BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION OF MID-KANSAS ELECTRIC COMPANY, LLC FOR APPROVAL TO MAKE CERTAIN CHANGES IN ITS CHARGES FOR ELECTRIC SERVICES IN THE GEOGRAPHIC SERVICE TERRITORY SERVED BY LANE SCOTT ELECTRIC COOPERATIVE, INC.	]]]]]]]	KCC Docket No. 12-MKEE-410-RTS

TESTIMONY OF ANDREA C. CRANE
FILED IN OPPOSITION TO THE STIPULATION AND AGREEMENT

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

January 22, 2013

TABLE OF CONTENTS

A. Introduction

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211, Ridgefield, Connecticut 06877. (Mailing Address: PO Box 810, Georgetown, Connecticut 06829.)

Q. Did you previously file testimony in this proceeding?

A. Yes, I filed Direct Testimony in this case on November 30, 2012, addressing the rate filing made on April 2, 2012 by Mid-Kansas Electric Cooperative ("MKEC") on behalf of the customers served by the Lane Scott Division ("Company"). In my Direct Testimony, I recommended that the Kansas Corporation Commission ("KCC" or "Commission") adjust the Company's rate base claim to reflect the actual amount paid for the Aquila assets by the Lane Scott Division. In addition, I also provided recommendations regarding the Lane Scott Division's financial and managerial relationship to Lane Scott Electric Cooperative, Inc., which owns the native system and the assets of the Lane Scott Division.

Q. Did you also file Cross Answering Testimony?

A. Yes, I did. On December 10, 2012, I filed Cross Answering Testimony addressing four aspects of the Direct Testimony filed by KCC Staff:

1. Staff's proposal to update the Test Year to reflect actual results through September 30, 2012;

2. Staff's proposal to set rates based on a Times Interest Earned Ratio ("TIER") of 2.0;
3. Staff's alternative rate base/rate of return proposal that reflects a cost of equity of 14.25%; and
4. A recommendation that any margin awarded the Lane Scott Division should be retained within the Lane Scott Division.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain why CURB is opposing the Stipulation and Agreement ("S&A") that has been filed by the Company and Staff in this case. As my testimony demonstrates, the proposed rate increase is excessive and is not supported by the evidence.

B. Background of the Case

Q. Please briefly summarize the filed positions of the parties in this case.

A. In its Rate Application, the Lane Scott Division sought a rate increase of $510,915 or approximately 13.34%, based on a rate base/rate of return methodology. CURB also used the rate base/rate of return methodology and is recommending a rate increase of $48,888. Staff's primary recommendation was that the KCC set rates based on a Times Interest Earned Ratio ("TIER") methodology, and recommended a rate increase of $312,310 if this approach is adopted. However, Staff also developed a proposed rate increase based upon the rate base/

rate of return methodology. If that approach is adopted by the KCC, Staff recommends a rate increase of $31,334.

Q. What is the operating margin included in each of the three parties' recommendations?

A. The Lane Scott Division requested an operating margin of $434,667.[1] Thus, over 85% of the Company's claim relates to profit. As shown on Schedule SMH-1, CURB is recommending an operating margin of $122,723. Staff's TIER calculation results in an operating margin of $260,951[2] and its rate base/rate of return recommendation results in an operating margin of $80,105.[3] Since the S&A includes a rate increase that is higher than the increase recommended by Staff's TIER approach, the resulting operating margin will be higher than the $260,951 recommended by Staff.

Q. What was the margin requested by the Lane Scott Division in its last base rate case?

A. In Docket No. 09-MKEE-969-RTS ("969 Case"), the Lane Scott Division requested an operating margin of $110,000, based on a TIER of 2.2.[4] Thus, the Company's claim in this case represents an increase of almost 300% over the operating margin requested in its last base rate case. It is interesting to note that CURB's recommended operating margin in this case is slightly higher than the amount requested by the Lane Scott Division in the 969 Case.

[1] Direct Testimony of Douglas Shepherd, p. 7, line 11.
[2] Schedule B-1 to Staff's TIER Schedules.
[3] Schedule B-1 to Staff's Rate Base/Rate of Return Schedules.
[4] Direct Testimony of Richard Macke, KCC Docket No. 09-MKEE-969-RTS, Schedule RJM-LS-3, p. 1.

Q. Can you please summarize the capital structure and cost rates that the three parties utilized in their respective rate base/rate of return models?

A. Yes, the following are the capital structures and cost rates recommended by each party if the KCC adopts a rate base/ rate of return approach:

	Company	CURB	Staff
Long-Term Debt	0%	50%	80.85%
Long-Term Debt Rate	N.A.	4.38%	4.05[5]
Equity	100%	50%	19.15%
Equity Rate	8.72%	8.72%	14.25%
Overall Rate of Return	8.72%	6.55%	6.00%
Operating Margin	$434,667	$122,723	$80,105
Rate Increase	$510,915	$48,888	$31,334

As shown above, Staff's rate base/rate of return recommendation includes a lower cost of capital, lower recommended operating margin, and lower recommended rate increase than CURB's recommendation in this case.

C. Discussion of the Stipulation and Agreement

Q. Since your Direct Testimony was filed, have the parties engaged in settlement discussions?

A. Yes, the parties have engaged in subsequent settlement discussions. As a result, the

[5] Although Staff's Rate Base/Rate of Return schedules reflect a debt cost of 4.05%, Staff stated in the response to CURB-53 that the correct debt cost was 4.34%, as shown in Exhibit JSB-1 to the Direct Testimony of John Bell. Correcting Staff's recommendation for the higher debt cost would increase its recommended rate increase to $83,263, an increase of $3,158.

Company and Staff entered into an S&A to resolve the issues in this case. CURB is not a party to the S&A and is opposed to the S&A, for the reasons specified in this testimony.

Q. Can you please summarize the terms of the S&A?

A. The S&A provides for an increase in the Lane Scott Division's rates of $370,000, or 9.7%, and specifies the new rates that have been agreed to by Staff and the Company. In addition, the S&A provides for a rate discount of 20% applicable to residential space heating customers with consumption over 800 kWh up to 5,800 kWh. Finally, the S&A states that the Lane Scott Division will withdraw its request for a Heat Pump tariff.

Q. What are your primary concerns regarding the S&A?

A. CURB has one principal concern – the revenue increase of $370,000 is excessive and is not supported by the evidence in this case.

Q. Why do you believe that the revenue increase proposed in the S&A is excessive?

A. The revenue increase proposed in the S&A is excessive because it ignores the methodology used by the Company to file its base rate case; it overrides the Company's management prerogative; and it is based on a fundamentally flawed alternative ratemaking method that the Company did not request and that is not supported by the facts in this case.

It should be noted that regulatory commissions frequently argue that regulators should not be making management decisions for the utilities they regulate. Rather, regulators argue that utility management has the right, and the obligation, to make those management decisions. In this case, the Company was well represented by three witnesses with considerable experience in the management of cooperative utilities. That management chose to file this case based on a rate base/rate of return approach.

Given a rate base/rate of return approach, CURB found that a rate increase of $48,888 was appropriate. The KCC's own Staff found that an even lower rate increase was appropriate. As shown in Staff's supporting schedules, if a rate base/rate of return approach had been utilized, Staff recommended a rate increase of only $31,334, considerably less than CURB's recommendation.

Moreover, while CURB and Staff had somewhat different adjustments in their rate base/ rate of return models, they did agree on one major issue: if the KCC adopts a rate base / rate of return approach, it is necessary to reflect an acquisition adjustment in rate base. As explained in my Direct Testimony, the Company's rate base claim includes $5,413,704 of plant acquired from Aquila even though the Lane Scott Division only paid $2,475,896 for this plant. Moreover, not only did the Company request a return <u>on</u> amounts that they did not actually invest in the Aquila assets, but they also included a return <u>of</u> these amounts by including depreciation expense on this "phantom" plant expenditure. Thus, the Lane Scott Division requested both a return on and a return of plant of approximately $2.94 million that was never paid for by investors. The evidence in this case clearly shows that if a rate base/rate of return approach is adopted by the KCC, then the acquisition adjustment should be reflected in rate base, as proposed by both Staff and CURB in their respective testimonies.

Q. What impact would such an acquisition adjustment have on the Company's claimed rate increase?

A. If the Commission made only one adjustment to the Company's filing, i.e., to adjust plant in service to reflect the acquisition adjustment based on the actual purchase price of the assets, then the Company's requested rate increase would decline from $510,915 to approximately $281,000, as shown in Schedule ACC-SA-1, Moreover, the Company's proposed increase would be even lower if one also eliminated depreciation expense on this "free" plant. CURB's depreciation expense adjustment was based on the assumption that the plant that was not paid for by the Company was being depreciated at the Company's composite depreciation rate, resulting in an additional adjustment of $78,439.[6] Staff did not make a depreciation expense adjustment, but did include the amortization of the acquisition adjustment in its cost of service, which reduced the Company's revenue requirement by $99,758.[7] As I indicated in my Direct Testimony, either approach is appropriate.

However, even ignoring the return of this plant through depreciation or amortization adjustments, just eliminating the return on the plant that investors did not pay for would result in a rate increase that is lower than the rate increase agreed to in the S&A. Even if every other adjustment proposed by Staff and CURB was rejected, just reducing plant in service to reflect the acquisition adjustment would result in a rate increase of only $281,000, significantly lower than the increase proposed in the S&A. If CURB's corresponding depreciation expense adjustment was included, then the required rate increase would be

[6] Direct Testimony of Andrea C. Crane, Schedule ACC-2.
[7] Staff Rate Base/Rate of Return Schedules, Schedule B-2, Adjustment No. 2.

$202,449, as shown in Schedule ACC-SA-2. Staff's recommendation would be even lower, as shown in Schedule ACC-SA-3. Given the fact that the acquisition adjustment was strongly supported by both Staff and CURB, and is also supported by regulatory theory that a utility should not recover a return on investments that it did not actually make, CURB simply cannot support a rate increase in the range of $370,000.

Q. Are there other adjustments proposed by Staff and CURB that the KCC would have been likely to adopt if no S&A had been reached?

A. Yes, there are. For example, CURB's recommendation included a rate base adjustment to reduce the material and supplies balance by $400,596. This adjustment was simply to correct an error in the Company's filing [8] and not opposed by the Lane Scott Division in its Rebuttal Testimony. Staff proposed a similar adjustment. This materials and supplies adjustment would reduce the Company's request by another $34,915, assuming the Company's requested return of 8.718%. [9] CURB believes that the KCC would have adopted this non-controversial adjustment.

In addition, Staff proposed adjustments to update the Test Year plant balances in this case. While CURB opposes updating the Test Year, we recognize that the KCC has permitted such updates in other cases. Staff's update to the Company's net plant in service balance would result in a further reduction of approximately $14,800 to the Company's

[8] *See,* Direct Testimony of Stacey Harden, p. 7, Schedule SMH-3; MKEC Response to CURB-71.

[9] $400,496 X $8.718% = $34,915.

claim, assuming the Company's cost of capital was adopted.[10] Thus, there is simply no way that one can get anywhere close to a rate increase of $370,000 using the rate base/rate of return methodology proposed by the Company in this case.

Q. But doesn't the alternative TIER methodology utilized by Staff support a rate increase that is close to the $370,000 in the S&A?

A. As stated previously, Staff's TIER methodology resulted in a rate increase recommendation of $312,310. Moreover, Staff indicated in its Testimony in Support of the Stipulation and Agreement that it would accept an additional salary adjustment that would increase its recommendation to $369,274, <u>assuming an increase in TIER to 2.2</u>. Mr. Bell testified that this result was "close" to the $370,000 reflected in the Stipulation. However, in this case, there is no theoretical support for using a TIER methodology, since the TIER methodology is based on a premise that does not exist in this case, i.e., that a utility must achieve a certain margin in order to meet a covenant required by its lender. Accordingly, CURB does not believe that the fatally-flawed TIER methodology can be used to justify the rate increase reflected in the S&A.

Q. Why doesn't the TIER methodology apply in this case?

A. The TIER methodology does not apply in this case because there is no debt! The TIER methodology is based on the presumption that a utility has a specific contractual commitment

[10] Staff's Adjustments No. 1 and 2 on Schedule A-2 of its Rate Base/Rate of Return Schedules show a net decrease of $169,797. Assuming a return of 8.718%, this adjustment would reduce rates by $14,803.

that must be met in order to satisfy its lenders. In this case, the Lane Scott Division has no debt and therefore it cannot possibly have a TIER requirement that must be satisfied. The use of the TIER methodology is based on a faulty premise and cannot stand scrutiny in this case.

Q. Has the KCC utilized the rate base/rate of return approach in other cases involving cooperatives?

A. Yes, it has. KCC has consistently used the rate base/rate of return approach in cases involving Midwest Energy, Inc, another Kansas cooperative. In fact, Mr. Shepherd, who has extensive experience with cooperatives, testified that "all of the cases that I have previously worked on with this commission were based on rate of return."[11] While it is true that the KCC utilized the TIER methodology for other MKEC cases, in all of those cases the Applicant requested that the TIER methodology be used to set rates. However, clearly the KCC has utilized the rate base/ rate of return methodology to set rates for cooperatives in Kansas and there is no reason why it should not be used in this case, especially since that is the methodology proposed by the Company in its filing.

Q. CURB recommended that the KCC adopt a hypothetical capital structure in this case. Isn't that the same as recommending a hypothetical TIER requirement?

A. No, it is not the same at all. The use of a hypothetical capital structure is a well-known and

[11] Rebuttal Testimony of Douglas Shepherd, p. 5, lines 20-21.

often-used method to evaluate a utility's revenue requirement, based on the assumption that the utility is financed in an efficient manner. A hypothetical capital structure is frequently used in utility rate proceedings when the actual capital structure of the utility being regulated is not efficient. The use of a hypothetical capital structure is not an attempt to manage the financing decisions of the utility. The utility is always free to manage its financing as it sees fit. However, the use of a hypothetical capital structure does insure that utility rates are determined based on a capital structure that is reasonable and efficient. The hypothetical capital structure effectively limits the negative ratemaking consequences of an inefficient and unreasonable actual capital structure, such as the 100% equity capital structure proposed by the Lane-Scott Division.

The TIER methodology, on the other hand, assumes that there is a specific contractual relationship between a utility and its lender, one that requires the utility to achieve a certain margin requirement above its annual interest expense. No such contractual relationship or annual interest expense exists in this case. The Company recognized that fact and filed its case using a different approach.[12] However, Staff apparently wasn't satisfied with its own revenue requirement result using the methodology selected by the Company so Staff decided to assume managerial responsibility and reformulate the Company's rate filing to achieve a desired result. Essentially, in this case, Staff assumed the role that should belong to the management of the utility, i.e., the decision about how to prepare and present a base rate case request. Only by assuming a contractual requirement to achieve a TIER of 2.0,

[12] Direct Testimony of Douglas Shepherd, p. 7, lines 3-6; Rebuttal Testimony of Douglas Shepherd, p. 5, lines 17-24.

a requirement that cannot possibly exist since the Lane Scott Division has no debt, can Staff obtain a result that is anywhere close to the amount reflected in the S&A. Staff even had to go beyond the 2.0 TIER recommended in its Direct Testimony in order to support the S&A, arguing that a TIER of 2.2 might be appropriate given the Company's equity position. However, since the Lane Scott Division has no debt, CURB does not believe that a TIER methodology can be used to justify the rate increase of $370,000 reflected in the S&A.

Q. Why do you believe that Staff used a TIER methodology?

A. I believe that the use of a TIER methodology by Staff was a results-oriented decision. According to Witness John Bell, "First and foremost using TIER to calculate Lane-Scott's revenue requirement produces a reasonable revenue requirement of $312,310."[13] Later in his testimony, Mr. Bell states that "Staff chose a TIER level of 2.0 because it produces a revenue requirement of $312,000, which should be adequate for Lane-Scott to begin recovering its current cost of service, make timely payments on its debt service, and increase its equity accounts."[14] It appears from these statements that Staff wanted to recommend a higher rate increase than the increase produced by the rate base/rate of return methodology. Furthermore, it is clear that Staff simply could not justify the amount that it wanted to recommend for Lane Scott based on the rate base/rate of return methodology filed by the

[13] Direct Testimony of John Bell, p. 26, lines 15-16.
[14] Id., p. 29, line 22 – p. 30, line 2. Of course, the Lane Scott Division has no debt service so making timely payments on debt should not be a concern to Staff or the KCC.

Company and therefore was forced to adopt another approach in an effort to justify its recommended rate increase.

Q. Do you have other concerns about Staff's TIER approach, which is being utilized to support the S&A?

A. Yes, I do. KCC witness John Bell stated on page 24 of his Direct Testimony that the $31,333 rate increase recommended by Staff using the rate base/rate of return approach "in Staff's opinion is not adequate to compensate for the losses that the cooperative has incurred in the recent past, or even recover its current cost of service." This statement is troubling. First, it is not the role of regulators "to compensate for the losses that the cooperative had incurred in the recent past." There is a strong regulatory prohibition against retroactive ratemaking for exactly this purpose. The role of the regulator is not to compensate for past losses, but only to approve prospective rates that will cover a utility's cost of service and provide a reasonable return to investors based on a specified test year. To the extent that Staff's recommendation attempts to compensate the Lane Scott Division for past losses, it is violating one of the basic principles of utility regulation and should be rejected. In addition, Staff is ignoring the fact that one of the reasons for the past losses was the fact that the Lane Scott Division prepaid its loan associated with the Aquila acquisition. The Company stated that it made the decision to prepay its loan, claiming that it had "the cash available." [15] Lane

[15] Rebuttal Testimony of Dow Morris, p. 3, line 5.

Scott management's decision to make that prepayment was at least partially responsible for the negative cash position that appears to be of concern to Staff.

Moreover, by definition, Staff's rate base/rate of return approach will permit the Company to recover its cost of service. In fact, not only does Staff's recommendation permit the Company to recover its expenses but it also provides for a return of $80,105 to the Company's investors. Staff has not identified one component of the Company's cost of service that will not be recovered if its rate base/rate of return methodology is adopted.

Q. Didn't you state in your Cross Answering testimony that if the KCC adopted the TIER approach, it should approve a TIER of no more than 1.25?

A. Yes, I did. However, that testimony assumed that the overall finding of the KCC would be reasonable and would be based on evidence in the record in this case. For example, as stated on page 7 of my Cross Answering Testimony, a TIER Of 1.25 would have reduced Staff's recommended increase based on the TIER approach by approximately $95,500 from $312,310 to approximately $216,810. CURB's acquisition adjustment and associated depreciation expense adjustment would have reduced the Company's request to $202,561, as shown in Schedule ACC-SA-2. Therefore, a TIER of 1.25 would result in a rate increase that could also reasonably be justified by the rate base/rate of return methodology. In this case, there is no way to achieve the $370,000 rate increase reflected in the S&A unless a) one assumes that the Company's rate base includes the acquisition premium, which Staff acknowledges is not appropriate, or b) one relies solely on a TIER methodology that is based on an erroneous fundamental assumption. Neither of those two options will result in just and reasonable rates for ratepayers.

Q. Did the list of contested issues filed by Staff and the Company misrepresent CURB's position in any way?

A. Yes, it did. Staff and the Company filed a Joint List of Contested Issues on January 15, 2013. In paragraph 6, Staff and the Company indicated that "CURB included the negative acquisition adjustment as a reduction to rate base and recommended an additional rate base adjustment of ($299,273) to reduce plant and accumulated depreciation." The referenced rate base adjustment of ($299,273) does reduce accumulated depreciation, but it does not reduce plant. In fact, the opposite is true. By reducing accumulated depreciation, the net effect of CURB's ($299,273) additional adjustment was to increase the Company's plant balance and increase its pro forma rate base. Therefore, without this additional adjustment, CURB's rate increase recommendation would be even lower. This additional adjustment is necessary because a portion of the acquisition adjustment has already been amortized and therefore only the net unamortized amount of the acquisition adjustment should be included in the Company's revenue requirement. Just as net plant is included in rate base, CURB's adjustment was intended to include only the net unamortized acquisition adjustment in rate base, similar to the accounting treatment afforded contributions in aid of construction.

In addition, Staff and the Company stated that "CURB removed the negative cash balance on Lane-Scott Division's balance sheet from the revenue requirement calculation on the grounds that the negative cash balance is not a liability with established payment terms." Staff's comment suggests that CURB made an inappropriate adjustment. Frankly, I don't understand this statement, for several reasons as all parties have acknowledged that the cash balance is not a liability with established payment terms. Moreover, cash is not a component of rate base except through the cash working capital calculation. Both CURB and Staff included a cash working capital allowance in rate base. Neither CURB nor Staff included any additional adjustment relating to a negative cash balance on the Company's balance sheet nor is such an adjustment appropriate for ratemaking purposes. Both Staff and CURB did make an adjustment to reduce cash working capital by $72,959 to eliminate working capital on energy costs recovered through the Energy Charge Adjustment ("ECA"), but that is the only adjustment that CURB made to the Company's cash working capital claim. Therefore, the suggestion that CURB should have made another adjustment, or the suggestion that Staff included an adjustment related to the negative cash balance, is simply incorrect.

Q. Please summarize your objections to the S&A.

A. My objections are very simple. The rate base/rate of return methodology does not support a rate increase of $370,000. Staff's alternative TIER methodology was a results-oriented approach that cannot be justified on theoretical grounds since the Company has no debt. Accordingly, the KCC should reject the S&A.

D. Standards of Review of a Settlement

Q. Are you familiar with the standards used by the KCC to evaluate a settlement that is proposed to the Commission?

A. Yes, I am. The KCC has adopted five guidelines for use in evaluating settlement agreements. These include: (1) Has each party had an opportunity to be heard on its reasons for opposing the settlement? (2) Is the agreement supported by substantial evidence in the record as a whole? (3) Does the agreement conform to applicable law? (4) Will the agreement result in just and reasonable rates? (5) Are the results of the agreement in the public interest, including the interests of customers represented by any party not consenting to the agreement? Since I am not an attorney, I will not address item 3, i.e., does the agreement conform to applicable law? However, I will discuss the remaining four guidelines.

Q. Has each party had an opportunity to be heard on its reasons for opposing the settlement?

A. Yes, they have. As noted by both Staff and the Company in its testimony in support of the S&A, CURB did participate in the settlement discussions. Moreover I do have the opportunity to file this testimony in opposition and to appear at the hearings before the KCC to address CURB's opposition. Therefore, I believe that each party does have an opportunity to be heard on its reasons for opposing the settlement.

Q. Is the agreement supported by substantial evidence in the record as a whole?

A. No, it is not. The revenue increase contained in the S&A is not based on the evidence in this case. As noted above, the revenue increase of $370,000 cannot be justified based on the rate base/rate of return methodology, which is the methodology selected by the Company upon which to file its rate case. Moreover, the TIER methodology used by Staff is based on a fatally flawed assumption, i.e., that the Company has outstanding debt that is subject to a covenant requirement by its lender. In fact, there has been extensive testimony that so such debt exists. Specifically, in his Direct Testimony, Company witness Dow Morris stated that "Beginning in June of 2007, Lane-Scott paid approximately $50,000 per month on the obligation until the debt was retired in June in 2011."[16] Mr. Morris went on to state in his Rebuttal Testimony that the Company repaid the loan because "We had the cash available to accelerate the payment and save interest expense."[17] Company witness Douglas Shepherd affirmed this fact in his Direct Testimony, stating that "Presently, there is no long-term debt associated with the Lane-Scott Division."[18] Clearly, the parties are in agreement that there is no outstanding Lane Scott Division debt. In spite of this fact, Staff is proposing to regulate the Company on a TIER basis that has as its fundamental assumption a requirement that the Lane Scott Division achieve a TIER of 2.0, which Staff appears to have increased even further to 2.2 in its Testimony in Support of the S&A. Since there is no debt, the use of the TIER methodology cannot be justified based on the evidence in this case.

[16] Direct Testimony of Dow Morris, p. 3, lines 16-18.
[17] Rebuttal Testimony of Dow Morris, p. 3, line 5.
[18] Direct Testimony of Douglas Shepherd, p. 7, line 4.

Q. Will the agreement result in just and reasonable rates?

A. No, it will not. Since the underlying increase of $370,000 is excessive, the resulting rates will not be just or reasonable. The proposed increases range from 2.9% for private lighting service to 20.0% for municipal and irrigation customers. The residential increases are 6.8% for non-heating customers and 8.8% for heating customers. Small general service customers will receive an increase of 13.5% while rates for large general service customers will increase by 11.6%. All of these rates are based on fatally-flawed assumptions that the Lane Scott Division has long-term debt and that the Company's lenders require the Company to maintain a TIER of at least 2.0. Neither of these assumptions is supported by the record in this case.

Q. Are the results of the agreement in the public interest, including the interests of customers represented by any party not consenting to the agreement?

A. No, CURB recommends that the Commission find the results of this agreement are not in the public interest, since the rate increase of $370,000 is excessive. In addition, approving the S&A results in a dangerous precedent by permitting a utility with no debt to justify a rate increase based on a TIER methodology. This could have negative consequences for other ratepayers in future cases.

Q. What do you recommend?

A. I recommend that the KCC find that the S&A is not based on sufficient evidence, will not result in just and reasonable rates, and is not the public interest. Accordingly, I recommend that the KCC reject the S&A.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD) ss:

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 22 day of January, 2013.

Notary Public

My Commission Expires: March 31, 2014

Received Time Jan. 22. 2013 9:17AM No. 2283

APPENDIX A

Supporting Schedules

Schedule ACC-SA-1
Schedule ACC-SA-2
Schedule ACC-SA-3

MID-KANSAS ELECTRIC COMPANY
LANE SCOTT DIVISION

TEST YEAR ENDING DECEMBER 31, 2010

UTILITY PLANT ACQUISITION ADJUSTMENT

1. Utility Plant in Service	$ (2,937,808)	(A)
2. Accumulated Amortization	(299,273)	(B)
3. Net Plant in Service	($2,638,535)	
4. Company's Claimed Rate of Return	8.718%	(C)
5. Operating Income Impact	($230,027)	
6. Company Claimed Rate Increase	510,915	(C)
7. Rate Increase with Acquisition Adj.	**$280,888**	

Sources:
(A) Company Filing, Schedule D-1, page 2.
(B) Company Filing, Schedule E-1.
(C) Company Filing, Schedule C-2.

MID-KANSAS ELECTRIC COMPANY
LANE SCOTT DIVISION

TEST YEAR ENDING DECEMBER 31, 2010

UTILITY PLANT ACQUISITION ADJUSTMENT WITH CURB'S DEPRECIATION ADJUSTMENT

1. Rate Increase with Acquisition Adjustment	$280,888	(A)
2. Associated Depreciation Expense Adjustment	(78,439)	(B)
3. Rate Increase with Acquisition Adjustment and Associted Depreciation Expense Adj.	**$202,449**	

Sources:
(A) Company Filing, Schedule ACC-SA-1.
(B) Direct Testimony of Ms. Crane, Schedule ACC-2.

MID-KANSAS ELECTRIC COMPANY
LANE SCOTT DIVISION

TEST YEAR ENDING DECEMBER 31, 2010

UTILITY PLANT ACQUISITION ADJUSTMENT WITH STAFF'S DEPRECIATION ADJUSTMENT

1.	Rate Increase with Acquisition Adjustment	$280,888	(A)
2.	Associated Depreciation Expense Adjustment	(99,758)	(B)
3.	Rate Increase with Acquisition Adjustment and Associted Depreciation Expense Adj.	**$181,130**	

Sources:
(A) Company Filing, Schedule ACC-SA-1.
(B) Staff Rate Base/Rate of Return Schedules, Schedule B-2, Adjustment No. 2.

APPENDIX B

Referenced Data Requests

CURB-53
KCC-71

Data Request to Kansas Corporation Commission Staff
From the Citizens' Utility Ratepayer Board
KCC Docket No. 12-MKEE-410-RTS

CURB-53. Please explain why Adam Gatewood used a cost of debt of 4.05% in the table on page 3 of his testimony instead of 4.3438% used in schedule JSB-1 of John Bell's testimony.

Gatewood Response: The cost of debt in John Bell's testimony is the correct cost of debt to use in the rate of return. I mistakenly picked up the average cost of debt from 2011 instead of the 2010 test year.

Submitted By: C. Steven Rarrick

Submitted To: Ray Bergmeier

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

VERIFICATION OF RESPONSE

I have read the foregoing Data Request and Answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed: Adam H Gatewood
Name: Adam H. Gatewood
Position: Managing Financial Analyst
Dated: 12/05/2012

Kansas Corporation Commission
Information Request

Request No: **71**

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 7, 2012	
Date Information Needed	September 17, 2012	

RE: Working Capital

Please Provide the Following:

Please provide a detailed explanation as to why the Plant Material & Supplies estimate for the Lane-Scott division is based on 75% of the total system, and why the Prepayments estimate is based on 47% of the total system for 165.1 and 7% of the total system for 165.11, as stated on schedule F-2. Additionally, please provide all supporting workpapers showing how those above percentages were derived.

Submitted By Tim Rehagen

Submitted To Doug Shepherd

The plant materials & supplies estimate for the Lane-Scott division is based on 15% rather than 75% (this was keyed incorrectly). It's based on 15% because that's roughly the percentage of materials that are ordered and used for the Lane-Scott division each year.
The prepayment of property insurance (165.1) is based on 47%. Now that I'm revisiting this, it would be more accurate if it were based on 21%, which is a 5 year average of Lane-Scott division plant to total plant.
The prepayment of work comp insurance (165.11) is based on 7% because that's roughly the total payroll dollars attributed to the Lane-Scott division each year.

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete
and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Don Morris

Signed: ____________________

Date: September 17, 2012

CERTIFICATE OF SERVICE

12-MKEE-410-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service this 22nd day of January, 2013, to the following parties who have waived receipt of follow-up hard copies:

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