

BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION ]  
OF KANSAS GAS SERVICE, A DIVISION ] KCC Docket No. 16-KGSG-491-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 SETTLEMENT AGREEMENT

ON BEHALF OF  
THE CITIZENS' UTILITY RATEPAYER BOARD

October 7, 2016

1 **I. STATEMENT OF QUALIFICATIONS**

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

3 A. My name is Andrea C. Crane and my business address is 16 Old Mill Road, Redding,  
4 Connecticut 06896. (Mailing address: PO Box 810, Georgetown, Connecticut 06929)

5

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

7 A. Yes, on September 7, 2016, I filed Direct Testimony on behalf of the Citizens' Utility  
8 Ratepayer Board ("CURB"). My Direct Testimony presented CURB's recommended  
9 revenue requirement for Kansas Gas Service ("KGS" or "Company") based on my  
10 analysis of the Company's Application and supporting documentation, as well as on  
11 the analysis of other CURB witnesses.

12

13 **Q. Please summarize the recommendations contained in your Direct Testimony.**

14 A. In my Direct Testimony, I recommended that the Kansas Corporation Commission  
15 ("KCC" or "Commission") approve a base rate distribution increase for KGS of  
16 \$3,700,300 instead of the \$35,446,665 base rate increase requested by the Company.  
17 My recommendation was based on CURB's proposed capital structure, consisting of  
18 50% long-term debt and 50% common equity, and on a cost of equity of 8.50%, as  
19 recommended by CURB witness Dr. J. Randall Woolridge.

20 In addition, I recommended that the Commission reject the Cost of Service  
21 Adjustment ("COSA") formula rate mechanism proposed by KGS. I also

1 recommended that the KCC reject the Company's proposal to impose an additional  
2 cost on Kansas ratepayers relating to funding of the pension fund through the  
3 Company's proposed "shared savings" adjustment. In addition, CURB witness Glenn  
4 Watkins recommended that the current residential customer charge of \$15.35 per  
5 month be maintained.

6

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

9 A. Yes, the parties to this case have engaged in subsequent settlement discussions. As a  
10 result, the parties have entered into a Unanimous Settlement Agreement ("Settlement  
11 Agreement") that resolves all the issues in this case.

12

13 **Q. Can you please summarize the terms of the Settlement Agreement?**

14 A. The Settlement Agreement includes a base distribution increase of \$15.5 million.  
15 The Settlement Agreement adopts the depreciation rates proposed by Staff for KGS  
16 assets. In addition, while the Settlement Agreement does not require KGS to  
17 reclassify third party retirements from 2007, as recommended by Staff, it does require  
18 KGS to record third-party reimbursements to the Accumulated Reserve on a  
19 prospective basis. Pursuant to the Settlement Agreement, KGS agreed to withdraw,  
20 without prejudice, a) its proposed COSA mechanism, 2) its request to eliminate  
21 trackers associated with pension and other post employment benefits ("OPEBs")

1 costs, and c) its proposal to “share” pension expense savings with customers. The  
2 Settlement Agreement also specifies the amounts included in base rates related to  
3 pension and OPEB expenses and ad valorem taxes, and specifies a three-year  
4 amortization period for pension and OPEB deferrals. It also specifies a three-year  
5 amortization period for rate case costs, but provides that Staff may recommend  
6 disallowance of any unrecovered costs from this rate case in the Company’s next full  
7 general rate proceeding.<sup>1</sup>

8 The Settlement Agreement states that a pre-tax carrying charge of 9.74% will  
9 apply to investments recoverable under the Gas System Reliability Surcharge  
10 (“GSRS”). The Settlement Agreement reflects a customer charge of \$16.70 for  
11 residential customers and also apportions the rate increase among rate classes.

12 There are also provisions in the Settlement Agreement relating to the  
13 calculation of normalized weather for purposes of KGS’s Weather Normalization  
14 Adjustment (“WNA”), a reduction in the minimum threshold for transportation  
15 service from 1,500 Mcfs per year to 800 Mcfs, and other tariff provisions relating to  
16 Main Extension Agreements (“MEA”) contracts and Electronic Flow Measurement  
17 (“EFM”) charges.

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18  
19  
1 The Settlement Agreement also provides that any other party may assert any position regarding recovery of unamortized costs associated with this case and that KGS reserves its right to seek recovery of any unamortized costs in the next general rate case.

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

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

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

15  
16 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**  
17 **Settlement Agreement?**

18 A. I participated personally in settlement negotiations in this case and each party had a  
19 full and complete opportunity to be heard. The parties discussed issues, resolved  
20 certain numerical discrepancies, and negotiated aggressively. The Settlement  
21 Agreement is a unanimous agreement and therefore no party opposes the agreement.

1 **Q. Is the Settlement Agreement supported by substantial evidence in the record as**  
2 **a whole?**

3 A. Yes, it is. The Company requested a base distribution revenue increase of  
4 \$35,446,665, which included rebasing \$7,461,497 that is currently being collected  
5 through the GSRS. CURB recommended a base revenue increase of \$3,700,300 and  
6 Staff recommended an increase of \$12,163,063. The most significant differences  
7 between Staff and CURB were the cost of capital, including both capital structure  
8 and cost of equity, and Staff's use of extensive post-test year updates.

9 With regard to cost of capital, if I had used the capital structure and cost of  
10 equity recommended by Staff to quantify my accounting adjustments, CURB's  
11 revenue increase recommendation would have been \$10,347,123, instead of the  
12 \$3,700,300 contained in my Direct Testimony. Therefore, it is clear that the most of  
13 the difference between Staff and CURB related to the cost of capital issues.  
14 Approximately \$760,000 of the remaining difference was due to Staff's post-test year  
15 rate base updates. Staff's recommended rate base was actually higher than the rate  
16 base claimed by KGS in its Application. The remaining differences between Staff  
17 and CURB related to a variety of income statement adjustments.

18 The base distribution increase of \$15,500,000 included in the Settlement  
19 Agreement is therefore well within the range of recommendations proposed by the  
20 parties in this case. The stipulated increase is \$5,152,877 higher than CURB's  
21 recommendation, if one assumes the use of Staff's proposed capital structure and cost

1 of capital. However, is it \$19,946,665 lower than the Company's requested base rate  
2 increase. Although the Settlement Agreement is a "black box" settlement and  
3 therefore we cannot identify the specific adjustments that have been accepted by the  
4 parties, the revenue increase included in the Settlement Agreement does reflect a  
5 substantial amount of the overall value of the adjustments proposed by CURB.  
6 While I continue to believe that all of the adjustments in my Direct Testimony have  
7 merit, I acknowledge that there is always litigation risk. Accordingly, I believe that  
8 the proposed revenue increase of \$15,500,000 reflected in the Settlement Agreement  
9 is based on substantial evidence in the record and represents a reasonable  
10 compromise among the parties.

11

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

13 A. Yes. As with all aspects of this case, the Settlement Agreement reflects a  
14 compromise of various parties' positions and proposals. Whereas the Company  
15 originally proposed that the entire increase would be assigned to the Residential  
16 class, CURB proposed that the overall increase should be assigned to several classes.  
17 The Settlement Agreement allocates the overall settlement increase among the  
18 Residential and General Service classes. Furthermore, the proposed settlement class  
19 revenue allocations are within the range of the various class cost of service study  
20 results provided by various witnesses in this case. Indeed, all rate design witnesses in  
21 this case acknowledge that class cost allocations are not an exact science and should

1           serve only as a guide in establishing class revenue responsibility.

2

3   **Q.   Does CURB support the proposed Residential service charge of \$16.70 per**  
4   **month reflected in the Settlement Agreement?**

5   A.   Yes. Whereas the Company originally proposed to increase the current Residential  
6   service charge by 33.2% (from \$15.35 to \$20.45), CURB recommended no increase  
7   to this fixed monthly charge. The proposed settlement provides for a Residential  
8   customer charge of \$16.70 per month, which represents an 8.8% increase. This  
9   compromise position reflects a much smaller increase than that proposed by the  
10   Company, is within the range of reasonableness, and is in the public interest.

11

12   **Q.   Are the overall results of the Settlement Agreement in the public interest,**  
13   **including the interests of customers represented by any party not consenting to**  
14   **the agreement?**

15   A.   This Settlement Agreement is in the public interest. The Settlement Agreement  
16   results in a significant reduction in the revenue increase proposed by KGS. The  
17   Settlement Agreement reflects a reduction of \$19,946,665, or over 56%, of the  
18   Company's requested increase. Moreover, \$7,461,497 of the increase is already  
19   being collected from ratepayers through the GSRS. Therefore, the net increase  
20   resulting from the Settlement Agreement is only \$8,038,503 of the net increase of  
21   \$27,985,168 (\$35,446,665 - \$7,461,497) as proposed by KGS. This reflects



1 approximately 28.7% of the Company's net increase request.

2 Moreover, while the Settlement Agreement does not state a specific return on  
3 equity, the pre-tax carrying charge of 9.74% used for the GSRS does equal the pre-  
4 tax cost of capital recommended by Staff in its testimony in this case. Accordingly,  
5 the pre-tax carrying charge reflected in the Settlement Agreement would result in a  
6 cost of equity of 8.75%, assuming the capital structure proposed by Staff. This cost  
7 of equity is only slightly above the 8.5% recommended by CURB witness Woolridge.

8 The Settlement Agreement will also retain the traditional base rate case  
9 process since KGS has agreed to withdraw its proposed COSA. As I stated in my  
10 Direct Testimony, I believe that adoption of a COSA would have removed important  
11 ratepayer safeguards and would have likely resulted in more frequent and higher rate  
12 increases. Therefore, elimination of the COSA is in the public interest. The  
13 Settlement Agreement also excludes the Company's "shared savings" adjustment  
14 with regard to pension and OPEB funding. I opposed the Company's proposal to  
15 impose this new cost on ratepayers. The Company's agreement to withdraw this  
16 proposal is consistent with the spirit of the pension and OPEB trackers adopted by  
17 the KCC for other Kansas utilities and therefore is in the public interest.

18 Finally, as noted above, I am not aware of any party to this proceeding that is  
19 opposed to the Settlement Agreement. Therefore, the interests of customers  
20 represented by all parties to this proceeding have been considered.

21

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

2 A. I recommend that the KCC find that all parties had the opportunity to participate in  
3 the settlement process, that the Settlement Agreement is supported by substantial  
4 evidence in the record, that the Settlement Agreement results in just and reasonable  
5 rates, and that Settlement Agreement is in the public interest. Therefore, I  
6 recommend that the KCC approve the Settlement Agreement as filed.

7

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

9 A. Yes, it does.

VERIFICATION

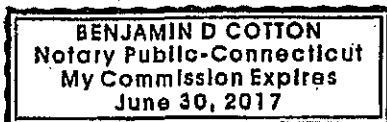
STATE OF CONNECTICUT                    )  
COUNTY OF FAIRFIELD                 )            SS:

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 in Support of 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 6th day of October, 2016.

Notary Public Benjamin D Cotton



My Commission Expires: \_\_\_\_\_

**CERTIFICATE OF SERVICE**

16-KGSG-491-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 7<sup>th</sup> day of October, 2016, to the following:

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