KANSAS CORPORATION COMMISSION
DOCKET NO. 15- WSEE-115-RTS
TESTIMONY
OF
ASHOK GUPTA
ON BEHALF
OF
THE CLIMATE + ENERGY PROJECT

Q. Please state your name, address, and affiliation.

A: My name is Ashok Gupta. I work for the Natural Resources Defense Council ("NRDC"). My work address is NRDC, 20 N. Wacker Drive, Chicago, Illinois 60606. I also serve as Chairman of the Board for the Climate + Energy Project ("CEP").

Q. Describe your background and professional qualifications?

A: Since 1991, I have been with NRDC working as a Senior Energy Economist on energy related matters including energy efficiency, renewables, and utility regulatory policy. I have served as NRDC's Director of the Air & Energy program for ten years and most recently as Director of Programs for almost three years. I was NRDC's representative on Mayor Bloomberg's Energy Policy Task Force and Sustainability Advisory Board. Prior to NRDC, I worked at the City of New York and the Public Utility Law Project of New York as an energy policy analyst.

My educational training includes undergraduate degrees in Physics and Math from Georgetown University and a master's degree in Economics from American University.

Q. On whose behalf are you testifying?

A: I am testifying on behalf of the Climate + Energy Project.

Q. What is the purpose of your testimony?

A: The purpose of my testimony is to advance a mechanism to align the interest of utility shareholders, its customers, and efficient use of electricity and to point out negative consequences of Westar's proposal to considerably raise fixed customer charges.

Q. What is your recommendation to the Commission?

A: My recommendations are as follows:

1. The Commission should not allow Westar's proposal to increase the customer charge for its residential customers.
2. The Commission should explore regular adjustments in volumetric rates as a way of addressing the issues in this rate case. Regular adjustments do a much better job of addressing revenue adequacy than increased customer changes. Additionally, such a mechanism can also help bring into line Westar's financial incentives with the goals of promoting energy efficiency under KEEIA while protecting low and fixed-income consumers.

Q. What is your understanding of Westar's proposal to raise fixed customer charges?

A: Westar proposes to significantly alter the relationship between the customer charge and the energy rate for the residential classes, raising the fixed customer charge from $15.00 to $27.00 by 2019.

Q. Is Westar's proposed customer charge in line with other Midwestern utilities?

A: No. Westar customers would be at the top of all other utilities in the region.

Q. If approved, what is the impact of the proposed fixed customer charges?

A: A higher fixed charge reduces customers' incentive to use electricity more efficiently because more of the costs are recovered in a way that is independent of electricity consumption. Because only the variable charge can be managed by reduced usage, increasing the customer charge makes any customer efforts to reduce their electricity bill by using less energy not as effective. Because of this, the price signal sent by a much higher fixed charge is likely to deter customers from implementing energy efficiency measures, resulting in greater future energy use than would have transpired under the current rate design.

Q. How will greater electricity use impact overall costs to customers?

A. As discussed above, by reducing customers' incentives to save electricity, energy use in likely to increase more that it would have, which could increase costs to customers, and:

1. Increased customer use means that over time more generation, transmission, and distribution costs will be required and passed on to customers.

2. Higher fixed charges will reduce the success of energy efficiency programs because customers won't be able to lower their bills by using less electricity.
3. Energy efficiency being a least-cost option for complying with the Clean Power Plan will mean that Westar will have to consider more expensive options.

Q. What policy considerations should guide the Commissions determination to reject a higher fixed customer charge?

A: In 2014, the Kansas Legislature passed the Kansas Energy Efficiency Investment Act ("KEEIA"). KEEIA's goal is to "promote the implementation of cost-effective demand-side programs in Kansas…it shall be the policy of the state to value demand-side program investments equal to traditional investments in supply and infrastructure as much as is practicable". The statute requires the Commission to "ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that sustains or enhances the utility customer's incentives to use energy more efficiently." A reasonable interpretation of this provision would be that the Commission shall adopt policies and mechanisms consistent with increased investment in energy efficiency by customers and to ensure that utilities are not at greater risk of under-recovering their revenue requirement when consumers engage in efficiency opportunities.

Q. Have other Commissions recognized the detrimental impact of higher customer charges?

A. Yes, the negative effects of increasing the customer charge are well recognized. Just last month, on April 29, 2015 the Missouri Public Utility Commission issued a Report and Order ER-2014-0258 ruling against Ameren for even a small increase in the customer charge, stating:

> The Commission must also consider the public policy implications of changing the existing customer charges. There are strong public policy considerations in favor of not increasing the customer charges.
>
> Residential customers should have as much control over the amount of their bills as possible so that they can reduce their monthly expenses by using less power, either for economic reasons or because of a general desire to conserve energy. Leaving the monthly charge where it is gives the customer more control.

Q. What alternative mechanisms exist for managing revenue adequacy and instability?

A. A regular revenue adjustment mechanism offers a much better way to address revenue adequacy between rate cases compared to increasing fixed customer charges. As mentioned above, increasing customer charges can result in substantial negative impacts on some customers, and will reduce customers' financial incentives to reduce their bills through energy efficiency or other means. A regular revenue adjustment mechanism would meaningfully reduce the impacts on lower-use customers while providing revenue certainty to Westar.

Q. Please explain what you mean by regular revenue adjustment mechanism.

A. Under traditional ratemaking, the utility's revenue requirement is determined at the time of a rate case. Rates are then determined by dividing the utility's revenue requirement by forecasted sales. These rates are then generally held constant until the following rate case, and any variation from actual sales would cause the utility's revenues to increase or decrease until the next rate case.

A regular adjustment in rates removes this un-anticipated fluctuation in revenues resulting from a variation between forecasted and actual sales and allows the utility to achieve the agreed upon revenue requirement in the rate case. If sales increase for any reason (for example, due to weather or higher economic activity than forecasted), the utility variable rates are adjusted downward. Similarly, if sales decline for any reason (for example, due to weather, lower economic activity than forecasted, or energy efficiency), the utility is permitted to adjust rates upwards to meet its agreed upon revenue requirement in the rate case.

Q. What is the throughput disincentive?

A. That term commonly refers to the incentive an electric or gas utility has to sell more electricity or gas in order to recover its authorized revenue requirement. When the collection of authorized revenues depends upon a utility selling, at a minimum, the amount of electricity as was estimated in a rate case, the utility has a disincentive to promote energy efficiency or conservation measures.

Q. What do you propose as an alternative mechanism for addressing the throughput disincentive?

A: My recommendation is for an annual revenue adjustment mechanism that reconciles actual revenues to the most recent test year approved revenues on an annual basis, applying any adjustment over the following year, and spreads those adjustments on a general basis to all customers. This approach is one key part of a three-part policy to achieve KEEIA's goal of aligning utility financial incentives with the goal of capturing all cost-effective potential for energy savings for Kansas electric customers. The other two legs of that three-legged stool include timely recovery of energy efficiency program costs and an earnings opportunity. My testimony today focuses just on the throughput disincentive mechanisms and does not address the other two legs of the stool.

Q. What is your recommendation to the Commission?

A: My recommendations are as follows:

1. The Commission should not allow Westar's proposal to increase the customer charge for its residential customers.

2. The Commission should support a regular revenue adjustment mechanism as a way of addressing the issues in this rate case as a better way to address revenue adequacy than increased customer changes and aligning Westar's financial incentives with the goals of promoting energy efficiency under KEEIA. This will provide utilities with revenue adequacy and help put downward pressure on costs, and lower bills for consumers.

Q. Does this conclude your testimony?

A. Yes

STATE OF KANSAS

COUNTY OF Johnson

VERIFICATION

Ashok Gupta, being duly sworn upon his oath, deposes and says that he is the designated expert witness for the intervenor Climate + Energy Project, that he has read and is familiar with the foregoing direct testimony, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Ashok Gupta

Ashok Gupta

Subscribed and sworn to before me this 8TH day of July, 2015.

Sarah Bell

Notary Public

SARAH BELL
Notary Public
State of Kansas
My Appointment Expires 08-08-18

My appointment expires: AUGUST 8, 2018