

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

DIRECT TESTIMONY

OF

MARK A. RUELLE

WESTAR ENERGY

DOCKET NO. 18-WSEE-328-RTS

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Mark A. Ruelle, 818 South Kansas Avenue, Topeka, Kansas 66612.

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

5 A. Westar Energy, Inc. (Westar), as President and Chief Executive
6 Officer.

7 **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS
8 EXPERIENCE.**

9 A. I hold bachelor's and master's degrees in economics. I have worked
10 in the utility industry for over 30 years, with the majority of that
11 experience at Westar. I started at Westar in 1986, worked in various
12 positions, then resigned in early 1997.

13 Prior to rejoining Westar in 2003, I worked at a Nevada-based
14 integrated electric, natural gas and water utility.

1 In early 2003, I returned to Westar as Executive Vice
2 President and Chief Financial Officer and held that position until
3 becoming President, and shortly thereafter was named Chief
4 Executive Officer in 2011.

5 **Q. HAVE YOU TESTIFIED BEFORE THIS OR OTHER REGULATORY**
6 **BODIES IN THE PAST?**

7 A. Yes.

8 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

10 A. My testimony addresses policy considerations relevant to our
11 application. Specifically, my testimony will:

- 12 1. Discuss the value of electricity to our customers and the effect
13 of this rate request on our customers;
- 14 2. Discuss the relationship of this case to the pending merger
15 between Great Plains Energy, Inc. (GPE) and Westar;
- 16 3. Outline certain matters I believe the Commission should
17 consider when determining just and reasonable rates in this
18 case;
- 19 4. Outline the principal reasons a rate adjustment is reasonable
20 and appropriate, including the impact of the recent Tax Cuts
21 and Jobs Act of 2017 on our revenue requirement, and
22 discuss how our proposals in this docket affect and promote
23 the public interest;

- 1 5. Discuss the merits of various ratemaking methods and
2 approaches the Commission uses to regulate Westar and set
3 its prices, along with two alternative ratemaking methods we
4 are proposing in this docket; and
- 5 6. Summarize Westar's recent achievements and improvements
6 in customer satisfaction.

7 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

8 A. This Application demonstrates Westar's commitment to its
9 customers and to the State of Kansas. As part of this case, we are
10 passing through to customers on a timely basis the benefits of the
11 recent change in the federal corporate tax rate. In fact, with this
12 Application, Westar is the first public utility in Kansas to ask to reflect
13 the benefits of the new tax rate in its rates for customers. The change
14 in the tax rate will allow us initially to reduce rates for customers
15 beginning in September 2018, before reflecting shortly thereafter a
16 necessary increase associated with two significant changes in our
17 revenue not occurring until January and February 2019. We are also
18 proposing to return the net reduction in Westar's cost of service
19 caused by the change in the corporate tax rate between January 1,
20 2018, and the date rates associated with this Application become
21 effective to customers as a one-time bill credit (after consideration of
22 the impacts of other changes in Westar's cost of service).

1 As a responsible public utility, Westar acts and invests with
2 the long-term future of Kansas in mind. The nature of our investment
3 in fixed infrastructure requires a commitment to planning ahead
4 decades to ensure clean, safe, reliable service at just and reasonable
5 rates. This commitment is illustrated by our pursuit of a merger with
6 Great Plains Energy (GPE) in Docket No. 18-KCPE-095-MER in
7 order to better manage rising costs in the future in the context of flat
8 to declining energy sales. Our commitment is reflected by our
9 continued investment in the reliable electric infrastructure necessary
10 to the continued economic success of Kansas, and our continued
11 support of and investment in Kansas renewable resources.

12 Westar's investment in Kansas renewable resources
13 advances three important goals: (1) sustaining local economies with
14 more jobs and by enhancing local revenue streams; (2) helping to
15 keep energy costs affordable, stable and predictable; and (3)
16 leveraging Kansas's natural resources to both efficiently meet
17 customers' demand for cleaner energy and to plan for future
18 environmental requirements. Westar's commitment to Kansas is
19 further evident in our having shared the value of our scale to obtain
20 favorably-priced Kansas renewable resources that we then made
21 available to other smaller Kansas wholesale customers, giving the
22 opportunity to all Kansans, not just Westar's retail customers, to have
23 access to low-cost renewable power.

1 The values reflected in Westar’s rate application in this case
2 reflect costs prudently incurred for Westar to continue providing
3 reliable, efficient service at a reasonable cost to our customers. One
4 of the largest portions of our request relates specifically to the costs
5 associated with our investment in the Western Plains wind farm. Our
6 customers have already been receiving the benefits of this wind farm
7 through reduced fuel costs (in the RECA), even though we will not
8 begin recovering our \$417 million investment until rates are adjusted
9 in this case, perhaps as long as 19 months after customers began
10 receiving these benefits.

11 Two other drivers of our request relate to revenue credits, or
12 offsets to the cost of service, that either already have or will soon
13 expire. These are the credits associated with three wholesale
14 agreements that have expired or will soon expire and the credit in
15 rates for production tax credits (PTCs) associated with Westar’s
16 initial investment in wind energy 10 years ago. Both items have
17 benefitted customers with lower rates for many years; however,
18 because Westar will no longer receive these benefits they will no
19 longer exist as an offset to the cost of service.

20 A final significant driver of our request is an increase in
21 depreciation expense. Two things drive it: the increased plant
22 investments, which can only be recovered over time – usually many
23 decades – through depreciation, and the results of a periodic

1 Commission-required study¹ of depreciation rates to ensure that they
2 reflect reasonable levels consistent with fully and appropriately
3 recovering investments we have made to serve our customers. An
4 important part of such a depreciation study is to ensure that
5 depreciation expenses correspond with the service customers
6 expect to receive and do not unduly burden one generation of
7 customers (*e.g.*, future customers) because rates today may not be
8 set correctly. A well-considered depreciation study, such as the one
9 prepared by our expert, Dr. White, can inform the Commission’s
10 decisions such that they serve to eliminate what is often referred to
11 as intergenerational inequity. While history suggests there may be a
12 natural reluctance to reflect necessary higher depreciation expense
13 in rates, the serendipitous timing of the federal tax cut provides an
14 opportunity to do so without raising prices.

15 **Q. HOW DOES THIS APPLICATION AFFECT WESTAR’S RATES?**

16 A. As a regulated utility, Westar must recover the costs it prudently
17 incurs to serve our customers. Our Application reflects such costs.
18 It is noteworthy that even with the requested increase that ultimately
19 will occur a year from now – and recent prior increases for necessary

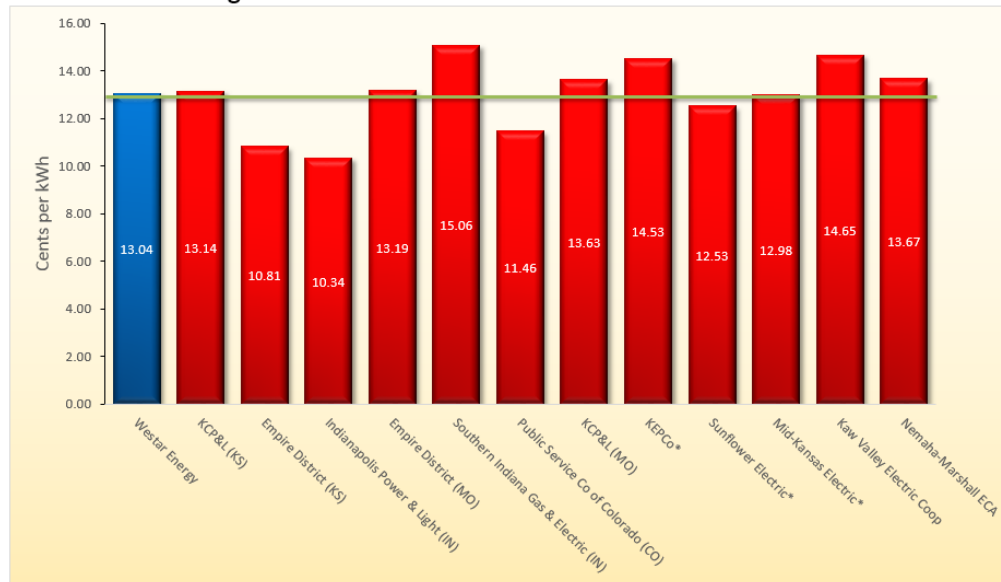
¹ The Commission requires that “the natural gas and public utilities shall file a depreciation study on their assets every five to seven years. These depreciation studies should be filed either concurrent with or just before a rate case.” Order Closing Docket, ¶ 8, Docket No. 08-GIMX-1142-GIV (Aug. 1, 2013).

1 infrastructure and compliance – our overall prices will still remain
2 consistent with the national average, as reflected in Figure 1 below.

Figure 1

Residential Utility Rates

- National Average is 12.93 cents



Sources: 2016 EIA 816 and EEI Dec 31, 2016
*Rate is averaged across members



3 As I testified earlier, we invest for the long term. Over a
4 correspondingly long term (e.g., the 25 years since 1991) changes
5 in our prices have increased at a rate slightly lower than the general
6 rate of inflation.

7 **Q. HOW HAS WESTAR ATTEMPTED TO FACILITATE AN OPEN**
8 **AND TRANSPARENT REGULATORY PROCESS?**

9 A. We have endeavored to be proactive in our regulatory affairs by
10 openly sharing our plans and the status of projects with the
11 Commission, its Staff and the public generally. This has taken many
12 forms. For example, in developing large transmission projects, in

1 addition to the public hearings required by statute, we hold open
2 houses to present our intentions and to elicit public input. In that
3 same vein, we provide landowners notice of the proposed line routes
4 more broadly than called for in the statutes, even as we know that
5 may subject us to more criticism. We also solicit input from
6 interested environmental and non-governmental organizations. In
7 addition to trying to be a good neighbor and recognizing that utility
8 assets sometimes intrude into people’s lives, it also reduces the
9 likelihood of costly and time-consuming dissent and delay.

10 In our day-to-day interactions with the Commission and its
11 Staff, whether responding to information requests or initiating
12 communications about our operations and plans, our intent is to be
13 open, direct and forthcoming. I am hopeful that both the reality and
14 the perception of our actions are consistent with that objective. As
15 an example, in rate cases, we have kept the amount of confidential
16 information to an absolute minimum and responded to every data
17 request submitted to us. Consistent with that approach, only two
18 claims of confidentiality (one related to protecting customer-specific
19 information – not our own; the other related to the confidential
20 settlement of litigation in which Westar was a party) are included in
21 this application.²

² Westar is also requesting temporary confidential treatment of two numbers contained in the Application and the Direct Testimony of Larry Wilkus. These numbers relate to the

1 in order to serve our customers, yet also maintaining the ability of
2 these traditional plants to meet both capacity and energy needs that
3 cannot be met by intermittent renewables. Our investment in
4 renewable energy has helped move Kansas to a ranking of third in
5 the nation in 2016 for wind energy as a share of total electricity
6 generation.

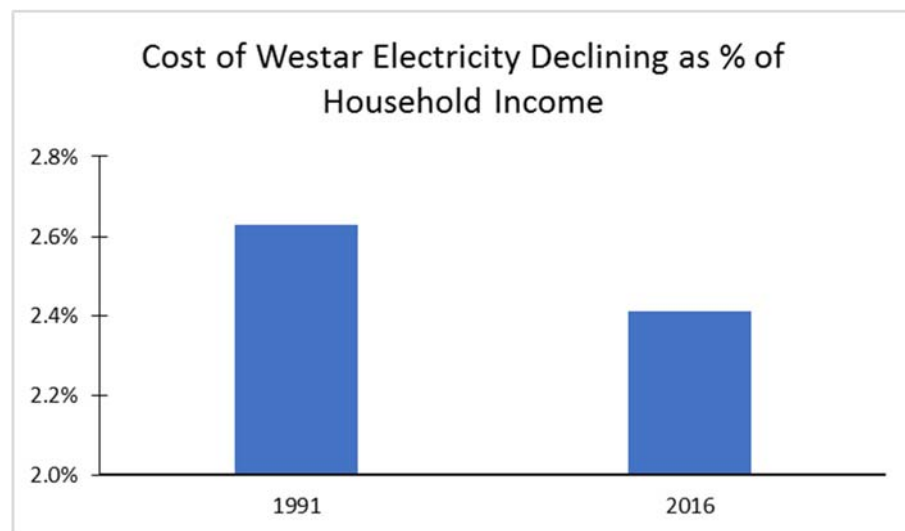
7 The success in these areas has given us and our customers
8 an *even more diverse* fuel mix, and a dramatically growing portfolio
9 of emission-free resources. Such renewable energy would not be
10 possible but for the corresponding commitments we have made to
11 improving the transmission grid. Such investments have improved
12 reliability and relieved congestion in the regional transmission
13 system and made significant improvements to our distribution safety
14 and reliability. We have significantly improved the reliability of our
15 distribution grid, as well. Electric service availability has steadily
16 improved since 2011, with electric service available to customers
17 99.98% of the time in 2017. The frequency of outages for 2017 was
18 the best for which we have such record.

19 We have accomplished all of this while keeping prices for our
20 customers consistent with the national average and, during the past
21 two and a half decades, keeping increases slightly below the rate of
22 inflation.

1 Q. WHAT PORTION OF THEIR INCOMES ARE MOST OF YOUR
2 RESIDENTIAL CUSTOMERS SPENDING ON THEIR
3 ELECTRICITY?

4 A. Figure 2 below shows that, the cost of Westar electricity today is just
5 2.4% of Kansas household income, improved slightly from what it
6 was 25 years ago. Today, on average, even though they still use
7 more of it than they did in 1991, customers can obtain their electricity
8 for a smaller percentage of their household income.

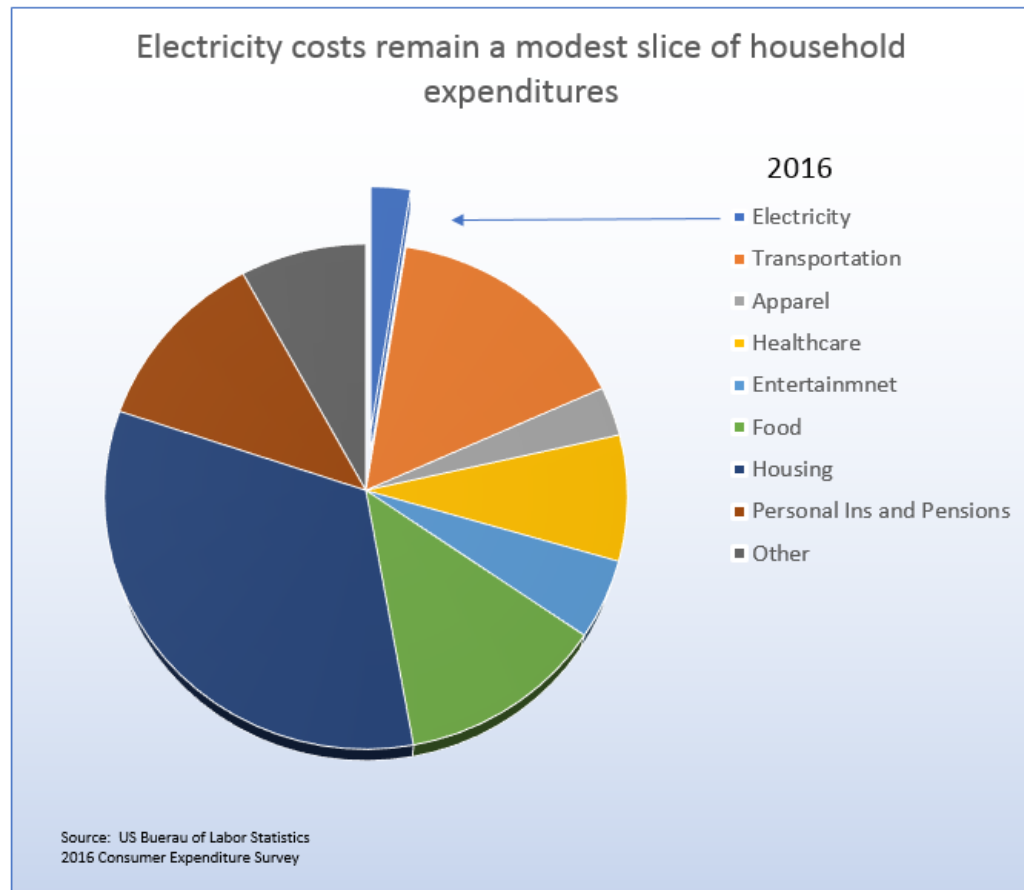
9 Figure 2



10 To put that further in context, for a typical residential customer using
11 900 kWh of our residential customers, even after the increase
12 proposed in this case, the daily cost of powering their entire home
13 for 24 hours will be a little over \$4 per day, about the same cost it
14 takes to drive their cars for less than one hour, or what it takes for
15 some of them to purchase a premium cup of coffee. Further
16 perspective is provided in Figure 3 below, which shows the relative

1 percentage of household income required for items other than
2 electricity, even though many of those other things depend on
3 electricity for their value.

Figure 3



4 Indeed, this is the reason *most* of our customers rarely object
5 to the cost of their electricity, even if all would prefer it cost even less.
6 There is no question that some of our customers have trouble paying
7 for all of the things it takes for daily living, including their utility bills,
8 and that can certainly be a hardship with which we seek to help them.
9 But the fact that Westar electricity delivers such value for a relatively

1 small portion of most of our customers' incomes – together with the
2 fact that the vast majority of high-energy residential users are also
3 higher-income households, may explain why in 2016 we had about
4 half the number of complaints filed by our customers compared to
5 the number filed in 2010.

6 **Q. WHAT WILL BE THE EFFECT ON CUSTOMER PRICES OF**
7 **GRANTING YOUR REQUEST?**

8 A. The first step of our request will reduce prices by \$1.6 million,
9 reflecting the reduction in the federal tax rate in our rates to benefit
10 customers. The effect of the second step – in February 2019 – would
11 be to increase our average retail rate by 2.6%. For the typical
12 residential customer using 900 kWh per month, that would be a net
13 increase of \$5.91 per month or about 20 cents per day.

14 **IV. RELATIONSHIP BETWEEN THE PROPOSED MERGER WITH**
15 **GPE AND THIS GENERAL RATE CASE**

16 **Q. WHY IS WESTAR SEEKING A RATE INCREASE WHEN YOU**
17 **HAVE TESTIFIED IN THE MERGER DOCKET THAT THE**
18 **MERGER WITH GPE WILL RESULT IN LESS FREQUENT AND**
19 **SMALLER RATE INCREASES?**

20 A. Our proposed merger, and the almost \$600 million of savings it can
21 create, will be extremely beneficial for our customers. Indeed, I have
22 testified that no other course of action that we can take has similar
23 advantages for our customers. That is why we have worked so hard
24 to enable it. But, we need to acknowledge two important facts: first,

1 is one of timing and the second is that no one should think the merger
2 is a “silver bullet” that means rates will never change. The merger
3 just lets them change less – and less frequently – than without it – in
4 other words, lower and slower.

5 As to timing, the present rate application relates to *cost*
6 *increases that we are already incurring*, relating to service from which
7 our customers are already benefitting regardless of whether the
8 merger and its benefits to customers are approved. The merger
9 savings address *future savings* to offset some of our future costs.
10 Our application reflects transition-related merger savings from open
11 employee positions. However, future merger savings, which are
12 expected to develop and grow over a few years, cannot offset the
13 need to recover investments we have made and the continuing costs
14 related to actions we have already taken that are already benefitting
15 customers. As I testified earlier, the major drivers for this rate update
16 are related to past investments and events unrelated to the potential
17 merger:

- 18 • The decrease in the corporate tax rate implemented by the
19 Tax Cuts and Jobs Act of 2017 has a significant impact on
20 Westar’s revenue requirement, reducing it by about \$74
21 million. This includes the impact from the reduced tax rate
22 going forward as well as the return of a portion of Westar’s
23 accumulated deferred income taxes (ADIT) to customers.
24 Separately, we propose to provide a one-time bill credit to
25 customers in October 2019, to reflect the net impact of the tax
26 law change on our cost of service between January 1, 2018,
27 and the date of the first rate change as a result of this
28 Application after consideration of other changes in our cost of
29 service.

- 1
2 • Westar invested approximately \$417 million the last two years
3 to complete the 280 MW Western Plains wind farm. This wind
4 farm has, for nearly a year, already been reducing our
5 customers' energy costs through the RECA, but its
6 corresponding costs will not be reflected in our rates until over
7 a year and a half after it has been in service.

- 8 • Customers' bills have been about \$40 million per year lower
9 for years due to the favorable offset provided by wholesale
10 sales. However, three of the larger contracts have expired or
11 will soon expire. With current power market conditions – that
12 is, very low wholesale power prices – we cannot replace this
13 value with new agreements.

- 14 • Wind farms benefit from 10-years of federally-funded
15 production tax credits. We reflect those tax credits as an
16 offset to the cost of service to reduce customers' rates. As
17 Westar's first wind farms reach that age, related tax credits
18 expire.

- 19 • The Commission requires that we conduct and file a
20 depreciation study at least every seven years. Such a study
21 is necessary to ensure that investments are recovered over
22 an appropriate period, and that prices one generation of
23 customers pay do not disadvantage another. The
24 requirement for and results of that study, along with the
25 corresponding depreciation expense on investments we have
26 made that are not yet reflected in rates, are also drivers of this
27 request.

- 28
29 • As Ms. McGrath explains in her direct testimony, Westar has
30 aggressively refinanced debt since our last rate case. The
31 resulting interest expense savings of almost \$29 million
32 annually is reflected in our revenue requirement in this
33 Application.

34 As I said, this present application will include cost offsets related to
35 some of the initial merger savings already achieved in planning for
36 the merger. Such savings are reducing costs, which help offset other
37 increasing costs that we have incurred since the test year in our
38 previous rate case, which was nearly three years ago.

1 **Q. IF APPROVED, HOW WILL THE MERGER BENEFIT KANSAS**
2 **AND KANSAS UTILITY CUSTOMERS?**

3 A. As I explained in the merger docket, Westar is faced with flat sales
4 and rising costs such that, absent achieving savings from this
5 combination, those higher costs would translate into higher prices for
6 customers. That would not be good for Westar, our customers,
7 communities or shareholders.

8 The combination of Westar and GPE is unique in that it
9 positions the combined Company to create savings not readily
10 available to either company independently or through a merger
11 transaction with another entity. Even if another company were willing
12 to attempt to acquire Westar (or the opposite), it is unlikely that a
13 different combination would be able to generate the savings the
14 combination between Westar and GPE can. Additionally, Westar
15 and GPE have made substantial commitments to Kansas
16 communities and employees that we will achieve the merger and the
17 expected savings without merger layoffs and, as a result, without
18 significant labor dislocations in Kansas and the region.

19 **V. MATTERS FOR CONSIDERATION IN DECIDING THE**
20 **APPROPRIATE RATE ADJUSTMENT**

21 **Q. AS CEO OF WESTAR, CAN YOU SHARE WITH THE**
22 **COMMISSION INSIGHT INTO YOUR PHILOSOPHY TOWARD**
23 **UTILITY REGULATION AND WESTAR’S ROLE IN SUPPORTING**
24 **KANSAS?**

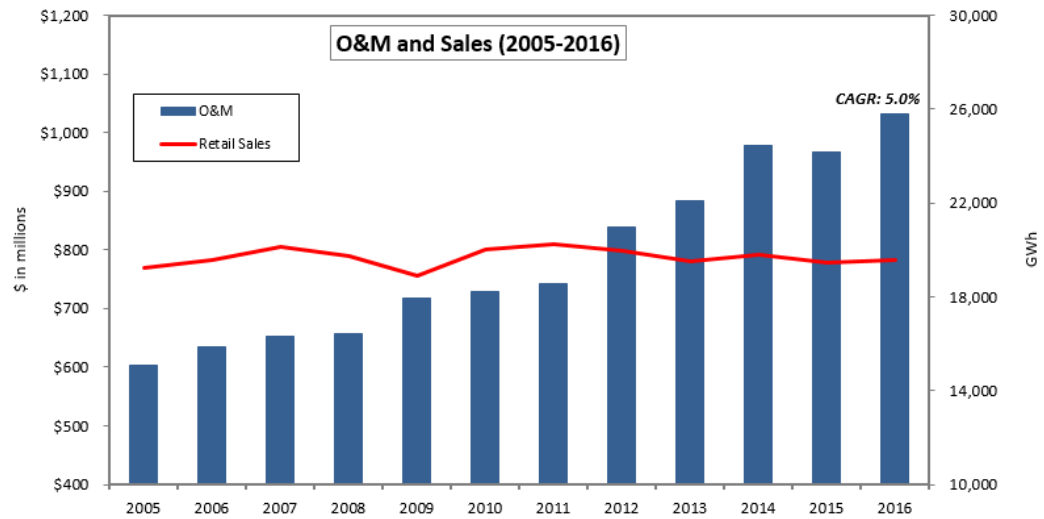
1 A. It is my belief, that while the appropriate *roles* of the Commission, its
2 Staff, and Westar all necessarily and appropriately differ, we share a
3 common *mission* of ensuring safe, reliable, efficient, affordable, and
4 clean energy.

5 This is our only business: being a good electric utility for
6 Kansas. This commitment is important because providing electric
7 service, consistent with the favorable attributes noted above, is
8 essential to keeping Kansas strong and moving forward. Westar
9 must be able to provide these things as well as, or better than, other
10 utilities if we are to keep Kansas from falling behind.

11 **Q. PLEASE DESCRIBE THE ENVIRONMENT IN WHICH WESTAR**
12 **OPERATES AND THE CHANGING CIRCUMSTANCES THAT**
13 **AFFECT WESTAR'S REQUEST FOR A PRICE INCREASE IN**
14 **THIS CASE.**

15 A. The last decade has been challenging economically for our country
16 and for Kansas. As I indicated above, Westar has been faced with
17 flat – sometimes even declining – sales and rising costs, as depicted
18 in Figure 4 below. Such circumstances result in price increases,
19 despite the fact that we know our customers and the Commission
20 have tired of price increases over the last several years.

**Figure 4
Lagging Sales Revenues Can't Make up for Rising Costs**



1 While our customers are more dependent than ever on access to
 2 reliable electricity to power their lives and businesses, ironically, that
 3 need doesn't necessarily translate into needing more of it. Such
 4 circumstances affect rates, especially when revenues are still
 5 primarily a function of the volume of electricity sales.

6 We are also in an industry where size and scale matter and
 7 can be a tool used to slow price increases. Size matters because
 8 virtually no other industry is so capital intensive. Complex pieces of
 9 equipment can cost hundreds of millions of dollars; some a billion or
 10 more! With that capital intensity comes significant fixed costs. Scale
 11 matters, in that a company's ability to spread those fixed costs over
 12 a large customer base reduces the prices for customers.

1 **VI. WESTAR’S APPLICATION AND THE PUBLIC INTEREST**

2 **Q. EARLIER YOU DESCRIBED THE PRINCIPAL REASONS FOR**
3 **THE INCREASE IN REVENUE REQUIREMENT. WHAT HAS**
4 **WESTAR DONE TO OFFSET THE INCREASE?**

5 A. Since our last general rate case, Westar has aggressively sought to
6 reduce its costs, including its interest expense. As a result, the
7 overall rate of return we are requesting in our Application is lower
8 than the rate of return currently authorized by the Commission. As
9 Westar witness Ms. McGrath states in her direct testimony, we have
10 continued to aggressively refinance debt since our last rate case.
11 The resulting interest expense savings alone will save our customers
12 almost \$29 million annually.

13 **Q. WHAT ARE SOME WAYS YOU HAVE BEEN ABLE TO AVOID**
14 **CAPITAL EXPENDITURES, WHILE STILL MEETING YOUR**
15 **SERVICE AND COMPLIANCE OBLIGATIONS?**

16 A. Our project management has produced excellent results in
17 constructing large, complex and costly projects. As the Commission
18 is aware, several years ago, after many years of disagreement and
19 discussion with environmental regulators, we negotiated a favorable
20 settlement with the EPA and KDHE that provided us more cost-
21 effective options, rather than mandates to incur costs that didn’t
22 make sense for our customers. Then, we managed the Selective
23 Catalytic Reduction (SCR) project for Jeffrey Energy Center (JEC)
24 Unit 1 in such a way as to have saved more than \$15 million

1 compared to its budget. Finally, our engineers found a creative
2 solution to maximize customer benefits from the flexibility we
3 negotiated with the EPA. We leveraged to the maximum extent
4 possible the single SCR on JEC Unit 1, and combined it with novel
5 solutions for the other two units to avoid having to construct a much
6 more expensive SCR on one or both of those other units, while still
7 keeping the plant in compliance with site-wide NO_x limits and making
8 it cleaner than any of us could have imagined. If we had not reached
9 agreement with our environmental regulators, there was a possibility
10 that we would have been required to install two additional SCR
11 installations at JEC, costing another \$500 million of capital
12 investment plus future costs to operate and maintain that equipment.

13 Around that same time, when confronted with potentially very
14 expensive *water* discharge options required as a result of the *air*
15 quality projects at JEC, we developed a first-of-its-kind wetlands
16 application to avoid the significant cost and environmental risks
17 associated with using deep well injection and other costlier treatment
18 options. This project, for which our employees received our
19 industry's highest award – the EEI Edison Award – is saving a
20 substantial amount of annual operating costs over more conventional
21 solutions.

22 We have completed virtually all of our major capital projects
23 under budget in recent years, including construction of Emporia

1 Energy Center, the wind farms we built in 2008, the Prairie Wind 345
2 kV transmission line, and the Rose Hill to Sooner 345 kV
3 transmission line. Most recently, we completed construction of the
4 Western Plains wind farm for about \$18 million under budget.

5 **Q. IN ADDITION TO THESE METHODS OF AVOIDING CAPITAL**
6 **EXPENDITURES, CAN YOU SHARE EXAMPLES OF WHAT**
7 **YOUR EMPLOYEES HAVE DONE TO MAXIMIZE EFFICIENCY**
8 **AND SAVE MONEY WITH YOUR OPERATIONS AND**
9 **MAINTENANCE EXPENDITURES?**

10 A. I am proud that our employees continually look for ways to reduce
11 operations and maintenance expenditures – ranging from significant
12 changes in how we operate our business to small changes made
13 daily that add up for our customers. For example, Westar is realizing
14 efficiencies and lower costs, and our customers are experiencing
15 additional conveniences, from our roll-out of smart meters. We serve
16 three very large universities and many smaller colleges. Before this
17 technology was available, it would take many days and even weeks
18 to process the many thousands of customer orders associated with
19 student churn during the “college rush.” Our folks would have to
20 physically go out to each location to complete this work for each
21 customer. Now, we can accomplish that same task in mere minutes
22 of computing time, making life easier for our customers and avoiding

1 wear and tear and expense of vehicles and crews running hither and
2 yon.

3 As the Commission is aware, after implementing additional
4 notice procedures to ensure that no one is surprised by it, we recently
5 began to use the technology in these meters to avoid rolling a truck
6 and the related expenses anytime we need to connect or disconnect
7 service. Customers also benefit from these features because once
8 payment is made on their account, we can nearly instantaneously
9 restore their service and they do not have to wait for us to dispatch
10 a service person to their home. As Mr. Wilkus discusses in his direct
11 testimony, these changes to our “knock and collect” procedures are
12 saving approximately \$450,000 annually, and offering more speed
13 and convenience for our customers, and eliminating the potential
14 indignity of having a Westar employee standing on their front porch
15 to collect payment.

16 In 2013, Westar partnered with Kansas State Polytechnic's
17 unmanned aircraft systems program to integrate unmanned aircraft
18 systems (UASs) – often referred to as drones – into our operations
19 and establish an in-house UAS team. K-State Polytechnic has
20 assisted in developing and testing protocols, providing flight training
21 and creating operational guidelines for these new tools. In 2015, we
22 opened one of the nation’s largest enclosed unmanned flight facilities
23 at the polytechnic campus in Salina. Recently, we deployed the

1 drones commercially in the field and Westar personnel now use the
2 technology for routine inspection of thousands of miles of
3 transmission lines and towers, power plant boilers, wind turbines and
4 substations.

5 The UAS program saves money for customers by making our
6 operations more efficient and our work safer. It also makes our
7 service more reliable. We can use drones to identify struggling
8 equipment before it causes an outage. Drones also make it safer
9 and faster to inspect lines in difficult-to-reach areas when crews are
10 locating the cause of a power outage.

11 We recently placed into service an enterprise asset
12 management solution (Maximo) used to track asset life cycles and
13 workflow processes. Westar uses the system to initiate, plan and
14 design, schedule, execute and close work. Maximo is utilized to
15 understand the details of asset-related inventory, manage planned
16 and unplanned work activities, and track assets and locations from
17 cradle to grave. Maximo Anywhere (our mobile application) allows
18 our linemen the ability to efficiently manage scheduled work while
19 communicating and documenting real-time, field conditions back to
20 Maximo, our GIS (spatial) databases, and asset repositories. We
21 have already begun to see substantial benefits from this system,
22 including:

- 1 • More complete and accurate asset data being captured by our
2 linemen, which is allowing us to be more proactive as we
3 glean information for our enhanced analytics;
- 4 • More efficient work order generation, which means turn-
5 around time to actual construction is improved;
- 6 • Increased efficiency and cost savings; and
- 7 • The ability to get lights on quicker during a storm because of
8 the visibility of damage coming into the office from the line side
9 (being reported by our mobile tablets).

10 These are just a few examples of the work Westar employees
11 do every day to reduce costs for customers while continuing to
12 provide them reliable electric service.

13 **VII. RATEMAKING PRACTICES OF THE COMMISSION**
14 **Q. WHY IS THE REGULATORY FRAMEWORK DEPLOYED BY THE**
15 **COMMISSION IMPORTANT?**

16 A. Central to this entire discussion is the reality that we are simply not
17 like other businesses. Regulated electric utilities are a unique
18 institution, a hybrid enterprise with a mission and responsibilities
19 quite unlike any other. Unlike most businesses, we do not have the
20 flexibility of choosing only the most profitable customers, curtailing
21 services, shutting down a production shift, or deferring maintenance
22 and investment without putting our customers, and even our state, at
23 risk, with no ready alternatives. By design, the regulatory framework
24 in which we operate is intended to recognize and respect that electric
25 utilities are essential to our way of life, that our services ought to be
26 continually accessible to all customers at a price determined by the

1 Commission to be “just and reasonable,” and that our investments
2 must be made with an eye toward the long-term public good, even
3 as we experience whatever pressures might affect us presently.

4 Fortunately, and because of some of the measures I just
5 mentioned, Westar’s forecasted capital needs are relatively modest
6 compared to our peers; however, those capital needs are still
7 enormous relative to most other businesses.⁴ For a business that
8 must attract large amounts of capital to fulfill its basic mission, no
9 investor would place a bet on such a peculiar set of business
10 conditions and constraints without reasonable assurance that there
11 exists a reliable, constructive, regulatory framework that appreciates
12 this unique set of responsibilities for what it is. In that sense, good
13 regulation keeps electric utilities moderated from some of the
14 volatility of the market, so they are never tempted nor compelled to
15 make expedient, compromising decisions with potentially disastrous
16 longer-term consequences for the public interest.

17 **Q. IS WESTAR PROPOSING ANY MODIFICATIONS TO ANY**
18 **INTERIM RATEMAKING METHOD IN THIS CASE?**

19 A. Yes. As an alternative to adjusting base rates to reflect the loss of
20 revenue from recently expired and soon-to-expire wholesale
21 agreements, Westar is proposing a minor change to the RECA that

⁴ The growth rate of Westar’s rate base –about 5.5% annually –is lower than almost all of those similarly situated companies.

1 would allow the loss of such wholesale revenue credits to be
2 reflected through the RECA, in the very same way that the benefits
3 of new wholesale revenue credits flow through to benefit customers,
4 instead of through an adjustment to base rates.

5 **Q. WHY ARE YOU MAKING THIS PROPOSAL, AND HOW DOES IT**
6 **CORRESPOND WITH HOW RATES REFLECT OTHER**
7 **WHOLESALE CONTRACTS?**

8 A. These specific expiring contracts are the exception to the rule. Our
9 proposal would create symmetry in regard to how all wholesale
10 contracts – regardless of the date they are executed and expire, and
11 whether they are full or partial requirements contracts – are reflected
12 in rates. This means that whether changes to contracts increase or
13 decrease the retail revenue requirement, those effects would be
14 reflected in rates on a timely and consistent basis. Mr. Bridson and
15 Ms. Fowler discuss this proposal in greater detail, along with the
16 history of this asymmetry and the benefits of correcting for it.

17 **Q. WHAT OTHER ALTERNATIVE RATEMAKING PROPOSALS IS**
18 **WESTAR MAKING IN THIS CASE?**

19 A. In part as a result of our discussions with Staff, we have developed
20 an appreciation for the possibility of intergenerational inequity in
21 regard to how PTCs affect customers' rates; namely that while wind
22 farms have an economic life predicted to be 20 years or longer, the
23 benefit of PTCs are front-end-loaded to the exclusive benefit of

1 customers taking service in those first 10 years. To address that
2 concern, we are proposing an alternative to the traditional method of
3 calculating the revenue requirement for Western Plains and its
4 corresponding PTCs. Because the wind station has a longer useful
5 life than the limited 10-year life of PTCs, we propose to levelize the
6 entire revenue requirement for our investment and the PTCs to help
7 eliminate the intergenerational inequities that can result from the
8 mismatch of the 10-year life of production tax credits and the much
9 longer life of the wind farm investment.⁵

10 **Q. WHAT IS THE CONCLUSION YOU DRAW FROM THESE**
11 **PROPOSALS?**

12 A. We have worked to develop these solutions to provide benefits to our
13 customers, simplify and create symmetry in the regulatory process,
14 and place Westar and our customers on a level playing field with
15 respect to regulatory lag related to credits from wholesale contracts.
16 While we have filed our case with a revenue requirement calculated
17 based on traditional ratemaking for these two items (the Western
18 Plains wind farm and the expiration of the wholesale contracts), we
19 are hopeful the Commission will find them in the public interest by

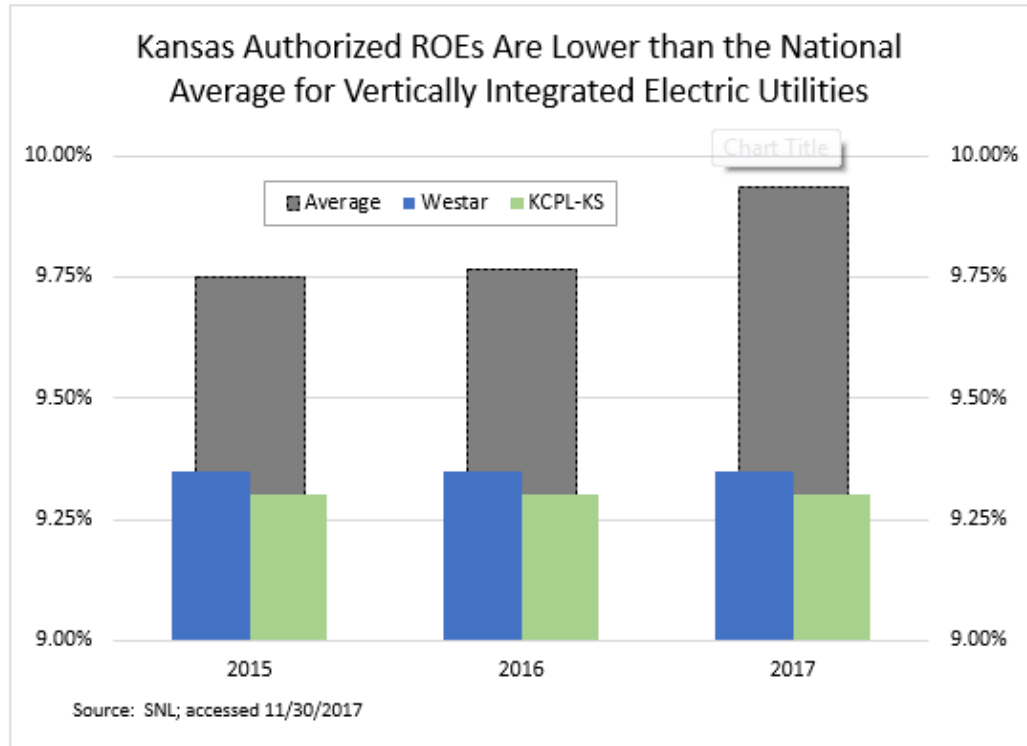
⁵ As Mr. Wilkus explains, the ideal recovery mechanism for such a levelized revenue requirement would be to treat it similar to how the expenses of a PPA are treated, that is, reflecting such costs through Westar's RECA. This would match the cost recovery of the levelized revenue requirement with customers' receipt of the benefits that result from the fuel savings associated with the wind farm – which also flow through the RECA – and smooth the rate impact for customers.

1 recognizing the benefits they will provide to both customers and
2 Westar.

3 **Q. IS THERE ANYTHING PARTICULARLY RELATED TO KANSAS**
4 **UTILITY REGULATION THAT CONCERNS YOU?**

5 A. Yes. In recent years, the Commission has ordered consistently lower
6 authorized returns for regulated public utilities and their shareholders
7 than in most other states, which is a noteworthy concern for investors
8 and future investors. Figure 5 below shows that the recent
9 authorized returns for shareholders of electric utilities in Kansas are
10 consistently below average.

Figure 5



1 This, coupled with our consistent inability to earn such authorized
2 returns, due to persistent regulatory lag, puts Kansas utilities at a
3 disadvantage in the capital markets. If lower allowed returns were a
4 consequence of Westar having underperformed in regard to expense
5 management, customer service, electrical reliability or public safety,
6 perhaps such lower authorized returns would be more easily
7 understood by investors. But absent such compelling evidence, and
8 contrary to our employees' performance on all these important
9 elements of electric service, it places Westar and Kansas utilities at
10 a disadvantage with investors considering investing their savings
11 and capital in our State's electrical infrastructure. SNL's Regulatory

1 Research Associates (RRA), the body that assigns ratings to state
2 regulators, has acknowledged such relative disadvantage for utilities
3 under Kansas regulation. Westar witness Mr. Hevert discusses this
4 issue further in his direct testimony.

5 The ROE of 9.85% requested and supported by Mr. Somma
6 and Mr. Hevert is reasonable, supported by the standard application
7 of several ROE models, and consistent with recently authorized
8 ROEs for vertically-integrated electric utilities. When making its
9 decision regarding Westar's authorized return in this case, I ask that
10 the Commission consider the impact its decision regarding ROE has
11 on investors' perceptions of the regulatory environment in Kansas
12 and their decisions regarding whether or not to invest in Westar.

13 **VIII. WESTAR'S ACHIEVEMENTS IN CUSTOMER SATISFACTION**

14 **Q. WHAT SENTIMENTS ABOUT SERVING CUSTOMERS DOES**
15 **WESTAR'S MANAGEMENT SEEK TO EMBED IN THE ACTIONS**
16 **AND ATTITUDES OF WESTAR EMPLOYEES?**

17 A. That is best represented in our customer intent statement, as follows:

18 In every interaction with Westar, I feel like I'm dealing
19 with people who genuinely care about my home, my
20 business and me. They make the effort to understand
21 and anticipate my needs. They communicate clearly
22 and proactively. When problems occur they are
23 creative in resolving concerns and issues. They
24 understand my time is valuable and always act with
25 urgency. They're easy to do business with, any way I
26 choose. It's seamless and effortless and I never feel
27 taken for granted.

28 Westar is my trusted energy advisor, active and visible
29 contributors to the well-being of our community.

1 They're the first to help when I need them. They're my
2 neighbors.

3 This statement embodies the aspirations we have for every
4 employee in every encounter we have with our customers and in the
5 communities we have the privilege to serve. Whenever
6 circumstances, time and priorities permit, we seek to go "above and
7 beyond" to make life easier for our customers and be a force for
8 improving the lives of our communities.

9 **Q. WHAT EFFORTS HAS WESTAR PUT IN PLACE SINCE ITS LAST**
10 **GENERAL RATE REVIEW TO FURTHER IMPROVE CUSTOMER**
11 **SATISFACTION?**

12 A. With customer expectations rising, in 2014, Westar adopted a
13 companywide initiative to improve the experience our customers
14 have interacting with us. Consistent with, and supporting our
15 customer intent statement, highlights include:

16 • We redesigned many of the ways we interact with our
17 customers, including largely eliminating residential customer
18 deposits that were previously required to establish electric
19 service, eliminating the fees for paying an electric bill with a
20 credit card, launching a new, more user-friendly version of our
21 Interactive Voice Response (IVR) system, and creating
22 Vegetation Central, a central point of contact for tree-trimming
23 and vegetation management related questions.

24 • We developed Customer Experience knowledge in the
25 workforce through internal training of employees, the result
26 being a workforce more empowered and encouraged to take
27 ownership of the situation, and apply their informed judgment
28 to improve customer satisfaction.

- 1 • We developed a mobile application through which customers
2 can pay their bills, check the status of their accounts, and
3 access other information about Westar and their accounts.

- 4 • We redesigned our website, which was recently ranked
5 second by JD Power for website satisfaction.

- 6 • We redesigned the bills we sent to customers, streamlining
7 our monthly statements and making those statements more
8 user friendly and easier to understand.

- 9 • We created a dashboard for customers with smart meters
10 where they can access information about their energy usage.

- 11 • With the roll out of smart meters, we have improved the speed
12 and convenience with which customers can start, stop or
13 relocate their electric service.

- 14 • We implemented text and email alert messaging, allowing
15 customers to receive notices and updates about power
16 outages in their area. Additionally, customers can sign up to
17 receive bill alerts and budget alerts to help them better
18 manage their energy use.

- 19 • We created our Westar in Motion mobile trailer for community
20 events throughout the service territory, which is used to inform
21 customers about Westar and their energy use and to provide
22 access to customers to discuss questions about their bill and
23 service as well as public safety issues or questions with
24 Westar representatives.

25
26
27
28 **Q. WHAT HAVE RESULTS HAVE THESE EFFORTS PRODUCED?**

29 A. Since implementing these initiatives Westar achieved JD Power’s
30 “Most Improved Large Segment” brand in the country for 2015-2016,
31 in addition to the high ranking for our website, which I mentioned
32 above. Again in 2016-2017, Westar has remained in the Top 10
33 “Most Improved Large Segment” brands. Our last JD Power Wave

1 score of 714 was the highest overall customer satisfaction score we
2 have received in our JD Power history.

3 **Q. ARE THERE OTHER MEASURES OF CUSTOMER**
4 **SATISFACTION THAT YOU HAVE ALSO IMPROVED?**

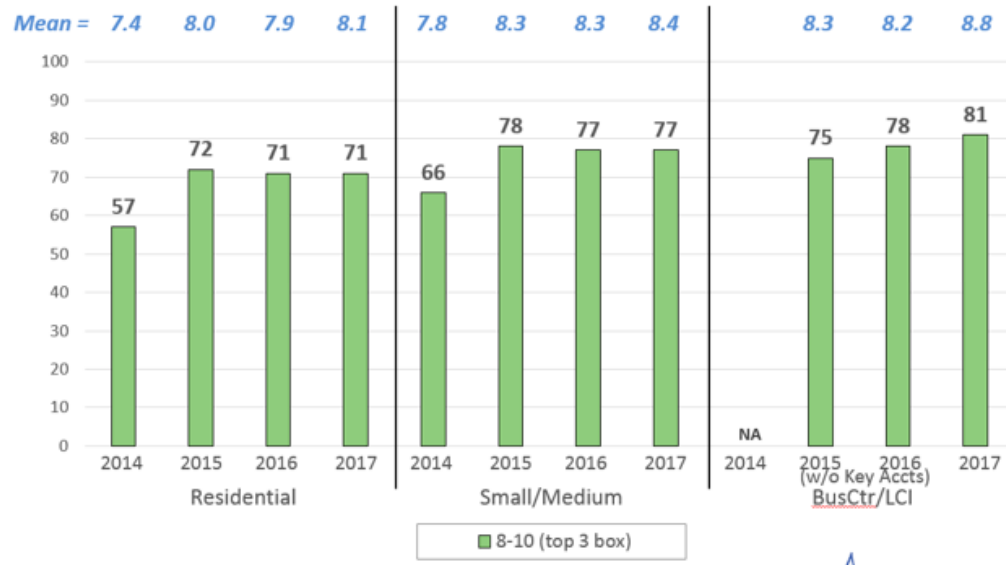
5 A. Yes. We measure customer satisfaction through both transaction
6 surveys and statistically-designed random surveys. As Figure 6
7 shows below, trends for both such surveys indicate significant
8 improvement and consistent customer satisfaction. Over 70% of our
9 customers now rate us 8, 9 or 10 on a 10-point scale (with 10 being
10 the most positive score).

1

Figure 6

Overall Satisfaction with Westar

(8, 9, or 10 on scale from 0-10)

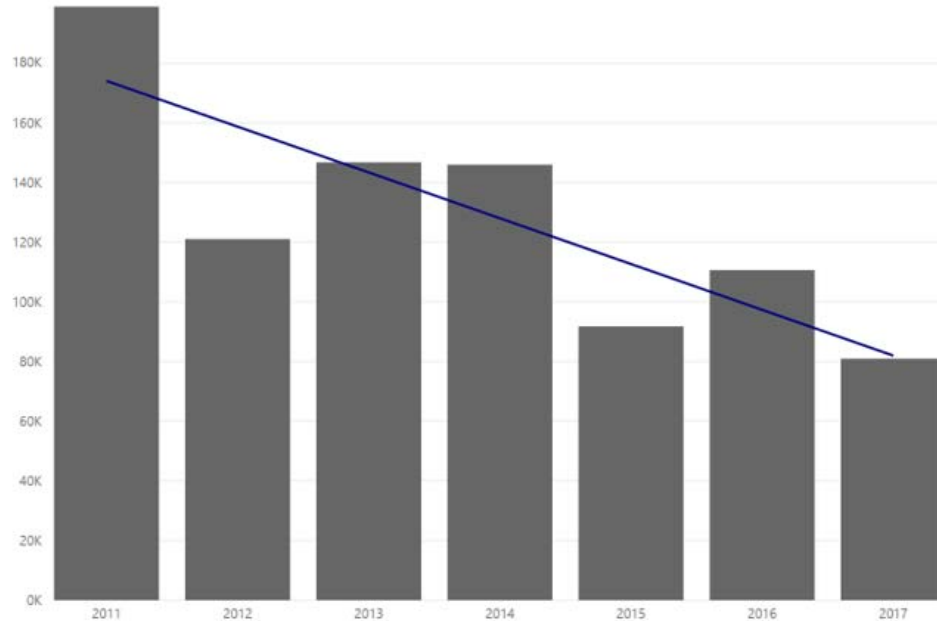


2 **Q. DO SPECIFIC MEASURES OF RELIABILITY ALSO SUPPORT**
3 **THIS HIGHER LEVEL OF CUSTOMER SATISFACTION?**

4 A. Yes. As I indicated earlier, we have seen significant improvements
5 in the reliability of our distribution system in the last several years.
6 This is a product of our executing programs such as ReliabiliTree®
7 and the small grid resiliency pilot earlier authorized by the
8 Commission, along with improved systems, training and tools. For
9 example, as Figure 7 below reflects, customer service outages due
10 to tree damage have steadily declined over the last six years as a
11 result of the ReliabiliTree® program.

Figure 7

Tree trimming through ReliabiliTree cuts tree caused outages in half



1 **Q. CAN YOU COMMENT, GENERALLY, ON YOUR EMPLOYEE AND**
2 **PUBLIC SAFETY PERFORMANCE?**

3 A. In regard to employee safety our performance is best quartile in both
4 OSHA recordable incidents as well as preventable vehicle
5 accidents. In regard to public safety, our low number of preventable
6 vehicle accidents makes us one of the safest driving utilities in the
7 country. Our crews are trained to give extra attention to potential
8 hazards in public spaces, particularly those frequented by children
9 who may not fully appreciate the hazards that can accompany
10 electricity. We have a robust public safety outreach program with
11 over 60 public hot trailer presentations performed annually; mailings,

1 website, games, and videos sent to schools, emergency responders,
2 and at-risk workers; and social media safety communications.

3 **IX. CONCLUSION**

4 **Q. WHAT OBSERVATIONS DO YOU OFFER TO THE COMMISSION**
5 **AS IT CONSIDERS YOUR APPLICATION AND STAFF'S AND**
6 **OTHER PARTIES' RESPONSES TO IT?**

7 A. As the Commission examines our filing, I believe it will be evident
8 that our request is transparent, conventional, presented in a
9 forthright manner, and contains little, if anything, that should be
10 characterized as controversial. I believe it will withstand the scrutiny
11 of careful audit and verification as to completeness, accuracy and
12 reasonableness. This should not be taken as an assertion that we
13 are infallible or that other approaches have no merit. We will readily
14 acknowledge and correct any errors as we or other parties discover
15 them and will be open to considering reasonable alternatives to
16 adjustments we have proposed. The record will show that we have
17 been responsive to the inquiries and audits of the Commission Staff
18 and other parties to the docket.

19 The record will show that we diligently and effectively manage
20 costs, employee and public safety, are responsible stewards of our
21 environment, are dedicated to serving our customers, have planned
22 for and maintained quality electrical infrastructure, are one of the
23 largest property tax contributors in our state and remain a quality

1 employer fully engaged in the communities we have the privilege of
2 serving.

3 I also believe the Commission will find that our request reflects
4 necessary, but well-managed cost increases consistent with our
5 continued commitment to being a responsible Kansas utility and our
6 obligation to provide reliable service at a reasonable cost.

7 **Q. THANK YOU.**