Westar over the expected operating life of this new resource.
3. The rate plan reflects all the merger settlement commitments Westar made in its recent Commission-approved merger between Westar and Great Plains Energy.
4. The Settlement revenue requirement also reflects adjustments to other cost of service components which reflect a reasonable compromise between the stakeholders in this proceeding on appropriate cost of service for Westar in this case.

Overall, I believe the Settlement reflects a fair compromise of the contentious issues concerning Westar's overall cost of service and is a reasonable and balanced outcome for both investors and ratepayers.

Q DOES THE SETTLEMENT ALSO INCLUDE IMPORTANT RATE DESIGN IMPROVEMENTS FOR ENERGY-INTENSIVE CUSTOMERS WITHIN KIC?

A Yes. In Westar's last case, the Company began to improve its industrial rate design to clearly distinguish cost of service pricing based on delivery voltage costs differentials. The Settlement further refines Westar's industrial rate design (Large

1 General Service and Industrial Large Power) to include both demand and non-fuel
2 energy cost components that reflect costs differentials based on delivery voltage.
3 This industrial rate design is consistent with rate designs for energy-intensive
4 customers offered by other Midwest electric utility suppliers, which is an important
5 step in improving Westar's ability to be a competitive electric supplier to energy-
6 intensive customers.

7 While not incorporated in this settlement, KIC still believes it is important in
8 future Westar rate cases to implement a Retail Energy Cost Adjustment ("RECA")
9 rate design that also clearly distinguishes the cost differentials for fuel and purchased
10 power energy costs based on delivery voltage distinctions. Losses are a major cost
11 component in generating or purchasing electricity that is needed to supply customer
12 demands at the customer's meter. A loss-based fuel and purchased power pricing
13 factor is recognized by other utilities in the Midwest region for charging customers for
14 the cost of fuel and purchased power energy.

15 **Q IN DOCKET NO. 18-KCPE-095-MER, YOU TESTIFIED THAT WESTAR'S RETAIL**
16 **ELECTRIC RATES WERE NOT COMPETITIVE WITH THE SURROUNDING**
17 **REGION. BUT YOU TESTIFIED ABOVE THAT THE SETTLEMENT MOVES**
18 **TOWARD KIC'S OBJECTIVE OF MAKING WESTAR'S RATES MORE**
19 **COMPETITIVE. DOES THIS SETTLEMENT NOW MOVE WESTAR'S**
20 **ELECTRICITY PRICES INTO COMPETITIVE ALIGNMENT WITH OTHER**
21 **UTILITIES IN THE SURROUNDING REGION?**

22 **A** No. The rate design aspects of this settlement help make Westar's industrial rates
23 more competitive, because they more accurately reflect cost of service. Therefore,
24 the Settlement, as a whole, is a good resolution of this proceeding for all consumers

1 on the disputed issues presented in this case. Unfortunately, the Settlement does not
2 address, in any material way, Westar's regionally-high retail electricity prices.
3 Westar's revenue requirement will decrease by \$66 million (partially offset by
4 increases in the RECA charge in 2020), if this Settlement is approved. This
5 settlement was significantly benefitted by the federal Tax Cuts and Jobs Act ("TCJA"),
6 which decreased Westar's cost of service by approximately \$74 million. Because the
7 TCJA reductions will apply to all investor-owned utilities in the country, Westar's rate
8 reduction in this case is a movement toward but falls short of a complete movement
9 to become a competitive electric supplier for the State's customers. This Settlement
10 is a productive initial step and should be approved, but there is much more work that
11 is needed to make Westar's cost of service and pricing structure competitive with
12 other regional electric suppliers.

13 **Q DO YOU BELIEVE RESOLVING THE CONTESTED ISSUES IN THIS**
14 **PROCEEDING WILL SUPPORT THE BEST INTERESTS OF BOTH WESTAR AND**
15 **ITS CUSTOMERS?**

16 **A** Yes. Resolving rate cases based on a negotiated settlement I believe is consistent
17 with the true objective of regulation – to emulate a competitive marketplace. In a
18 competitive marketplace, buyers and sellers come together to negotiate price, terms
19 and conditions of service. In this proceeding, this settlement represents a reasonable
20 compromise of the disputed issues presented in this case and does result in a fair
21 and balanced result for both Westar and customers.

1 **Q DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A Yes.**

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CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or regular U.S. mail (unless otherwise noted), the 18th day of July, 2018 to the parties below:

* Denotes individual receiving only non-confidential items

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