

THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

JUL 20 2011

by  
State Corporation Commission  
of Kansas

In the Matter of the Application of Westar )  
Energy, Inc. for Approval of an ) Docket No. 11-WSEE-610-ACT  
Accounting Authority Order to Record and )  
Defer Costs Related to Westar Energy's )  
SmartStar Lawrence Project. )

**CURB'S RESPONSE TO STAFF'S REPORT AND RECOMMENDATION**

The Citizens' Utility Ratepayer Board (CURB), submits its response below to the *Staff Report and Recommendation*, which was filed in this docket on June 30, 2011:

Westar Energy recently filed a request for an accounting order to preserve its claim for recovery of costs associated with its SmartStar smart grid project in Lawrence. If granted, the accounting order would allow Westar to argue in its next rate case for recovery of the costs plus a return on the capital investment portion of the costs. In the alternative, Westar requests recovery of the costs through the utility's energy-efficiency rider.

**CURB's points of agreement with Staff's recommendations**

The Commission Staff has recommended the Commission deny several components of Westar's request. CURB agrees with the following recommendations of Staff concerning Westar's request:

1. Internal labor costs should not be eligible for inclusion in the regulatory asset, because the cost of paying existing employees is already subsumed in base rates. There's a danger of over-recovery of labor costs if Westar is permitted to separately recover for costs of employees who are being used to roll out the SmartStar project.

2. Westar should not be allowed to include carrying charges in the regulatory asset because the amount claimed is small and thus not eligible for the extraordinary treatment afforded by an accounting order. Staff noted that Westar is receiving grant monies from the Department of Energy for the project that will offset some of the costs.

3. Westar's request to accumulate depreciation expense should be denied. Staff noted that Westar hasn't requested or received authority to do so for recent accounting orders for much larger expenditures, such as those related to two major ice storms. Staff noted that determining the correct amount of depreciation expense associated with this project should be considered in context of the entire range of depreciable assets held by Westar.

4. Staff's analysis concluded that, in its current form, the SmartStar project is producing more savings for Westar on reduced service call costs than it is providing energy-savings benefits for customers. Since there are minimal, if any, energy-efficiency gains generated by this program, Staff recommended against allowing Westar to recover the project's costs through its energy-efficiency rider.

#### **Point of disagreement with Staff's recommendations**

CURB disagrees with Staff's recommendation to allow Westar to accumulate only the non-labor expenses associated with the SmartStar project in the regulatory asset. That means that Westar would track these expenses and be allowed to request recovery of them in its next rate case. CURB does not believe that an accounting order is appropriate in these circumstances.

CURB opposes Staff's recommendation for the following reasons:

1. First, Westar has already notified the Commission of its intention to file a rate case later this summer. Therefore, test-year expenses for the SmartStar program may be considered for recovery along with other test-year expenses in Westar's upcoming rate case.

2. CURB generally opposes the use of accounting orders to preserve costs for future consideration except in extraordinary circumstances, such as repairing extensive damage from major ice storms. There's some justification for preserving the right to recover huge unexpected expenditures because the events that give rise to them don't occur often enough to justify building such extraordinary costs into base rates.

3. Moderate expenditures made as a part of long-term, ongoing projects should be built into base rates rather than recovered on a piecemeal basis. In other words, the costs of the SmartStar project are neither extraordinary nor unexpected. The SmartStar program is a pilot program to test the capabilities and efficacy of smart grid components on a community-wide basis, and is a part of a larger ongoing, long-range effort to upgrade Westar's transmission and distribution systems. Westar's expenditures on software and other infrastructure to activate all the features of the SmartStar project are likely to benefit the company system-wide as it continues to modernize its section of the grid. Whether or not the company determines to go system-wide with the same sort of equipment that is currently being installed in Lawrence, the equipment will no doubt remain in use as part of the overall capital assets of Westar. There is nothing extraordinary about the amounts being expended on the project, nor are the expenditures unplanned or unexpected.

4. It is inappropriate to approve cost recovery in advance of an initial review of the reasonableness of the costs of the program and whether the program is providing benefits that justify the costs. SmartStar is in its early phases, and it is premature to be justifying extraordinary treatment of its costs. Although CURB is not currently arguing for disallowance of SmartStar project costs in the upcoming rate case, CURB notes that Westar’s initial reports on customer utilization of the SmartStar interface are quite disappointing, and discusses its concerns below.

**SmartStars’ initial results are disappointing and call for closer monitoring**

Thus far, 1387 advanced meters have been installed in the Deerfield neighborhood of northwest Lawrence. When the SmartStar project is completed, all of the approximately 45,000 meters in Lawrence will be replaced with advanced meters that will be connected to a “dashboard”, or customer interface computer program, that will allow customers to access their usage data and in some circumstances, to control appliances and thermostats remotely.

However, only 182 households out of 1224 who can currently access the “dashboard” have visited it. That’s fewer than 15% of the participants. Fewer than 1% have signed up to receive alerts from Westar via web, text or both. And only 4 people out of 1224—less than a third of one per cent!—have signed up for monthly and/or weekly notifications. These are dismal numbers for a program that has budgeted a hefty \$55 per meter for customer education.

These numbers are somewhat surprising, as well. The Deerfield neighborhood in Lawrence is a solidly middle-class-to-upscale neighborhood, presumably full of computer-literate and well-educated customers, who are a part of a larger community that is well-known for being enthusiastic

about energy efficiency and environmental matters. If Lawrence residents are not interested in the information that the SmartStar system offers them, then who else will be?

CURB would really like to see a much greater proportion of customers utilizing the features offered by the SmartStar technology before Westar commits wholeheartedly to going statewide with its smart grid plans. If the main benefit of these new meters and the expensive IT infrastructure that supports them is that Westar can save labor costs on service calls and locating outages, then we ought to be evaluating smart grid programs on their value in saving labor costs and improving outage response times, rather than making assumptions about their value in empowering customers to save energy or simply make smarter energy-use choices. At this juncture, it appears that customers aren't very interested in being thus empowered.

There is nothing wrong with the fact that programs like SmartStar may ultimately provide more utility company benefits than customer benefits, so long as we aren't wasting money on features that customers aren't interested in using and wasting money on education in a futile effort to convince them they should be interested.

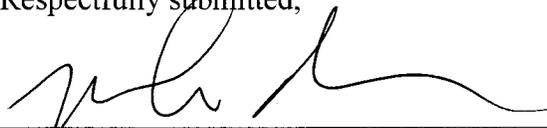
CURB recognizes that this pilot program is just getting started, but urges close scrutiny of data on customer usage of the special features offered by SmartStar as the program expands throughout Lawrence. If customers continue to remain disinterested in utilizing the "dashboard" interfaces with the utility, then perhaps the expenditure of \$55 per household for consumer education is being wasted. Or perhaps Westar could trim costs by eliminating the dashboard feature while still preserving the benefits to the utility of detecting outages and managing accounts remotely. Since this is a pilot program, we urge Westar to continue to track and report the results of the SmartStar program on a periodic basis, and to consider possible revisions of the program if these dismal rates

of active customer participation continue. CURB strongly believes in making tools available to customers to permit them to make smart energy choices, but like all benefits to customers, their costs should be assessed on a benefit/cost basis and the results used to assess the true value of these tools to the utilities and their customers.

### **Conclusions**

CURB recommends that the Commission deny Westar's request for an accounting order to preserve the right to argue for recovery of all costs related to the SmartStar program in its upcoming rate case, and should instead allow Westar to argue for recovery of test-year costs related to the program in its rate case. CURB also recommends that the Commission deny Westar's alternate request to recover these costs through its energy-efficiency rider. If the Commission approves Westar's request for an accounting order, then internal labor costs, carrying charges and accumulated depreciation expense should not be included in the regulatory asset.

Respectfully submitted,



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**VERIFICATION**

STATE OF KANSAS )  
 ) ss:  
COUNTY OF SHAWNEE )

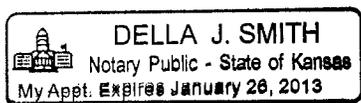
I, Niki Christopher, of lawful age, being first duly sworn upon her oath states:

That she is an attorney for the Citizens' Utility Ratepayer Board; that she has read the above, and foregoing document and upon information and belief, states that the matters therein appearing are true and correct.



\_\_\_\_\_  
Niki Christopher

SUBSCRIBED AND SWORN to before me this 20<sup>th</sup> day of July, 2011.

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

My Commission expires: 01-26-2013.

**CERTIFICATE OF SERVICE**

11-WSEE-610-ACT

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, or hand-delivered this 20<sup>th</sup> day of July, 2011, to the following:

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