



JAMES LUDWIG
Vice President, Regulatory & Public Affairs

**Testimony of
James Ludwig
Vice President, Regulatory and Public Affairs
Westar Energy
On House Bill 2033
March 5, 2007**

Chairman Emler and members of the committee, my name is Jim Ludwig. I am Vice President of Regulatory and Public Affairs for Westar Energy. Thank you for the opportunity to address you today on House Bill 2033. Westar Energy supports HB 2033.

I would like to first explain Construction Work In Progress (CWIP) and its impact on Westar Energy and its customers. An important aspect to remember is that the types of construction projects that I will be discussing are large multi-year commitments. They have significant exposure to fluctuations in interest rates, and material and labor costs.

Construction Work In Progress is the accumulation of such costs as labor, material, equipment, overheads and Allowance for Funds Used During Construction, commonly referred to as AFUDC (interest or carrying costs) associated with each major construction project. The current statute makes CWIP an optional adjustment by the Kansas Corporation Commission (KCC) at its discretion. Passage of this bill would require the inclusion of CWIP into rates when requested by a utility in a general rate case. There would be no need for the utility to accumulate AFUDC on the amount of CWIP being recovered in rates, thereby reducing the effect of carrying costs on rates. An important note to remember is that the KCC authority to evaluate and rule on the prudence of the construction projects remains intact.

Attached to my testimony are two examples of the effect of CWIP on customer rates.

In 1985, the Wolf Creek Generating Station began commercial operation providing energy to Kansas Gas and Electric Company (KGE), Kansas City Power and Light Company (KCPL) and Kansas Electric Power Cooperative (KEPCo). As example 1 indicates the total cost for KGE's 47% share of Wolf Creek was \$1.4 billion. Included in the total cost was \$432 million of interest or approximately 31% of the cost. If the entire interest cost associated with Wolf Creek's construction could have been avoided by inclusion of CWIP in rates, the average KGE residential customer would have saved approximately \$65 per year. Likewise in example 2, KPL's interest expense for building the Jeffrey Energy Center that began construction in 1974 was \$108 million. If CWIP had been allowed to be included in rates, the average KPL customer would have saved \$14 per year.

The legislature has endorsed the equivalent of recovery of construction work in progress in public works projects through the passage of an increased fuel tax incorporated in the comprehensive highway legislation. The tax is collected during the construction years of the program. If the state waited until the 10-year highway plan was built before charging a higher fuel tax, the impact on gasoline prices would have been more severe. In the private sector, I can go to a local bank for a home construction loan. Then I would be expected to pay on the loan as construction progresses, and in doing so would ultimately pay a lower overall cost than if I waited until construction was complete before paying anything.

There are at least four benefits to electric utilities and their customers with this legislation:

1. Lower construction costs resulting in overall lower rates. CWIP reduces carrying costs for the project thus reducing the overall cost of the project.
2. Avoidance of rate shock. CWIP allows rates to be increased gradually rather than sudden one time increases.
3. KCC retains ability to evaluate the prudence of all construction projects. Regulatory oversight remains in force.
4. Indirect savings can also come from lower financial risk of major construction projects, resulting in lower cost of capital and better access to capital.

Thank you for the opportunity to provide testimony this morning. I will be glad to stand for questions at the appropriate time.