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State Corporation Commission
of Kansas

BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	]	
OF KANSAS CITY POWER & LIGHT	]	
COMPANY TO MAKE CERTAIN	]	KCC Docket No. 18-KCPE-480-RTS
CHANGES IN ITS CHARGES FOR	]	
ELECTRIC SERVICE	]	

TESTIMONY IN SUPPORT OF UNANIMOUS SETTLEMENT AGREEMENT

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

October 15, 2018

Q. Please state your name and business address.

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

Q. Please provide a brief background of this proceeding.

A. On May 1, 2018, Kansas City Power and Light Company ("KCP&L or "Company") filed an Application with the Kansas Corporation Commission ("KCC" or "Commission") seeking a base rate increase of a $32.9 million. Since this request included approximately $6.7 million that is currently being collected through the Ad Valorem Property Tax Surcharge ("PTS") rider, the net impact to ratepayers was a proposed net revenue increase of $26.2 million. In addition to the revenue increase requested in its Application in this case, KCP&L also proposed to provide a credit to ratepayers to reflect the tax savings from January 1, 2018 through the effective date of new rates resulting from the Tax Cut and Jobs Act of 2017 ("TCJA"), which lowered the corporate federal income tax from 35% to 21%. The Company originally proposed to offset a portion of these tax savings with cost of service increases and to refund the net savings to ratepayers either through an amortization or through a one-time bill credit to ratepayers.

After the KCC approved the merger of Great Plains Energy Incorporated ("GPE"), the parent company of KCP&L, and Westar Energy, Inc. ("Westar") in Docket No. 18-KCPE-095-MER ("Merger Docket"), the base rate request was reduced from $32.9 million to $22.6 million to reflect various provisions agreed to among the parties in the Merger Docket. In addition, as a result of an agreement in the Merger Docket, KCP&L agreed to refund to ratepayers the entire amount of the TCJA tax savings effective January 1, 2018 and to forego any attempt to demonstrate that such savings should be partially offset with cost increases.

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

A. Yes, on September 12, 2018, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer Board ("CURB"). My Direct Testimony presented CURB's recommended revenue requirement for KCP&L, based on my analysis of the Company's Application and supporting documentation in this case, as well as on the conditions agreed to in the Merger Docket.

Brian Kalcic, of Excel Consulting, also submitted Direct Testimony on behalf of CURB critiquing the Company's class cost-of-service ("CCOS") study and addressing the Company's Residential, Residential Distributed Generation ("DG"), and Small General Service ("SGS") rate design proposals. Mr. Kalcic also filed Cross-Answering Testimony on September 19, 2018 addressing certain issues raised in the Direct Testimony of Dr. Robert H. Glass, on behalf of the Staff of the State Corporation Commission ("Staff"), and in the Direct Testimony of Steve W. Criss on behalf of Walmart, Inc., ("Walmart"). CURB also filed the Direct Testimony of Stacey Harden addressing three voluntary residential rate options proposed by KCP&L, the Company's proposed educational energy efficiency program, and the Company's proposed residential DG rate.

Q. Please summarize the recommendations contained in CURB's Direct Testimony.

A. In my Direct Testimony, I recommended that the KCC authorize a base rate decrease of $5,445,180. This base rate change incorporated the impact of approximately $6.8 million in property tax expenses that are currently being collected through the PTS. Therefore, the net revenue impact to customers of my initial recommendation was a total revenue decrease of approximately $12.2 million.[1] In addition to reducing base rates, I also recommended that the KCC order KCP&L to refund to customers $32,041,123 (including interest) related to tax savings from January 1, 2018 through the effective date of new rates. This amount represented the income tax savings effective January 1, 2018 resulting from the TCJA.

In addition to my recommendations, Mr. Kalcic recommended that the KCC reject the Company's proposed class COSS and instead adopt the class COSS sponsored by Mr. Prentiss on behalf of Staff. Mr. Kalcic recommended no increase in the residential customer charge. He also presented rate design guidelines for the Residential and SGS classes and provided recommendations regarding a proposed Residential DG rate.

Finally, Ms. Harden recommended that the KCC approve the Company's proposed Residential Demand Service Pilot Program, Residential Time of Use ("TOU") Pilot Program, and Residential Demand Service Plus Time of Use Pilot Program, with conditions. She also

1 My direct testimony recommended a total revenue reduction of $12.1 million, based on a roll-in of $6.7 million relating to the PTS. The actual amount of the PTS is closer to $6.8 million, which would have made my total recommended reduction $12.2 million.

recommended that the KCC deny the Company's request to defer the difference in revenues resulting from customer migration and deny the educational Demand Side Management Programs proposed in conjunction with the voluntary residential rate programs. Finally, consistent with Mr. Kalcic's testimony, she recommended that the KCC reject the Company's proposed Residential DG tariff or, in the alternative, she recommended conditions that should be adopted if the Residential DG tariff was approved.

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

A. Yes, the parties to this case have engaged in extensive settlement discussions. As a result, the parties have entered into a Unanimous Settlement Agreement ("Settlement Agreement") that resolves all of the issues in this case. Parties to the Settlement Agreement include KCP&L, CURB, Staff, Walmart, Midwest Division – OPRMC, LLC d/b/a/ Overland Park Regional Medical Center ("OPRMC"), Olathe Unified School District 233 ("USD 233"), Spring Hill Unified School District 230 ("USD 230"), Blue Valley Unified School District 229 ("USD 229"), and Johnson County Community College ("JCCC"), (referred together as "Schools"), Kansas Gas Service, Inc., a division of ONE Gas, Inc. ("KGS"), American Fuel & Petrochemical Manufacturers ("AFPM"), Magellan Pipeline Company, L.P. ("Magellan"), and Petroleum Marketers and Convenience Association of Kansas, Inc. ("PMCA") (referred to collectively as the "Signatories" or the "Signatory Parties").

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

A. The Settlement Agreement reflects an overall base rate decrease of $3,916,417. This base rate decrease plus the reduction of $6.783,583 in the PTS, will result in an overall revenue reduction of $10.7 million. In addition to this prospective revenue reduction, the Settlement Agreement also includes a one-time bill credit of $36,915,958. This one-time bill credit includes both the income tax expense savings from January 1, 2018 through the effective date of new rates relating to the reduction in the federal income tax rate, as well as a return to ratepayers of excess deferred federal income taxes that the Company booked from January 1, 2018 through June 30, 2018. The revenue requirement reflected in the Settlement Agreement is based on a return on equity of 9.3%, as agreed to among the parties in the Merger Docket.

The Settlement Agreement specifies the time periods over which excess deferred income taxes will be amortized. It provides for the use of the Average Rate Assumption Method ("ARAM") to amortize protected excess deferred income taxes, as required by Internal Revenue Service ("IRS") regulations. It also specifies that the net operating loss ("NOL") tax asset will be amortized using the ARAM methodology. The Settlement Agreement specifies a ten-year amortization period for miscellaneous excess deferred income taxes and a five-year amortization period for unprotected excess deferred taxes associated with plant. Amortizations of excess deferred income taxes booked by the Company from July 1, 2018 through the effective date of new rates will be booked to a deferred regulatory liability account and addressed in KCP&L's next general base rate case.

The Settlement Agreement reflects the depreciation rates proposed by Staff in its Direct Testimony. In addition, the Settlement Agreement requires KCP&L to record a regulatory liability to capture depreciation expense for the Montrose generating units that are retired. This regulatory liability will be closed to accumulated depreciation in the Company's next base rate case.

The Settlement Agreement permits the Company to establish a tariff related to the Clean Charge Network ("CCN"). The Settlement Agreement does not specifically address the inclusion or exclusion of the CCN revenue requirement in base rates, but it does provide all parties with the opportunity to advance any position regarding the CCN revenue requirement in the Company's next base rate case.

The Settlement Agreement provides that Staff and the Company will work together to address shortfalls in the availability of data that has hindered the ability of the parties to calculate certain revenue adjustments in the past. The Settlement Agreement specifies that there will be no change in the level of funding associated with the Wolf Creek nuclear decommissioning trust. It affirms KCP&L's accounting methodology relating to Asset Retirement Obligations ("AROs").

The Settlement Agreement also affirms continued use of the Critical Infrastructure Protection ("CIP")/Cybersecurity Tracker and identifies the amounts being collected in base rates. It also specifies the amounts being collected in base rates related to property taxes, pension and other post-employment benefits ("OPEBs") and it identifies various regulatory assets being recovered and their associated amortization periods.

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

A. The Settlement Agreement provides for a modest increase in the residential customer charge, from $14.00 per month to $14.25. The Settlement Agreement also specifies the distribution of the revenue decrease among KCP&L's various customer classes. The base rate reduction of $3,916,417 equates to an overall reduction of 0.678%. Residential customers will receive a reduction of 0.339% while SGS customers will receive a reduction of 1.2%. Other customers will receive a base rate reduction of 1.001% per the terms of the Settlement Agreement. All components of the SGS rates would be decreased equally based on the allocation of the decrease to this rate class.

The Settlement Agreement authorizes KCP&L to establish optional pilot programs for Residential TOU and Residential Demand rates. It also provides customers that migrate to these new rate designs with a one-year opt-out option and permits the Company to record revenue changes associated with these new tariffs in a regulatory asset/liability account. The Settlement Agreement adopts the three-part residential DG rate proposed by Staff Witness Dr. Glass. In addition, the Settlement Agreement adopts reporting requirements recommended by Ms. Harden for the Residential DG Rate. The Settlement Agreement permits KCP&L to defer marketing and customer education costs of up to $2.2 million relating to the new Residential TOU, Residential Demand, and Residential DG tariffs.

The Settlement Agreement authorizes KCP&L to pursue a build option or a Purchased Power Agreement ("PPA") for resources relating to a solar subscription program, subject to certain conditions. It also requires the Company to levelize the revenue requirement for solar resource projects that exceed $10 million and it caps ratepayers' exposure in the event that solar subscription programs are not fully subscribed.

The Settlement Agreement also contains certain provisions relating to the redesign of the renewable energy rider. In addition, the signatories request that the KCC initiate a general investigation by July 1, 2019 to evaluate whether the usage and load characteristics of the Schools warrant a separate Schools tariff and if so, to design and implement such a tariff. The Company would be permitted to record changes in revenues relating to any new Schools tariff in a regulatory asset/liability account.

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?

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

A. Yes, they have. I participated personally in settlement negotiations in this case and each party had a full and complete opportunity to be heard. The parties discussed issues, resolved certain numerical discrepancies, and negotiated aggressively. The Settlement Agreement is a unanimous agreement and therefore no party opposes the terms agreed to by the signatories.

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

A. Yes, it is. CURB recommended a base rate reduction of $5,445,180. In his Rebuttal Testimony at page 22, Mr. Klote noted that my incentive compensation adjustment was overstated, since I had not applied the Kansas-jurisdictional allocator to my adjustment. This correction would add approximately $640,000 to my recommendation (including both incentive compensation and related taxes). In addition, my revenue requirement included an adjustment of $1,050,062 relating to the amortization of excess deferred income taxes from January 1, 2018 through the effective date of new rates (see Schedule ACC-23, line 18 of my Direct Testimony). I recommended that these amounts be returned to customers over a five-year period. However, the Settlement Agreement provides that this amount will be returned to customers as part of the one-time bill credit associated with the TCJA. Therefore, if my recommended revenue reduction of $5,445,180 was revised 1) to reflect the correction to the allocation of incentive compensation costs and 2) to remove the January-June, 2018 excess deferred tax amortization from base rates, then the result would be a base rate reduction of $3,755,118, very close to the $3,916,417 base rate reduction reflected in the Settlement

Agreement. Although there are other provisions in the Settlement Agreement that would further reduce my base rate recommendation, e.g. the adoption of Staff's depreciation rates, there were also other adjustments in Staff's testimony that would increase base rates, such as many of the Test Year updates reflected by Staff in its revenue requirement and adopted by the Company in its Rebuttal Testimony. Therefore, the base rate increase reflected in the Settlement Agreement appears reasonable relative to CURB's filed testimony.

The base rate decrease of $3,916,417 agreed to in the Settlement Agreement is also reasonable in light of Staff's filed testimony. Staff recommended a base rate increase of $5,551,739. This increase reflected the use of ARAM to return unprotected deferred income taxes associated with plant. The ARAM method would effectively return these amounts over approximately 30 years. However, the Settlement Agreement provides for a five-year return of these amounts to ratepayers, which I estimate reduces the revenue requirement by about $11.2 million (see Schedule ACC-23, line 17 of my Direct Testimony). If Staff's initial recommendation was revised to reflect a five-year amortization for these unprotected excess deferred income taxes, then Staff's initial recommendation would have been a base rate <u>reduction</u> of approximately $5.65 million, instead of a base rate increase. Again, the base rate decrease of $3,916,417 reflected in the Settlement Agreement is relatively close to Staff's originally filed position if one adjusts for the shorter amortization period associated with certain excess deferred income taxes. Accordingly, the base rate increase of $3,916,417 reflected in the Settlement Agreement appears reasonable in light of the original recommendations filed by both CURB and Staff.

Q. Does the Settlement Agreement conform to applicable law?

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

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

A. Yes, the Settlement Agreement will result in just and reasonable rates. As noted above, the revenue reduction is very close to the revenue reductions recommended by CURB and Staff, as adjusted to reflect other provisions of the Settlement Agreement. Therefore, there is ample support for the overall revenue decrease on which the new rates are based.

The Settlement Agreement results in a base rate reduction of $3,916417 and in a total revenue reduction of $10.7 million. While the Settlement Agreement provides for a very modest increase in the residential customer charge, the overall revenues contributed by residential customers will decline. In addition, SGS customers will receive a decrease that is higher than the system average, as supported by Staff's class COSS in this case. In addition, while there are variations among the reductions to the residential, SGS, and other rate classes, all customer classes will experience base rate reductions between 0.339% and 1.2%, in addition to the reductions associated with the PTS.

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

A. This Settlement Agreement is in the public interest and no party is opposing the agreement.

The Settlement Agreement results in a significant rate reduction for Kansas jurisdictional customers. In addition to the $3,916,417 base rate reduction, Kansas retail customers will also benefit from a reduction of $6,783,583 in the PTS. In addition, customers will receive a one-time bill credit of over $36.9 million related to the effects of the TCJA. The Settlement Agreement also provides for the return of unprotected excess deferred income taxes associated with plant over 5 years, instead of over the approximately 30-year ARAM period proposed by KCP&L. I view this provision as a significant benefit to ratepayers, especially since it is difficult to predict what factors could impact the return of these funds 30 years into the future if the longer ARAM period is utilized. In addition to immediate rate reductions, the Settlement Agreement provides a mechanism for ratepayers to receive the benefit of depreciation expenses associated with the Montrose generating units after those units are retired.

With regard to rate design, the Settlement Agreement provides reductions to all customer classes. While residential customers will see a slight increase in their customer charge, energy charges will be reduced accordingly. In addition, all SGS rate components will be reduced. In addition, the Settlement Agreement provides for the implementation of several new optional tariffs which, along with required reporting requirements, will provide the KCC and the signatories with information that should prove useful in terms of designing future rates. The Settlement Agreement also addresses concerns raised by the Schools and provides a framework for future evaluation of their concerns regarding establishment of a separate rate class.

Given the significant rate reductions contained in the Settlement Agreement, the acceleration of the amortization of excess deferred income taxes, the reasonable allocation of the reductions among rate classes, and the other tariff provisions agreed to by the Signatories, the Settlement Agreement is clearly in the public interest.

Q. What do you recommend?

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

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF FLORIDA)

COUNTY OF BROWARD) 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 in Support of Unanimous Settlement Agreement, and that the statements made therein are true to the best of her knowledge, information and belief

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 12th day of October, 2018.

Notary Public Diane K Pappa

My Commission Expires: November 3, 2020

DIANE K PAPPA
MY COMMISSION # GG021910
EXPIRES November 03, 2020

CERTIFICATE OF SERVICE

18-KCPE-480-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 15th day of October, 2018, to the following:

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