

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Received
on

JUN 22 2012

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY FOR ADJUSTMENT]
OF ITS NATURAL GAS RATES IN]
THE STATE OF KANSAS]

by
State Corporation Commission
of Kansas

KCC Docket No. 12-ATMG-564-RTS

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

RE: REVENUE REQUIREMENTS

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 22, 2012

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

2 A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211,
3 Ridgefield, CT 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829).

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

6 A. Yes, on June 7, 2012, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer
7 Board. In that testimony, I recommended that the Kansas Corporation Commission ("KCC")
8 grant Atmos Energy Corporation ("Atmos" or "Company") a revenue increase of no greater
9 than \$2,950,928. I noted in my Direct Testimony that CURB's review of the Company's
10 revenue requirement did not include as assessment of the Company's proposed depreciation
11 rates, and that CURB reserves its right to adopt recommendations that may be made by other
12 parties with regard to proposed depreciation rates. In addition, in my Direct Testimony, I
13 recommended that the KCC reject the Company's proposal to implement a Customer Rate
14 Stabilization ("CRS") Plan and that the Company should continue to recover the costs of its
15 storage assets through base rates instead of transferring recovery to the Purchased Gas
16 Adjustment ("PGA") rider as proposed by Atmos.

17

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

19 A. The purpose of my Cross-Answering Testimony is to respond to the testimony of Staff
20 witness Dr. Robert H. Glass, who proposes that the KCC adopt a decoupling mechanism

1 for Atmos. In addition, I will take this opportunity to correct an error in one of my
2 schedules that was identified by Atmos.

3
4 **A. Decoupling Mechanism**

5 **Q. Please summarize Dr. Glass's Direct Testimony.**

6 A. In his Direct Testimony, Dr. Glass proposed that the KCC reject the Company's request for a
7 CRS mechanism, stating that the CRS mechanism is a "mini-rate case riddled with
8 procedural and evidentiary flaws that could result in less stable rates contrary to what the
9 mechanism's name seems to promise."¹ Dr. Glass went on to state that "Fixing the
10 procedural and evidentiary flaws turns the CRS into a rate case absent only the determination
11 of new ROE."²

12 While Dr. Glass rejected the CRS, he did recommend that the KCC adopt a
13 decoupling mechanism based on the total revenue requirement ("TRR"). The mechanism
14 proposed by Dr. Glass would provide for a revenue adjustment to ensure that that the
15 Company recovered its approved revenue requirement each year. To the extent that the
16 Company over-recovered or under-recovered its annual revenue requirement, then an
17 adjustment would be made in the subsequent year to recover any deficiency from ratepayers
18 or to return any surplus to ratepayers. Dr. Glass proposes that any true-up be reflected in the
19 Company's volumetric charge. Staff is proposing that any such adjustment be capped at 3%

20

¹ Testimony of Dr. Glass, page 5, lines 5-6.

² Id., lines 7-8.

1 of the total revenue requirement.

2
3 **Q. Do you support the decoupling mechanism proposed by Dr. Glass?**

4 A. While I generally oppose decoupling mechanisms, if a decoupling mechanism is adopted by
5 the KCC, then the TRR mechanism proposed by Dr. Glass is preferable to some other
6 decoupling mechanisms that have been proposed in other proceedings. However, at this
7 time, I do not believe that such a mechanism is necessary. Nor do I believe that the KCC has
8 a sufficient record to adopt the TRR decoupling proposal in this case without further analysis
9 and input from the parties.

10
11 **Q. Why do you believe that a decoupling proposal is unnecessary?**

12 A. In this case, CURB witness Brian Kalcic is recommending that 50% of the Company's
13 revenue requirement be recovered through fixed charges, even though Mr. Kalcic calculates
14 that only 44.8% of the Company's costs are customer-related. Thus, CURB's
15 recommendation already provides more revenue stability to the Company than would be
16 provided if rates were designed strictly on the basis of cost causation.

17 In addition, the Company has not demonstrated the need for a decoupling mechanism
18 at this time. Nor has Staff shown that there would be any significant detrimental impact on
19 the finances of the Company if such a mechanism if not approved.

20 Atmos already has a weather normalization adjustment ("WNA") mechanism that
21 permits the Company to adjust revenues based on deviations from normal weather. Since

1 weather is the single most important factor in revenue fluctuations, there is already a
2 regulatory mechanism in Kansas that addresses the most significant factor influencing annual
3 revenue fluctuations. Atmos has not demonstrated that its financial integrity would be
4 jeopardized if a full decoupling mechanism is not adopted. Given the fact that Atmos has a
5 WNA that strongly mitigates annual revenue fluctuations and given CURB's
6 recommendation to design rates such that 50% of the revenue requirement is recovered
7 through fixed charges, I do not believe that a further decoupling mechanism is necessary at
8 this time.

9
10 **Q. If, in spite of your recommendation, the KCC decides to adopt a decoupling mechanism**
11 **for Atmos, would you be opposed to the TRR mechanism proposed by Dr. Glass?**

12 A. If the KCC decides to adopt a decoupling mechanism for Atmos, then the TRR mechanism
13 proposed by Dr. Glass may be acceptable, provided that the KCC made a corresponding
14 reduction to the Company's return on equity award and provided that several components of
15 his proposal were clarified.

16
17 **Q. If the KCC decides to implement a decoupling mechanism for Atmos, why should the**
18 **Commission make a corresponding reduction to the Company's return on equity**
19 **award?**

20 A. A decoupling mechanism, such as the TRR mechanism recommended by Staff will transfer
21 the risk of revenue fluctuations from shareholders to ratepayers. The Company's return on

1 equity award should therefore be adjusted to reflect this reduction in shareholder risk. Dr.
2 Glass acknowledges on page 12, lines 4-6 of his Direct Testimony that that Commission
3 noted in Docket No. 08-GIMX-441-GIV that a decoupling mechanism reduces risk for
4 utilities. He further acknowledges that the KCC stated that in that docket that return on
5 equity should be adjusted for the reduced risk to the utility if a decoupling mechanism is
6 adopted. Specifically, the KCC stated that,

7 The Commission believes decoupling lowers risk for a utility,
8 because utility revenues are stabilized and protected from sales
9 fluctuations. The utility's likelihood of receiving its rate-case
10 established revenue requirement is significantly increased. The
11 Commission will accordingly factor this lower risk in setting rates of
12 return in rate bases. This will result in direct benefit to customers.
13 Black Hills has argued that the Commission need not undertake a
14 distinct risk analysis but, since many states have already adopted
15 decoupling, reduction in risk resulting from decoupling would be
16 addressed by routine use of the DCF model in setting rates during
17 rate cases...The Commission believes that this approach merits
18 consideration, but will require further study and may prove difficult.
19 Because there is variation in decoupling that has been implemented
20 for gas companies it may be difficult to make comparisons involving
21 reasonably similar decoupling proposals.³
22

23 In this case, Staff did not make any return on equity adjustment relating to its proposed
24 decoupling mechanism. Nor did Staff propose that the comparable group used in its return
25 on equity analysis reflect companies that have similar mechanisms in place. In fact, Staff
26 witness Adam Gatewood used the same comparable group as the comparable group utilized
27 by Atmos witness Robert Avera. CURB and Staff agree with the KCC's conclusion that if a
28

3 KCC Docket No. 04-GIMX-441-GIV, paragraph 64.

1 decoupling mechanism is adopted, then there should be a commensurate reduction in the
2 Company's return on equity award. However, at this time Staff has not quantified the
3 appropriate return on equity adjustment. Moreover, it is difficult to quantify the impact on
4 return on equity at this stage of the proceeding. Thus, if the KCC decides to adopt the TRR
5 decoupling mechanism, CURB recommends that the KCC expand the scope of this
6 proceeding to review evidence on the impact of decoupling on shareholder risk and to
7 quantify the appropriate corresponding reduction to return on equity.

8
9 **Q. Are there additional aspects of Staff's proposal that you believe should be clarified?**

10 A. Yes, I do. Staff claims that any adjustment would be based on the assumption that "billing
11 determinants are the same."⁴ I presume that Dr. Glass is referring to the billing determinants
12 used in the most recent base rate case. However, the use of these billing determinants may or
13 may not result in the Company actually collecting the actual amount of any proposed
14 adjustment. For example, assume that the Company under-recovers its revenue requirement
15 by \$2 million because sales are lower than the billing determinants utilized in the base rate
16 case due to conservation measures. If the same billing determinants are used in a subsequent
17 year to recover the adjustment of \$2 million, these billing determinants may not be sufficient
18 to allow the Company to collect the entire \$2 million. Dr. Glass does not specify whether the
19 Company would be permitted to carry over any shortfall in recovery of a prior period true-up
20 to a subsequent year. But presumably, it could take several years to actually collect the

4 Testimony of Dr. Glass, page 9, line 9.

1 amount of any adjustment approved for recovery. I believe that the TRR decoupling
2 proposal needs to be further clarified with regard to the billing determinants that would be
3 used and whether adjustments could be carried forward over for several years.

4 In addition, Dr. Glass recommends that any rate adjustments should be recovered
5 through volumetric charges because this will provide “customers with an additional incentive
6 to become more energy efficient.” But if customers know that volumetric rates will increase
7 if their usage drops, customers may have less incentive, not more incentive, to conserve. In
8 fact any decoupling mechanism will serve as a disincentive for conservation since customers
9 know that they will be charged higher rates as usage declines. Dr. Glass’s proposal is also
10 somewhat vague on how the volumetric rate adjustment would be implemented, i.e., whether
11 the tariffed volumetric rates would be modified or if a new rate rider would be implemented.

12 Accordingly, while I believe that Dr. Glass’s proposal provides a framework for
13 implementing an effective decoupling mechanism, I do not believe that the mechanics of
14 such a proposal are adequately addressed in Staff’s testimony. If the KCC decides to
15 implement the TRR decoupling proposal, I recommend that the KCC initiate a proceeding to
16 address the mechanics of any such proposal so that a process is in place prior to the initial
17 true-up.

18 Finally, Dr. Glass proposes that transportation customers be excluded from the
19 proposed TRR decoupling mechanism. Dr. Glass states that transportation customers should
20 be excluded since “natural gas tends to be a more competitive part of the natural gas industry,
21 and the revenues from transportation can be volatile.” I have two concerns with Dr. Glass’s

1 recommendation to exclude transportation customers from the proposed TRR mechanism.
2 First, if the purpose of decoupling is to provide revenue stability, then the fact that
3 transportation revenues are volatile may be a reason to include transportation revenue, not
4 exclude such revenue, from the TRR decoupling mechanism. Second, if transportation
5 customers are excluded, Dr. Glass does not address how he would handle customer migration
6 between sales service and transportation service and how such migration would impact the
7 annual true-up adjustment. These issues should be more fully explored prior to the KCC
8 adopting a decoupling proposal that would exclude transportation customers as proposed by
9 Dr. Glass.

10
11 **B. Accounting Adjustment**

12 **Q. Did Atmos identify an error in one of your schedules during its review of your Direct**
13 **Testimony?**

14 A. Yes, it did. As noted by the Company in its Information Request No. CURB-2, Atmos
15 identified a formula error in Schedule ACC-14. I am attaching my response to Atmos's
16 Information Request, acknowledging this error. Correcting for this formula error would
17 change my recommended revenue increase from \$2,950,928, as stated in my Direct
18 Testimony, to \$3,020,925.

19

1 **C. Summary**

2 **Q. Please summarize your Cross-Answering Testimony.**

3 A. My cross-answering testimony primarily addresses the TRR decoupling mechanism proposed
4 by Staff. I do not believe that any decoupling mechanism is necessary at this time for Atmos.
5 However, if the KCC decides to implement a decoupling mechanism for the Company, then
6 the TRR mechanism proposed by Dr. Glass may be appropriate, provided that the KCC
7 reflects an adjustment to the Company's return on equity to reflect reduced risk to
8 shareholders. In addition, there are a few areas of the Staff proposal I believe require further
9 clarification.

10 In addition, my Cross-Answering Testimony corrects a formula error that appeared on
11 Schedule ACC-14 of my Direct Testimony. This correction results in a current revenue
12 increase recommendation of \$3,020,925. This recommendation does not include the impact
13 of any Staff adjustments that may be adopted by CURB, such as Staff's adjustment relating
14 to the Company's requested depreciation rates.

15

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

17 A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD)

ss: *Ridgefield*

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 19th day of June, 2012.

Notary Public *Sandra P. Mosiello*

My Commission Expires: _____

SANDRA P. MOSIELLO
NOTARY PUBLIC
MY COMMISSION EXPIRES MAY 31, 2017

Atmos Energy Corporation
Information Request to CURB
KCC Docket No. 12-ATMG-564-RTS

Atmos Request No.: CURB-2

Please Provide the Following: On Schedule ACC-14, the recommended adjustment currently \$139,997 is the sum of the Company's Claimed Annual Expense minus the Recommended Amortization Period. Should not the formula be the Recommended Annual Expense minus Company Claimed Annual Expense (140,000 – 210,000 equaling 70,000)?

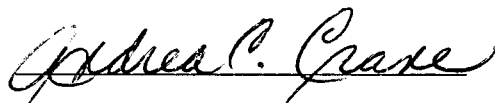
Response:

Yes, the Company is correct that Schedule ACC-14, line 5 has a formula error. The Recommended Adjustment should be \$70,000. This correction would increase Ms. Crane's overall recommendation from an increase of \$2,950,928 to an increase of \$3,020,925.

VERIFICATION OF RESPONSE

The response(s) to Atmos Energy Corporation's Information Request No. CURB-2 is covered by this Verification of Response:

I have read the foregoing Information Request and Answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to Atmos Energy Corporation any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: 
Name: Andrea C. Crane
Position: President/ The Columbia Group, Inc.
Dated: June 18, 2012

CERTIFICATE OF SERVICE

12-ATMG-564-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 22nd day of June, 2012, to the following parties who have waived receipt of follow-up hard copies:

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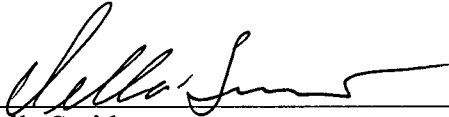
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12-ATMG-564-RTS

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