BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION OF THE EMPIRE DISTRICT ELECTRIC COMPANY FOR APPROVAL OF THE COMMISSION TO MAKE CERTAIN CHANGES IN ITS CHARGES FOR ELECTRIC SERVICE	]]]]]]	KCC Docket No. 10-EPDE-314-RTS

CROSS ANSWERING TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

April 12, 2010

Q. Please state your name and business address.

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

Q. Did you previously file testimony in this case?

A. Yes, on March 31, 2010, I filed Direct Testimony on revenue requirement and cost of capital issues on behalf of the Citizens' Utility Ratepayer Board ("CURB"). In that testimony, I recommended that the KCC approve a rate increase of $3,163,661 for the Empire District Electric Company ("Empire").

Q. What is the purpose of your Cross Answering Testimony?

A. The purpose of my Cross Answering Testimony is twofold. First, I will discuss a formula error that Staff identified in my Direct Testimony. I have corrected this error and I am providing revised schedules. As discussed later in this testimony, this revision reduced my recommended rate increase to $2,873,490.

Second, I will respond to the testimony submitted by Michael B. Mount of the KCC Staff regarding his recommendation to use a 10-year period to determine normal weather in the development of Staff's proposed weather normalization adjustment.

A. Correction to Direct Testimony

Q. Please discuss the correction to your Direct Testimony.

A. In my Direct Testimony, I recommended that short-term debt be included in the Company's capital structure. However, when I added short-term debt to the capital structure, as shown in ACC-2 of my testimony, I did not recalculate the percentages of common equity, long-term debt, or trust preferred securities. Therefore, the components of capital included in my recommendation added up to more than 100%.

In addition to impacting the cost of capital schedule, this error also impacted my interest synchronization schedule (Schedule ACC-35), since that adjustment is based on the weighted cost of debt. In addition, this error impacted my summary schedules, Schedules ACC-1, ACC-15, ACC-38, and ACC-39. I have attached revised schedules to this testimony. In addition, this revision impacts pages 8, 9, 23, 32, and 58 of the text of my testimony. I have attached redlined versions of these pages.

This change to the capital structure ratios reduces my overall cost of capital from the 8.32% shown in my original testimony to 8.00%. In addition, this change reduces my recommended rate increase from $3,163,661 to $2,873,490. I notified the Company of this error and the impact of the revision shortly after my testimony was filed.

B. Weather Normalization

Q. How did the Company determine its weather normalization adjustment in this case?

A. The Company utilized a thirty-year time period to determine normal weather.

Q. Did Staff also use a period of thirty-years to normalize weather-related sales?

A. No, it did not. In his testimony, Staff witness Michael Mount recommended that a ten-year period be used.

Q Do you agree with the use of ten years to weather normalize sales?

A. No, I do not. I recommend that the KCC continue to utilize a thirty-year standard for normal weather.

Q. Why do you believe that 30-year data is more appropriate to utilize in developing the Company's weather normalization adjustment than the ten-year period recommended by Staff?

A. The thirty-year normal has been established by the National Oceanic and Atmospheric Association ("NOAA"), the government organization charged with establishing and recording the climatic conditions of the United States. The thirty-year standard is the objective standard, established by the government body responsible for determining normal weather conditions. Moreover, the thirty-year standard is the international standard adopted by the United Nation's World Meteorological Organization ("WMO"). The thirty-year normal is used for a wide range of applications and it has served as the standard in utility regulation for some time.

Q. Do you believe that the use of a NOAA standard is preferable to having regulatory

commissions set their own standards?

A. Yes, I do. It should not be the role of each regulatory commission to determine "normal" weather. Rather, that determination should be made by the governmental agency and other international bodies with expertise and responsibility for tracking, analyzing, and reporting weather statistics. In the United States, that agency is NOAA, which has determined that normal weather should be defined as the arithmetic mean computed over a long period of time. NOAA has further defined the appropriate time period over which to calculate normal weather as three consecutive decades.

Q. Why are longer time periods preferable to shorter ones for weather normalization data?

A. There are a few reasons. First, longer time periods tend to average out weather and temperature extremes much better than shorter periods. Obviously, one particularly cold or warm winter with many or few heating/cooling degree days has a much greater effect upon a ten-year average than it does upon a thirty-year average. In fact, a single data point has a 10% impact on a ten-year average, but only a 3.3% impact on a thirty-year average. Therefore, the effect of a single data point is three times greater with a ten-year average than with a thirty-year average.

Second, a shorter time period such as ten years may fail to include extreme weather in computing average degree days. It is normal and customary to have a very cold or a very warm year every so often, and the data base should include these extremes.

Q. Why is it important to have good standard weather data?

A. Utility rates are based upon normal operating conditions. If revenues are based on an accurate, consistent and widely-accepted standard for normalizing weather, in some years the Company's revenues will be less than normal, in some years the Company's revenues will be greater than normal, but over time, the Company's revenues will reflect normal weather and the Company will receive the opportunity to earn its fair rate of return. In addition, the use of an accepted objective standard, such as the thirty-year NOAA, ensures consistency from case to case.

Q. Are there other factors that lead you to favor the thirty-year NOAA standard over the ten years of data recommended by Staff?

A. Yes. Among other things, the NOAA standard has a long history of use and acceptance. The use of the NOAA thirty years as "normal" is based upon an international agreement and is commonly used to reflect normal weather conditions in a variety of industries and applications. It is my understanding the KCC traditionally has utilized a thirty-year normal.

Q. Is there a statistical reason why a thirty-year normal should be used?

A. Yes, there is. The use of thirty data points has its basis in the central limit theorem, which states that if the sample size has at least thirty data points, then the distribution of sample means is normal, resulting in a normal distribution centered around the mean with a standard

deviation that decreases as the sample size increases.

Q. Is NOAA examining the possibility of making any changes to the manner in which it determines normal weather?

A. Yes, it is. NOAA has initiated an investigation to address 1) assuring the availability of up-to-date climate normals, and 2) assuring the representativeness of a thirty-year average normal given a changing climate state. This process was initiated in May 2007.

The first issue involves the frequency with which NOAA thirty-year normals are updated. In the past, the official NOAA weather normal was based on data during three consecutive decades. Thus, this data was essentially updated only once every ten years. Now that technology has advanced, NOAA is exploring whether it might be reasonable to update the NOAA thirty-year normal weather data more frequently. At least part of the rationale for using three consecutive decades of data was the difficulty of updating this data more frequently. Technology has advanced considerably over the past few years, to the point where it is now relatively easy to calculate a new thirty-year normal each year. I have no objection to the use of the most recent thirty years of data to calculate normal weather.

The second issue is whether a basic change from the thirty-year normal should be adopted. NOAA has recently introduced "experimental" products that provide information about weather over various time periods. However, NOAA has cautioned users that such products are, in fact, experimental and that such products are not intended to replace thirty-year normals. Thus, while NOAA has acknowledged that the issue of climate change has

been raised by utilities in regulatory proceedings, and while NOAA is exploring the impact of such climate change on the calculation of normal weather, there is no indication that NOAA plans to terminate the use of thirty years as the time period over which to calculate normal weather.

Q. If NOAA changed the methodology used to determine normal weather, and instead adopted some other time period over which to calculate normal weather, would your recommendation change?

A. Yes, it would. As noted above, there are statistical reasons for adopting a time frame of at least thirty years to determine normal weather. However, if NOAA adopted a different standard, then I would recommend a change in the time period used by regulatory commissions, including the KCC, to determine normal weather for ratemaking purposes. The important point is that an independent government body with expertise should be selecting the time period used to define normal weather. This issue should not be determined on the basis of arguments made in rate cases by parties who have their own motives for suggesting various time periods.

Q. Would it be premature for the KCC to select a time period of other than thirty years while NOAA is still investigating this issue?

A. Yes, it would. Since NOAA is the governmental organization charged with determining the appropriate time period for determining normal weather, the KCC should not take any

actions that would be contrary to the NOAA standard at this time.

Q. Why is it important to have a consistent standard determined by an independent objective organization like NOAA?

A. The thirty-year period for determining what constitutes normal weather was not defined by CURB, or Empire, or Staff. Rather, it was defined by the United States Government organization that is responsible for defining normal weather, i.e., NOAA. Once the KCC deviates from this objective standard, then all parties will have an incentive to promote the time period that results in the best result for their particular constituency in each particular case. Deviating from the objective standard as determined by NOAA will open the door to arguments in every case about how long a period of time should determine what constitutes normal weather.

Q. Isn't it possible that weather patterns do change over time?

A. Yes, it is. However, permanent changes in weather patterns are likely to take place over a long period of time. NOAA has determined that data from a period of thirty years satisfactorily represents normal weather. To the extent weather patterns do exhibit a permanent change over time, such changes will be reflected in the thirty-year NOAA data. Moreover, the KCC should not confuse the determination of "normal" weather with the issue of how customers will react to variations from normal weather. The fact that energy prices have risen, that there is better communication with customers, and that energy efficiency

incentives are offered have no impact on the weather, or on the definition of normal weather. Rather, these factors impact how customers may respond to deviations from normal weather. Weather is based on climatological patterns and customers have virtually no impact on these weather patterns, at least not over the thirty-year period that is defined as constituting normal weather.

However, the KCC should be mindful of the difference between changes in weather patterns over time and changes in usage patterns over time. The two are not the same. While NOAA uses a thirty-year period to determine normal degree days, NOAA is not involved in forecasting how energy sales are likely to be impacted due to variations in degree days. For example, assume that the thirty-year normal results in 1,000 cooling degree days for a utility's service territory. A separate but related question is how customer usage changes with changes in degree days. Due to conservation efforts, more efficient appliances, price elasticity, and other factors, it is entirely possible that the impact of variations in degree days is different in 2010 than it was in 1968. My recommendation that the KCC continue to utilize a thirty-year degree day standard does not prevent the utility or other parties from presenting arguments regarding the *impact* of weather variations on energy usage. By continuing to utilize a thirty-year weather standard, the KCC is not precluding any party from providing evidence demonstrating the impact of various weather changes on electricity or natural gas usage in a utility base rate case.

Q. What do you recommend?

A. I recommend that the KCC continue to utilize a thirty-year standard for determining normal weather in this case.

Q. Does this conclude your testimony?

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 7TH of APRIL, 2010.

Notary Public Marjorie M. Lesin

My Commission Expires: DECEMBER 31, 2013

Revised Schedules:

ACC-1

ACC-2

ACC-15

ACC-35

ACC-38

ACC-39

Testimony Text: pages 8, 9, 23, 32, 58

Schedule ACC-1
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	$69,181,819	($4,324,535)	$64,857,284	(B)
2. Required Cost of Capital	8.80%	-0.81%	8.00%	(C)
3. Required Return	$6,090,598	($902,829)	$5,187,769	
4. Operating Income @ Present Rates	2,956,930	510,388	3,467,318	(D)
5. Operating Income Deficiency	$3,133,668	($1,413,217)	$1,720,451	
6. Revenue Multiplier	1.6605		1.6702	(E)
7. Revenue Requirement Increase	**$5,203,487**	**($2,329,997)**	**$2,873,490**	

Sources:

(A) Company Filing, Section 3.
(B) Schedule ACC-9.
(C) Schedule ACC-2.
(D) Schedule ACC-15.
(E) Schedule ACC-37.

Schedule ACC-2
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

REQUIRED COST OF CAPITAL

	Amount	Capital Structure	Cost Rate		Weighted Cost
	(A)	(A)			
1. Common Equity	$600,149,912	45.61%	9.72%	(B)	4.43%
2. Long Term Debt	616,407,746	46.85%	6.79%	(A)	3.18%
3. Trust Preferred Securitie	48,669,888	3.70%	8.86%	(A)	0.33%
4. Short Term Debt	50,500,000	3.84%	1.45%	(A)	0.06%
5. Total Cost of Capital	$1,315,727,546	100.00%			**8.00%**

Sources:
(A) Response to CURB-119.
(B) Schedule ACC-3.

Schedule ACC-15
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

OPERATING INCOME SUMMARY

		Schedule No.
1. Company Claim	$2,956,930	1
2. Recommended Adjustments:		
3. Pro Forma Revenue	32,657	16
4. Salaries and Wage Expense - Increases	28,638	17
5. Salaries and Wage Expense - Vacant Positi	13,787	18
6. Incentive Compensation Expense	41,418	19
7. Payroll Tax Expense	6,414	20
8. SERP Expense	8,567	21
9. Medical Benefits Expense	12,590	22
10. Bad Debt Expense	18,175	23
11. O&M Expense - New Facilities	225,894	24
12. Distribution Maintenance Expense	85,164	25
13. Storm Damage Amortization Expense	2,049	26
14. Regulatory Commission Expense	34,126	27
15. Software Contract Payment	2,540	28
16. Gain on Sale of Property	5,037	29
17. Miscellaneous Expense	2,665	30
18. Property Tax Expense - Tax Rate	80,095	31
19. Property Tax Expense - Plant Additions	15,140	32
20. Interest on Customer Deposits	1,061	33
21. Depreciation Expense	40,112	34
22. Interest Synchronization	(145,742)	35
23. Operating Income	$3,467,318	

Schedule ACC-35
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

INTEREST SYNCHRONIZATION

1.	Pro Forma Rate Base	$64,857,284	(A)
2.	Weighted Cost of Debt	3.24%	(B)
3.	Pro Forma Interest Expense	$2,099,245	
4.	Company Claim	2,465,639	(C)
5.	Adjustment to Interest Expense	($366,394)	
6.	Income Taxes @ 39.78%	**($145,742)**	

Sources:
(A) Schedule ACC-9.
(B) Weighted costs of long-term debt and short-term debt, per Schedule ACC-2.
(C) Company Filing, Section 11, Schedule B, Page 3.

Schedule ACC-38
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

PRO FORMA INCOME STATEMENT

	Per Company	Recommended Adjustments	Pro Forma Present Rates	Recommended Rate Adjustment	Pro Forma Proposed Rates
1. Operating Revenues	$13,885,436	$54,227	$13,939,663	$2,873,490	$16,813,153
2. Operating Expenses	6,424,427	(799,887)	5,624,540	16,666	5,641,206
3. Depreciation and Amortization	2,764,426	(66,607)	2,697,819	0	2,697,819
4. Taxes Other Than Income	1,463,813	(168,789)	1,295,024	0	1,295,024
5. Taxable Income Before Interest Expenses	$3,232,770	$1,089,510	$4,322,280	$2,856,824	$7,179,104
6. Interest Expense	2,465,639	(366,394)	2,099,245		2,099,245
7. Taxable Income	$767,131	$1,455,904	$2,223,035	$2,856,824	$5,079,859
8. Income Taxes (39.78%	275,840	579,122	854,962	1,136,373	1,991,336
9. Operating Income	$2,956,930	$510,388	$3,467,318	$1,720,451	$5,187,769
10. Rate Base	$69,181,819		$64,857,284		$64,857,284
11. Rate of Return	**4.27%**		**5.35%**		**8.00%**

Schedule ACC-39
Revised

EMPIRE DISTRICT ELECTRIC COMPANY

TEST YEAR ENDED JUNE 30, 2009

REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS

1.	Rate of Return	($924,773)
	Rate Base Adjustments:	
2.	Utility Plant in Service	(434,283)
3.	Cottages	(2,735)
4.	Materials and Supplies	(19,034)
5	Cash Working Capital	(118,332)
	Operating Income Adjustments	
6.	Pro Forma Revenue	(54,227)
7.	Salaries and Wage Expense - Increases	(47,554)
8.	Salaries and Wage Expense - Vacant Positions	(22,894)
9.	Incentive Compensation Expense	(68,775)
10.	Payroll Tax Expense	(10,651)
11.	SERP Expense	(14,226)
12.	Medical Benefits Expense	(20,905)
13.	Bad Debt Expense	(30,180)
14.	O&M Expense - New Facilities	(375,100)
15.	Distribution Maintenance Expense	(141,415)
16.	Storm Damage Amortization Expense	(3,403)
17.	Regulatory Commission Expense	(56,667)
18.	Software Contract Payment	(4,218)
19.	Gain on Sale of Property	(8,363)
20.	Miscellaneous Expense	(4,426)
21.	Property Tax Expense - Tax Rate	(132,998)
22.	Property Tax Expense - Plant Additions	(25,140)
23.	Interest on Customer Deposits	(1,762)
24.	Depreciation Expense	(66,607)
25.	Interest Synchronization	242,007
26.	Revenue Multiplier	16,664
27.	Total Recommended Adjustments	(2,329,997)
28.	Company Claim	5,203,487
29.	Recommended Revenue Requirement Deficiency	**$2,873,490**

III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the Company's revenue requirement and its need for rate relief?

A. Based on my analysis of the Company's filing and other documentation in this case, my conclusions are as follows:

1. The twelve months ending June 30, 2009, is an acceptable test year to use in this case to evaluate the reasonableness of the Company's claim.

2. The Commission should adopt a pro forma capital structure for Empire that consists of ~~47.43~~45.61% common equity, ~~48.72~~46.85% long-term debt, 3.~~85~~70% trust preferred securities, and 3.~~99~~84% short-term debt, as shown in Schedule ACC-2.

3. The Company has a pro forma cost of equity of 9.72%, as shown in Schedule 3.[1]

4. Based on my recommended capital structure and capital cost rates, I recommend that the Commission adopt an overall cost of capital of 8.~~32~~00% for Empire, as shown in Schedule ACC-2.

5. Empire has test year pro forma rate base of $64,857,284, as shown in Schedule ACC-9.

6. The Company has pro forma operating income at present rates of $3,500,647, as shown in Schedule ACC-15.

7. Empire has a test year, pro forma, revenue requirement deficiency of

1 Schedules ACC-1, ACC-38, and ACC-39 are summary schedules, ACC-2 to ACC-8 are cost of capital schedules, ACC-9 to ACC-14 are rate base schedules, and ACC-15 to ACC-37 are operating income schedules.

$3,163,6612,873,490, as shown on Schedule ACC-1. This is in contrast to the Company's claimed deficiency of $5,203,487.

8. Empire's request for establishment of an OBEP tracking mechanism and expansion of its pension tracker should be denied. If the KCC permits Empire to utilize any tracking mechanism for pension and/or OPEB costs, then it should adopt the mechanism recently approved for Kansas Gas Service and Westar Energy, Inc.

9. The Company's request to transfer recovery of ACQS consumables from distribution base rates to the ECA should be denied.

It should be noted that while my recommendations will reduce the Company's rate increase from the $5,203,487 requested by Empire to $3,163,6612,873,490, CURB's recommendations still result in an increase of approximately 242% on base rates. Moreover, ratepayers may face an additional increase when the Company files the abbreviated rate case authorized in the Procedural Order and discussed later in this testimony. These rate increases are being imposed during a period when ratepayers are already facing challenging economic conditions, including loss of jobs, unprecedented levels of mortgage foreclosures, and severe reductions in the value of their investments. In evaluating the merits of the Company's filing, and the merits of the recommendations made by CURB and other parties in this case, the KCC should be mindful of the hardships currently facing Kansas ratepayers.

C. Overall Cost of Capital

Q. What is the overall cost of capital that you are recommending for Empire?

A. I am recommending an overall cost of capital for Empire of 8.~~32~~00%, based on the following capital structure and cost rates:

	Percentage	Cost	Weighted Cost
Common Equity	~~47.43~~45.61%	9.72%	4.~~61~~43%
Long-Term Debt	~~48.72~~46.85%	6.79%	3.~~3~~18%
Trust Preferred Securities	3.~~85~~70%	8.86%	0.343%
Short-Term Debt	3.~~99~~84%	1.45%	0.06%
Total	100.00%		8.~~32~~00%

V. RATE BASE ISSUES

Q. What test year did the Company utilize to develop its rate base claim in this proceeding?

A. The Company selected the test year ending June 30, 2009. In addition, the Company has included costs associated with several new generating facilities and environmental projects that were not yet in-service by the end of the test year. As shown in Schedule BAM-6 to Mr. Mertens' testimony, the Company included post-test year plant associated with Iatan Unit 1 environmental upgrades, Iatan common facilities, Iatan Unit 2, and Plum Point in its rate

2 Total does not add due to rounding.

The Company's filing includes a 40% increase in base distribution rates, much of which is being driven by this new generation. Even though CURB is recommending a significant reduction to the Company's claim, our revenue requirement still reflects an increase in base rates of approximately 242%. While some of this generation will replace an expiring purchased power contract with Westar Energy, the Plum Point and Iatan Unit 2 generating units still represent a net increase of 38 MWs of capacity to Empire.

It is unconscionable to raise rates by 242% in order to pay for new capacity, while at the same time arguing that revenues are declining due to lower retail sales. Accordingly, I recommend that the Company's customer annualization adjustment be rejected by the KCC. My adjustment is shown in Schedule ACC-16.

B. Salaries and Wage Expense

Q. How did the Company develop its salary and wage claim in this case?

A. As shown in the Company's workpapers, Empire began by annualizing its regular payroll based on rates in effect at August 30, 2009. The Company then made various adjustments relating to vacant positions, overtime costs, various incentive programs, and other items to determine a total annualized payroll. In addition, it included a 3% payroll increase. It then compared the expense portion of its pro forma annualized payroll to the actual test-year payroll expense to quantify its adjustment.

Q. Are you recommending any adjustment to the Company's payroll expense claim?

the state and federal income tax rates contained in the Company's filing.

Q. What revenue multiplier have you used in your revenue requirement?

A. My recommendations result in a revenue multiplier of 1.67020, as shown on Schedule ACC-37. This revenue multiplier reflects an uncollectible rate of 0.58%, in addition to the state and federal income tax rates discussed above.

VII. REVENUE REQUIREMENT SUMMARY

Q. What is the result of the recommendations contained in your testimony?

A. My adjustments result in a revenue requirement deficiency at present rates of ~~$3,163,661~~2,873,490, as summarized on Schedule ACC-1. This recommendation reflects revenue requirement adjustments of ~~$2,039,826~~2,329,997 to the revenue requirement increase of $5,203,487 requested by Empire.

Q. Have you developed a pro forma income statement?

A. Yes, Schedule ACC-37 contains a pro forma income statement, showing utility operating income under several scenarios, including the Company's claimed operating income at present rates, my recommended operating income at present rates, and operating income under my proposed rate increase. My recommendations will result in an overall return on rate base of 8.~~32~~00%.

CERTIFICATE OF SERVICE

10-EPDE-314-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, e-mailed, or hand-delivered this 12th day of April, 2010, to the following:

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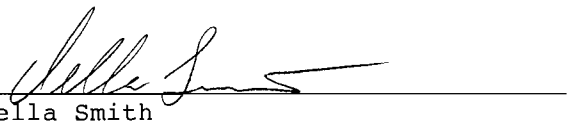

Della Smith

* Denotes those receiving the Confidential version