



***Kansas Electric
Power Cooperative, Inc.***

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October 20, 2017

Sent via Email and U.S. Mail

Mr. Mo Awad
Director, Regulatory Compliance
Westar Energy
818 S. Kansas Avenue
Topeka, KS 66601-0889

Re: Kansas Electric Power Cooperative, Inc. (KEPCo) Challenge to Westar Energy, Inc.'s (Westar) Proposed October 13, 2017 Revised Annual True-Up to the Transmission Formula Rate (TFR) for Rate Year 2016 (Revised 2016 Annual True-Up)

Dear Mr. Awad:

On or around June 13, 2017 (Publication Date), Westar Energy, Inc. (Westar) posted its Annual True-Up to the Transmission Formula Rate (TFR) for the 2016 Rate Year (2016 Annual True-Up). On July 6, 2017, Westar held a public meeting to discuss its Annual True-Up calculations for the TFR (Annual True-Up Meeting). Since that time, Kansas Electric Power Cooperative, Inc. (KEPCo) engaged in discovery on the 2016 Annual True-Up, and Westar subsequently made several corrections in a revised 2016 Annual True-Up, which was posted on October 13, 2017 (Revised 2016 Annual True-Up). Westar's Revised 2016 Annual True-Up includes revisions to address several of KEPCo's discovery requests, including revisions to actual PBOP (Discovery Request (DR) KEPCo-2.28 and -2.29), industry association dues (DR KEPCo-2.39) and Wolf Creek labor (DR KEPCo-2.42). However, KEPCo has two issues that Westar's Revised 2016 Annual True-Up does not appropriately address. Pursuant to the Challenge Procedures in Westar's Formula Rate Implementation Protocols (Section III), KEPCo challenges Westar's Revised 2016 Annual True-Up.

Issue No. 1. Taxes Other Than Income, Actual Gross Rev, Page 2 of 5, Line 18, Property

Westar has included, Actual Gross Rev, Page 2 of 5, in Line 18 for WEN and WES, the amortization of the Ad Valorem Taxes regulatory asset totaling approximately \$46.1 million.

We understand that pursuant to K.S.A. 66-117(f) and with the approval of the KCC, Westar established a regulatory asset for Ad Valorem Taxes for retail ratemaking purposes that is recorded in Account 182.3, Other Regulatory Assets, and amortized to Account 408.1. KCC-approved regulatory assets established for retail ratemaking purposes are not recoverable through wholesale rates under FERC's jurisdiction. Westar has not requested approval from FERC to establish a regulatory asset for Ad Valorem Taxes for wholesale customers. Westar, therefore, has not properly followed the process spelled out in the FERC Uniform System of Accounts guidelines for the use of regulatory assets and the recovery of those regulatory assets through customer rates that are under FERC's jurisdiction.

The increase in property taxes related to the amortization of the Ad Valorem Taxes regulatory asset of \$46.1 million (\$37.7 million for Westar Energy, FERC Form 1, p. 232, l. 16, col. (e), and \$8.4 million for KG&E), FERC Form 1, p. 232, l. 18, col. (e), should not be included in wholesale customers' rates.

This issue was raised in KEPCo's September 13, 2017 Preliminary Challenge to the Westar Generation Formula Rate Annual Update posted on June 1, 2017, and was identified as "Issue No. 2" therein. (See Attachment 1). In that formula, as KEPCo raised in its Preliminary Challenge, Westar had included, in Lines 59 and 60 of its Form 1 Data Inputs, the amortization of the Ad Valorem Taxes regulatory asset totaling approximately \$46.1 million. On October 2, 2017, KEPCo received a response from Westar to KEPCo's Preliminary Challenge, in which Westar agreed that "... the increase in property taxes related to the amortization of the Ad Valorem Taxes regulatory asset should not be included in wholesale customers' rates." Westar further stated in its October 2 response,

"Upon further review, Westar has determined that it erroneously included in the June 2017 GFR Annual Update the dollars associated with the amortization of the Ad Valorem Taxes regulatory asset. As required by the Protocols, Westar will reflect its correction of this mistake in the Annual Update for the next effect Contract Year."

(See Attachment 2.) Finally, Westar provided details on the correction to the Generation Formula Rate that the company would make to the Annual Update for the next Contract Year for this error in an email from Lisa Barnes to me on October 10, 2017. (See Attachment 3.) We believe the same correction can be made promptly to Westar's Revised 2016 Annual True-Up to allow the impacts to be realized in the True-Up applied to Westar's 2018 Annual Projection.

Issue No. 2. Adjustments to Rate Base, Page 1 of 5, Lines 19 through 20, Unfunded Reserves

Westar has not included the unfunded reserves for Westar Energy (*i.e.*, Westar Energy North or WEN) and Kansas Gas & Electric Company (*i.e.*, Westar Energy South or WES) as reductions to rate base for the following items in which Westar has included the directly-related accumulated deferred income taxes (ADIT) recorded in FERC Account 190 as increases to rate base (with rows designating the row in which the item appears in the corresponding TFR Microsoft Excel spreadsheet tabs for Worksheet "A-5 (WEN ADIT)" and Worksheet "A-7 (WES ADIT)"):

- a. Pensions (A-5 row 32 and A-7 row 32);
- b. Deferred Compensation salaried WE (A-5 row 33 and A-7 row 33);
- c. Property Insurance (A-5 row 34 and A-7 row 35);
- d. Injuries and Damages (A-5 row 35 and A-7 row 36);
- e. Group Medical Insurance (A-5 row 36 and A-7 row 37);
- f. Environmental (A-5 row 37 and A-7 row 38);
- g. Vacation Pay Accrual (A-5 row 38 and A-7 row 39);
- h. Legal Expenses (A-5 row 39 and A-7 row 40);
- i. Deferred Compensation Plan (A-5 row 42 and A-7 row 43);
- j. Long-Tm Incentive Prog PWR MKT (A-5 row 61 and A-7 row 55);
- k. Short Term Incentive Program (A-5 row 64 and A-7 row 58);

- l. Long Term Incentive Program (A-5 row 65 and A-7 row 59);
- m. WE Salary Continuation Plan (A-5 row 69 and A-7 row 63);
- n. Environmental Reserve – Transm (A-5 row 74 and A-7 row 68); and
- o. Inj & Damages Reserve – Transm (A-5 row 76 and A-7 row 69).

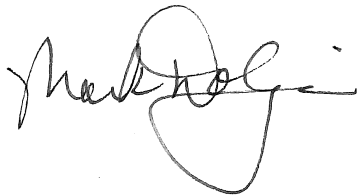
These unfunded reserves would be recorded in FERC Accounts 228.1 – 228.4, 232, 242, 253 or 254. FERC stated in its order for Xcel Energy Southwest Transmission Company, LLC,

“...we find that XEST’s formula rate template should recognize unfunded operations and maintenance costs reserves as a form of cost-free financial capital to XEST. Utilities may accrue monies through charges to operation and maintenance expense to fund contingent liabilities, and such accrued reserves should be deducted from rate base until they are used to fund the liabilities because such reserves represent a cost-free form of financial capital from customers to utilities, not unlike accumulated deferred income taxes (ADIT) which are deducted from rate base.”¹

It is inequitable for Westar to currently include the ADIT which is directly related to the unfunded reserves as additions to rate base, without also including the unfunded reserves balances as deductions to rate base. If Westar believes that the formula does not provide for including the “unfunded reserves” balances as adjustments in the Adjustments to Rate Base, Actual Gross Rev, Page 1 of 5, Lines 19 – 20, Westar should then modify Worksheets A-5 (WEN ADIT) and A-7 (WES ADIT) to change the allocation of the above items to column (B), “100% NonTrans. Related.” We believe ample time is available for Westar to make these corrections to Westar’s Revised 2016 Annual True-Up to allow the impacts to be realized in the True-Up to be applied to Westar’s 2018 Annual Projection.

We look forward to the opportunity to discuss these issues further with Westar in order to resolve this challenge.

Sincerely,



Mark Doljac
Director of Rates and Regulation

¹ *Xcel Energy Southwest Transmission Company, LLC*, Docket No. ER14-2751-000, *Order on Transmission Formula Rate Proposal and Incentives, Accepting and Suspending Filing, and Establishing Settlement and Hearing Judge Procedures*, 149 FERC ¶ 61,182 (November 26, 2014), ¶ 97. See Attachment 4.

cc: Tanner Wealand, Westar Energy
Justin Campbell, Westar Energy
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