

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF BLACK HILLS/KANSAS GAS UTILITY]
COMPANY, LLC, d/b/a BLACK HILLS] KCC Docket No. 21-BHCG-418-RTS
ENERGY, FOR APPROVAL OF THE]
COMMISSION TO MAKE CERTAIN]
CHANGES IN ITS RATES FOR NATURAL]
GAS SERVICE]

TESTIMONY OF

ANDREA C. CRANE

IN SUPPORT OF SETTLEMENT AGREEMENT

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

October 13, 2021

1 **I. INTRODUCTION**

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

3 A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard,
4 #401, Fort Lauderdale, Florida 33306.

5

6 **Q. Please summarize the Application that is the subject of this proceeding.**

7 A. On May 7, 2021, Black Hills Energy (“Black Hills” or “Company”) filed an Application with
8 the Kansas Corporation Commission (“KCC” or “Commission”) seeking a base revenue
9 increase of \$10,199,943, or approximately 11.34%, for its natural gas operations in Kansas.
10 Black Hills provides natural gas service to approximately 117,000 Kansas customers in 65
11 communities located in 50 counties.

12 The proposed base revenue increase included certain costs that are currently being
13 recovered through the annual Gas System Reliability Surcharge (“GSRs”). At the time of the
14 filing, the GSRs was recovering \$4,787,225 from ratepayers. While this case was being
15 litigated, the KCC authorized an increase in the GSRs to \$6,610,982 in KCC Docket No. 21-
16 BHCG-434-TAR. Costs recovered pursuant to the GSRs will be rolled into base rates at the
17 effective date of new rates in this case, and the GSRs will be reset to \$0.

18 In addition to its base rate increase, the Company proposed to implement a Tax
19 Adjustment Rider (“TA Rider”) to provide refunds of certain excess deferred income taxes
20 (“EDIT”) associated with the Tax Cut and Jobs Act of 2017 (“TCJA”). Black Hills proposed
21 to refund \$2,807,996 annually for three years to Kansas customers through the TA Rider.

1 The net impact of the base revenue increase, resetting of the GSRS to \$0, and the TA Rider
2 refund was a proposed increase of \$2,604,722, or approximately 4.5% for the average
3 residential customer.

4
5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes, on September 10, 2021, I filed Direct Testimony on behalf of the Citizens' Utility
7 Ratepayer Board ("CURB"). My Direct Testimony presented CURB's recommended
8 revenue requirement for Black Hills, based on my analysis of the Company's Application and
9 supporting documentation. CURB also filed the testimony of Dr. J. Randall Woolridge,
10 addressing capital structure and cost of capital issues, and of Glenn Watkins, addressing class
11 cost of service and rate design issues.

12
13 **Q. Please summarize the recommendations contained in CURB's Direct Testimony.**

14 A. In my Direct Testimony, I recommended that the KCC authorize a base revenue increase of
15 \$5,827,211. In addition to various accounting adjustments, this recommendation was also
16 based on Dr. Woolridge's recommendation that the KCC adopt a pro forma capital structure
17 consisting of 50% equity, at a cost of 8.75%, and of 50% long-term debt at a cost of 3.91%.
18 Since the GSRS will be reset to \$0 with the effective date of new rates, my recommendation
19 resulted in a net decrease of \$783,771. After consideration of the TA Rider credit of
20 \$2,807,966, the overall net impact of CURB's recommendation was a revenue reduction of
21 \$3,591,736.

1 In addition, Mr. Watkins recommended allocations to the residential and small
 2 commercial class that were lower than those proposed by Black Hills. He also recommended
 3 that all customer classes be allocated some portion of the revenue increase, while Black Hills
 4 recommended no increases to the Large Volume Firm and Large Volume Interruptible
 5 classes. Mr. Watkins also recommended a residential customer charge of no greater than
 6 \$18.35 per month.

7
 8 **Q. How did CURB’s revenue requirement recommendation compare with the revenue**
 9 **requirement recommended by KCC Staff?**

10 A. The overall net impact of Staff’s recommendation was very close to CURB’s
 11 recommendation, although Staff recommended that the EDIT credit be returned to ratepayers
 12 over a five-year period in base rates, instead of over a three-year period in the TA Rider.
 13 Following is a comparison of the Company’s request, as well as the CURB and Staff
 14 recommendations:

	Black Hills	CURB	Staff
Base Revenue Increase	\$10,199,943	\$5,827,211	\$2,917,886
GSRs Impact	(\$6,610,982)	(\$6,610,982)	(\$6,610,982)
TA Rider Impact	(\$2,807,966)	(\$2,807,966)	\$0
Net Overall Impact	\$780,995	(\$3,591,736)	(\$3,693,096)

1 **II. DESCRIPTION OF SETTLEMENT AGREEMENT**

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

4 A. Yes, the parties to this case have engaged in extensive settlement discussions. As a result,
5 the parties have entered into a Settlement Agreement (“Settlement”) that resolves all of the
6 issues in this case. Parties to the Settlement are Black Hills, CURB, and Staff. Although
7 Freedom Pipeline, LLC (“Freedom”) is not a party to the Settlement, I understand that
8 Freedom does not oppose the agreement.

9
10 **Q. Please summarize the terms of the Settlement.**

11 A. The Settlement reflects a base revenue increase of \$6,610,982, which exactly equals the
12 current GSRS. Therefore, there will be no net increase to ratepayers. In addition, the
13 Settlement provides for EDIT associated with the TCJA to be returned to ratepayers through
14 a TA Rider over a three-year period, for a net reduction of \$3,024,315 annually over the first
15 three years that new rates are in effect.

16 The Settlement is largely a black box settlement, although there are a few components
17 of the revenue requirement specified in the Settlement. The Settlement adopts the
18 depreciation rates recommended by Staff in its testimony in this case, but acknowledges that
19 Black Hills is not agreeing to the underlying policies used to develop those rates. The
20 Settlement also preserves the rights of all parties to advance arguments related to incentive
21 compensation and capital structure issues in future cases.

1 The Settlement also specifies the amounts included in base rates for pension and
2 OPEB expense and for property tax expense, and identifies the amortization periods used for
3 various regulatory assets and liabilities.
4

5 **Q. Does the Settlement include a distribution of the proposed increase among the various**
6 **customer classes?**

7 A. Yes, it does. The Settlement includes a base rate increase of approximately 13.55%. The
8 Parties have agreed to a distribution of this increase among the various customer classes.
9 These revenue allocations are generally in line with the recommendations of Mr. Watkins.
10 Residential customers will receive an increase of 13.17%, which is slightly below the system
11 average. Small general service sales customers will receive an increase of 12.76% while
12 small general service transportation customers will receive an increase of 15.57%. As shown
13 on Appendix B, page 1 to the Settlement, increases to other customer classes will range from
14 11.54% to 18.84%. The Settlement provides for an increase in the residential customer
15 charge from \$16.94 to \$18.50.
16

17 **Q. Does the Settlement specify a return on equity or capital structure?**

18 A. No, it does not. However, the Settlement does state that carrying charges for future GSRS
19 filings will be based on a pre-tax return of 7.78%.
20
21

1 **Q. Does the Settlement resolve all issues in this proceeding?**

2 A. Yes, this Settlement resolves all issues in this proceeding.

3
4 **III. ANALYSIS OF THE SETTLEMENT AGREEMENT**

5 **Q. Are you familiar with the standards used by the KCC to evaluate a settlement that is**
6 **proposed to the Commission?**

7 A. Yes, I am. The KCC has adopted five guidelines for use in evaluating settlement agreements.
8 These include: (1) Has each party had an opportunity to be heard on its reasons for opposing
9 the settlement? (2) Is the agreement supported by substantial evidence in the record as a
10 whole? (3) Does the agreement conform to applicable law? (4) Will the agreement result in
11 just and reasonable rates? (5) Are the results of the agreement in the public interest, including
12 the interests of customers represented by any party not consenting to the agreement?

13 I understand that CURB counsel will address item 3, i.e., does the Settlement
14 conform to applicable law, in its opening statement at the upcoming hearing. Since I am not
15 an attorney, it is more appropriate for CURB counsel to address this issue than for me to
16 address it. However, I will discuss the remaining four guidelines.

17
18 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**
19 **Settlement?**

20 A. I participated personally in settlement negotiations in this case and each party had a full and
21 complete opportunity to be heard. The parties discussed issues, resolved certain numerical

1 discrepancies, and negotiated aggressively. The Settlement is a unanimous agreement, in that
2 no party is opposed to the agreement.

3
4 **Q. Is the Settlement supported by substantial evidence in the record as a whole?**

5 A. Yes, it is. While the increase is slightly above the increases recommended by CURB and
6 Staff, it is significantly less than the increase proposed by Black Hills. In my testimony, I
7 recommended a base revenue increase of \$5,827,211. While the Settlement provides for a
8 base revenue increase that is 13.5% higher than I recommended, it represents a reduction of
9 more than 35% from the Company's requested increase of \$10,199,943. In addition, the
10 Settlement increase of \$6,610,982 is also very close to the increase recommended by KCC
11 Staff, as adjusted for the treatment of the excess deferred tax refund. While CURB and Staff
12 developed their recommendations independently, and in many cases had different proposed
13 adjustments, the Settlement includes an increase that is relatively close to both the CURB
14 and Staff recommendations.

15
16 **Q. How does the stated pre-tax return of 7.78% for purposes of the GSRS comport with**
17 **the cost of capital recommendation of Dr. Woolridge?**

18 A. Based on Dr. Woolridge's recommended capital structure and cost of debt, the 7.78% pre-tax
19 return would correspond to a cost of equity of 9.2%. While this is higher than Dr.
20 Woolridge's recommended 8.75%, it is within the range of equity returns recommended in
21 the case. The Company proposed an equity return of 10.15% while Staff recommended an

1 equity return of 9.2%. Therefore, based on Dr. Woolridge's capital structure, the pre-tax
2 return is within the zone of reasonableness. It should be noted that this return will only be
3 utilized for purposes of the GSRS. Moreover, the pre-tax return reflected in the most recent
4 GSRS filing was 7.9836%. Therefore, the Settlement will result in a reduction to the pre-tax
5 return used to calculate the GSRS.

6 It should also be noted that the pre-tax return yields different costs of equity,
7 depending on the underlying assumptions regarding capital structure. Since the Company,
8 CURB, and Staff all recommended different capital structures, each party is likely to evaluate
9 the cost of equity resulting from the Settlement differently. However, based on CURB's
10 proposed capital structure, I believe that the pre-tax return of 7.78% is a reasonable return to
11 utilize in determining future GSRS adjustments.

12
13 **Q. Please explain why the amount of the three-year TA Rider credit of \$3,024,315 is higher**
14 **than the amount included in the Company's Application and in CURB's testimony.**

15 A. In calculating the TA Rider, the Company included interest based on a mid-point convention,
16 which used the average outstanding balance over the three-year period to calculate carrying
17 costs. Staff proposed including the tax credit in base rates, and proposed including the entire
18 beginning balance of the liability as a credit to rate base, which is the methodology that
19 would normally apply to regulatory amortizations that are included in base rates. While the
20 parties subsequently agreed to refund the tax benefits through a TA Rider, the parties also
21 agreed that ratepayers should get carrying costs on the entire beginning balance. Therefore,

1 the increase in the amount of the TA Rider is due to an increase in the amount of carrying
2 costs that will be credited to ratepayers over the three-year period.

3
4 **Q. Will the Settlement result in just and reasonable rates?**

5 A. Yes, the Settlement will result in just and reasonable rates. As noted above, the overall
6 revenue increase is reasonable. When the resetting of the GSRS is considered, there will be
7 no net change to customers. Moreover, for the first three years, customers will also enjoy a
8 TA Rider credit of over \$3 million annually.

9 The distribution of the revenue increase is generally consistent with the class cost of
10 service findings of Mr. Watkins. The residential increase of 13.17% is slightly below the
11 system average increase of 13.55%. In addition, while the Settlement does reflect an increase
12 in the residential customer charge, the proposed residential customer charge of \$18.50 is well
13 below the \$20.00 customer charge proposed by Black Hills. Given the results of the class
14 cost of service study, CURB believes that the overall rates resulting from the Settlement are
15 reasonable.

16
17 **Q. Are the results of the Settlement in the public interest, including the interests of
18 customers represented by any party not consenting to the agreement?**

19 A. This Settlement is in the public interest. The Settlement results in a revenue increase that is
20 significantly less than the increase requested by Black Hills. In addition, the base revenue
21 increase will be exactly offset by a reduction in the GSRS. For the first three years, there will

1 be a further TA Rider of \$3.0 million annually credited to ratepayers. The Settlement will
2 also reduce the pre-tax return utilized to calculate future GSRS adjustments.

3 With regard to rate design, the Settlement provides a reasonable allocation of the
4 increase among the customer classes, and results in a residential customer charge that is less
5 than the class average increase, providing additional relief to low-usage customers.
6

7 **Q. What do you recommend?**

8 A. I recommend that the KCC find that all parties had the opportunity to participate in the
9 settlement process, that the Settlement is supported by substantial evidence in the record, that
10 the Settlement will result in just and reasonable rates, and that the Settlement is in the public
11 interest. Therefore, I recommend that the KCC approve the Settlement as filed.
12

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

14 A. Yes, it does.

VERIFICATION

STATE OF FLORIDA)
) ss:
COUNTY OF BROWARD)

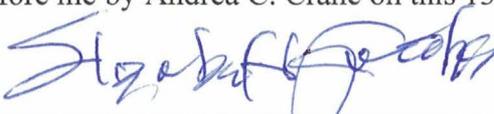
Andrea C. Crane, President of The Columbia Group, Inc., upon being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing Testimony of Andrea C. Crane in Support of Settlement Agreement, and that the statements made therein are true and correct to the best of her knowledge, information and belief.

SIGNED this 13th day of October, 2021.

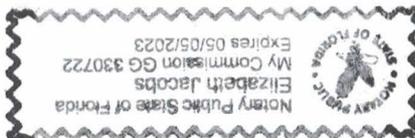


ANDREA C. CRANE

SUBSCRIBED AND SWORN TO before me by Andrea C. Crane on this 13th day of October, 2021.



**NOTARY PUBLIC IN AND FOR THE
STATE OF FLORIDA**



My Commission Expires: 5/5/2023

CERTIFICATE OF SERVICE

21-BHCG-418-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 13th day of October, 2021, to the following:

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