

STATE CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION

SEP 12 2007

OF THE STATE OF KANSAS

 Docket  
Room

IN THE MATTER OF THE APPLICATION ]  
OF KANSAS CITY POWER & LIGHT ] KCC Docket No. 07-KCPE-905-RTS  
COMPANY TO MODIFY ITS TARIFFS ]  
TO BEGIN THE IMPLEMENTATION OF ]  
ITS REGULATORY PLAN ]

TESTIMONY IN SUPPORT OF

JOINT STIPULATION AND AGREEMENT

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

September 12, 2007

1 **I. STATEMENT OF QUALIFICATIONS**

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

3 A. My name is Andrea C. Crane and my business address is 199 Ethan Allen  
4 Highway, Ridgefield, Connecticut 06877.

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

7 A. Yes, on August 3, 2007, I filed Direct Testimony on behalf of the Citizens' Utility  
8 Ratepayer Board ("CURB"). My Direct Testimony addressed the filing made on  
9 March 1, 2007 by Kansas City Power & Light Company ("KCPL" or  
10 "Company"). In that filing, KCPL requested that the Kansas Corporation  
11 Commission ("KCC" or "Commission") approve a rate increase for the Company  
12 of \$47.06 million. This rate increase request included \$34.22 million related to a  
13 traditional revenue requirement deficiency and another \$12.84 million in  
14 additional cash flow that the Company claimed was necessary to maintain its  
15 investment grade credit rating. The Company's request would have resulted in an  
16 increase of approximately 10.8% over retail sales revenue at present rates. The  
17 Company also requested authorization to implement an Energy Cost Adjustment  
18 ("ECA") mechanism to recover fuel and purchased power costs.

19 In my Direct Testimony, I recommended that the KCC approve a rate  
20 increase of no more than \$13.4 million. This included a recommended rate  
21 decrease of approximately \$3 million based on a traditional revenue requirement  
22 analysis and a calculated increase, if allowed by the KCC, of \$16.4 million in  
23 additional cash flow revenue. I also recommended that the KCC reject the

1 Company's request to establish an ECA.

2

3 **Q. Have the parties now reached a resolution of the issues in this case?**

4 A. Yes, they have. CURB, along with the Staff of the KCC and other parties, have  
5 entered into a Joint Stipulation and Agreement ("S&A") that resolves all issues in  
6 this case. CURB was an active participant in the negotiations that resulted in this  
7 agreement.

8

9 **Q. Please briefly summarize the provisions of the S&A.**

10 A. The main provisions of the S&A include:

11 ➤ Rates will be increased by \$28 million. Of this amount, \$17 million is  
12 based on a traditional revenue requirement analysis and \$11 million  
13 represents additional cash flow. The \$11 million increase will be treated  
14 for accounting purposes as a pre-tax payment on plant and will reduce rate  
15 base when the Company files its base rate case in 2009.

16 ➤ The Company will implement an ECA. Monthly ECA rates will be  
17 established and communicated to customers each quarter, based on  
18 Company forecasts.

19 ➤ The Company will credit the ECA with all off-system sales margins, based  
20 on the Unused Energy ("UE1") allocator. To forecast off-system sales  
21 margins, the Company will use the median of the projected annual asset-  
22 based off-system sales.

23 ➤ Energy Efficiency Costs will be recovered through an Energy Efficiency

- 1 (“EE”) Rider.
- 2 ➤ The Company will maintain certain performance standards and will
- 3 monitor its performance through a residential customer satisfaction
- 4 survey.
- 5 ➤ The Company will explore with Staff the issue of which weather stations
- 6 should be included in future weather normalization analyses.
- 7 ➤ The Company will implement various accounting provisions governing
- 8 the treatment of rate case costs, surface transportation board expenses,
- 9 talent assessment costs, employee augmentation program costs, enhanced
- 10 security costs, a Department of Energy Wolf Creek refund, pension costs,
- 11 Allowance for Funds Used During Construction (“AFUDC”) on Iatan 2,
- 12 and proceeds from the sale of SO<sub>2</sub> emission allowances. The S&A also
- 13 specifies the depreciation rates that will be used by the Company, as well
- 14 as its decommissioning accruals for Wolf Creek, and reaffirms the KCC’s
- 15 prior treatment of costs relating to asset retirement obligations and cost of
- 16 removal.
- 17 ➤ The \$28 million rate increase will be allocated among customer classes
- 18 pursuant to the methodology outlined in the S&A.
- 19 ➤ There are also a few miscellaneous provisions regarding tariff language
- 20 and other issues.

21

22 **Q. Do you believe that the revenue provisions of the Stipulation are reasonable?**

23 A. Yes, I do. In my Direct Testimony, I recommended a base rate increase of no

1 more than \$13.4 million. The revenue increase of \$28 million contained in the  
2 Stipulation is higher than the amount recommended by CURB, but it is well  
3 below the increase requested by KCPL. The settlement amount of \$28 million  
4 represents approximately 60% of the increase of \$47.06 million originally  
5 requested by KCPL.

6 There is a difference of approximately \$14.6 million between CURB's  
7 Direct Testimony and the revenue increase contained in the S&A. However, as  
8 shown on Schedule ACC-44 to my Direct Testimony, CURB's recommendation  
9 included an off-system sales adjustment that reduced the Company's revenue  
10 requirement claim by \$10.2 million. This adjustment assumed that off-system  
11 sales margins would be reflected in base rates and therefore would not be subject  
12 to any true-up. Pursuant to the S&A, 100% of off-system sales margins will be  
13 credited to the ECA. Therefore, the off-system sales adjustment reflected in  
14 CURB's testimony is no longer necessary. Removing this adjustment would  
15 increase CURB's recommendation by \$10.2 million, accounting for most of the  
16 difference between CURB's Direct Testimony recommendation and the revenue  
17 increase per the S&A.

18 In addition, Staff included a weather normalization adjustment that  
19 actually increased the Company's revenue requirement by \$2.7 million. Including  
20 this Staff weather normalization adjustment would have increased my revenue  
21 requirement claim by another \$2.7 million. Accordingly, assuming the  
22 establishment of an ECA, and assuming that the KCC would have accepted  
23 Staff's weather normalization adjustment, my recommended revenue increase

1 would have increased from approximately \$13.4 million to approximately \$26.3  
2 million.

3 In addition, as shown on ACC-44, my recommended return on equity and  
4 capital structure adjustments reduced the Company's revenue requirement by  
5 \$17.2 million. While I believe that CURB's capital structure and cost of equity  
6 recommendations are reasonable, I recognize that there is always litigation risk.  
7 This is especially true with regard to cost of equity, which was by far the largest  
8 adjustment included in CURB's recommendation. If I used Staff's recommended  
9 return on equity of 10.3%, instead of the 9.59%, then my revenue requirement  
10 recommendation would increase by another \$7.0 million, although in that case  
11 there would have been an offset in the amount of additional revenue required to  
12 meet cash flow requirements. These three adjustments illustrate that the \$28  
13 million revenue increase contained in the stipulation is within a reasonable range  
14 of possible litigation outcomes given CURB's filed Direct Testimony.

15 The revenue requirement recommendation contained in my Direct  
16 Testimony was based on numerous adjustments to the Company's rate base,  
17 capital structure, and pro forma income claims. While the adjustments  
18 recommended by CURB are reasonable, I recognize that it is likely that at least  
19 some of these adjustments may have been rejected by the Commission.  
20 Accordingly, the S&A provides a reasonable compromise of the positions taken  
21 by various parties in this proceeding. In addition, adoption of the S&A will avoid  
22 further litigation, resulting in cost savings to all parties.

23

1    **Q.    Why doesn't the S&A provide greater details about the specific adjustments**  
2           **that resulted in the \$17 million cost of service component of the overall rate**  
3           **increase?**

4    A.    The parties to the S&A agree that a rate increase of \$28 million is reasonable, and  
5           that the \$28 million increase is composed of a traditional cost of service increase  
6           of \$17 million and an additional \$11 million in cash flow.  However, they do not  
7           necessarily agree on the specific cost of service adjustments that gave rise to the  
8           \$17 million cost of service increase.  Therefore, for the most part the stipulation is  
9           silent with regard to specific adjustments.  The stipulation only addresses a few  
10          specific issues that are necessary in order to minimize disputes in the next base  
11          rate case.

12  
13   **Q.    Do you have any additional comments about the EE Rider included in the**  
14          **S&A?**

15   A.    Yes, I do.  In its filing, the Company proposed to recover deferred energy  
16          efficiency costs over a period of ten years, and to include the unamortized balance  
17          in rate base.  In my Direct Testimony, I recommended that costs incurred through  
18          December 31, 2006, excluding labor costs, be amortized over a period of ten  
19          years, without rate base treatment.  The stipulation provides for the establishment  
20          of an EE rider to recover these costs on a current basis, without rate base  
21          treatment.  Moreover, the stipulation limits recovery to costs incurred after July 1,  
22          2006.  The S&A does permit the recovery of labor costs associated with energy  
23          efficiency activities through the rider.

1           I am generally opposed to single-issue ratemaking. However, if one  
2           assumes that the Company will receive guaranteed reimbursement for its energy  
3           efficiency program costs, then the use of an EE rider is preferable to deferring  
4           costs and recovering them over some future period of time with rate base  
5           treatment. The Company will presumably be incurring these costs each and every  
6           year for the foreseeable future. Therefore, it is preferable to have the Company  
7           recover these costs on a more or less current basis, close to the time that they are  
8           actually incurred, rather than to defer recovery for a much longer period of time  
9           and then require ratepayers to pay carrying costs on the unrecovered balance,  
10          which would continue to grow over this period.

11          Moreover, these costs are not generally the types of costs that should be  
12          capitalized in the ordinary course of business. This is especially true of the labor  
13          component of these costs, which is largely composed of administrative costs that  
14          are generally expensed. Therefore, permitting any unamortized balance to be  
15          included in rate base would be especially unreasonable for energy efficiency  
16          program costs.

17          While CURB accepts the EE Rider in this case, and has accepted the  
18          inclusion of certain labor costs in the Rider, it may be appropriate to reexamine  
19          this issue in the future. CURB continues to have concerns about segregating labor  
20          and administrative costs related to energy efficiency programs and recovering  
21          those costs through a Rider mechanism. Our primary concern is to ensure that  
22          ratepayers are not charged twice for these costs, once in base rates and again  
23          through an EE Rider. The Company assured us in Rebuttal Testimony that energy



1 efficiency-related labor costs were deferred and therefore are not included in the  
2 labor costs being recovered in base rates. However, if, in the future, current  
3 employees allocate a greater percentage of their time to energy efficiency  
4 programs that the allocations made in the test year, it would be appropriate to  
5 reexamine the issue of including labor and other administrative types of costs in  
6 the EE Rider. The EE Rider should only include incremental costs, i.e., costs that  
7 are incremental to the costs already being recovered in base rates. Since it is  
8 likely that KCPL will be filing base rate cases in each of the next two years, we  
9 will have the opportunity to ensure that any labor and administrative costs being  
10 recovered through the EE Rider have been excluded from base rates in these two  
11 rate proceedings. However, after the completion of the current Regulatory Plan,  
12 when base rate case filings are likely to be less frequent, it may be appropriate to  
13 reexamine this policy.

14 At that time the KCC may also want to examine whether labor and  
15 administrative costs related to energy efficiency activities should be included in a  
16 Rider mechanism at all, especially since by that time these activities will be  
17 ongoing, significant, and integral components to the Company's operations.  
18 Labor and administrative costs for other Company activities are recovered in base  
19 rates. At the end of the current Regulatory Plan, when energy efficiency  
20 programs have reached some critical mass and the Company's cash flow  
21 requirements have stabilized, the KCC should reexamine this issue to determine if  
22 labor and administrative costs related to energy efficiency should be treated in a  
23 similar manner to other KCPL administrative and labor costs and included in base

1 rates.

2 Finally, I understand that it is the intent of the parties to have the EE Rider  
3 separately identified on customers' bills. CURB supports separate identification  
4 of the EE Rider on the bill as it provides more information to ratepayers about the  
5 components of their energy bills. Providing more information to ratepayers about  
6 factors contributing to their energy bills is an important policy goal of CURB.

7  
8 **Q. Do you have any additional comments about the provisions in the S&A**  
9 **relating to the ECA?**

10 A. While CURB continues to be conceptually opposed to the ECA, we recognize that  
11 the KCC has approved ECA's for other Kansas utilities. Moreover, if an ECA is  
12 established for KCPL, the ECA outlined in the S&A is superior to the ECA's  
13 currently in place for some of the other Kansas utilities.

14 Under the ECA outlined in the S&A, the Company would file, on an  
15 annual basis, monthly estimates of projected fuel costs. Based on these estimates,  
16 ECA factors would initially be established for the first three months following  
17 that filing based on the information contained therein. In addition, ratepayers  
18 would be notified of the ECAs that would be in place for each of those three  
19 months.

20 CURB believes that public notification is an important policy issue if an  
21 ECA is established for KCPL. While I understand that the specific details are still  
22 being developed, all parties to the S&A agree that information on the monthly  
23 ECA rates should be available to customers each quarter as soon as possible. This

1 information will allow customers to better anticipate their upcoming energy costs  
2 and plan accordingly. Therefore, ratepayers will have some knowledge prior to,  
3 or early in, each quarter about the level of fuel rates to expect over the next three  
4 months. In addition, each quarter, the Company will update their fuel cost  
5 estimates for the remaining months of the ECA year and the following quarter's  
6 rates will be set based on each new forecast. The ECA outlined in the S&A has  
7 the benefit of establishing rates for a three-month period, rather than only for one  
8 month at a time, and provides ratepayers with some advanced indication of what  
9 their rates for the next quarter are likely to be each month. CURB believes that  
10 this advanced quarterly notification is superior to the practices of the other Kansas  
11 utilities that have an ECA.

12  
13 **Q. Does the ECA include a provision whereby 100% of off-system sales margins**  
14 **will be credited to ratepayers?**

15 A. Yes, it does. Pursuant to the ECA tariff included with the S&A, 100% of off-  
16 system sales margins will be credited to the ECA. Annual off-system sales  
17 margins will be estimated based on the forecasted expected margins for the  
18 upcoming twelve-month period. The annual margins will be prorated over  
19 estimated monthly sales. Off-system sales margins will be subject to a true-up in  
20 the following year. Moreover, as recommended by Staff, off-system sales  
21 margins will be allocated based on the UE1 allocator.

1     **Q.     Please comment on the pre-tax prepayment on plant included in the S&A for**  
2     **cash flow purposes.**

3     A.     The S&A includes \$11 million of a pre-tax prepayment on plant. This was a  
4     negotiated amount, and is not tied to any calculation pursuant to credit rating  
5     agency guidelines or other specific cash flow requirements. CURB continues to  
6     oppose, as a policy matter, the setting of regulated utility rates based on  
7     predetermined metrics dictated by third-party credit rating agencies that have no  
8     responsibility to Kansas customers. The KCC should determine Kansas utility  
9     rates based on the most appropriate ratemaking mechanisms for a regulated  
10    utility. Moreover, the rates established by the KCC should be based on the  
11    operations of the utility, and should not be impacted by operations in other states  
12    or operations of affiliated entities.

13           CURB recognizes that the Company is undertaking a major construction  
14    project that will impact the Company's cash flow over the next few years. CURB  
15    is willing to accept the \$11 million pre-tax prepayment included in the S&A as an  
16    extraordinary ratemaking accommodation during this period, and under these  
17    specific facts, given the Company's cash flow requirements. The pre-tax  
18    prepayment in the S&A will increase rates during the current period but at the end  
19    of the construction plan, ratepayers will receive the benefit of an offset to rate  
20    base in the amount of the pre-tax prepayment. While CURB has agreed to accept  
21    an amount in this S&A relating to cash flow requirements, and while CURB  
22    believes that this provision is reasonable given the current facts in this case and  
23    given the Company's financing needs over the next few years, CURB does not

1 agree that any rate increase granted by the KCC, or any amounts reflected in a  
2 stipulation, should be specifically tied to metrics established by an external entity  
3 whose interests are directed at protecting investors, at the expense of ratepayers.  
4 Hence, CURB continues to recommend that the KCC reject any cash flow  
5 mechanism that is directly tied to credit rating agency metrics or other similar  
6 criteria.

7  
8 **Q. Do you recommend that the KCC approve the S&A?**

9 A. Yes, I do. The S&A provides a reasonable resolution of the issues in this case.  
10 According, I recommend that the KCC approve the S&A. From a revenue  
11 requirement perspective, the resulting rate increase of \$28 million is reasonable  
12 and represents a fair compromise among the parties. The establishment of an EE  
13 Rider is preferable to permitting the Company to defer energy efficiency costs  
14 with rate base treatment. The ECA mechanism will provide some advanced  
15 notice to ratepayers regarding the energy cost component of their bill, and will  
16 credit ratepayers with 100% of off-system sales margins. The S&A provides  
17 additional cash flow for the Company during period of major construction without  
18 tying this additional increase to external benchmarks. Finally, the S&A will  
19 reduce regulatory costs for all parties and eliminate the risks inherent in litigation.  
20 For all these reasons, I believe that the S&A is in the public interest and I  
21 recommend that it be approved by the Commission.

22 **Q. Does this conclude your testimony?**

23 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 7 th day of September, 2007.

Notary Public Margorie M. Devin

My Commission Expires: December 31, 2008

**CERTIFICATE OF SERVICE**

07-KCPE-905-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 12th day of September, 2007, to the following:

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