

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

In the Matter of the Complaint of Kansas Gas Service, a Division of ONE Gas, Inc., Against Westar Energy, Inc. Regarding Westar's Practice of Offering Payments to Developers in Exchange for the Developers Designing All Electric Subdivisions.

**Docket No.
19-WSEE-061-COM**

DIRECT TESTIMONY OF

THOMAS D. STEVENS

FOR BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC

I. INTRODUCTION

Q. Please state your name and address.

A. My name is Thomas D. Stevens and my business address is 655 E. Millsap Road, Suite 104, Fayetteville, Arkansas 72703.

Q. What is your position within Black Hills Energy Arkansas, Inc.?

A. I am the Director—Regulatory and Finance for Black Hills/Kansas Gas Utility Company, LLC, though I am technically employed by Black Hills Service Company, LLC (“BHSC”). In my role as Director—Regulatory and Finance, I oversee and participate in the development of regulatory strategy, policy, tariffs and regulatory filings in Kansas. I also have that position and perform that role for Black Hills Energy Arkansas, Inc. (“BHEA”)

Q. Please describe your education and experience.

A. I earned a Bachelor of Science degree in Business Administration with a

1 concentration in economics and finance from Southwest Baptist University in 2002
2 and a Master of Business Administration degree from Southern Methodist
3 University in 2006.

4 I joined Black Hills Utility Holdings Company, LLC ("BHUH") in April
5 2018 as Director – Regulatory for BHEA. In January, 2019 I became Director –
6 Regulatory for both BH Kansas and BHEA and my function was transferred to
7 BHSC. In March of this year I became Director – Regulatory and Finance.

8 Prior to joining BHUH in April 2018, I held various positions of increasing
9 responsibility at CenterPoint Energy. My employment began with CenterPoint
10 Energy as a Financial Analyst in 2010. I was promoted to Lead Regulatory Analyst
11 in 2011 and then promoted to Manager of Regulatory Affairs for Arkansas and
12 Oklahoma in 2013. In 2015 I was promoted to Director of Regulatory Affairs for
13 Texas and in 2017 I took on the role of Director of Rates.

14 Prior to working at CenterPoint Energy, I worked two years on the General
15 Staff of the Arkansas Public Service Commission ("APSC") as a Rate Analyst in
16 the Cost Allocation and Rate Design Section and a Financial Analyst in the
17 Financial Analysis Section. Before joining the APSC's General Staff, I spent two
18 years teaching business and economics courses at LCC International University in
19 Lithuania and Southwest Baptist University in Missouri.

20 **Q. Have you previously filed testimony before the Kansas Corporation**
21 **Commission ("Commission")?**

22 **A.** No, although I have filed testimony before the APSC in various dockets on behalf
23 of CenterPoint Energy and on behalf of the General Staff of the APSC.

1 **Q. What is the purpose of your filing?**

2 A. I am providing testimony in support of Kansas Gas Service, a Division of ONE
3 Gas, Inc.'s ("KGS") complaint against Westar Energy, Inc. ("Westar") that
4 Westar has an unauthorized practice of offering payments to developers that agree
5 to design their residential subdivision to contain all electric housing. I agree with
6 KGS that Westar's practice is anti-competitive and actively damages rather than
7 promotes the public interest.

8
9 **II. COSTS OF WESTAR'S REBATE PROGRAM ARE INAPPROPRIATELY**
10 **PAID BY WESTAR'S CUSTOMERS**

11 **Q. Please describe Westar's financial incentive program for developers of**
12 **residential subdivisions.**

13 A. As I understand the program based on Westar's answers to data requests, Westar
14 provides a financial incentive to developers that agree to forgo natural gas service
15 and require all building to be all-electric under the "Total Electric Subdivision
16 Heat Pump Program". Specifically, Westar provides a cash payment to developers
17 ranging from \$1,200 to \$20,000 per residential building, depending upon the
18 building type, if all buildings within the subdivision are built total electric with a
19 full heat pump split system as the primary heating source.

20 **Q. Does Westar have financial incentive programs to promote the installation of**
21 **heat pumps in addition to the Total Electric Subdivision Heat Pump**
22 **Program?**

23 A. Yes. Westar also has an HVAC program and a Builder program. The HVAC

1 program provides “incentives to mechanical contractors that install heat pumps in
2 residential and commercial buildings. The Builder program provides incentives
3 for heat pump installations that are not included within the Total Electric
4 Subdivision Heat Pump Program.” (Westar response to KGS-23)

5 **Q. How much has Westar paid under these programs?**

6 A. According to Westar’s responses to data requests, total rebates paid to date for the
7 Total Electric Subdivision Heat Pump Program is \$1,910,500 (Westar response to
8 KCC-05). The total for the HVAC program is \$3,631,835.33 and the payout for
9 the Builder program is \$487,943.29 (Westar response to KGS-23). The total
10 amount for all programs is \$6,030,278.62.

11 **Q. Do Westar’s customers ultimately pay the costs of these financial incentives?**

12 A. Yes. Westar has included these costs in its operating expenses recovered through
13 rates in several rate cases since the inception of these programs – 12-WSEE-112-
14 RTS, 15-WSEE-115-RTS, and 18-WSEE-328-RTS (Westar response to KGS-23
15 and Answer of Westar in 19-KGSG-061-COM).

16 **Q. Has the KCC specifically addressed the Total Electric Subdivision Heat
17 Pump Program, the HVAC Program, and the Builder Program in Westar’s
18 rate cases?**

19 A. Not to my knowledge. Although Westar acknowledges that the costs have been
20 included in the rates paid by all customers, Commission Staff and the
21 Commission have not specifically addressed the costs of the programs to Westar’s
22 customers and whether the programs are in the public interest. Further, Westar did
23 not address these programs in any of its testimony in the three rate cases

1 mentioned above (Westar response to KGS-13).

2 **Q. Specific to Westar's Total Electric Subdivision Heat Pump Program, has**
3 **Westar shown these incentives provide a benefit to Westar's residential**
4 **customers?**

5 A. No. Westar claims that the non-participating customers benefit from the
6 incremental loads gained from the program; however, this conclusion has never
7 been examined by the Commission and Westar offers no evidence that the
8 incremental revenues outweigh the incremental costs. Further, the residential
9 customers that ultimately reside in the subdivisions are not benefited because they
10 are precluded from using natural gas, which may be more economical.

11 **Q. Specific to Westar's Total Electric Subdivision Heat Pump Program, do**
12 **these incentives potentially harm Black Hills' and other gas utility**
13 **customers?**

14 A. Yes. Westar's practice of paying developers to forgo natural gas service in a
15 residential development and require all building to be all electric means that the
16 natural gas service provider loses out on the opportunity to add load to its system
17 that could serve to benefit its natural gas customers. The fact that Westar is
18 paying a cash incentive of \$1,200 to \$20,000 per building is a strong indication
19 that the developer may otherwise select natural gas service if not for the financial
20 incentive funded by Westar's customers through utility rates.

21 **Q. Has the Commission addressed incentives for promoting one fuel choice over**
22 **another and whether such costs are recoverable in rates?**

23 A. Yes. In the fuel switching proceeding, in Docket No. 09-GIMX-160-GIV, in its

1 Order to Close Docket, the Commission stated (at P. 14) that “[u]tility providers
2 shall continue to offer energy-efficiency programs in a manner that does not bias
3 users toward a particular fuel source.” Although incentives to builders or
4 developers are not energy-efficiency programs, they can bias a user toward the
5 particular fuel source. In particular, the Total Electric Subdivision Heat Pump
6 Program includes a bias towards electric heating whether or not electricity is more
7 economical than natural gas. Further, the Commission recognized Staff’s position
8 that “nothing should prevent utilities from promoting their fuels through non-
9 tariff, stakeholder funded ventures, but that it is important that these are not
10 subsidized by ratepayers and that they are not easily confused with tariff
11 programs.” (Order to Close Docket at P. 13)

12
13 **III. WESTAR’S PROGRAMS ARE ANTI-COMPETITIVE AND NOT IN THE**
14 **PUBLIC INTEREST**

15 **Q. Does Black Hills compete with Westar?**

16 A. Yes. Some of the communities served by Black Hills, including the cities of
17 Lawrence and Wichita, are provided retail electric service by Westar.

18 **Q. Is Westar’s Total Electric Subdivision Heat Pump Program anti-**
19 **competitive?**

20 A. Yes, because subdivisions cannot be served totally by natural gas, Black Hills and
21 other natural gas companies cannot compete with Westar’s program. Westar is
22 tying an essential service to a service that has options.

23 **Q. Can you explain?**

1 A. Natural gas utilities cannot offer an all gas incentive because electricity is an
2 essential element of a residence. Natural gas can be used for cooking, heating and
3 water heating, but cannot be substituted for electricity for power to the residence.
4 To the extent that customers are located in communities that are served by electric
5 and natural gas utilities, it is important that those customers have the opportunity
6 to choose between electricity and natural gas and be provided with accurate
7 information upon which to make their decision. Westar's program, in fact,
8 removes the opportunity for residents in all-electric subdivisions to use natural
9 gas and relies upon non-participating customers to fund the program through
10 utility rates.

11 **Q. Is it in the public interest for certain subdivisions or areas to not have access**
12 **to natural gas?**

13 A. No. Customers should have the ability to choose between natural gas and
14 electricity for their home heating and cooking needs. Further, customers should
15 not have to pay for incentives that take clean, affordable natural gas out of reach
16 for some customers.

17 **Q. How are natural gas customers harmed by Westar's program?**

18 A. As stated previously, in cases where Westar is paying an incentive to developers
19 to forgo natural gas service, natural gas customers lose incremental load to the all-
20 electric subdivisions. Had the developer instead installed natural gas, the
21 incremental revenue from these loads could result in lower rates for natural gas
22 customers. In fact, some Westar customers that are also gas utility customers are
23 likely paying for the costs of these programs through their electric rates and then

1 being further harmed because of the lost benefit of load growth through their gas
2 utility rates.


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

4 **A. Yes.**

Verification

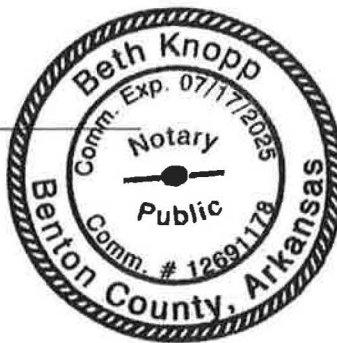
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Thomas D. Stevens, being first duly sworn, deposes and says that he is **Director, Regulatory and Finance** of Black Hills Service Company, LLC; that he has read the above and foregoing Testimony of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy, knows the contents thereof; and that the testimony contained therein, are true and correct.


Thomas D. Stevens

SUBSCRIBED AND SWORN to before me this 24th day of April, 2019.

Th. Kopp



Notary Public

My Appointment Expires:

Certificate of Service

I hereby certify that a copy of the above and foregoing Comments of Black Hills Energy was sent by electronic mail this 24th day of April, 2019 to the following:

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