BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

DENNIS L. REED

WESTAR ENERGY

DOCKET NO. 13-WSEE-676-MIS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Dennis L. Reed, 818 South Kansas Avenue, Topeka, Kansas 66612.

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

A. I am employed by Westar Energy (Westar) as Director, FERC Compliance. In that capacity, I am responsible for monitoring Westar's compliance with various federal reporting obligations and regulations. This includes monitoring activity at the Federal Energy Regulatory Commission (FERC). I also work actively in the Southwest Power Pool (SPP) as a representative on various committees and working groups, primarily associated with SPP's Open Access Transmission Tariff. I am currently Chairman of the Regional Tariff Working Group.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from Wichita State University with a degree of Bachelor of Science, Electrical Engineering in December of 1980. I was employed by Kansas Gas and Electric Company (KG&E) in 1974 and worked in the Engineering Department as an Engineering Technician in Overhead Transmission Line Design. I transferred to the Regulatory Department in 1979 to take over the Load Research program. As part of my duties, I also did rate design and revenue impact analysis on our retail customers for several rate cases. In 1987, I transferred to the Forecasting Department where I performed long-range economic studies, energy forecasts and peak demand forecasts for the company. I remained in the Forecasting Department after KG&E merged with The Kansas Power and Light Company (now Westar) in 1992. I transferred to Transmission Services as Manager of Transmission Services in 1996 and I advanced to Director of Transmission Services in 2004. In October 2009, I moved to my current position as Director, FERC Compliance.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will describe the cost recovery mechanism by which Westar expects to receive revenue for its proposed project.

Q. PLEASE DESCRIBE HOW THE SPP TARIFF COMPENSATES TRANSMISSION OWNERS FOR THEIR TRANSMISSION FACILITIES.

A. First, each Transmission Owner (TO) that has facilities under the SPP Open Access Transmission Tariff (OATT) must apply to FERC to establish a revenue requirement. SPP takes these approved values and incorporates them into Attachment H of its OATT for revenue requirements. The point-to-point transmission service rates are stated in Schedule 11 (for Base Plan Funded projects) and Attachment T (local facilities). SPP then charges its transmission customers based upon these approved values. For example, transmission customers that have retail or wholesale load attached to Westar's transmission system are in the Westar pricing zone. Westar is also required to purchase transmission service from SPP to serve its retail customers.

Q. **HOW DOES A TRANSMISSION OWNER UPDATE ITS REVENUE REQUIREMENT?**

A. FERC allows a TO a choice in how it updates its revenue requirement. The TO may file a traditional rate case or implement a transmission formula rate. As the Commission is aware, starting in 2005, Westar received approval from FERC to implement a formula rate approach in setting its transmission revenue requirements. The formula is designed to update Westar's revenue

requirements annually. Use of the formula rate reduces the lag between completion of major projects and their inclusion in rates. Conversely, reductions in costs are also reflected in transmission rates to customers on a timelier basis.

Q. **PLEASE EXPLAIN HOW THESE COSTS ARE RECOVERED THROUGH THE SPP OATT.**

A. There are 17 pricing zones in the SPP. Each zone is defined by the primary TO that owns the transmission facilities in that zone. The transmission rates paid by a customer are based upon Schedules 7, 8, 9, and 11 of the SPP OATT which are calculated based upon the revenue requirements stated in Attachment H to the OATT. The specific charges to a transmission customer are determined based on the type of service and the location where the power is delivered or "sunk." The transmission rate charged to transmission customers consist of four components: 1) Existing Zonal Revenue Requirements; 2) Base Plan Zonal Revenue Requirements, 3) Base Plan Regional Revenue Requirements, and 4) direct assigned costs. SPP determines the charges to each customer based upon the customer's transmission reservations and issues a bill to each customer. SPP then collects the revenue from each customer and distributes the money among the TOs pursuant to the terms of Attachment L of the OATT.

Q. **PLEASE DESCRIBE THE FOUR COMPONENTS THAT MAKE UP THE SPP TRANSMISSION RATES IN MORE DETAIL.**

A. For new or upgraded transmission facilities (transmission upgrades) required to meet new service requests from customers, the underlying premise for cost recovery in the SPP OATT is to directly assign the costs related to those transmission upgrades to the customer requiring the transmission upgrades.

Under certain circumstances, a customer may qualify for those costs to be rolled into the SPP OATT rates in accordance with the rules as described in Attachments J, Z1, and other areas of the SPP OATT (Base Plan Funding). In addition, any transmission upgrades that are required to meet various reliability criteria, or are identified has having regional benefits through the SPP study process (Attachment O) are also Base Plan Funded. The method of recovering the transmission costs which qualify for Base Plan Funding is described in Attachment J of the SPP OATT. The costs associated with Base Plan Funded Projects are allocated between costs collected from the customers in the zone where the upgrade is built (or host zone) and all customers in the SPP. Only facilities built after December 31, 2005, are qualified to be Base Plan Funded. A facility directed to be built by SPP between December 31, 2005, and June 19, 2010, has its costs allocated 33% to the

entire SPP region and the remaining 67% allocated to the host zone.

Effective June 19, 2010, FERC authorized a change in the way that SPP allocates Base Plan Funded projects. FERC approved the use of a Highway/Byway cost allocation method. The revised cost allocation method allocates costs between the region and the host zone based upon the operating voltage of the project. For projects SPP authorized to be built after June 19, 2010, projects operating at or above 300 kV are recovered 100% from the SPP region. Projects operating between 100 kV and 300 kV are recovered 33% regional and 67% from the host zone. Projects which operate at voltages below 100 kV are recovered 100% from the host zone's customers.

The first category, Existing Zonal Revenue Requirements, refers to the Revenue Requirements related to transmission facilities that were in service or required to be in service prior to December 31, 2005. Any costs associated with these facilities are collected from service that sinks in the pricing zone where those facilities are located. The second category refers to the Base Plan Funded costs assigned to the host zone.

The third category includes those Base Plan Funded regional costs which are recovered from all customers taking transmission service under the SPP OATT. The total amount of

Base Plan Funded regional revenue requirements is listed in Table 2 of Attachment H. These costs are allocated to each zone based on the load-ratio share of the zone in comparison to the SPP region.

The final category is direct assigned costs. These costs are charged directly to a customer if the total project cost of the Base Plan upgrades allocated to the customer exceeds certain limits in the SPP OATT or if the requested transmission service does not qualify for Base Plan Funding.

Q. **WHICH COST RECOVERY METHOD WILL APPLY TO THE ELM CREEK TO SUMMIT PROJECT?**

A. As explained in the testimony of Kelly Harrison, the Elm Creek to Summit project is a base plan project and the notification to construct was issued after the approval of the change in Base Plan Funding cost allocation by FERC. As a result, 100% of the costs associated with the Elm Creek to Summit project will be allocated regionally.

Q. WHAT PERCENTAGE OF THE COSTS FOR THE ELM CREEK TO SUMMIT PROJECT WILL BE ALLOCATED TO KANSAS CUSTOMERS?

A. Approximately 19% of the costs of the Elm Creek to Summit project will be allocated to all the pricing zones in Kansas when those costs are allocated regionally on a load-ratio share basis based upon the

2012 zonal peak demands. This amount will be added to the rates that SPP charges to Westar and other utilities in Kansas for transmission service. Specifically, 11.42% of the project cost will be allocated to customers in the Westar pricing zone. A spreadsheet showing this calculation is attached as Exhibit DLR-1.

Q. **HOW WILL THE COSTS RELATED TO THE ELM CREEK TO SUMMIT PROJECT AFFECT THE RATES PAID BY WESTAR'S RETAIL CUSTOMERS?**

A. For Westar's retail customers, the amount paid by Westar to SPP for transmission service is recovered through the transmission delivery charge (TDC). As explained by Mr. Harrison, Westar estimates that its portion of the proposed project will cost approximately $66 million and will be in service in 2016. The cost to customers will be the highest the first year the project is in service and will decline over time. Based on the cost estimate provided by Mr. Harrison, the impact to an average residential customer using 1000 kWh/month will peak at $0.67 per year in 2016 and decline by approximately 2.5% per year thereafter due to depreciation. A spreadsheet showing the calculation of the initial cost to customers is attached hereto as Exhibit DLR-2. These calculations do not take into account any benefits or other cost reductions that may be produced by having the transmission facilities built.

1 **Q. THANK YOU.**

Exhibit DLR-1

Southwest Power Pool, Inc.
Regional and Zonal Transmission System Peak Loads (MW)
Calendar Year 2012

Zone	Total Peak Load (MW)	12 Month Avg. Peak Load (MW)	Load Ratio Share	% KS Load	KS Alloc
CSWS (AEP)	97,887.04	8,157.25	22.3092%	0.0%	0.00%
EDE	11,043.03	920.25	2.5168%	20.0%	0.50%
GMO	18,239.00	1,519.92	4.1568%	0.0%	0.00%
GRDA	8,781.00	731.75	2.0013%	0.0%	0.00%
KCPL	34,296.60	2,858.05	7.8165%	45.0%	3.52%
LES	8,862.00	738.50	2.0197%	0.0%	0.00%
MKEC	6,189.00	515.75	1.4105%	100.0%	1.41%
MIDW	3,702.20	308.52	0.8438%	100.0%	0.84%
NPPD	29,176.43	2,431.37	6.6495%	0.0%	0.00%
OKGE	63,115.88	5,259.66	14.3846%	0.0%	0.00%
OPPD	22,313.85	1,859.49	5.0855%	0.0%	0.00%
SECI	4,718.00	393.17	1.0753%	100.0%	1.08%
SPRM	6,935.00	577.92	1.5805%	0.0%	0.00%
SPS	59,156.00	4,929.67	13.4821%	0.0%	0.00%
WFEC	14,265.00	1,188.75	3.2511%	0.0%	0.00%
Westar	50,094.00	4,174.50	11.4168%	100.0%	11.42%
Total		36,564.50	100.0000%		18.7671%

Exhibit DLR-2

Estimated Cost impact on Retail Energy Cost

Est. Cost[1]	$	66,000,000
2013 NPCC[2]		17.64%
First Year ATRR[3]	$	11,642,400
Regional Allocation[4]		11.42%
Westar's Retail LRS[5]		83.81%
2012 Retail energy[6]		19,935,750,000
Cost per 1000 kWh/mo[7]	$	0.06
Cost per Year [8]	$	0.67

Notes:

[1] Estimated Cost of Westar's portion of the Elm Creek Summit line

[2] NPCC = Net Plant Carrying Charge as calculated in 2013 Transmission Formula Rate

[3] Annual Transmission Revenue Requirement (ATRR) = Est. Cost * 2013 NPCC

[4] From Exhibit DLR-1, Regional Allocation of costs to Westar's Zone

[5] From Westar's 2013 TDC filing

[6] 2012 Westar Energy Form 1 and KGE Form 1

[7] First Year ATRR * Regional Allocation * Westar's Retail LRS / 2012 Retail Energy * 1000

[8] Cost per 1000 kWh/mo * 12