

## **CURB negotiates smaller increase for Westar customers; rate consolidation moved to new docket**

**November 13, 2008; Topeka, Kansas.** The Citizens' Utility Ratepayer Board (CURB) and ten other parties have reached a settlement with Westar Energy that reduces the proposed rate increase for customers by \$47 million.

The settlement also includes several key terms that CURB sought for residential and small commercial customers of Westar, including an agreement to redesign the company's energy charge adjustment to limit adjustments of the ECA to four times a year, and to give customers advance notice of changes in the ECA before they take effect. The company also agreed to withdraw its request for an enhanced rate of return on its investments in its current set of wind projects, and agreed not to seek an enhanced return on these projects in any future proceeding. This will save ratepayers \$50 million over 20 years.

The proposed settlement would allow Westar to increase rates by \$130 million annually, with the increase to be divided equally between the company's North and South divisions. Additionally, the costs of environmental upgrades that have already been approved and are currently being passed through to customers through a separate line-item surcharge will be returned to base rates; Westar will have to reapply next year to place additional costs into the environmental rider.

Rate design for Westar customers will also reflect changes that CURB's board has sought in its policies to encourage energy conservation and to ensure that a basic block of electricity remains affordable for all, especially for low-income seniors and other fixed-income customers. The most economical rate will be charged for the first 900 kWh used per month, and the discount for winter power was reduced to make this lower rate available to all residential customers. Electricity will be more expensive for use above 900 kWh in the summer, which will encourage higher-use customers to conserve. CURB believes that these changes will contribute to the overall goal of delaying the need for Westar to add more plants by encouraging conservative use of power, while ensuring that everyone has access to a basic amount of reasonably-priced power.

In recognition of the volatility of the current financial markets, the parties agreed to assume that the settlement will yield Westar a rate of return on equity of 10.4%, and an overall rate of return of 8.4949%. Additionally, Westar will be allowed to file an abbreviated rate case under KCC regulations in the next year or two to propose an increase in rates to include more of the construction costs of the yet-to-be completed Emporia Energy Center and 296MW of wind generating facilities that are currently under construction.

The parties have agreed to leave it up to the Commission to decide whether Westar's North and South rate structures should be consolidated into a single company-wide rate structure. The Commission has granted a motion to sever the issue from this case and hear the issue in a separate docket this spring.

The evidentiary hearing to consider the settlement was held at the KCC on November 4. The KCC's decision is expected in January.

"We knew that Westar had enough increased costs to justify a substantial increase in this case," said CURB Consumer Counsel David Springe, "so we were very interested in finding a way to soften the impact on customers. Given the concessions Westar made to CURB and the other consumer groups on the revenue requirement and other policy issues, we feel the settlement provides customers some real benefits that they might not have received had we litigated the case. The increase will hurt, but not as bad as it might have. We appreciated the effort Westar made to work with us to make the increase less painful to customers."

Springe went on to say that customers need to be aware that this increase is just the first step in what inevitably will be a series of increases in electric rates over the next decade. "Average demand per household is growing. Even if customers make serious efforts to reduce their consumption, Kansas utilities are going to have to start building new plants soon." As a consequence, he said, "Conservation will become more and more important in the near future to prevent rates from skyrocketing. Customers who don't make the effort to cut back their usage will find themselves paying a higher proportion of the utilities' costs of meeting growing demand."

Springe also noted that moving the issue of whether to consolidate the rates of Westar South and Westar North to a separate docket will allow the parties to more fully investigate the potential impact on customers. "The decision whether to consolidate rates will be a political decision as much as a policy decision," he said. "The Commission should have a fully-developed record before making the call. Public hearings will allow affected customers to present to the Commission all of the pros and cons. We're much more comfortable with the idea of considering consolidation in a separate docket than trying to tackle all these big issues without having further hearings."