

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF THE EMPIRE DISTRICT ELECTRIC] KCC Docket No. 21-EPDE-444-RTS
COMPANY FOR APPROVAL OF THE]
COMMISSION TO MAKE CERTAIN]
CHANGES IN ITS CHARGES FOR]
ELECTRIC SERVICE]

TESTIMONY IN SUPPORT OF UNANIMOUS PARTIAL SETTLEMENT AGREEMENT

ANDREA C. CRANE

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

March 7, 2022

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

2 A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard,
3 #401, Fort Lauderdale, Florida 33306.

4
5 **Q. Please provide a brief background of this proceeding.**

6 A. On May 27, 2021, Empire District Electric Company (“Empire” or “Company”) filed an
7 Abbreviated Rate Case Application with the Kansas Corporation Commission (“KCC” or
8 "Commission") requesting certain changes in its rates for electric service. This filing was
9 made pursuant to an Order of the KCC on June 23, 2020, in Docket No. 19-EPDE-223-
10 RTS (“19-223 Docket”), whereby the KCC authorized the Company to file an abbreviated
11 rate case to include the following: (1) capital and operating costs relating to the acquisition
12 of three wind projects – the Neosho Ridge wind project, the North Fork Ridge wind project,
13 and the King’s Point wind project (“Wind Projects”), (2) the revenue requirement impact
14 associated with the retirement of the Asbury coal plant, and (3) non-growth plant additions
15 and related accumulated depreciation and accumulated deferred income taxes as of the end
16 of the test year ending June 30, 2020.

17 In its original application, as modified by subsequent supplemental testimony, the
18 Company proposed a base retail revenue increase of \$4,490,806, or approximately 26.4%.
19 Empire anticipated that net revenues from the new Wind Projects would result in
20 incremental revenue of \$2,728,907, which it proposed to flow-through the Energy Cost
21 Adjustment (“ECA”) mechanism. In addition, the Company proposed to refund \$2,774,856

1 to ratepayers over a three-year period, or \$924,952 annually, reflecting amounts associated
2 with Asbury and collected from ratepayers between the retirement date of Asbury and the
3 effective date of new rates in this case. Therefore, Empire proposed a net increase of
4 \$836,947 or 4.95%.

5 Empire also proposed an alternative methodology for recovering costs associated
6 with the new wind facilities. In lieu of recovering these costs through base rates, the
7 Company proposed an alternative Levelized Cost of Energy (“LCOE”) methodology
8 whereby costs associated with the Wind Projects would be collected on a levelized basis
9 from ratepayers over a period of twenty years, at a rate of \$33.73 per MWh.

10
11 **Q. Did you previously file testimony in this proceeding?**

12 A. Yes, on January 13, 2022, I filed Direct Testimony on behalf of the State of Kansas, Citizens’
13 Utility Ratepayer Board (“CURB”) regarding certain policy issues as well as the Company’s
14 revenue requirement claim.

15
16 **Q. Please summarize the recommendations contained in CURB’s Direct Testimony.**

17 A. In my Direct Testimony, I noted that the Wind Projects are not needed to serve Kansas
18 ratepayers and will increase the Company’s rate base by over 45%. I also noted that the
19 Wind Projects will increase the Company’s return to shareholders by approximately \$437
20 million (total company) over the next thirty years. The LCOE for the Wind Projects
21 proposed by Empire in its alternative ratemaking proposal is significantly higher than the

1 LCOE reflected in the Generation Fleet Savings Analysis (“GFSA”), which was filed to
2 support the economics of the Wind Projects. I expressed my concern that as proposed, there
3 is no guarantee that ratepayers will experience any savings from the Wind Projects, while
4 Empire’s shareholders will receive millions of dollars in increased profit.

5 I further recommended that, if the KCC authorizes the Company to recover the costs
6 of the Wind Projects in Kansas-jurisdictional rates, it should adopt a LCOE methodology
7 which provides better protection to ratepayers than the traditional ratemaking methodology.
8 In that case, I recommended a LCOE charge of \$23.97/MWh, which is the cost on which the
9 GFSA is based.

10 Regarding other issues, in my Direct Testimony I also recommended that the KCC
11 approve the Company’s request to recover the stranded costs of the Asbury plant over 26
12 years, but deny the Company’s request to recover carrying costs associated with the stranded
13 investment. I also recommended that the KCC approve the Company’s request to establish a
14 regulatory asset for the decommissioning costs associated with Asbury, but should not
15 authorize any ratemaking treatment for these costs at this time.

16 I also had several additional revenue requirement adjustments. My overall
17 recommendation was that the KCC should authorize a base revenue decrease of \$345,690 for
18 the Kansas jurisdiction, excluding the additional LCOE charge for the Wind Projects of
19 \$23.97/MWh.

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

3 A. Yes, the parties to this case have engaged in extensive settlement discussions. While the
4 parties were able to agree on a revenue requirement that resolved certain issues relating to
5 Asbury and other accounting issues, they were not able to resolve the issue of whether the
6 Wind Projects should be charged to Kansas ratepayers and if so, at what rate. Accordingly,
7 the parties have entered into a Unanimous Partial Settlement Agreement (“Settlement
8 Agreement”) that resolves all issues except those related to the Wind Projects. Parties to the
9 Settlement Agreement are Empire, CURB, and the Staff of the State Corporation of the State
10 of Kansas (“Staff”), referred to collectively as the “Signatories” or the “Signatory Parties”.

11
12 **Q. Please summarize the terms of the Settlement Agreement relating to revenue**
13 **requirement and accounting issues.**

14 A. The Settlement Agreement provides for a base revenue reduction of \$636,091. This revenue
15 reduction excludes all costs associated with the Wind Projects. The Settlement Agreement
16 provides for Empire to partially offset the stranded costs associated with the retirement of
17 Asbury by the refund due to customers related to amounts collected from ratepayers between
18 the time that Asbury was retired and the effective date of new rates. Moreover, the parties
19 agreed that the remaining balance of the Asbury stranded costs is \$3,340,140, which shall be
20 amortized over 10 years. The Settlement Agreement also allows Empire to establish a
21 regulatory asset to capture Asbury decommissioning costs and permits the Company to seek

1 recovery of those costs in its first rate case after the decommissioning of Asbury is complete.
2 The Settlement Agreement also allows Empire to amortize its actual rate case costs
3 associated with this proceeding over three years.

4 The Settlement Agreement reserves the following issues for hearing in this case:

5 a. Whether the investment cost relating to the Wind Projects should be included
6 in Empire’s Kansas rates?

7 b. What is the amount of the investment and cost relating to the Wind Projects
8 that should be included in Empire’s rates?

9 c. Whether the investment and cost relating to the Wind Projects should be
10 recovered using a traditional ratemaking approach or a fixed-price purchase power (“FPP”)
11 approach?

12

13 **Q. How does the Settlement Agreement address cost allocation and rate design issues?**

14 A. The Settlement Agreement provides that the reduction in revenues of \$636,091 should be
15 allocated among Empire’s customers based upon the recommendation contained in Staff’s
16 testimony. As discussed on page 33 of Andria Jackson’s testimony, “Staff’s proposed new
17 rates are based on the same rate design and cost allocation as approved in the 19-223
18 Docket.”

19

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

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

7
8 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**
9 **Settlement Agreement?**

10 A. Yes, they have. I participated personally in settlement negotiations in this case and each
11 party had a full and complete opportunity to be heard. The parties discussed issues, resolved
12 certain numerical discrepancies, and negotiated aggressively. The Settlement Agreement is a
13 unanimous agreement and therefore no party opposes the terms agreed to by the signatories.
14 While the parties were unable to resolve certain issues relating to the Wind Projects, all
15 other issues are resolved by the Settlement.

16
17 **Q. Is the Settlement Agreement supported by substantial evidence in the record as a**
18 **whole?**

19 A. Yes, it is. As shown in Schedule ACC-1 to my Direct Testimony, CURB recommended a
20 base revenue reduction of \$345,690, which reflected the removal of the Wind Projects from

¹ It is my understanding that the KCC currently requires only three of the five guidelines to be met in the case of unanimous settlement agreements (#2, #4, and #5). However, I have addressed all five guidelines in my testimony.

1 base rates. The Settlement Agreement provides for a revenue reduction of \$636,091.
2 Therefore, the Settlement Agreement results in a reduction that is even larger than the
3 reduction recommended by CURB.

4 Some of this difference relates to additional adjustments that were proposed by Staff
5 in its Direct Testimony. In addition, the revenue reduction reflects the amortization of a much
6 smaller regulatory asset relating to Asbury's stranded costs, since the parties agreed to offset
7 a portion of the Asbury regulatory asset with the Asbury refunds due to customers.
8 Moreover, in the Settlement Agreement, the amount of the refund being used to offset a
9 portion of the Asbury regulatory asset is greater than the refund proposed by Empire.
10 Therefore, even though the Asbury regulatory asset will be amortized over 10 years, instead
11 of over 26 years as originally proposed by the Company, the annual amortization expense
12 included in the Settlement is not significantly greater than the amount originally proposed by
13 Empire.

14 In its Direct Testimony, Staff recommended a revenue increase of \$1,300,242.
15 However, Staff's filed recommendation included a levelized cost for the Wind Projects of
16 \$1,934,286. If Staff's recommended levelized cost for the Wind Projects is removed from
17 base rates, Staff's recommendation would result in a revenue reduction that is very close to
18 the decrease reflected in the Settlement Agreement. Accordingly, based on the direct
19 testimonies submitted by the parties in this case, there is substantial evidence in the record to
20 support the Settlement Agreement.

1 **Q. Does the Settlement Agreement conform to applicable law?**

2 A. I am not an attorney, but I have been advised by CURB counsel that the Settlement
3 Agreement does conform to applicable law.

4

5 **Q. Will the Settlement Agreement result in just and reasonable rates?**

6 A. Yes, the Settlement Agreement will result in just and reasonable rates. As noted above, the
7 base revenue decrease is well supported by the evidence in this case. Moreover, the
8 allocation of the revenue reduction will be based on the class revenue allocations determined
9 in the 19-223 Docket, the Company's most recent rate case. This is appropriate, since class
10 cost allocations and rate design were not issues identified for inclusion in this abbreviated
11 rate case. Whether the overall rates that ultimately result from this proceeding are just and
12 reasonable will depend on the resolution of the remaining issue related to the Wind Projects.

13

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

16 A. This Settlement Agreement is in the public interest and no party is opposed to the Settlement
17 Agreement. The Settlement Agreement results in a base revenue reduction, which will be
18 allocated to each class consistent with the allocations used in the most recent rate case.
19 While the Settlement Agreement does not include the Asbury refund originally proposed by
20 the Company, those funds will be used to offset the Asbury regulatory asset. This approach
21 will result in greater rate stability for ratepayers. In addition, amortizing the net Asbury

1 regulatory asset over 10 years, instead of over the 26 years proposed in the filing, will better
2 match recovery of these costs with the ratepayers that benefitted from the Asbury facility. A
3 ten-year amortization will also significantly reduce the Company's risk of recovering these
4 stranded costs. Given the rate reduction contained in the Settlement Agreement, the
5 provisions for amortization of the Asbury regulatory asset, and the reasonable allocation of
6 the reduction among rate classes, the Settlement Agreement is clearly in the public interest.

7
8 **Q. What do you recommend?**

9 A. I recommend that the KCC find that all parties had the opportunity to participate in the
10 settlement process, that the Settlement Agreement is supported by substantial evidence in the
11 record, that the Settlement Agreement results in just and reasonable rates, and that the
12 Settlement Agreement is in the public interest. Therefore, I recommend that the KCC
13 approve the Settlement Agreement as filed.

14
15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.

CERTIFICATE OF SERVICE

21-EPDE-444-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Testimony of Andrea C. Crane in Support of Unanimous Partial Settlement Agreement on Behalf of CURB was served by electronic service on this 7th day of March, 2022, to the following:

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