

BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

Received  
on

**JUN 17 2011**

IN THE MATTER OF THE PETITION ]  
OF KANSAS CITY POWER AND LIGHT ]  
COMPANY FOR DETERMINATION OF THE ]  
RATEMAKING PRINCIPLES AND ]  
TREATMENT THAT WILL APPLY TO ]  
RECOVERY IN RATES OF THE COST TO ]  
BE INCURRED BY KCP&L FOR CERTAIN ]  
ELECTRIC GENERATION FACILITIES ]  
UNDER K.S.A. 66-1239 ]

by  
State Corporation Commission  
of Kansas

KCC Docket No. 11-KCPE-581-PRE

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 17, 2011

1 **Q. Please state your name and business address.**

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

4  
5 **Q. Did you previously file testimony in this case?**

6 A. Yes, on June 3, 2011, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer  
7 Board ("CURB"). In that testimony, I recommended that the KCC issue an order denying  
8 Kansas City Power & Light ("KCP&L) Company's Petition for predetermination of  
9 ratemaking principles and stating that traditional ratemaking principles will apply to  
10 environmental upgrades associated with the La Cygne generating station. I also  
11 recommended in my Direct Testimony that if the KCC does approve the Company's request  
12 for predetermination of ratemaking treatment, then it should put the Company at risk for all  
13 expenditures exceeding \$1.23 billion, defer a decision on the appropriate depreciable life of  
14 the environmental upgrades, authorize a 100 basis point reduction in the cost of equity for  
15 projects subject to preapproval, and deny the Company's request to recover costs for the  
16 preapproved projects pursuant to an Environmental Cost Recovery Rider ("ECRR").

17  
18 **Q. What is the purpose of your cross-answering testimony?**

19 A. The purpose of my cross-answering testimony is to respond to the Direct Testimony of KCC  
20 Staff witness Adam Gatewood. Specifically, I will address Mr. Gatewood's statements that  
21 use of the predetermination statute "does not require an adjustment to the utility's return on

1 equity and that the Commission should not make explicit adjustments to the allowed  
2 return.”<sup>1</sup> I will also comment on his statement that such an adjustment “would short-change  
3 investors because investors are not being compensated for that risk to begin with.”<sup>2</sup>

4  
5 **Q. Do you agree with Mr. Gatewood that use of the predetermination statute does not**  
6 **require an adjustment to the utility’s return?**

7 A. Yes, I agree that the predetermination statute does not require an adjustment to the utility’s  
8 return. In fact, as noted in my Direct Testimony, the predetermination statute does not  
9 require the KCC to make any specific finding. The only requirements contained in the  
10 statute are the filing requirements requiring a petitioner to provide a description of the  
11 utility’s conservation measures, a description of its demand side management efforts, its ten-  
12 year generation and load forecasts, and a description of power supply alternatives. Assuming  
13 that these filing requirements are met, the KCC has broad discretion to approve the  
14 ratemaking treatment proposed by the petitioner, to reject it, or to modify it in some way.<sup>3</sup>

15 Moreover, not only does the statute not require any specific action on the part of the  
16 KCC, it also does not provide guidance to the KCC regarding whether or not to approve the  
17 rate-making principles and treatment specifically requested in the petition. Thus, the KCC  
18 has broad discretion in evaluating any petition for predetermination of ratemaking treatment.

19 Unlike Mr. Gatewood, I recommend that the KCC use its discretion to award a lower return  
20 on equity to projects that receive pre-approval.

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<sup>1</sup> Testimony of Mr. Gatewood, page 2.

<sup>2</sup> Id.

1

2 **Q. Do you agree that such an adjustment would “short-change investors”?**

3 A. No, I do not. Mr. Gatewood’s statement that investors would be shortchanged if the KCC  
4 were to award a lower return on projects subject to pre-approval is based on his argument  
5 that the return on equity only compensates investors for systematic risks, i.e., those risks that  
6 cannot be eliminated through diversification. He claims that company specific risks, such as  
7 the risks associated with the La Cygne project, can be eliminated by investors through  
8 diversification of their portfolio. However, the Company suggests that the La Cygne project  
9 involves risks that investors would be unwilling to accept in the absence of pre-approval. In  
10 fact, Mr. Giles stated that KCP&L cannot even commit to this project in the absence of pre-  
11 approval, while both Mr. Giles and Mr. Cline stated their belief that the cost of capital is  
12 directly impacted by pre-approval. As noted by Mr. Cline at page 6 of his Direct Testimony,

13 The La Cygne project is a significant investment for the Company. Investors,  
14 rating agencies, and other financial parties familiar with the utility industry  
15 understand very well the regulatory risk profile of a significant project like La  
16 Cygne. In addition to financial and operational risk, regulatory risk is  
17 significant under traditional ratemaking, where the assessment of decisional  
18 prudence and the prudence of costs incurred occurs only after significant funds  
19 have already been invested.

20

21 Pre-approval obviously provides benefits to the Company and its investors.  
22 Otherwise, why would the Company even pursue pre-approval, let alone threaten to abandon  
23 the project unless pre-approval is granted? It is ratepayers who will be short-changed if pre-  
24 approval is granted without a commensurate adjustment to cost of equity.

1           It is indisputable that the Company’s currently-authorized cost of capital was  
2 approved by the KCC without pre-approval of any future KCP&L projects by the  
3 Commission. Thus, pre-approval will provide a benefit to investors over the status quo.  
4 That benefit is directly related to the reduction in risk that investors will bear if the KCC  
5 deviates from traditional ratemaking principles and pre-approves the La Cygne project.  
6 Accordingly, investors will be not short-changed if the KCC determines to award a lower  
7 return on equity on projects that have been pre-approved. Although shareholders would be  
8 receiving less compensation on these projects, they would also be incurring significantly less  
9 risk of cost recovery. Accordingly a reduction in their return on equity is entirely  
10 appropriate.

11  
12 **Q. Will pre-approval increase the risk to ratepayers?**

13 A. Yes, it will. This increased risk was summarized by David A. Schlissel, testifying on behalf  
14 of the Great Plains Alliance for Clean Energy. As stated by Mr. Schlissel on page 3 of his  
15 Direct Testimony,

16           KCP&L’s customers would be exposed to significant risks if the Company  
17 proceeds with the proposed retrofitting of La Cygne Units 1 and 2. These  
18 include (1) that the cost of the retrofits will be higher than the Company now  
19 projects, (2) that the Units will not operate as well as the Company currently  
20 forecasts, (3) that coal prices will be higher than KCP&L assumes, (4) that  
21 Cox prices also will be higher,(5) that natural gas prices will be lower, (6)  
22 that plant operating costs will be higher, and/or (7) that one or both of the  
23 Units will be retired before 2034.  
24

1 Risk is a zero sum game. Preapproval does not reduce risk, it merely transfers it from  
2 one party (shareholders) to another (ratepayers). The Company argues that investors require  
3 pre-approval of the La Cygne environmental projects, given the significant investment that  
4 will be required. Mr. Schlissel succinctly describes the increased risk to ratepayers if pre-  
5 approval is granted by the KCC. Ratepayers should be compensated for this shift in risk if  
6 the KCC decides to pre-approve the La Cygne projects. Thus, I strongly disagree with Mr.  
7 Gatewood's contention that no adjustment to the return on equity is appropriate.

8  
9 **Q. What action should the KCC take if agrees with Mr. Gatewood and finds that investors  
10 can diversify their portfolios and therefore eliminate company-specific risk?**

11 A. If the KCC accepts Mr. Gatewood's argument, then investors should be indifferent to  
12 whether or not the KCC pre-approves the La Cygne environmental projects. Accordingly, if  
13 the KCC accepts Mr. Gatewood's argument, then it should also find that there is no need to  
14 deviate from traditional ratemaking principles and it should deny the Company's request for  
15 pre-approval.

16  
17 **Q. Does this conclude your testimony?**

18 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 15<sup>TH</sup> day of JUNE, 2011.

Notary Public Marjorie M. Levin

My Commission Expires: DECEMBER 31, 2013

**CERTIFICATE OF SERVICE**

11-KCPE-581-PRE

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, electronic service, or hand-delivered this 17<sup>th</sup> day of June, 2011, to the following:

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A handwritten signature in black ink, appearing to read "Della Smith", written over a horizontal line.

Della Smith  
Administrative Specialist