

STATE OF KANSAS
BEFORE THE
KANSAS CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF MIDWEST ENERGY FOR APPROVAL)
TO MAKE CERTAIN CHANGES IN ITS)
CHARGES FOR ELECTRIC SERVICE.)

Docket No 11-MDWE-609-RTS

Received
on

JUL 14 2011

by
State Corporation Commission
of Kansas

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

July 14, 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, Suite 211,
3 Ridgefield, CT 06877. (Mailing address: PO Box 810, Georgetown, CT, 06829).

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

6 A. Yes, on July 6, 2011, I filed testimony on behalf of the State of Kansas, Citizens' Utility
7 Ratepayer Board ("CURB"). My testimony addressed the rate filing by Midwest Energy, Inc.
8 ("Midwest" or "Company") seeking a rate increase of \$3.41 million in its rates for electric
9 service. In that testimony, I recommended that the State of Kansas Corporation Commission
10 ("KCC" or "Commission") approve a rate increase of \$748,466. My recommendation was
11 based on a return on equity of 9.10% and on an overall rate of return of 6.32%.

12
13 **Q. What is the purpose of your Cross-Answering Testimony?**

14 A. The purpose of my Cross-Answering Testimony is to address the Direct Testimony of Staff
15 witness Adam H. Gatewood. Mr. Gatewood has accepted the Company's claimed cost of
16 equity of 10.15%. I believe that Mr. Gatewood erred in accepting the Company's claim.

17
18 **Q. Why do you believe that Mr. Gatewood erred in recommending a cost of equity of**
19 **10.15% for Midwest?**

20 A. Mr. Gatewood states on page 7 of his Direct Testimony that this Commission has
21 traditionally determined cost of equity for Midwest based on the Goodwin model. Moreover,
22 he states on page 9 that "[t]he Goodwin Model arrives at a cost of equity intended to move

1 the cooperative toward its target equity ratio.” However, his testimony ignores the fact that
2 the formula used by Mr. Gatewood (and the Company) is actually a modified version of the
3 Goodwin model. In fact, Mr. Gatewood’s formula is actually a modification to a version of
4 the Goodwin model that had already been modified from the original in order to be more
5 forward-looking. The version of the Goodwin model used by Mr. Gatewood was specifically
6 modified in order to allow companies to achieve a targeted equity level in a targeted number
7 of years. However, in this case, no such modification is necessary since the Company has
8 already achieved its targeted equity level.

9 As explained by Mr. Edwards on page 19, lines 7-10 of his testimony, “However,
10 should the equity ratio be appreciably below (above) its target level, then neither the
11 ‘Goodwin’ model nor its successor (the modified ‘Goodwin’ model) will produce a return
12 that will allow the cooperative to achieve its target level.” Mr. Edwards went on to state at
13 lines 12-13 of page 9 of his testimony that “The model the company is using permits
14 adjustments to the cost of equity that will permit it to achieve the target ratio in a fixed
15 number of years.”

16 The problem with Mr. Gatewood’s testimony is that it relies upon a version of the
17 model that assumes that the Company has not yet achieved its targeted equity ratio of 35%,
18 when in fact the Company’s equity ratio now exceeds that target. While that formula may
19 have been appropriate to use in the past, when the Company was below its targeted equity
20 level, it is no longer appropriate. Mr. Gatewood ignores the fact that Mr. Edwards provided
21 two other versions of the Goodwin model in his testimony, neither of which included an
22 adjustment related to a specific equity level. Since the Company has already achieved its

1 targeted equity level, these other modified versions of the Goodwin model are more
2 appropriate than the modified version that reflects an equity ratio adjustment.

3
4 **Q. Does the fact that the Company targeted a 40% equity ratio in the past have any**
5 **relevance to the determination of cost of equity in this case?**

6 A. No, it does not. Mr. Gatewood mentions this fact on page 9 of his testimony, and states that
7 if Midwest were to increase its targeted equity ratio, then its cost of equity would increase.
8 However, Mr. Gatewood himself acknowledges on page 9, at lines 15-16 that “Midwest’s
9 board of directors is now targeting an equity ratio of 35%, which is essentially its current
10 equity ratio.” Given that the Company has now achieved its targeted equity ratio, Mr.
11 Gatewood should have used a modified version of the Goodwin model that did not include
12 an equity ratio adjustment.

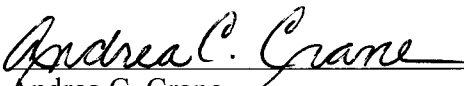
13
14 **Q. Does this include your testimony?**

15 A. Yes, it does.

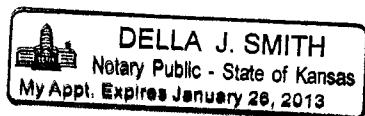
VERIFICATION

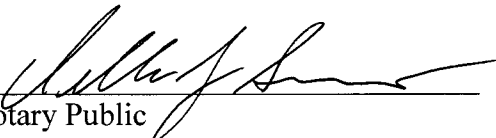
STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss:

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 the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.


Andrea C. Crane

SUBSCRIBED AND SWORN to before me this 13th day of July, 2011.




Notary Public

My Commission expires:

CERTIFICATE OF SERVICE

11-MDWE-609-RTS

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 14th day of July, 2011, to the following:

DANA BRADBURY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
d.bradbury@kcc.ks.gov

MATTHEW SPURGIN, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
m.spurgin@kcc.ks.gov

PATRICK PARKE, VP CUSTOMER SERVICE
MIDWEST ENERGY, INC.
1330 CANTERBURY ROAD
PO BOX 898
HAYS, KS 67601-0898
patparke@mwenergy.com

MICHAEL J VOLKER, DIR REGULATORY & ENERGY SERVICES
MIDWEST ENERGY, INC.
1330 CANTERBURY ROAD
PO BOX 898
HAYS, KS 67601-0898
mvolker@mwenergy.com

FRANK A. CARO, ATTORNEY
ANNE E. CALLENBACH, ATTORNEY
POLSINELLI SHUGHART
6201 COLLEGE BLVD, SUITE 500
OVERLAND PARK, KS 66211
fcaro@polsinelli.com

CERTIFICATE OF SERVICE

11-MDWE-609-RTS

TIMOTHY E. MCKEE, ATTORNEY
TRIPLETT, WOOLF, & GARRETSON, LLC
2959 NORTH ROCK ROAD, STE 300
WICHITA, KS 67226
temckee@twgfirm.com

C. EDWARD PETERSON, ATTORNEY
FINNEGAN, CONRAD, & PETERSON, L.C.
1209 PENNTOWER OFFICE CENTER
3100 BROADWAY
KANSAS CITY, MO 64111
epeters@fcplaw.com

STUART W. CONRAD, ATTORNEY
FINNEGAN CONRAD & PETERSON LC
1209 PENNTOWER OFFICE CENTER
3100 BROADWAY
KANSAS CITY, MO 64111
stucon@fcplaw.com

ANNE E. CALLENBACH, ATTORNEY
POLSINELLI SHUGHART
6201 COLLEGE BLVD
SUITE 500
OVERLAND PARK, KS 66211
acallenbach@polsinelli.com



Della Smith
Administrative Specialist