EFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION	]	
OF ATMOS ENERGY FOR ADJUSTMENT	]	
OF ITS NATURAL GAS RATES IN	]	KCC Docket No. 14-ATMG-320-RTS
THE STATE OF KANSAS	]	

TESTIMONY OF

ANDREA C. CRANE

IN SUPPORT OF PARTIAL STIPULATED SETTLEMENT AGREEMENT

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 23, 2014

I. INTRODUCTION

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: 90 Grove Street, Suite 211, Ridgefield, CT 06877).

Q. Did you previously file testimony in this proceeding?

A. Yes, on May 20, 2014, I filed Direct Testimony on behalf of the State of Kansas, Citizens' Utility Ratepayer Board ("CURB"). In my Direct Testimony, I recommended a net revenue reduction of $507,853 for Atmos Energy ("Atmos" or "Company") instead of the net revenue increase of $7,005,215 requested by the Company. I also recommended that the KCC reject the Regulatory Asset proposed by Atmos for the recovery of certain infrastructure investments. In addition to my testimony, CURB also filed the Direct Testimony of Dr. J. Randall Woolridge and Mr. Brian Kalcic. Dr. Woolridge's testimony addressed cost of capital and capital structure issues and Mr. Kalcic's testimony addressed class cost of service and rate design issues.

On May 30, 2014, I filed Cross-Answering Testimony addressing the alternative Regulatory Asset that KCC Staff Witnesses Justin T. Grady and Leo M. Haynos recommended in their Direct Testimonies. In my Cross-Answering Testimony, I explained that Staff's proposed Regulatory Asset was unnecessary, was contrary to KCC precedent, and should be rejected.

Q. Was the revenue decrease of $507,853 recommended in your Direct Testimony a base

rate reduction?

A. No, the revenue reduction of $507,853 recommended in my Direct Testimony was a net reduction, i.e., it reflected a base rate increase of $1,252,274 offset by reductions in the Gas Safety Reliability Surcharge ("GSRS") and Ad Valorem Surcharge Rider totaling $1,760,127. In evaluating the Partial Settlement relative to the positions filed by the parties in this case, it is important to clarify whether one is referring to the gross revenue increase, which is the base rate increase, or if one is referring to the net revenue increase, which is the base rate increase less the amounts that are being moved from clause mechanisms to base rates. Because ratepayers are already paying certain amounts through the GSRS and Ad Valorem Surcharge Rider that are being transferred to base rates, the net impact of any base rate increase will be partially offset through reductions to the GSRS and Ad Valorem Surcharge Rider.

Q. Can you summarize the filed positions of the parties on both a gross and net basis so that the KCC can better evaluate the proposed Partial Settlement Agreement?

A. There was no disagreement among the parties with regard to the GSRS and Ad Valorem Surcharge Rider amounts that should be moved to base rates. Therefore, the parties differed only in the amount of the base distribution increase that they recommended. In order to provide a meaningful comparison of filed positions vs. settlement positions, all three positions should be viewed on the same basis. Since the Company's schedules were based on its net revenue deficiency of $7.0 million, I presented my schedules in a similar manner.

Staff's schedules, however, are slightly different in that their schedules derive the gross base revenue increase that Staff is recommending. Thus, I believe it is helpful to put all three parties' positions on the same basis prior to discussing the terms of the Partial Stipulated Settlement Agreement. The chart below summarizes my understanding of the parties' positions.

Party	Gross Base Rate Change	Amounts Rebased From Surcharges and Riders	Net Impact to Ratepayers
Company	$8,765,342	($1,760,127)	$7,005,215
Staff	$4,579,953	($1,760,127)	$2,819,826
CURB	$1,252,274	($1,760,127)	($507,853)

Thus, the proposals with regard to base distribution revenue increases ranged from $8,765,342 to $1,252,274, a difference of approximately $7.5 million.

II. TERMS OF THE PARTIAL STIPULATED SETTLEMENT AGREEMENT

Q. Please summarize the terms of the Partial Stipulated Settlement Agreement.

A. The Partial Stipulated Settlement Agreement resolves all issues in this case except for cost of equity, the proposed Regulatory Asset, and rate case costs over the level included in Staff's Direct Testimony.

The parties agree that a revenue increase of $3.3 million is appropriate, assuming that the KCC approves the return on equity of 8.5% recommended by CURB. This revenue adjustment would increase if the KCC adopts a return on equity that exceeds 8.5%. If the KCC adopts the Company's proposed cost of equity of 10.53%, then the parties agree that the revenue increase would be $6.6 million. If the KCC adopts a return on equity between 8.5% and 10.53%, then the revenue increase would be adjusted proportionally. For every 10 basis points added to CURB's recommended ROE of 8.5%, the Company would receive an additional $147,783 in revenue. A chart has been provided in the Partial Stipulated Settlement Agreement indicating the revenue increase that results at various levels of return on equity.

These revenue increases do not include the impact of additional rate case costs over and above those identified in Staff's Direct Testimony. Staff's testimony was based on total rate case costs of $339,586, which included the Company's actual costs through April 8, 2014 of $58,362; Staff and CURB costs through April 24, 2014 of $97,718; and unrecovered costs of $183,506 from prior cases.[1] The parties agree that reasonably-incurred and prudent rate case costs exceeding those reflected in Staff's Direct Testimony should also be recovered. The Partial Stipulated Settlement Agreement provides for a 3-year amortization period for rate case costs, unless the KCC adopts a Regulatory Asset that includes a rate moratorium in which case the costs would be amortized over the moratorium period adopted by the KCC.[2]

The Partial Stipulated Settlement Agreement also identifies the specific amounts being recovered in base rates for pension and other post-employment benefit ("OPEB") costs as well as amounts included in base rates related to property taxes. Since these costs are all subject to tracker or surcharge mechanisms, it is necessary to explicitly identify the amounts

1 Testimony of Kristina A. Luke Fry, Exhibit KALF-5.

2 The Partial Stipulation also provides that if the KCC adopts a Regulatory Asset that includes a rate moratorium, the Company can choose not to implement the Regulatory Asset, in which case a three-year period would be used to amortize rate case costs.

being recovered through base rates. Similar to rate case costs, deferred costs associated with the pension and OPEB tracker will be amortized over 3 years, unless the KCC adopts a Regulatory Asset mechanism that includes a rate moratorium, in which case the rate moratorium period would be used as the amortization period.[3]

Q. Does the Partial Stipulated Settlement Agreement also address class cost of service and rate design issues?

A. Yes, it does. However, the parties could not specify new rates for facilities charges and volumetric charges since the overall revenue increase is still to be determined. Therefore, the Partial Stipulated Settlement Agreement does not include specific new rates. However, it does state that the parties agree that the rate increase should be allocated among respective customer classes using Staff's class cost-of-service study and billing determinants. It is my understanding that Staff's cost study supports a class revenue allocation that is similar to that recommended by Mr. Kalcic. Moreover, the Partial Stipulated Settlement Agreement states that the residential rate increase will be allocated between facilities and volumetric charges in a manner that will maintain the ratio of facilities charge revenue to total class revenue that exists under the Company's current residential rates.

Q. What issues are not resolved by the Partial Settlement Agreement?

A. If the Partial Settlement Agreement is adopted by the KCC, the Commission will have only

3 Similar to rate case costs, the Company could elect not to implement a Regulatory Asset if the KCC requires a rate moratorium, in which case a three-year amortization period would apply.

three remaining issues to decide: 1) the appropriate cost of equity for Atmos; 2) whether a Regulatory Asset Mechanism should be established and if so, how the mechanism should be structured; and 3) whether rate case costs incurred by Atmos in the past few months were reasonable and should be recovered from ratepayers.

III. STANDARDS OF REVIEW

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?

Although the agreement in this case is only a Partial Stipulated Settlement Agreement, the same four guidelines can be used to evaluate the reasonableness of the terms agreed upon by the Parties. I understand that CURB counsel will address item 3, i.e., does the agreement conform to applicable law, in his 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. I will discuss the remaining four guidelines. However, the overall reasonableness of the rate increase authorized by the KCC will depend on the return on equity that the KCC ultimately awards to the Company and on whether the KCC also authorizes an additional recovery mechanism for the Company through a Regulatory Asset.

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

A. Yes, they have. CURB participated 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. At this time, I am not aware of any party to the case who opposes the Partial Stipulated Settlement Agreement.

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

A. Yes, it is. In order to evaluate whether the Partial Stipulated Settlement Agreement is supported by substantial evidence, it is helpful to evaluate the revenue increases proposed by each party using the same capital structure and return on equity. Given the capital structure that is reflected in the Partial Stipulated Settlement Agreement of 53% common equity / 47% long-term debt and using CURB's recommended ROE of 8.5%, CURB's accounting adjustments result in a base rate increase of approximately $1.5 million. Applying the same capital structure and 8.5% cost of equity to the Company's claim and to Staff's accounting adjustments results in revenue increases of approximately $5.8 million and $4.1 million respectively. Therefore, the revenue increase of $3.3 million (assuming a return on equity of

8.5%) reflected in the Partial Stipulated Settlement Agreement reflects a level of adjustments between those proposed by Staff and those proposed by CURB. Moreover, the revenue increase is well below the Company's resulting revenue increase of $5.8 million, assuming a 53% equity capitalization and a return on equity of 8.5%. While the Partial Stipulated Settlement Agreement is a black box settlement and therefore specific adjustments are not identified, the fact that the revenue increase falls between Staff's and CURB's recommendations, and well below the Company's claim, suggests that it is supported by substantial evidence in the record.

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

A. The ultimate level of rates will be determined by the KCC, based on the return on equity that the Commission authorizes in this case. Therefore, at this time I am unable to determine if the overall level of rates will be just and reasonable. However, CURB recommends a return on equity of 8.5% and rates based on such a return would result in just and reasonable rates, given the position of the parties in this case. If the parameters of the Partial Stipulated Settlement Agreement are applied with CURB's recommended ROE of 8.5%, then the Partial Stipulated Settlement Agreement will result in just and reasonable rates.

Excluding the issue of return on equity, the Partial Stipulated Settlement Agreement results in accounting adjustments that I believe will produce just and reasonable rates. These rates will be well below the level of rates requested by Atmos and below the level of rates recommended by KCC Staff. While the resulting rates will be higher than those recommended by CURB, I believe that the level of revenues agreed to by the Parties in the Partial Stipulated Settlement Agreement are reasonable when one considers the litigation risk that each party faces. While CURB believes that all of its accounting adjustments are theoretically sound and appropriate, we recognize that we are unlikely to win all of our adjustments if the case is fully litigated.

In addition, in the Company's Rebuttal Testimony, Atmos proposed a revised capital structure that increased its equity percentage from 51.24% to 56.00%. While CURB would have vigorously opposed efforts to reflect this revised capital structure in rates if the case was fully litigated, we recognize that we may not have prevailed on this issue. The 53% equity percentage reflected in the Partial Stipulated Settlement Agreement limits ratepayers' exposure to higher rates that would result from the higher equity percentage.

The Partial Stipulated Settlement Agreement also maintains the current percentages of total revenue derived from residential facilities and volumetric charges. I understand that approximately 63% of residential revenues are currently recovered through the fixed facilities charge.[4] Overall the Company collects approximately 56% of its revenue requirement through facilities charges.[5] While CURB would have opposed any increase to the residential facilities charge if this case was fully litigated, the Partial Stipulated Settlement Agreement, by preserving the existing relationship between fixed and volumetric charges for the residential class, (i) offers a reasonable compromise between CURB's rate design position (no increase to the residential facilities charge) and the Company's position (assign 100% of

4 Testimony of Mr. Kalcic, Schedule BK-4.
5 Testimony of Mr. Kalcic, page 11.

the residential increase to the facilities charge),[6] and (ii) ensures that the percentage of total residential revenue recovered via the residential facilities charge will not move further above the percentage of overall Company revenue collected via facilities charges at the conclusion of this case.

The Partial Stipulated Settlement Agreement will also reduce the rate case costs associated with this proceeding. While an evidentiary hearing and post-hearing briefs will still be required, the issues in this case have been significantly reduced. Moreover, all accounting adjustments presented in my Direct Testimony and in the Direct Testimonies of Staff witnesses are resolved as a result of the Partial Stipulated Settlement Agreement, except for return on equity and the examination of certain rate case costs incurred in the past few months. Resolution of these issues greatly simplifies both the hearing process and the post-hearing briefs, resulting in reduced rate case costs.

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

A. As noted above, all parties to this proceeding support the Partial Stipulated Settlement Agreement. Therefore, the interests of customers represented by all parties to this proceeding have been considered. The Partial Stipulated Settlement Agreement resolves all accounting issues in this case except for cost of equity and certain rate case costs. It limits ratepayers'

6 Testimony of Mr. Kalcic, pages 12-14.

exposure to potentially higher rates resulting from an updated capital structure. It reduces rate case costs and greatly simplifies both the evidentiary hearing and the post-hearing briefing process. The Partial Stipulated Settlement Agreement will also maintain the current relationship between facilities charges and volumetric charges.

Moreover, the Partial Stipulated Settlement Agreement reserves the Parties' rights to fully litigate two of the most important issues in this case, the cost of equity and the proposed Regulatory Asset. The issue of cost of equity will not only have a significant impact on the rate increase ultimately approved by the KCC in this case, but it will also impact the return used to calculate the Company's GSRS rate prospectively. Thus, the cost of equity has far-reaching consequences for ratepayers. Similarly the Regulatory Asset has the potential to significantly impact rates prospectively and to fundamentally change the regulatory mechanism used to recover certain investments. CURB believes that these two issues are critical to ensuring that the overall rates are just and reasonable and we look forward to litigating these issues before the KCC.

Q. What do you recommend?

A. I recommend that the KCC find that the Partial Stipulated Settlement Agreement is supported by substantial evidence in the record, will result in just and reasonable rates if an appropriate return on equity is authorized, and is in the public interest. Therefore, I recommend that the KCC approve the Partial Stipulated Settlement Agreement as filed.

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 20th day of June, 2014.

Notary Public Benjamin D. Cotton

My Commission Expires: BENJAMIN D COTTON Notary Public-Connecticut My Commission Expires June 30, 2017

CERTIFICATE OF SERVICE

14-ATMG-320-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 23rd day of June, 2014, to the following parties:

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