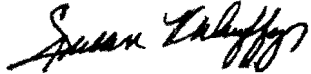


**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas )  
Gas Service, a Division of ONEOK, Inc., for )  
Approval to Implement the Efficiency )  
Kansas Energy Efficiency Program, to )  
Implement Natural Gas Energy Efficiency )  
Programs to Improve Building and )  
Equipment Efficiency and to Educate about )  
Efficient Energy Usage, to Provide for )  
Program Cost Recovery through a Rider )  
Mechanism, to Establish Administrative )  
Charges and a Program Initiation Fee, )  
Permit the Implementation of a Revenue )  
Decoupling Mechanism, and Appropriate )  
Accounting Authority to Defer Expenses )  
And Revenues Associated with the Filing. )

STATE CORPORATION COMMISSION

MAY 12 2010



Docket No. 10-KGSG-421-TAR

**CROSS ANSWERING TESTIMONY**

**OF**

**STACEY HARDEN**

**ON BEHALF OF**

**THE CITIZENS' UTILITY RATEPAYER BOARD**

**MAY 12, 2010**

1 **Q. Please state your name and business address.**

2 A. My name is Stacey Harden and my business address is 1500 SW Arrowhead  
3 Road, Topeka, KS 66604-4027.

4  
5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes. On April 23, 2010, I filed Direct Testimony on behalf of the Citizens' Utility  
7 Ratepayer Board. In that testimony, I recommended that the Kansas Corporation  
8 Commission ("KCC" or "Commission") deny the proposal of Kansas Gas  
9 Service, a division of ONEOK, Inc. ("Kansas Gas Service" or "company") to  
10 become an Efficiency Kansas partner utility. I also recommended the Commission  
11 deny two energy-efficiency programs as proposed by Kansas Gas Service. In  
12 addition, I recommended in my Direct Testimony that the KCC deny Kansas Gas  
13 Service's request for a revenue normalization adjustment ("RNA").

14  
15 **Q. What is the purpose of your Cross Testimony?**

16 A. The purpose of my Cross Testimony is to respond to the testimony submitted by  
17 Mr. Michael Dupree of KCC Staff. Specifically, I am challenging Mr. Dupree's  
18 recommendation that the Commission approve Kansas Gas Service's application  
19 to become an Efficiency Kansas partner utility.

20  
21 **Q. Why does Mr. Dupree recommend the Commission approve Kansas Gas  
22 Service's application to become an Efficiency Kansas partner utility?**

23 A. Mr. Dupree performed a benefit-cost analysis on the Kansas Gas Service

1 Efficiency Kansas program utilizing the benefit-cost framework outlined by the  
2 Commission in its June 2, 2008 *Order Setting Energy Efficiency Policy Goals* in  
3 Docket No. 08-GIMX-442-GIV (“442 Docket”). Based on his analysis, Mr.  
4 Dupree determined the Efficiency Kansas program as proposed by Kansas Gas  
5 Service is cost-effective and therefore should be approved.

6

7 **Q. Do you agree with Mr. Dupree’s conclusion that the Commission should**  
8 **approve Kansas Gas Service’s application to become an Efficiency Kansas**  
9 **partner utility?**

10 A. No, I do not.

11

12 **Q. Why do you disagree with Mr. Dupree’s recommendation?**

13 A. I disagree with Mr. Dupree’s recommendation for the following reasons:

- 14 • Mr. Dupree’s analysis shows that the Kansas Gas Service Efficiency Kansas  
15 program severely fails the Ratepayer Impact Measure Test (“RIM”) test and can  
16 barely achieve a passing score in the Total Resource Cost Test (“TRC”) test;
- 17 • Mr. Dupree includes avoided costs associated with electric utility service in his  
18 benefit-cost analysis in order to achieve a level of cost-effectiveness. Because  
19 Kansas Gas Service’s avoided cost is simply the cost of natural gas, the TRC and  
20 RIM tests should not include avoided electrical commodity and electrical capacity  
21 costs. Removing electrical commodity and capacity expenses from Mr. Dupree’s  
22 analysis reduces the already failing RIM score and further weakens the TRC  
23 score;

- 1 • Mr. Dupree’s estimate of program administration costs includes only the costs  
2 provided by Kansas Gas Service’s estimated budget, and does not account for  
3 other existing labor or existing resources that will be used to administer the  
4 program. If these expenses had been included in Mr. Dupree’s analysis, the  
5 program likely would have failed the TRC test; and
- 6 • Mr. Dupree utilizes unverified customer usage estimates from another utility’s  
7 revolving loan program in order to estimate benefits to Kansas Gas Service  
8 customers.

9

10 **Q. Please discuss the benefit-cost test results calculated by Mr. Dupree.**

11 A. In Exhibit MDW-2 of his direct testimony, Mr. Dupree calculated each of the five  
12 benefit-cost tests as directed in the Commission’s order in the 442 Docket. Based  
13 on his analysis, Kansas Gas Service’s Efficiency Kansas program has TRC ratio  
14 of 1.12 and a RIM ratio of 0.52. Because the program received a TRC ratio of  
15 more than 1.0, Mr. Dupree determined the Efficiency Kansas program as  
16 proposed by Kansas Gas Service is cost-effective and therefore should be  
17 approved.

18

19 **Q. Based upon the benefit-cost test results performed by Mr. Dupree, should the**  
20 **Commission approve Kansas Gas Service’s Efficiency Kansas program?**

21 A. No. In its April 13, 2009, *Order Following Collaborative on Benefit-Cost Testing*  
22 *and Evaluation, Measurement, and Verification* in the 442 Docket, the  
23 Commission emphasized that the use of the “RIM and TRC tests is appropriate in

1 light of Kansas realities and Commission goals.”<sup>1</sup> The Commission further stated  
2 that an energy-efficiency program that scores less than one on the RIM test “may  
3 still be considered by the Commission for approval, depending on the degree of  
4 RIM test failure, (and) its performance on the other tests ...”<sup>2</sup> Mr. Dupree’s  
5 analysis shows that Kansas Gas Service’s Efficiency Kansas program has a high  
6 degree of RIM failure and cannot achieve a significant TRC score.

7  
8 **Q. Under what circumstances should the Commission approve a program with a**  
9 **RIM score of less than 1.0?**

10 A. Based upon the Commission’s guidelines in the 442 Docket, I would expect the  
11 Commission to consider approval of a program that has a slight RIM failure but  
12 can achieve a high TRC score. Kansas Gas Service’s Efficiency Kansas program  
13 cannot meet this guideline – the program barely achieves a passing TRC ratio and  
14 has a high degree of RIM failure, which indicates that the program is not cost-  
15 effective and will cause an increase on rates for all Kansas Gas Service customers.

16  
17 **Q. Do you agree with the inputs Mr. Dupree used in his benefit-cost test**  
18 **analysis?**

19 A. No, I do not.  
20  
21

---

<sup>1</sup> April 13, 2009, KCC Docket 08-GIMX-442-GIV, Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement, and Verification at ¶21.

<sup>2</sup> April 13, 2009, KCC Docket 08-GIMX-442-GIV, Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement, and Verification at ¶23.

1 **Q. Please describe why you disagree with Mr. Dupree's benefit-cost test**  
2 **analysis.**

3 A. In his TRC and RIM analyses, Mr. Dupree inappropriately assumes a benefit of  
4 \$268,690.89 from the avoided costs of electrical commodity and capacity costs.<sup>3</sup>  
5 Because Kansas Gas Service is a natural gas utility, the only costs avoided by  
6 Kansas Gas Service as a result of the Efficiency Kansas program is the avoided  
7 cost of gas. It is inappropriate to consider avoided electrical commodity and  
8 avoided electrical capacity costs as a benefit for Kansas Gas Service customers as  
9 a whole, because customers who do not participate in Efficiency Kansas will not  
10 avoid these electrical costs as a result of another customer's participation in the  
11 Efficiency Kansas program.

12  
13 **Q. Should avoided electrical costs be excluded from all benefit-cost analyses?**

14 A. No. While it is incorrect to include avoided electrical commodity and capacity  
15 costs in the TRC and the RIM tests, it is appropriate to include these benefits in  
16 the Participant Test. The Participant Test is designed to measure the cost-  
17 effectiveness of a program from the perspective of the customers who participate  
18 in the program. A Kansas Gas Service customer who participates in the Efficiency  
19 Kansas program is expected to receive a direct benefit in the form of reduced  
20 electrical bills. Because the Participant Test is used to determine the cost-  
21 effectiveness from the perspective of the participant, it is appropriate only in the  
22 Participant test to include a benefit from the reduction of the participant's electric  
23 bill.

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<sup>3</sup> April 23, 2010, KCC Docket 10-KGSG-421-TAR, Michael Dupree Direct Testimony @ Exhibit MWD-2.

1 **Q. What are the TRC and RIM test results if you remove the avoided costs**  
2 **associated with electrical commodity and capacity costs?**

3 A. Attached to my testimony is Exhibit SMH-2, which shows the results of the TRC  
4 and RIM tests after removing the avoided electrical commodity and capacity  
5 costs. To prepare this exhibit, I utilized the same major inputs provided by Mr.  
6 Dupree in Exhibit MDW-2, and simply removed the costs associated with avoided  
7 electrical commodity and capacity costs. After removing the avoided electrical  
8 commodity and capacity costs, Kansas Gas Service's Efficiency Kansas program  
9 severely fails the RIM test, with a score of only 0.46. This means that for every  
10 \$1 spent for Kansas Gas Service to be an Efficiency Kansas partner utility, there  
11 is only \$0.46 worth of benefits. Customers of Kansas Gas Service who do not  
12 participate in Efficiency Kansas will see their natural gas bills increase in order to  
13 make up the remaining \$0.54 of each dollar spent on the Efficiency Kansas  
14 program. Removing electrical commodity and capacity costs further weakens the  
15 TRC score, reducing it to only 1.02.

16  
17 **Q. Please describe Mr. Dupree's use of assumptions in his benefit-cost test**  
18 **analysis.**

19 A. As with any benefit-cost analysis, Mr. Dupree's analysis is heavily dependent  
20 upon assumptions. It appears that Mr. Dupree used assumptions that follow the  
21 Commission's guidelines in the 442 Docket. However, it seems that Mr. Dupree  
22 simply utilized the budgets provided by Kansas Gas Service in its application to  
23 identify program administration costs. Given that the Efficiency Kansas program

1 has not been in existence long enough to obtain any program specific data, Mr.  
2 Dupree also utilized data from the How\$mart<sup>®</sup> program currently offered by  
3 Midwest Energy, Inc.

4

5 **Q. What concerns do you have regarding the program administration cost**  
6 **assumptions used by Mr. Dupree in his benefit-cost analysis?**

7 A. I am concerned that the program administration costs have not been accurately  
8 quantified. Mr. Dupree utilizes the budget estimates provided in Kansas Gas  
9 Service's application to determine the program administration costs. However,  
10 Kansas Gas Service's Efficiency Kansas program budget only includes  
11 incremental labor costs and does not accurately reflect the actual costs to  
12 administer the program.<sup>4</sup> In his direct testimony, Mr. Dupree agrees that  
13 excluding these overhead administrative expenses is "inappropriate"<sup>5</sup>, yet Mr.  
14 Dupree makes no effort to account for these administrative costs in his benefit-  
15 cost analysis.

16

17 **Q. If Mr. Dupree had included all program administration costs in his benefit-**  
18 **cost analysis, could Kansas Gas Service's Efficiency Kansas program be**  
19 **deemed cost-effective?**

20 A. No. Mr. Dupree's exclusion of any amount of actual costs that are associated  
21 with Kansas Gas Service's administration of the Efficiency Kansas program

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<sup>4</sup> In his direct testimony at page 11, David N. Dittmore, on behalf of Kansas Gas Service, indicates that "A number of other existing KGS employees will be involved in various aspects of program implementation, however because these costs are not incremental, they have not been included in the budget ..."

<sup>5</sup> Michael Dupree Direct Testimony in 10-KGSG-421-TAR @ page 10.



1 results in over-stating the benefit-cost test results. As previously discussed, Mr.  
2 Dupree's analysis shows that the program severely fails the RIM test and barely  
3 passes the TRC test. Earlier in my testimony, I noted that I removed the avoided  
4 electrical commodity and capacity costs from Mr. Dupree's analysis, which  
5 reduced both the RIM and TRC test scores. If the program administrative costs  
6 were increased to reflect the actual costs to administer the program, on top of the  
7 removal of avoided electrical commodity and capacity costs, both the RIM score  
8 of 0.46 and the TRC score of 1.02 would be further reduced. It is likely that the  
9 benefit-cost tests would produce RIM and TRC scores of less than 1.0, making  
10 the program not cost-effective.

11  
12 **Q. How did Mr. Dupree estimate the natural gas savings for the Kansas Gas**  
13 **Service Efficiency Kansas program?**

14 A. Because the Efficiency Kansas program has not been in existence long enough to  
15 obtain any program specific data, Mr. Dupree utilized data from the How\$mart<sup>®</sup>  
16 program currently offered by Midwest Energy, Inc.<sup>6</sup>

17  
18 **Q. What is Midwest Energy, Inc.'s How\$mart<sup>®</sup> program?**

19 A. Midwest Energy, Inc.'s How\$mart<sup>®</sup> program is a revolving loan program –  
20 similar to the Efficiency Kansas loan program – that has been offered to Midwest  
21 Energy, Inc.'s customers since August 2007. Midwest Energy, Inc.'s How\$mart<sup>®</sup>  
22 program was originally approved as a pilot program and in 2008 gained  
23 Commission approval to become a permanent energy-efficiency program.

---

<sup>6</sup> Michael Dupree Direct Testimony in 10-KGSG-421-TAR @ page 15-16.

1 **Q. Have the natural gas savings of Midwest Energy, Inc.’s How\$mart<sup>®</sup> program**  
2 **been verified by a full evaluation, measurement and verification (“EM&V”)?**

3 A. No. Midwest Energy, Inc. has not provided a full EM&V of its How\$mart<sup>®</sup>  
4 program to the Commission. However, in June 2008, Midwest Energy, Inc.  
5 petitioned the Commission in KCC Docket No. 08-MDWE-1128-TAR to make  
6 the How\$mart<sup>®</sup> program a permanent and system-wide energy-efficiency  
7 program. As part of its application, Midwest Energy asserted that is was “far too  
8 early to assess true customer energy savings ...”<sup>7</sup> Nevertheless Midwest Energy,  
9 Inc. provided a side-by-side comparison of gas savings obtained from eight  
10 Midwest Energy, Inc. structures that had completed How\$mart<sup>®</sup> projects, replaced  
11 gas heating equipment, and were occupied by the same customer from December  
12 through April of 2007 and 2008. While there was evidence of some gas savings  
13 from these eight participants, Midwest Energy, Inc. recognized that the data was  
14 “not significant” due to the small sample size, and further stated that “(f)or  
15 electricity savings, there is not yet any meaningful data since the How\$mart<sup>®</sup>  
16 installations have not been through a summer season.”<sup>8</sup>

17  
18 **Q. Should the usage data provided by Midwest Energy, Inc. in 2008 be used to**  
19 **estimate Kansas Gas Service’s potential savings?**

20 A. In my opinion, no. While I do not disagree with Mr. Dupree’s effort to use actual  
21 energy savings obtained through a similar energy-efficiency program, the gas  
22 savings obtained from eight How\$mart<sup>®</sup> participants is not statistically significant

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<sup>7</sup> June 23, 2008 KCC Docket Nos. 08-MDWE-1128-TAR and 08-MDWE-1129-TAR at page 1.  
<sup>8</sup> June 23, 2008 KCC Docket Nos. 08-MDWE-1128-TAR and 08-MDWE-1129-TAR at page 2.

1 and should not be used to forecast program-wide savings. Other than the gas  
2 savings obtained from eight How\$mart<sup>®</sup> customers, which was briefly  
3 summarized in Midwest Energy, Inc.'s 2008 application, there has not been an  
4 EM&V of actual results provided to the Commission. Without verified savings  
5 obtained through a full EM&V of Midwest Energy, Inc.'s How\$mart<sup>®</sup> program, I  
6 contend that the insignificant usage data from Midwest Energy, Inc.'s 2008 report  
7 should not be used to estimate the savings for Kansas Gas Service's Efficiency  
8 Kansas program.

9

10 **Q. What is your recommendation to the Commission regarding Kansas Gas**  
11 **Service's application to become an Efficiency Kansas partner utility?**

12 A. I recommend that the Commission deny Kansas Gas Service's request as  
13 proposed in its filing. While Mr. Dupree makes an effort to justify the cost-  
14 effectiveness of Kansas Gas Service's Efficiency Kansas program, his inclusion  
15 of avoided electrical commodity and capacity costs, coupled with his exclusion of  
16 certain administrative costs, results in overstating the benefit-cost test results.  
17 Since the benefit-cost test results provided by Mr. Dupree already indicate that  
18 Kansas Gas Service's Efficiency Kansas program severely fails the RIM test and  
19 just barely passes the TRC test, it is unlikely that this program can be deemed cost  
20 effective.

21

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

23 A. Yes.

**Efficiency Kansas - Kansas Gas Service**

**Exhibit SMH-2**

Summary of RIM & TRC Benefit Cost Evaluations

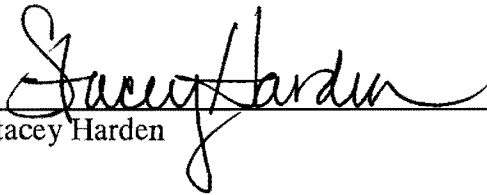
RATEPAYER IMPACT MEASURE (RIM) TEST		TOTAL RESOURCE COST (TRC) TEST	
<b>Benefits:</b>		<b>Benefits:</b>	
(UAC) Utility Avoided Costs		(UAC) Utility Avoided Costs	
Avoided Cost of Gas	\$854,328.21	Avoided Cost of Gas	\$854,328.21
Avoided Electrical Commodity Costs	\$0.00	Avoided Electrical Commodity Costs	\$0.00
Avoided Capacity Costs	\$0.00	Avoided Capacity Costs	\$0.00
(RG) Revenue Gains		(TC) Tax Credits	
KGS Administrative Charges	\$255,297.80	Efficiency Kansas Loan Funds	\$1,392,809.31
<b>Total Benefits</b>	<b>\$1,109,626.01</b>	<b>Total Benefits</b>	<b>\$2,247,137.53</b>
<b>Costs:</b>		<b>Costs:</b>	
(UIC) Increased Supply Costs		(PRC) Program Administration Costs	
(RL) Revenue Losses		Labor	\$727,573.12
Avoided Cost of Gas	\$854,328.21	Fixed Overhead	\$636,515.76
Avoided Gas Distribution Charge	\$185,710.11	Program Evaluation	\$26,526.50
Avoided Electrical Costs	\$0.00	(PNC) Net Participant Costs	
(PRC) Program Administration Costs		Loan Repayment	\$819,545.66
Labor	\$727,573.12	(UIC) Increase Supply Costs	
Fixed Overhead	\$636,515.76		
Program Evaluation	\$26,526.50	<b>Total Costs</b>	<b>\$2,210,161.04</b>
(INC) Utility Incentive Payments			
<b>Total Costs</b>	<b>\$2,430,653.70</b>	<b>Net Benefits</b>	<b>\$36,976.49</b>
<b>Net Benefits</b>	<b>(\$1,321,027.69)</b>	<b>Benefit/Cost Ratio</b>	<b>1.02</b>
<b>Benefit/Cost Ratio</b>	<b>0.46</b>		

VERIFICATION

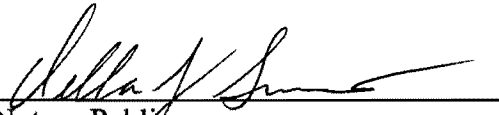
STATE OF KANSAS                    )  
COUNTY OF SHAWNEE            )     ss:

I, Stacey Harden, of lawful age, being first duly sworn upon her oath states:

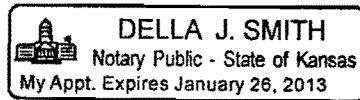
That she is a regulatory analyst for the Citizens' Utility Ratepayer Board, that she has read the above and foregoing testimony, and, upon information and belief, states that the matters therein appearing are true and correct.

  
\_\_\_\_\_  
Stacey Harden

SUBSCRIBED AND SWORN to before me this 12<sup>th</sup> day of May, 2010.

  
\_\_\_\_\_  
Notary Public

My Commission expires: 01-26-2013.



CERTIFICATE OF SERVICE

10-KGSG-421-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, electronic service, or hand-delivered this 12th day of May, 2010, to the following:

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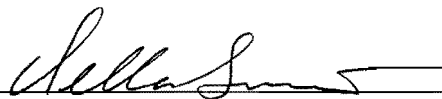
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\_\_\_\_\_  
Della Smith

\* Denotes those receiving the Confidential version