

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY
OF
ROBERT F. OAKES
WESTAR ENERGY

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DOCKET NO. 12-WSEE-112-RTS

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert F. Oakes, 818 South Kansas Ave., Topeka, Kansas 66612.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. Westar Energy, Inc. (Westar). I am Director, Regulatory Services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND
AND BUSINESS EXPERIENCE.

A. I graduated from Pratt Institute with a degree in electrical engineering and from Fordham University with an M.B.A. in finance. I joined American Electric Power Service Corporation (AEP) upon graduation from Pratt in 1975. While at AEP, my responsibilities included distribution engineering and retail rate design. After leaving AEP, I joined Kansas Gas and Electric Company (KGE) where I was responsible for class cost allocation, retail/wholesale

1 rate design, contract negotiations with large industrial customers
2 and load research. I remained with KGE until its merger with The
3 Kansas Power and Light Company to form Western Resources,
4 Inc. now known as Westar Energy, Inc. My responsibilities at
5 Westar included retail gas and electric rates, contract negotiations
6 with large industrial customers and sales management. I assumed
7 a position with the regulatory group of Kansas Gas Service
8 Company in December 1997, upon the completion of the natural
9 gas strategic alliance between Westar and ONEOK, Inc. I returned
10 to Westar in November 2001.

11 I currently direct a staff responsible for developing Westar's
12 energy forecast and peak demand forecast. I am also responsible
13 for wholesale docket filings and contract administration.

14 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION?**

15 A. Yes, on several occasions.

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

17 A. I am sponsoring Adjustment No. IS-1-Weather Normalization,
18 contained in the Application. Additionally, I will discuss how we
19 removed all transmission-related costs from our cost of service
20 analysis. The retail portion of these costs is recovered through
21 Westar's Transmission Delivery Charge (TDC) and not through the
22 base rates. The eliminating adjustment to remove transmission

1 related costs is EA-3. Adjustment Nos. RB-3 and IS-27 remove the
2 transmission portion of all pro forma adjustments.

3 **II. WEATHER NORMALIZATION**

4 **Q. WHAT IS ADJUSTMENT NO. IS-1?**

5 A. This adjustment, entitled "Weather Normalization," adjusts test year
6 revenues, fuel expense, and income tax to reflect "normal" weather.
7 In other words, the adjustment changes test year items to remove
8 the effect of weather deviating from normal. For example, the
9 summer of 2010 was hotter than normal so the weather
10 normalization adjustment reduces test year items accordingly.
11 Normal is defined as the 30-year normal established by the
12 National Oceanic and Atmospheric Association (NOAA) for the
13 period ending December 2010.

14 **Q. WHAT METHODOLOGY WAS FOLLOWED IN WESTAR'S**
15 **WEATHER NORMALIZATION ANALYSIS?**

16 A. The methodology is similar to the one accepted by the Commission
17 in Docket No. 05-WSEE-981-RTS and used in Docket No. 08-
18 WSEE-1041-RTS, Westar's two most recent general rate cases.
19 The method continues to use regression coefficients developed by
20 the Commission Staff.

21 **Q. PLEASE SUMMARIZE THE METHODOLOGY.**

22 A. I summarize the methodology in Exhibit RFO-1.

23 **Q. WHY IS WESTAR PROPOSING TO USE NOAA'S 30-YEAR**
24 **AVERAGE IN THIS CASE?**

1 A. In its November 22, 2010 Order in Docket No. 10-KCPE-415-RTS,
2 the Commission addressed the weather normalization adjustment
3 in Section IV.C.14. The last two sentences of the 7th paragraph of
4 that section read as follows:

5 We also find that the NOAA 30-year normal is the
6 traditional data set used for utility ratemaking, and we
7 are hesitant to depart from such a standard in the
8 current case. For these reasons, we conclude the *30-*
9 *year normal shall be used when weather-normalizing*
10 *a utility's test year data in a ratemaking case until*
11 *otherwise ordered.*

12 (Emphasis added.) This language indicates the Commission
13 wanted all utilities to use a 30-year normal when weather-
14 normalizing a utility's test year data.

15 **Q. HAS THE COMMISSION PROVIDED OTHER GUIDANCE**
16 **REGARDING THE USE OF A 30-YEAR AVERAGE?**

17 A. Yes. In Westar's rate filing submitted in May 2006 (Docket No. 05-
18 WSEE-981-RTS), the Commission accepted Staff's weather
19 normalization adjustment, as corrected, which used the then-
20 current NOAA 30-year average.

21 **Q. HOW WAS ADJUSTMENT NO. IS-1 DEVELOPED?**

22 A. Each tariff's monthly rate (which included energy and demand
23 components) was multiplied by the estimated monthly energy
24 weather adjustment for the given tariff.

25 **Q. WHAT IS THE EFFECT OF ADJUSTMENT NO. IS-1?**

26 A. Because test-year actual weather was warmer than the 30-year
27 average, Adjustment No. IS-1 serves to decrease revenue by

1 \$33,144,733, fuel expense by \$11,160,755 and income taxes by
2 \$8,694,663. Thus, in normalizing for weather, this analysis
3 recognizes that our sales were actually higher in the test year than
4 would have been expected in more normal conditions.

5 **Q. WHY DOES WESTAR'S WEATHER NORMALIZATION**
6 **CALCULATION INCLUDE A DEMAND COMPONENT WHEN**
7 **DETERMINING ADJUSTMENT NO. IS-1?**

8 A. Demand charge revenue is sensitive to temperature variations. In
9 fact, it is almost as temperature sensitive as energy charge
10 revenue. There is a strong correlation between commercial kWh
11 sales and commercial billing demands and they vary monthly
12 almost in direct proportion to commercial kWh sales. Therefore, as
13 energy is affected by changes in temperature so is demand.

14 **Q. HAVE YOU DEVELOPED AN ANALYSIS THAT**
15 **DEMONSTRATES A STRONG CORRELATION BETWEEN**
16 **COMMERCIAL BILLING DEMANDS AND COMMERCIAL**
17 **SALES?**

18 A. Yes. My analysis develops a correlation coefficient between
19 monthly commercial kWh sales and monthly commercial billing
20 demands for the period from January 2004 through December
21 2008. This is the same period used by Staff to calculate the
22 regression coefficients in the weather normalization model. My
23 analysis calculates a 0.89 correlation coefficient between kWh

1 sales and billing demand. This coefficient demonstrates that there
2 is a strong correlation between sales and billing demand. It is
3 therefore appropriate to include demand charges when calculating
4 the commercial weather normalization adjustment.

5 **III. TRANSMISSION-RELATED ITEMS**

6 **Q. PLEASE EXPLAIN WHY AN ELIMINATING ADJUSTMENT (EA-**
7 **3) IS REQUIRED TO REMOVE TRANSMISSION-RELATED**
8 **ITEMS FROM THE COST OF SERVICE.**

9 A. As provided by Kansas statute, and approved by the Commission,
10 Westar currently has in place a Transmission Delivery Charge
11 (TDC). The TDC tracks the annual revenue requirement
12 determined by the applicable Federal Energy Regulatory
13 Commission (FERC)-approved rates and recovers transmission-
14 related costs attributable to retail customers. These transmission-
15 related costs are unbundled or removed from Westar's base rates,
16 assuring that customers are not double charged. Westar's
17 adjustment also assures that all of the costs are recovered through
18 their respective approved methods, assuring that they cannot be
19 double counted.

20 **Q. WHAT TRANSMISSION-RELATED ELEMENTS WERE**
21 **REMOVED FROM WESTAR'S COST OF SERVICE?**

22 A. In general, any cost element that would be recovered through the
23 application of the FERC-accepted, transmission formula rate (TFR)
24 was removed from test-year cost of service. More specifically, all

1 operation and maintenance expenses, depreciation and
2 amortization expenses, revenue credits, plant in service, and
3 accumulated depreciation directly identified as transmission in
4 Westar's accounting records were removed. Additionally, joint
5 costs such as administrative and general expenses, depreciation of
6 general plant, taxes other than income taxes, general plant, general
7 plant accumulated depreciation, accumulated deferred income
8 taxes, and working capital, (materials and supplies and
9 prepayments), were removed using the same allocation
10 percentages as used in the TFR reflecting actual 2010 data.
11 Because Westar's rate base has been adjusted to remove all
12 transmission-related costs, the operating income and associated
13 income taxes shown in Westar's cost of service, (e.g. Westar's
14 MFRs, Section 3, Schedules 3-A and 3-C), do not include a return
15 on transmission rate base and associated income taxes. Those
16 items, as well as the cost of the other transmission-related items,
17 are included in the revenue requirement determined by application
18 of the TFR.

19 More specifically, the section-by-section Transmission
20 Elimination Adjustments are as follows:

<u>Section</u>	<u>Amount</u>
4	(\$1,245,393,816)
5	(\$376,952,515)
6	(\$18,618,998)

9	(\$46,078,228) ¹
10	(\$30,902,320)
14	(\$153,735,088)

1 In addition, I sponsor the *pro forma* adjustments (RB-3 and
2 IS-27) that remove the transmission component of all adjustments
3 included in the Application. The section-by-section adjustment that
4 removes the transmission component of all adjustments is as
5 follows:

<u>Section</u>	<u>Amount</u>
4	(\$48,736)
5	\$79,375
9	\$288,079 ²
10	(\$797,116)
14	(\$8,550,344)

6 **Q. WILL THE COST REFLECTED IN ALL OF THE ELIMINATING**
7 **ADJUSTMENTS RELATED TO TRANSMISSION AND THE *PRO***
8 ***FORMA* ADJUSTMENT AFFECT THE TDC?**

9 A. Not at this time. Even though these costs are being removed from
10 the cost of service, they will have no immediate impact on the TDC
11 charges currently paid by customers. We typically propose
12 changes to the TDC only after our transmission revenue
13 requirement changes (January 1 each year) by updating our
14 projected TFR, and FERC accepts a filing by the Southwest Power
15 Pool adding the changed revenue requirement to its tariff.

¹ This adjustment is the net effect of removing \$270,140,361 of revenue and \$224,062,133 of expenses.

² This adjustment is the net effect of removing \$2,176,443 of revenue and adding \$2,464,522 of expenses.

1 Q. THANK YOU.

WEATHER NORMALIZATION METHODOLOGY

The methodology can be summarized as follows:

1. Perform multiple regression analysis for Westar North and Westar South rate classes (all industrial and lighting rate classes are excluded) on historical monthly sales data, the latter adjusted to account for tariff changes implemented in February 2006. The independent variables used to capture the weather effects are monthly heating and cooling degree-days.
2. Disaggregate sales data into the following four base regions:
 - Region 1 - Eastern and Central Kansas
 - Region 2 – Western Kansas
 - Region 3 – Wichita
 - Region 4 – Southeastern Kansas
3. Divide monthly sales data by the corresponding number of customers to derive monthly kWh use per customer. The regression models used monthly use per customer as the dependent variable.
4. Obtain the independent variables from the following weather stations for use as independent variables in the regression models:
 - Region 1 - Topeka
 - Region 2 - Abilene
 - Region 3 – Wichita
 - Region 4 – Parsons

5. Update the regression models using more current weather data. Information from January 2004 through December 2008, for Topeka, Abilene, Wichita and Parsons was used.
6. Calculate monthly degree-day departures from normal for both cooling and heating by base region for the test year. For each region, a weighted average departure was calculated from the following weather stations:

Region 1 - Topeka, Lawrence, Leavenworth and Olathe

Region 2 - Manhattan, Abilene and Great Bend

Region 3 - Wichita

Region 4 - Independence, Parsons and Pittsburg

The weights are proportional to the unadjusted test year energy sales, by month, for each of the corresponding weather stations.

7. Derive test-year sales weather normalization adjustments on a class-by-class and region-by-region basis, then aggregate to the company level.