

124 FERC ¶ 61,204
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Westar Energy, Inc.

Docket No. ER08-777-001

ORDER CONDITIONALLY ACCEPTING COMPLIANCE FILING

(Issued August 28, 2008)

1. On June 13, 2008, Westar Energy, Inc. (Westar Energy) and its wholly owned subsidiary, Kansas Gas and Electric Company (KG&E) (collectively, Westar), filed revised tariff sheets to Attachment H-1 of Westar's Open Access Transmission Tariff (OATT) in compliance with the Commission's order issued May 29, 2008.¹ In this order, the Commission conditionally accepts the proposed tariff revisions for filing, as modified.

Background

2. Ice storms caused significant damage to Westar's transmission and distribution system in December 2007. According to Westar, it incurred estimated storm-related expenses of between \$73 and \$85 million. Of that amount, an estimated \$6.8 million are transmission operation and maintenance (O&M) costs.²

3. Westar submitted an application to the Kansas Corporation Commission (KCC) for permission to defer the non-transmission storm-related expenses as a regulatory asset. The KCC granted Westar's request and authorized the company to record and preserve its non-transmission storm-related expenses in a "separate and distinct sub-account of FERC Account 182.3" to be considered for rate recovery in Westar's state rate case in May 2008.³

¹ *Westar Energy, Inc.*, 123 FERC ¶ 61,222 (2008) (May 29 Order).

² *See Id.* P 3.

³ *See id.* P 4.

4. Because of the magnitude of its storm-related transmission expenses, Westar submitted an application to the Commission's Chief Accountant in Docket No. AC08-30-000 for permission to record its storm-related transmission O&M expenses in the Commission's Uniform System of Accounts, Account 182.1, Extraordinary Property Losses, rather than simply expense the \$6.8 million in 2007. On March 25, 2008, the Chief Accountant granted Westar's request to defer the \$6.8 million, but found that, based on Westar's recent history, the December 2007 ice storm did not meet the Commission's requirements for treatment as an "extraordinary item."⁴ The Chief Accountant granted Westar authorization to record the expenses in Account 182.3, Other Regulatory Assets, which amounts "should be amortized to Account 407.3, Regulatory Debits, consistent with recovery of such amounts in rates."⁵

5. On April 1, 2008, Westar filed proposed revisions to its formula rate, which were intended to provide for the recovery of ice storm damage expenses incurred in December 2007. In the May 29 Order, the Commission conditionally accepted the proposed tariff revisions for filing, as modified. The Commission required Westar to submit revisions in a compliance filing that: (1) reflect the Commission's finding that Westar's storm related expenses be amortized to the transmission O&M expense accounts; (2) specify that the new storm damage line items pertain only to the 2007 storm damage; (3) add the words "less transmission related reserves" to note S of Westar's OATT; and (4) revise Westar's Rate Formula Template to ensure that future accruals of transmission property damage reserves are subtracted from rate base until they are applied to offset transmission property damage expenses, unless the reserves go into an external escrow account and the earnings on that account accrue to the reserves booked to Account 228.1.

Compliance Filing

6. On June 13, 2008, Westar filed revised tariff sheets to Attachment H-1 of Westar's OATT. Westar states that in compliance with the May 29 Order, it has revised its accounting to reflect the amortization of the storm-related expenses to the transmission O&M expense accounts that would have been charged if the costs were not recorded as a regulatory asset. Additionally, Westar submitted for filing Substitute Third Revised Sheet Nos. 172 and 176 which specify that the new storm damages line item 19a pertains only to the December 2007 storm damage. Further, Westar revised Note S of Sheet Nos. 175 and 179 "as necessary...to ensure that future accruals of transmission property damage reserves are subtracted from rate base until they are applied to offset transmission property damage expenses, unless the reserves go into an external escrow account and the earnings on that account accrue to the reserves booked to Account

⁴ See *id.* P 5.

⁵ *Id.*

228.1.” Specifically, Westar revised Note S of Sheet No. 175 to show the calculation of Westar Energy’s total transmission expense amortized in the transmission O&M accounts over 36 months, beginning June 1, 2008, i.e., total transmission expense for the December 2007 ice storm damage less the total transmission storm damage reserve amount as of December 2007. Because no transmission damage occurred in KG&E’s transmission system, Westar revised Note S of Sheet No. 176 to state as such and to indicate the transmission storm damage reserve amount for KG&E as of December 2007.

7. Finally, in light of the above-noted revisions to the rate formula template, Westar removed line item 15a (Amortization of Transmission Storm Damages) from Sheet Nos. 173 and 177 in order to avoid double counting of costs. With the removal of line item 15a from the rate formula template, the Commission's directive that Westar revise Note S to include the following underlined text: “line 15a is the annual amortization of transmission storm damages less transmission related reserves as approved by FERC” became moot.

Notice and Responses

8. Notice of Westar’s filing was published in the *Federal Register*, 73 Fed. Reg. 35,683 (2008), with protests and interventions due on or before July 7, 2008. Kansas Electric Power Cooperative, Inc. (Kansas Electric Cooperative) filed comments.

Discussion

Kansas Electric Cooperative’s Comments

9. Kansas Electric Cooperative raises two issues. First, it is concerned that added lines 19a “Unamortized Transmission Expense for 12/07 Ice Storm, Account 182.3” (19a) and 19b “Transmission Storm Damage Reserve” (19b) do not indicate whether each is a positive or negative adjustment to rate base. The tariff sheets should indicate that the unamortized balance should be added and the storm damage reserve balance should be subtracted from rate base.

10. Second, Kansas Electric Cooperative asserts that line 19b, which is related to the storm damage reserve adjustment to rate base, refers to Note S, but Note S does not address how the storm damage reserve is to be treated. Note S only shows the balance as of December 31, 2007 that was used to offset the storm damage expense otherwise to be amortized and recovered in the formula rate. The storm damage reserve accrual in Account 228.1 going forward, regardless of magnitude, should be treated as a credit to rate base. Note S, however, could be read to imply that the storm damage reserve accrual to be credited to rate base is fixed as shown and is only credited for so long as the authorized storm damage expense is being amortized. Kansas Electric Cooperative recommends that a separate note be added, applicable to line 19b, specifying that the storm damage reserve accrual balance in Account 228.1 is to be a continuing rate base

adjustment, even after the authorized storm damage expense amortization is fully recovered.

Commission Determination

11. With regard to Kansas Electric Cooperative's first concern, we are not persuaded that it is necessary for Westar to indicate whether each is positive or negative in the tariff sheets. The other line items included in rate base are not labeled as either positive or negative. We see no reason why lines 19a and 19b should be treated differently. In addition, Note S indicates that the amounts to be included in 19a and 19b are the positive numbers \$6,758,937.33 and \$110,358, respectively.⁶

12. With regard to Kansas Electric Cooperative's second concern, we agree that Westar must make explicit its future treatment of the storm damage reserve accrual in Account 228.1. While Westar has indicated that storm damage reserves accrued up until December 2007 will be credited to rate base, Westar has not met the May 29 Order's requirement that, unless the storm damage reserves go into an external escrow account and the earnings on that account accrue to the reserves booked to Account 228.1, it must "ensure that future accruals of transmission property damage reserves are subtracted from rate base until they are applied to offset transmission property damage expenses." Westar must include a note in its tariff either stating that all future storm damage reserves are subtracted from rate base until they are applied to offset transmission property damage expenses or indicating that the reserves are placed in an external escrow account with the earning accruing to the reserves booked to Account 228.1.

The Commission orders:

(A) Westar's compliance filing is hereby conditionally accepted for filing, as modified, to become effective June 1, 2008, as requested.

(B) Westar is hereby directed to submit a compliance filing within fifteen (15) days, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

⁶ The formula in column two of line 20 (line 19 + line 19a – line 19b) indicates that line 19a will be added and line 19b subtracted from rate base.