

STATE CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION

OCT 31 2008

OF THE STATE OF KANSAS

 Docket  
Room

IN THE MATTER OF THE APPLICATION ]  
OF WESTAR ENERGY, INC. (NORTH ]  
AND SOUTH), A CORPORATION ] KCC Docket No. 08-WSEE-1041-RTS  
ORGANIZED AND EXISTING UNDER THE ]  
LAWS OF THE STATE OF KANSAS, ]  
FOR AUTHORITY TO FILE AND MAKE ]  
EFFECTIVE NEW SCHEDULES OF ]  
ELECTRIC RATES IN REPLACEMENT OF ]  
EXISTING FILED SCHEDULES FOR ]  
ELECTRIC SERVICE WITHIN THE ]  
STATE OF KANSAS ]

ANDREA C. CRANE

TESTIMONY IN SUPPORT OF  
STIPULATION AND AGREEMENT

ON BEHALF OF  
THE CITIZENS' UTILITY RATEPAYER BOARD

October 31, 2008

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

2 A. My name is Andrea C. Crane and my business address is 199 Ethan Allen Highway,  
3 Ridgefield, Connecticut 06877. (Mailing Address: PO Box 810, Georgetown, Connecticut  
4 06829)

5

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

7 A. Yes, on September 29, 2008, I filed Direct Testimony on behalf of the State of Kansas,  
8 Citizens' Utility Ratepayer Board ("CURB") addressing the recent base rate case filing by  
9 Westar Energy, Inc. ("Westar" or "Company"). My testimony addressed revenue  
10 requirement and cost of capital issues. CURB also filed the testimony of Stacey Harden on  
11 energy efficiency projects; of Michael J. Majoros on depreciation issues; and of Brian Kalcic  
12 on certain rate design issues.

13

14 **Q. Please summarize the recommendations contained in your Direct Testimony.**

15 A. In my Direct Testimony, I made the following recommendations to the Kansas Corporation  
16 Commission ("KCC"):

17

- I recommended that the KCC adopt a return on equity of 9.59% for Westar;

18

- I recommended that the KCC authorize a revenue increase of \$56,712,954 for Westar North ("WEN") and of \$44,636,023 for Westar South ("WES");

19

20

- I recommended that the KCC reject Westar's claim for a premium return of

1                   100 basis points on its current wind generation projects;

- 2                   • I recommended that the KCC reject Westar’s proposal to continue to recover  
3                   its environmental costs through the Environmental Cost Recovery Rider  
4                   (“ECRR”) and instead I recommended that these costs be included in base  
5                   rates. The revenue requirement recommendations outlined above include  
6                   costs that are currently being recovered through the ECRR but which CURB  
7                   recommends be moved to base rates. My recommendation to roll these costs  
8                   into base rates excluded a small amount of the current ECRR surcharge  
9                   (\$17,699 in WEN and \$43,803 in WES) relating to a true-up that I  
10                  recommended continue to be recovered through the ECRR surcharge.
- 11                  • I recommended that the KCC modify Westar’s proposed Retail Energy Cost  
12                  Adjustment (“RECA”) tariff. Specifically, I recommended that the KCC  
13                  adopt a RECA tariff that provides for monthly RECA factors to be  
14                  established, and published, on a quarterly basis, similar to the method used  
15                  by Kansas City Power and Light Company (“KCPL”). I also recommended  
16                  that the RECA factors be subject to an annual true-up. In addition, I  
17                  recommended that 100% of off-system sales be credited to the RECA, and  
18                  that the RECA factors include projected off-system sales margins based on  
19                  forecasts at the 50<sup>th</sup> percentile, instead of at the 31<sup>st</sup> percentile proposed by  
20                  Westar.
- 21                  • I recommended that the KCC deny the Company’s proposal to consolidate

1 rates in WEN and WES at this time.

2

3 **Q. Did you participate in settlement negotiations subsequent to the filing of your Direct**  
4 **Testimony?**

5 A. Yes, I participated in settlement negotiations, specifically those addressing resolution of the  
6 issues raised in my Direct Testimony. These settlement negotiations have resulted in a  
7 Stipulation and Agreement (“S&A”) among the parties. The S&A has been submitted to the  
8 KCC for its consideration. CURB supports the provisions of the S&A and requests that it be  
9 adopted by the KCC.

10

11 **Q. Please summarize the provisions of the S&A.**

12 A. The S&A includes the following provisions:

13 • Rates will be increased by \$130 million. This rate increase will be split evenly  
14 between WEN and WES.

15 • Westar will not be permitted to earn a premium return on its current wind investment.  
16 Moreover, the S&A states that Westar will not renew its request for a premium  
17 return on its current 296 MWs of wind generation in any future proceeding.

18 • Amounts currently being recovered in the ECRR will be rolled into base rates, except  
19 for minimal amounts relating to the true-up.

20 • The RECA tariff will be modified to include monthly adjustments that are projected  
21 and noticed to customers on a quarterly basis. In addition, projected off-system sales

1 will be included at the 50<sup>th</sup> percentile. The RECA will be subject to an annual true-  
2 up. The S&A includes a provision whereby a portion of the off-system sales margins  
3 will be credited to full requirements wholesale customers under cost-based formula  
4 rate contracts with terms of 20 years or more to the extent such credits are provided  
5 for in customers' FERC-approved contracts.

- 6 • The S&A specifies that the proposed rates include an increase of \$7.6 million in  
7 depreciation rates, although the parties (with the exception of Westar) are specifically  
8 not agreeing to the depreciation study filed by Westar.
- 9 • The S&A requires Westar to fund a comprehensive study of its distribution  
10 vegetative management program.
- 11 • The S&A identifies a return on equity of 10.4% and an overall rate of return of 8.49%  
12 for regulatory accounting purposes, including the calculation of an Allowance for  
13 Funds Used During Construction ("AFUDC"). This return on equity was agreed to  
14 in recognition of the uncertainty in financial markets that currently exists. The S&A  
15 specifies that the parties did not use a return on equity of 10.4% to determine the  
16 overall revenue requirement.
- 17 • The S&A provides for the filing of an abbreviated rate setting process to update costs  
18 relating to the Emporia Energy Center ("EEC") and the 296 MWs of wind  
19 investment, including operating costs associated with Phase II of the EEC. The S&A  
20 also specifies the investments in the EEC and wind generation, and EEC operating  
21 costs, that are included in the proposed \$130 million base rate increase.

- 1           • The S&A specifies the amortization periods used for certain costs and contains other  
2           provisions relating to the Renewable Energy Program Rider and the Kansas  
3           Investment Tax Credit.
- 4           • The S&A contains proposed rates for WEN and WES.
- 5

6 **Q. Do you believe that the S&A is in the public interest?**

7 A. Yes, I do. While the proposed rate increase is higher than the increase recommended in my  
8 Direct Testimony, I believe that the S&A is a reasonable compromise of the issues in this  
9 case. On a combined basis, I recommended a rate increase of \$101.3 million, which  
10 included \$27.1 million of costs currently being recovered through the ECRR. Excluding the  
11 ECRR costs, my Direct Testimony recommended a combined base rate increase of \$74.2  
12 million. The S&A includes a base rate increase (excluding the ECRR roll-in) of \$130  
13 million, or \$55.8 million more than the amount I recommended in my testimony. However,  
14 the \$130 million increase specified in the S&A reflects a decrease of \$47.6 million from the  
15 amount originally claimed by Westar.

16           The largest revenue requirement adjustments that I recommended in my Direct  
17 Testimony were return on equity (\$31.8 million), depreciation expense (\$20.7 million),  
18 construction work in progress (\$18.5 million), and the sale/leaseback on LaCygne (\$7.4  
19 million). These four adjustments totaled \$78.4 million. In addition, I recommended various  
20 other rate base, revenue, and expense adjustments. I recognize that the KCC was unlikely to  
21 adopt all of my recommended adjustments. Given this litigation risk, I believe the S&A

1 represents a reasonable resolution of the issues in this case.

2  
3 **Q. Besides the revenue requirement, are there other provisions in the S&A that you**  
4 **believe are favorable to ratepayers?**

5 A. Yes, there are. As outlined above, my Direct Testimony contained several policy  
6 recommendations regarding the premium return on wind investment, the inclusion in base  
7 rates of certain costs previously recovered through the ECRR, and the structure of the RECA  
8 tariff. All of these recommendations have been accepted in the S&A. Moreover, the S&A  
9 permanently resolves the issue of a premium return on investment for the 296 MWs of wind  
10 generation currently being constructed by Westar. When these policy issues are considered,  
11 along with the reduction of \$47.6 million from the revenues originally requested by Westar,  
12 the S&A becomes even more favorable for ratepayers.

13  
14 **Q. Please comment on the provision in the S&A that states a 10.4% return on equity will**  
15 **be used for regulatory accounting purposes, including in the calculation of the AFUDC**  
16 **formula.**

17 A. The return of 10.4% on equity is 81 basis points above the return recommended in my Direct  
18 Testimony. I recognize that financial markets are experiencing a high degree of volatility and  
19 uncertainty at the present time. Given this uncertainty, CURB agreed to utilize the 10.4%  
20 return on equity in those situations where a cost of capital must be specified, such as for  
21 purposes of calculating AFUDC and for calculating the ECRR surcharge in the next ECRR

1 filing. This return on equity was acceptable on an interim basis because I expect Westar to  
2 file another base rate case within a relatively short period of time, and we will have the  
3 opportunity to reassess the cost of equity at that time. In addition, I expect the financial  
4 markets to stabilize by the time the next base rate case is filed, and hopefully well before that  
5 case is filed. Accordingly, when all the provisions of the S&A are considered, I believe that  
6 the return on equity of 10.4% is reasonable for the purposes specified in the S&A. It should  
7 be noted that the 10.4% return on equity was not used by the parties to develop the overall  
8 revenue increase of \$130 million, nor should the KCC conclude that an equity return of  
9 10.4% would be appropriate to use in that context.

10  
11 **Q. Do you recommend that the KCC approve the S&A?**

12 A. Yes, I do. The S&A resolves all issues in this proceeding, except for the issue of rate  
13 consolidation which has been moved to a separate proceeding. Moreover, it reflects a  
14 significant reduction from the rate increase proposed by Westar. It also adopts my  
15 recommendations on several important policy issues including the appropriate return for  
16 Westar's current wind investment, recovery of environmental costs in base rates and the  
17 methodology for calculating the RECA tariff. Finally, the S&A will significantly reduce  
18 litigation costs. For all these reasons, I recommend that the KCC approve the S&A.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.



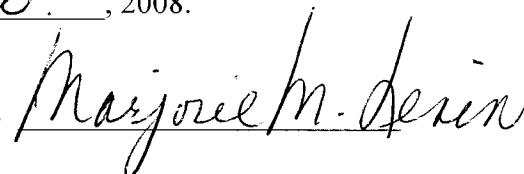
VERIFICATION

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

Subscribed and sworn before me this 24<sup>th</sup> day of Oct, 2008.

Notary Public 

My Commission Expires: DECEMBER 31, 2008

**CERTIFICATE OF SERVICE**

08-WSEE-1041-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, or hand-delivered this 31st day of October, 2008, to the following:

KURT J. BOEHM, ATTORNEY  
BOEHM, KURTZ & LOWRY  
36 EAST SEVENTH STREET  
SUITE 1510  
CINCINNATI, OH 45202  
Fax: 513-421-2764  
kboehm@bkllawfirm.com

MICHAEL L. KURTZ, ATTORNEY  
BOEHM, KURTZ & LOWRY  
36 EAST SEVENTH STREET  
SUITE 1510  
CINCINNATI, OH 45202  
Fax: 513-421-2764  
mkurtz@bkllawfirm.com

STACI OLVERA SCHORGL, ATTORNEY  
BRYAN CAVE LLP  
1200 MAIN STREET  
SUITE 3500  
KANSAS CITY, MO 64105  
Fax: 816-855-3604  
soschorgl@bryancave.com

GLENDA CAFER, ATTORNEY  
CAFER LAW OFFICE, L.L.C.  
2921 SW WANAMAKER DR  
STE 101  
TOPEKA, KS 66614  
Fax: 785-271-9993  
gcafer@sbcglobal.net

ARLAN MITCHELL, MANAGER  
DONIPHAN ELECTRIC COOP. ASSN, INC.  
PO BOX 699  
101 N MAIN  
TROY, KS 66087  
Fax: 785-985-2298  
arlan@donrec.org

KEVIN HIGGINS  
ENERGY STRATEGIES, LLC  
PARKSIDE TOWERS  
STE 200  
215 S STATE ST  
SALT LAKE CITY, UT 84111  
Fax: 801-521-9142  
khiggins@energystrat.com

JOHN WINE, JR.  
410 NE 43RD  
TOPEKA, KS 66617  
Fax: 785-246-0339  
jwine2@cox.net

DANA BRADBURY, LITIGATION COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
d.bradbury@kcc.ks.gov  
\*\*\*\* Hand Deliver \*\*\*\*

MATTHEW SPURGIN, LITIGATION COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
m.spurgin@kcc.ks.gov  
\*\*\*\* Hand Deliver \*\*\*\*

ROBERT D BOWSER, VICE PRES REGULATORY &  
TECHNICAL SERVICES  
KANSAS ELECTRIC POWER CO-OP, INC.  
600 SW CORPORATE VIEW (66615)  
PO BOX 4877  
TOPEKA, KS 66604-0877  
Fax: 785-271-4888  
rbowser@kepco.org

STEPHEN PARR, EXEC VP & CEO  
KANSAS ELECTRIC POWER CO-OP, INC.  
600 SW CORPORATE VIEW (66615)  
PO BOX 4877  
TOPEKA, KS 66604-0877  
Fax: 785-271-4888  
sparr@kepco.org

J MICHAEL PETERS, GENERAL COUNSEL  
KANSAS ELECTRIC POWER CO-OP, INC.  
600 SW CORPORATE VIEW (66615)  
PO BOX 4877  
TOPEKA, KS 66604-0877  
Fax: 785-271-4884  
mpeters@kepco.org

**CERTIFICATE OF SERVICE**

08-WSEE-1041-RTS

MARK A RUELLE, VICE PRESIDENT/TREASURER  
KANSAS GAS & ELECTRIC CO.  
D/B/A WESTAR ENERGY  
818 S KANSAS AVE  
PO BOX 889  
TOPEKA, KS 66601-0889  
Fax: 785-575-8061  
mark.ruelle@westarenergy.com

DANIEL J. O'BRIEN, GENERAL MANAGER  
KAW VALLEY ELEC. COOP. ASSN. CO., INC.  
P.O. BOX 750640  
1100 SW AUBURN ROAD (66615)  
TOPEKA, KS 66675-0640  
Fax: 785-478-1088  
danobrien@kve.coop

JONATHAN H FLYNN, ATTORNEY  
MCDERMOTT WILL & EMERY LLP  
600 13TH STREET, NW  
12TH FLOOR  
WASHINGTON, DC 20005-3096  
Fax: 202-756-8087  
jflynn@mwe.com

GREGORY K. LAWRENCE, ATTORNEY  
MCDERMOTT WILL & EMERY LLP  
28 STATE STREET  
BOSTON, MA 02109-1775  
Fax: 617-535-3800  
glawrence@mwe.com

GRACE C. WUNG, ATTORNEY  
MCDERMOTT WILL & EMERY LLP  
28 STATE STREET  
BOSTON, MA 02109-1775  
Fax: 617-535-3800  
gwung@mwe.com

WILLIAM DOWLING, VP OF ENERGY MGMT & SUPPLY  
MIDWEST ENERGY, INC.  
1330 CANTERBURY ROAD  
PO BOX 898  
HAYS, KS 67601-0898  
Fax: 785-625-1487  
bdowling@mwenergy.com

KATHLEEN M BRINKER, GENERAL MANAGER  
NEMAHA-MARSHALL ELECTRIC COOPERATIVE ASSN.,  
INC.  
402 PRAIRIE STREET (66403)  
PO BOX 0  
AXTELL, KS 66403-0235  
Fax: 785-736-2348  
kmbrinker@bbwi.net

KEVIN K LA CHANCE, ATTORNEY  
OFFICE OF THE STAFF JUDGE ADVOCATE  
HQ, 24TH INFANTRY DIVISION & FORT RILEY  
BUILDING 200, PATTON HALL  
FORT RILEY, KS 66442-5017  
Fax: 785-239-0577  
kevin.lachance@us.army.mil

ANNE E. CALLENBACH, ATTORNEY  
POL SINELLI SHALTON FLANIGAN & SUELTHAUS  
6201 COLLEGE BLVD  
SUITE 500  
OVERLAND PARK, KS 66211  
Fax: 913-451-6205  
acallenbach@polsinelli.com

FRANK A. CARO, JR., ATTORNEY  
POL SINELLI SHALTON FLANIGAN & SUELTHAUS  
6201 COLLEGE BLVD  
SUITE 500  
OVERLAND PARK, KS 66211  
Fax: 913-451-6205  
fcaro@polsinelli.com

CONSTANCE L. SHIDLER, ATTORNEY  
SMITHYMAN & ZAKOURA, CHTD.  
7400 W 110TH STREET  
SUITE 750  
OVERLAND PARK, KS 66210  
Fax: 913-661-9863  
connie@smizak-law.com

JAMES P. ZAKOURA, ATTORNEY  
SMITHYMAN & ZAKOURA, CHTD.  
7400 W 110TH STREET  
SUITE 750  
OVERLAND PARK, KS 66210  
Fax: 913-661-9863  
zakoura@smizak-law.com

**CERTIFICATE OF SERVICE**

08-WSEE-1041-RTS

DAVID BANKS, ENERGY MANAGER  
UNIFIED SCHOOL DISTRICT 259  
SCHOOL SERVICE CENTER COMPLEX  
3850 N HYDRAULIC  
WICHITA, KS 67219-3399  
Fax: 316-973-2150  
dbanks@usd259.net

PETER Q NYCE JR, GENERAL ATTORNEY  
UNITED STATES DEPARTMENT OF DEFENSE  
D/B/A UNITED STATES DEPARTMENT OF DEFENSE  
REGULATORY LAW OFFICE  
SUITE 713  
901 N STUART ST  
ARLINGTON, VA 22203-1837  
Fax: 703-696-2960  
peter.nyce@us.army.mil

MARTIN J. BREGMAN, EXEC DIR, LAW  
WESTAR ENERGY, INC.  
818 S KANSAS AVENUE  
PO BOX 889  
TOPEKA, KS 66601-0889  
Fax: 785-575-8136  
marty.bregman@westarenergy.com

SARAH J LOQUIST, ASSISTANT GENERAL COUNSEL  
UNIFIED SCHOOL DISTRICT 259  
ROOM 405  
201 N WATER  
WICHITA, KS 67202  
Fax: 316-973-4497  
sloquist@usd259.net

ANGELA BEEHLER, DIRECTOR, ENERGY REGULATION  
WAL-MART STORES, INC.  
2001 SE 10TH ST  
SAM M. WALTON DEVELOPMENT COMPLEX  
BENTONVILLE, AR 72716-0550  
Fax: 479-273-6851  
angie.beehler@wal-mart.com

CATHRYN J. DINGES, CORPORATE COUNSEL  
WESTAR ENERGY, INC.  
818 S KANSAS AVENUE  
PO BOX 889  
TOPEKA, KS 66601-0889  
Fax: 785-575-8136  
cathy.dinges@westarenergy.com

  
\_\_\_\_\_  
Shonda D. Smith