BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	]	
OF THE EMPIRE DISTRICT ELECTRIC	]	KCC Docket No. 19-EPDE-223-RTS
COMPANY FOR APPROVAL OF THE	]	
COMMISSION TO MAKE CHANGES IN	]	
CHARGES FOR ELECTRIC SERVICE	]	

TESTIMONY IN SUPPORT OF UNANIMOUS SETTLEMENT AGREEMENT

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 18, 2019

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, Fort Lauderdale, Florida 33306.

Q. Please provide a brief background of this proceeding.

A. On December 7, 2018, the Empire District Electric Company ("Empire") filed an Application with the Kansas Corporation Commission ("KCC" or "Commission") for changes in its base rates for electric service. The Company proposed a base retail revenue increase of $1,689,905. The Company's proposed base revenue increase included $1,794,980 related to capital costs that are currently being recovered through the Asbury and Environmental Recovery Rider ("AERR") and $555,293 that is currently being recovered through the Ad Valorem Tax Surcharge Rider. In addition to its base revenue increase, the Company proposed to establish a Transmission Delivery Charge ("TDC") Rider and to assign a revenue requirement of $3,166,367 to the TDC Rider. The Company's proposed base revenue increase of $1,689,905 and proposed TDC Rider of $3,166,367 would have resulted in an increase to ratepayers of $4,856,272. However, the AERR of $1,794,980 will be terminated once new base rates are effective and the Ad Valorem Tax Surcharge Rider will be reset in March 2020. Therefore, the net impact to ratepayers of the Company's proposal was an increase of $2,505,999, with the termination of the AERR and the reduction in the Ad Valorem Tax Surcharge Rider.

The Company's proposed revenue requirement included new depreciation rates designed to increase its annual depreciation expense by $414,582, based on test year plant balances. The Company proposed to increase its residential customer charge from $14.00 per month to $17.00, and to increase its small commercial customer charge by $1.00 per month. Empire also proposed increases to both rate blocks of the usage rates applicable to all residential and small commercial rate classes.

In addition to these proposed increases, Empire sought authorization for a Revenue Stabilization Rider ("RSR") and for a Capital Tracker Rider. The Company also proposed to establish a Tax Change Rider to true-up certain tax refunds relating to excess deferred income taxes ("EDITs") that resulted from the Tax Cut and Jobs Act of 2017 ("TCJA"). Empire proposed that it be permitted to offset 2018 and 2019 savings resulting from the TCJA with increases in other cost of service components. Finally, Empire proposed to defer certain revenues and costs related to implementation of a Light-Emitting Diode ("LED") tariff for its street lighting customers.

Q. Did you previously file testimony in this proceeding?

A. Yes, on May 13, 2019, I filed Direct Testimony on behalf of the State of Kansas, Citizens' Utility Ratepayer Board ("CURB") regarding certain policy issues as well as the Company's revenue requirement claim. Testimony was also filed on behalf of CURB by Dr. J. Randall Woolridge addressing cost of capital issues, by James Garren addressing depreciation issues, and by Brian Kalcic addressing rate design and class cost of service issues.

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

A. In my Direct Testimony, I recommended that the KCC reject the Company's request for a base rate increase. Instead, I recommended that the KCC authorize a base revenue decrease of $851,378. My recommendation was based on Dr. Woolridge's recommendation that the KCC authorize a cost of equity for the Company of 8.8%, and on the depreciation rate recommendation of Mr. Garren. In addition, Mr. Kalcic recommended that the KCC maintain the current customer charges for residential and small commercial customers and continue the movement toward phasing out the Company's declining block rate structure.

In addition to CURB's base rate recommendations, I also recommended that the KCC reject the Company's request to establish the RSR and the Capital Tracker Rider. Moreover, I recommended that if the KCC approved the Company's request to establish a Tax Change Rider, Empire should be limited to true-ups involving the refund of EDIT balances resulting from the TCJA. I also recommended that if the KCC authorized Empire to defer revenue losses and incremental costs associated with the LED street lighting conversion, it should not rule on recovery of any such deferral at this time but instead should examine the impact of the LED conversion on revenues and costs in the Company's next base rate case.

Finally, I recommended that the KCC should require Empire to refund to ratepayers approximately $2,062,798, plus interest, associated with federal income tax savings from January 1, 2018 through the effective date of new rates.

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 ("Agreement") that resolves all of the issues in this case. Parties to the Settlement Agreement include Empire, CURB, Staff, and Kansas Gas Service, Inc., a division of ONE Gas, Inc. (referred to collectively as the "Signatories" or the "Signatory Parties").

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

A. The Agreement provides for no change in Empire's base retail revenues. The Agreement does permit Empire to establish a TDC, with an estimated initial revenue requirement of $2,708,470. The TDC will be updated prior to going into effect as recommended in the testimony of Staff Witness Andria Jackson. The Settlement adopts the depreciation rates recommended by Staff Witness Roxie McCullar. The Agreement also provides for a one-time bill credit of $1,976,933 relating to tax savings from January 1, 2018 through July 31, 2019 resulting from the TCJA. This amount is subject to further adjustment if new rates are not effective by August 1, 2019. The Signatories also agreed to the establishment of the Tax Change Rider, to be used to true-up the amortization of EDIT between the amounts included in base rates and the actual amounts amortized each year.

The Settlement specifies that a five-year amortization period will be used to return unprotected EDIT to ratepayers. In addition, the Settlement specifies the amortization periods relating to recovery of rate case costs, pension and other post-employment benefit ("OPEBs") costs, and ice storm damage costs. It also specifies the amount of pension, OPEB, and property taxes being recovered in base rates.

As part of the Settlement, Empire agreed to withdraw its proposed RSR and its proposed Capital Tracker Rider. In the Settlement, Empire agreed to file an application within 180 days of a definitive decision to retire the Asbury plant and to propose a rate mechanism to flow through changes in the revenue requirement associated with the retirement of Asbury. The Signatories also agreed that Empire would be permitted to establish a regulatory asset/liability account to track the actual cost and revenue impacts of the LED municipal street lighting conversion, for consideration in Empire's next base rate case.

The Agreement does not specify a return on equity, but it does specify a pre-tax rate of return to be used solely for the carrying charges that may be applied to the ARCT and the LED Regulatory Asset/Liability.

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

A. The 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 revenue among Empire's various customer classes, and provides for a very minimal shift of $5,695 in base revenues from the small commercial class to the residential class. The

Agreement provides for an increase of $0.25 per month in the residential customer charge and an increase of $1.00 per month in the small commercial customer charge. It also provides for reductions in the first block rates for residential and small commercial customers (except for RH-Residential Total Electric) but no change in the second block rates, thereby moving toward a phase-out of the declining block structure.

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 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 Agreement is a unanimous agreement and therefore no party opposes the terms agreed to by the signatories.

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

A. Yes, it is. CURB recommended a base revenue reduction of $851,378 while Staff recommended a base revenue reduction of $340,082. If my revenue requirement recommendation was adjusted 1) to adopt Staff's proposed return on equity of 9.3% and 2) to adopt the depreciation rates recommended by Staff, CURB's recommendation would essentially be a base revenue increase of $0, or the base revenue change reflected in the Agreement. While Staff proposed certain accounting adjustments that were not reflected in CURB's recommendation, it is unlikely that the KCC would have accepted all of CURB's accounting adjustments. Therefore, the base revenue adjustment of $0 reflected in the Agreement appears reasonable relative to CURB's and Staff's filed testimonies.

Q. Does the Agreement conform to applicable law?

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

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

A. Yes, the Agreement will result in just and reasonable rates. As noted above, the base revenue adjustment of $0 reflected in the Agreement is virtually identical to CURB's filed position, adjusted to reflect Staff depreciation rates (which were adopted by the Signatory Parties) and

Staff's recommended return on equity. While no return on equity is specified in the Agreement, Staff's recommended return on equity is consistent with the pre-tax rate of return specified in the Agreement for carrying costs associated with the regulatory accounts related to 1) the future retirement of Asbury and 2) the LED municipal lighting deferrals. Moreover, the 9.3% return on equity recommended by Staff is between the 8.8% return on equity recommended by CURB and the 10.2% proposed by Empire. In addition, the depreciation rates reflected in the Settlement are the rates proposed by Staff, which resulted in annual depreciation expenses that again were between the amounts proposed by Empire and CURB.

The Agreement results in no net base revenue increase for either RG-Residential customers or for RG-Residential Water Heating customers, and in a very modest increase of $5,621 for RH-Residential Total Electric customers. Similarly, the Settlement results in slight decreases for the small commercial class. The Agreement results in very modest increases in customer charges while continuing movement toward phasing-out the declining block rate structures for residential and small commercial customers. The movement toward phasing-out the declining block rate structures should provide an additional incentive for conservation.

Given the very modest revenue shifts in the rate design applicable to residential and small commercial customers, and the continued movement toward phasing out the declining block structure, I believe that the rates resulting from the Agreement will be reasonable.

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

A. This Agreement is in the public interest and no party is opposing the Agreement. The Agreement results in no base revenue change. In addition, it results in a minimal increase in the overall revenue allocated to residential customers and in a corresponding minimal decrease to the revenue allocated to small commercial customers. The residential customer charge increases are very modest relative to the increases requested by Empire, and the new rates continue movement toward phasing out declining block rates. Accordingly, the new rates will promote further conservation.

In addition, the TDC revenue requirement reflected in the Agreement is considerably less than the amount requested by Empire. In addition to no base revenue change and the lower TDC, Kansas retail customers will also benefit from a one-time bill credit of almost $2 million related to the effects of the TCJA. The Agreement also provides for the return of unprotected excess deferred income taxes associated with plant over 5 years, instead of over the 10-year period proposed by Empire.

The Agreement also protects ratepayers in the event that Empire retires the Asbury plant after new rates are implemented by requiring the Company to make a filing with the KCC and to propose a rate mechanism to flow through changes in the revenue requirement resulting from the retirement of Asbury. It also provides for the establishment of a LED Regulatory Asset/Liability, which can be examined by the KCC in the Company's next base rate case.

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 Agreement is supported by substantial evidence in the record, that the Agreement results in just and reasonable rates, and that the Agreement is in the public interest. Therefore, I recommend that the KCC approve the 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 herein are true to the best of her knowledge, information and belief.

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 14th day of June, 2019.

Notary Public Elizabeth Jacobs

My Commission Expires: Notary Public State of Florida Elizabeth Jacobs My Commission GG 330722 Expires 05/05/2023

CERTIFICATE OF SERVICE

19-EPDE-223-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 18th day of June, 2019, to the following:

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