BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	]	
OF KANSAS GAS SERVICE, A DIVISION	]	KCC Docket No. 18-KGSG-560-RTS
OF ONE GAS, INC. FOR ADJUSTMENT	]	
OF ITS NATURAL GAS RATES IN THE	]	
STATE OF KANSAS	]	

TESTIMONY OF

ANDREA C. CRANE

IN SUPPORT OF PARTIAL UNANIMOUS SETTLEMENT AGREEMENT

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

December 4, 2018

I. INTRODUCTION

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 summarize the Application that is the subject of this proceeding.

A. On June 29, 2018, Kansas Gas Service ("KGS" or "Company") filed an Application with the Kansas Corporation Commission ("KCC" or "Commission") seeking a distribution base revenue increase of $45,566,463, or approximately 15.21% over pro forma base operating revenue at present rates.[1] The Company's filing was based on a Test Year ending December 31, 2017. The Company proposed a residential customer service charge of $22.66 in its Application.

In addition to traditional accounting adjustments, the Company's revenue requirement claim also included a proposal to retain a portion of market returns earned by the pension and OPEB trust funds, which the Company termed pension expense "savings". KGS also proposed to adopt a 10-year period for determining normal weather instead of the 30-year period that has traditionally been used by the KCC in its evaluations of test-year revenue normalization calculations and Weather Normalization Adjustment ("WNA") mechanisms.

In addition to its requested revenue increase, KGS also proposed to implement a Revenue Normalization Adjustment ("RNA") mechanism to decouple revenues from actual

1 The Company's filing included the impact of rolling into base rates $2,873,286 of revenues currently being collected through the Gas System Reliability Surcharge ("GSRS").

sales. The Company also requested authorization to implement two new expense tracking mechanisms for cyber-security costs and depreciation expenses. KGS also proposed to establish a Tax Change Rider ("TCR") to flow-through to ratepayers certain refunds resulting from the Tax Cut and Jobs Act of 2017 ("TCJA"). Finally, KGS proposed to retain the tax savings, from January 1, 2018 through the effective date of new rates, resulting from the reduction in the federal income tax from 35% to 21%.

Q. Did you previously file testimony in this proceeding?

A. Yes, on October 29, 2018, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer Board ("CURB"). My Direct Testimony presented CURB's recommended revenue requirement for KGS, based on my analysis of the Company's Application and supporting documentation. CURB also filed the testimony of Dr. J. Randall Woolridge, addressing capital structure and cost of capital issues; of James Garren, addressing depreciation rate issues; and of Glenn Watkins, addressing class cost of service and rate design issues.

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

A. In my Direct Testimony, I recommended that the KCC authorize a revenue reduction of $1,860,079, instead of KGS's proposed increase of $45,566,463. In addition to various accounting adjustments, this recommendation was also based on the depreciation rates proposed by CURB witness James Garren and on Dr. Woolridge's recommendation that the

KCC adopt a pro forma capital structure consisting of 55% equity, at a cost of 9.0%, and of 45% long-term debt at a cost of 3.94%. I also recommended that the Company continue to utilize a 30-year period for purposes of determining normal weather.

With regard to tax issues, I recommended that the KCC deny the Company's request to establish a TCR rider and instead I recommended that refunds related to excess deferred income taxes be reflected in base distribution rates. I also recommended that unprotected excess deferred income taxes be returned to Kansas ratepayers over a five-year period instead of over the longer period proposed by KGS under the Average Rate Assumption Methodology ("ARAM"). In addition to the revenue requirement recommendation, I also recommended that the KCC order KGS to refund to customers $14.1 million, plus interest, associated with federal income tax savings from January 1, 2018 through the effective date of new rates.

With regard to rider mechanisms, I recommended that the KCC deny the Company's request to establish an RNA decoupling mechanism. I also recommended that the KCC reject the Company's requests to establish new tracking mechanisms for costs associated with cyber-security activities and depreciation expenses.

Finally, in Mr. Watkins' original Direct Testimony, he generally supported the Company's class cost of service study and proposed a class revenue distribution consistent with his findings. However, due to an error subsequently identified in the Company's study, Mr. Watkins later filed an errata and proposed an alternative class revenue distribution. Mr. Watkins also recommended that the current customer service charge of $16.70 be retained.

II. DESCRIPTION OF SETTLEMENT AGREEMENT

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 Partial Unanimous Settlement Agreement ("Settlement") that resolves all but one of the issues in this case. Parties to the Settlement include KGS, CURB, the Staff of the State Corporation Commission of the State of Kansas ("Staff"), Wood River Energy, LLC and Kansas Farm Bureau and Kansas Corn Growers Association (collectively referred to as the "Parties").

Q. Can you please summarize the terms of the Settlement?

A. The Settlement reflects a revenue increase of $21.5 million[2]. The Settlement is largely a black box settlement, although there are a few components of the revenue requirement specified in the Settlement. The Settlement provides for a five-year amortization period for unprotected excess deferred income taxes, which will be refunded to ratepayers through base rates. The Settlement adopts the depreciation rates recommended by Staff in its testimony in this case, but acknowledges that KGS is not agreeing to the underlying policies used to develop those rates. The Settlement also preserves the rights of all parties to advance arguments related to incentive compensation and capital structure issues in future cases.

The Settlement does specify that KGS is withdrawing, without prejudice, a) the

2 After rolling in the Gas System Reliability Surcharge, the net revenue increase is $18,626,714.

proposed RNA mechanism, b) its proposal to retain certain pension expense "savings" , c) its proposed depreciation expense tracker, d) its proposal to move the Brehm Storage costs from base rates to the Cost of Gas Rider ("COGR"), e) its proposal to have ratepayers fund participation in the Gas Technology Institute ("GTI"), f) its proposal to require Electric Flow Measurement ("EFM") for new customers, and g) its proposal to amend certain cash out provisions of its tariff. The Settlement does permit KGS to implement a cyber-security tracker.

The Settlement also specifies the amounts included in base rates for pension and OPEB expense and for property tax expense, and identifies the amortization periods used for various regulatory assets and liabilities. It also retains the current thirty-year period for weather normalization.

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

A. Yes, it does. The Settlement includes an overall increase of approximately 7.52%. The Parties have agreed to a distribution of this increase among the various customer classes. Residential customers will receive an increase of 9.0%, which is higher than the system average. Small general service customers will not receive any increase. As shown on Appendix B to the Settlement, increases to other customer classes will range from 0% to 17.95%. The results of the revenue distribution are generally consistent with CURB's proposed recommendations. The Settlement provides for an increase in the residential customer charge from $16.70 to $18.70.

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

A. No, it does not. However, the Settlement does state that carrying charges for future GSRS filings will be based on a pre-tax return of 9.0984%.

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

A. The settlement resolves all issues regarding new base rates. However, the Parties could not agree on whether KGS should be required to refund to customers the tax savings from January 1, 2018 through the effective date of new rates resulting from the reduction in the federal income tax rate. The Settlement provides that this tax refund issue will be litigated before the KCC. However, resolution of the tax issue will not impact the other terms of the Settlement.

III. ANALYSIS OF THE SETTLEMENT AGREEMENT

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?

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

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

A. 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 Settlement is a unanimous agreement and no Party is opposed to the agreement.

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

A. Yes, it is. However, before I discuss the specific evidence that supports the Settlement, it is important to point out several corrections to my revenue requirement that change CURB's overall revenue recommendation. First, as discussed in the Rebuttal Testimony of Mr. Davidson, I had a formula error in my schedule relating to my short-term incentive compensation adjustment. In addition, Mr. Davidson notes that while I recommended that the third quarter 2018 Distrigas allocator be used to allocate corporate costs, both my short-term and long-term incentive compensation adjustments reflected the first quarter 2018 allocation. Correcting these adjustments would increase my revenue requirement recommendation by approximately $165,000.

Of even more significance is an error that the Company reflected in the amount of excess deferred income taxes subject to refund that I carried over to my calculations. As pointed out in Mr. Grady's testimony, KGS overstated the amount of excess deferred income taxes to be refunded to ratepayers. While I took issue with the time period over which excess deferred income taxes should be refunded, I utilized the Company's excess deferred income tax starting balance in my adjustment. This had the effect of significantly overstating the impact of adopting a five-year amortization period for unprotected deferred income taxes. Correcting the Company's starting balance of excess deferred income taxes reduced my adjustment from $13.18 million (on a revenue requirement basis) to $4.57 million, a difference of $8.61 million. Reflecting the correction to the excess deferred income tax balance as well as the corrections to the incentive compensation adjustments would increase CURB's recommendation from a revenue reduction of $1.86 million to a revenue increase of $6.92 million. Therefore, while there is still a considerable difference between CURB's corrected litigation position and the Settlement increase of $21.5 million, the difference is not as significant as it first appears.

In addition, the Settlement adopts the depreciation rates proposed by Staff, which results in an additional increase of approximately $4.8 million. Staff also included approximately $3.3 million in various updates to both rate base and operating expenses that was not reflected in CURB's recommendation. In addition, the Settlement provides for the Brehm Storage asset costs to continue to be recovered in base rates, instead of being moved to the COGR as originally proposed by KGS. This change increases the Company's revenue requirement by approximately $1.2 million.

In addition, CURB proposed a significantly lower return on equity and lower percentage of common equity than the equity percentage and equity cost rate proposed by KGS. Moreover, in its Rebuttal Testimony, KGS also requested that the KCC accept an updated cost of debt based on a recent new debt issuance. While CURB would likely have opposed this update, we could not be sure that the KCC would accept our recommendation. CURB also proposed significantly greater reductions to incentive compensation costs than the disallowances proposed by Staff.

It is always difficult to evaluate litigation risk. While we believe that the adjustments discussed in my Direct Testimony are reasonable and appropriate, it is possible that the KCC could reject one or more of these adjustments if this case were fully litigated. With regard to the revenue increase, CURB felt that it was important to consider the fact that the $21.5 million increase is only about 47% of the increase requested by KGS. In addition, it is only slightly higher than the increase proposed by Staff in its testimony. Given that the proposed increase of $21.5 million is within the ranges proposed by CURB and the Company, and is relatively close to the increase proposed by Staff, I believe that there is ample evidence to support the proposed increase, especially when other provisions of the Settlement are considered.

Q. In addition to the proposed increase of $21.5 million, are there other provisions of the Settlement that are beneficial to ratepayers?

A. Yes, there are. In my Direct Testimony, I recommended that the KCC reject the RNA, reject the Company's proposal to retain certain pension "savings", and reject the proposed depreciation expense tracker. I also recommended that the KCC reject the Company's proposal to collect GTI costs from Kansas ratepayers and reject the Company's proposal to adopt a ten-year period for normal weather.

The Settlement does not include the Company's proposed RNA decoupling mechanism. This was a critical issue for CURB. Nor does the Settlement include the retention of pension "savings", a depreciation expense tracker, or recovery of GTI costs from ratepayers. The Settlement also retains a thirty-year period for determining normal weather, consistent with the recommendations of CURB and Staff.

The Settlement provides for the amortization of unprotected excess deferred income taxes over five years, as recommended in my Direct Testimony. This provision will allow these funds to be returned to Kansas customers over a more reasonable period than the ARAM methodology proposed by KGS, which would have required ratepayers to wait up to 35 years for some of these refunds[3]. Therefore, in addition to evaluating the reasonableness of the revenue increase, CURB also considered the value of these additional provisions when evaluating the overall Settlement.

3 Staff's proposed ARAM refund period exceeded over 45 years.

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

A. Yes, the Settlement will result in just and reasonable rates. As noted above, the overall revenue increase is reasonable, especially in light of the other provisions of the Settlement. Therefore, there is ample support for the overall revenue increase on which the new rates are based.

The distribution of the revenue increase is generally consistent with the class cost of service findings of Mr. Watkins. The residential increase of 9.0% is 120% of the system average increase of 7.52%. In addition, while the Settlement does reflect an increase in the residential customer charge, this increase is considerably smaller than the increase requested by KGS. In addition, the Settlement provides for no increase to the small general service customers. Given the results of the class cost of service study, CURB believes that the overall rates resulting from the Settlement are reasonable.

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

A. This Settlement is in the public interest. The Settlement results in a revenue increase that is only 47% of the increase requested by KGS. In addition, the Settlement does not include the RNA decoupling mechanism proposed by KGS, which I believe would have had a seriously detrimental impact on ratepayers. The Settlement also excludes various other detrimental proposals made by the Company such as its proposal to retain a portion of pension "savings", its proposal to recover GTI costs from ratepayers, its proposal to implement a depreciation expense tracker, and its proposal to change the calculation of normal weather. While the Settlement does include the implementation of a cyber-security tracker, the KCC previously authorized a similar mechanism for other Kansas utilities. The Settlement also provides for unprotected excess deferred income taxes to be returned to customers over a much shorter period than the period proposed by KGS.

With regard to rate design, the Settlement provides a reasonable allocation of the increase among the customer classes. It moderates the proposed increase in the residential customer charge and it will result in no rate change to small general service customers.

Given the significant revenue reduction from the increase originally proposed by KGS, the more rapid flow-back of excess deferred income taxes, the elimination of the RNA decoupling mechanism and other objectional proposals, the reasonable class distributions, and the moderate increase in the residential customer service charge, the Settlement is clearly in the public interest. In addition, all Parties to this proceeding support the Settlement.

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 Settlement is supported by substantial evidence in the record, that the Settlement will result in just and reasonable rates, and that the Settlement is in the public interest. Therefore, I recommend that the KCC approve the Settlement 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 30th day of November, 2018.

Notary Public Diane K Pappa

My Commission Expires: NOVEMBER 3, 2020

DIANE K PAPPA
MY COMMISSION # GG021910
EXPIRES November 03, 2020

CERTIFICATE OF SERVICE

18-KGSG-560-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 4th day of December 2018, to the following:

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