

STATE CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

APR 18 2007

 Docket  
Room

IN THE MATTER OF THE APPLICATION ]  
OF WESTAR ENERGY, INC., AND ] KCC Docket No. 05-WSEE-981-RTS  
KANSAS GAS AND ELECTRIC COMPANY ]  
FOR APPROVAL TO MAKE CERTAIN ]  
CHANGES IN THEIR CHARGES FOR ]  
ELECTRIC SERVICE ]

DIRECT TESTIMONY OF

ANDREA C. CRANE

RE: ISSUES ON REMAND

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

April 18, 2007

## TABLE OF CONTENTS

	Page
I. Statement of Qualifications	3
II. Purpose of Testimony	4
III. Summary of Conclusions	5
IV. Background of the Proceeding	6
V. Discussion of the Issues	7
A. Amortization of Investment Tax Credits	7
B. Other Remand Issues	12

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 PO Box 810, One North Main  
4 Street, Georgetown, Connecticut 06829.

5  
6 **Q. By whom are you employed and in what capacity?**

7 A. I am Vice President of The Columbia Group, Inc., a financial consulting firm that specializes  
8 in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and  
9 undertake various studies relating to utility rates and regulatory policy. I have held several  
10 positions of increasing responsibility since I joined The Columbia Group, Inc. in January  
11 1989.

12  
13 **Q. Please summarize your professional experience in the utility industry.**

14 A. Prior to my association with The Columbia Group, Inc., I held the position of Economic  
15 Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to  
16 January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic  
17 (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product  
18 Management, Treasury, and Regulatory Departments.

19  
20 **Q. Have you previously testified in regulatory proceedings?**

21 A. Yes, since joining The Columbia Group, Inc., I have testified in approximately 250  
22 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii,

1 Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma,  
2 Pennsylvania, Rhode Island, South Carolina, Vermont, West Virginia and the District of  
3 Columbia. These proceedings involved gas, electric, water, wastewater, telephone, solid  
4 waste, cable television, and navigation utilities. A list of dockets in which I have filed  
5 testimony is included in Appendix A.

6  
7 **Q. What is your educational background?**

8 A. I received a Masters degree in Business Administration, with a concentration in Finance,  
9 from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A.  
10 in Chemistry from Temple University.

11  
12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to respond to the Remand Testimony filed by Westar,  
15 Inc. and Kansas Gas and Electric Company (collectively “Westar”) on April 5, 2007.  
16 Issues addressed by Westar in its testimony include the appropriate methodology for  
17 amortizing Investment Tax Credits (“ITCs”), the quantification of refunds relating to the  
18 transmission delivery charge (“TDC”), and the appropriate methodology for quantifying  
19 the prospective revenue requirement associated with the TDC. My testimony addresses  
20 issues related to the ITC, and summarizes CURB’s position on various other issues. Mr.  
21 Brian Kalcic is presenting testimony responding to the issues related to the TDC.

1 **III. SUMMARY OF CONCLUSIONS**

2 **Q. What are your conclusions concerning the issues addressed in the Remand Testimony?**

3 A. Based on my analysis of the Company's testimony and other documentation in this case, my  
4 conclusions are as follows:

- 5 1. CURB continues its objection to re-opening the record in this case to address the  
6 issue of revising the methodology for calculating the annual amortization of ITCs;
- 7 2. If, in spite of CURB's objections, the Kansas Corporation Commission ("KCC")  
8 permits the Company to revise the methodology used for determining the annual  
9 amortization of ITCs, then any change should be prospective. Moreover, no  
10 adjustments should be made to the actual unamortized balances currently reflected on  
11 the Company's books and records of account.
- 12 3. Although the Company states in its testimony that it is only requesting to revise the  
13 methodology for calculating the annual ITC amortization on a prospective basis, the  
14 annual amortization amounts included in Mr. Stadler's testimony appear to be based  
15 on retroactive adjustments with regard to the unamortized ITC balances.
- 16 4. Westar should be required to provide all supporting workpapers and calculations  
17 underlying its proposed ITC amortizations.
- 18 5. The parties in this proceeding should have the opportunity to review the overall  
19 revenue requirement impact of all remand issues, including depreciation issues and  
20 the impact of decisions relating to the transmission delivery charge refunds and the  
21 transmission costs to be included in rates going forward, once the KCC has rendered

1           its decision in this case.

2

3 **IV. BACKGROUND OF THE PROCEEDING**

4 **Q. Please provide a brief background of this proceeding.**

5 A. On or about February 8, 2007, the KCC issued an Order Adopting Further Procedure  
6 Following Remand (“Remand Order”). The Remand Order was issued as a result of the  
7 decision of the Kansas Court of Appeals, which remanded several issues decided in  
8 Docket No. 05-WSEE-981-RTS back to the Commission for further action. In its  
9 Remand Order, the Commission established a procedural schedule, which was  
10 subsequently revised, to address certain issues identified by the Court of Appeals. On  
11 February 20, 2007, Westar filed a Motion requesting that the record be reopened to  
12 address the additional issue of the appropriate methodology for calculating the annual  
13 amortization of ITCs. Although CURB opposed Westar’s Motion to re-open the record  
14 in this case to address this new issue, the KCC approved the Company’s request. CURB  
15 subsequently filed a Motion for Reconsideration on this issue, which is pending before  
16 the KCC.

17           On April 5, 2007, Westar filed testimony in response to the Remand Order. In its  
18 Remand Testimony, Westar addressed the issue of the appropriate methodology to use to  
19 determine the annual ITC amortization. In addition, Westar addressed its refund liability  
20 with regard to the TDC and the appropriate methodology for prospectively calculating its  
21 transmission-related revenue requirement.

1           On April 10, 2007, Westar filed a response to CURB's petition for  
2           reconsideration that stated it did not oppose bifurcating the consideration of the ITC, and  
3           would not oppose deferring consideration of any retrospective adjustment. Westar also  
4           stated that it had been authorized by the Commission Staff to state that Staff would not  
5           oppose bifurcation.

6  
7  
8   **V. DISCUSSION OF THE ISSUES**

9   **A. Amortization of Investment Tax Credits**

10 **Q. Please briefly discuss the Company's concerns with regard to amortization of the ITC.**

11 A. In his testimony, Mr. Stadler states that Westar has historically used a composite depreciation  
12 rate to determine the period of time over which ITCs should be amortized as a credit to the  
13 Company's cost of service. This composite depreciation rate included not only depreciation  
14 based on the useful life of the plant, but also a component for net salvage. Westar claims  
15 that as a result of greater scrutiny of this issue, due to implementation of the KCC's base rate  
16 case Order and compliance with new accounting rules, it has now discovered an error in the  
17 methodology used to calculate the annual ITC amortization. In his testimony, Mr. Stadler  
18 states that Internal Revenue Service ("IRS") regulations require that the ITC amortization be  
19 based solely on the life of the assets that generated the ITC, without consideration of the net  
20 salvage component. As a result of using a composite depreciation rate, instead of a rate that  
21 excluded net salvage, Westar contends that has over-amortized \$8,458,435 of the ITC in  
22 Westar North and under-amortized \$1,376 of the ITC in Westar South.

1 Westar contends that if its current practice of using a composite depreciation rate is  
2 continued, the Company could be in violation of the normalization requirements of the IRS,  
3 in which case Mr. Stadler states that Westar could be subject to forfeiture of the greater of 1)  
4 the investment tax credit benefits for all open tax years or 2) any unamortized ITCs.

5  
6 **Q. What remedy does Westar recommend in its Remand Testimony?**

7 A. In his testimony, Mr. Stadler states that Westar is recommending that the KCC approve a  
8 prospective adjustment. That is, on a going-forward basis, the Company recommends that  
9 the ITC amortization be adjusted to reflect only the life of the property giving rise to the ITC,  
10 excluding the impact of any net salvage. According to page 19, lines 13-16 of Mr. Stadler's  
11 testimony, the unamortized deferred ITC as of December 31, 2006 was \$19,606,882 for  
12 Westar North and \$42,662,877 for Westar South. On page 4 of his Remand Testimony, Mr.  
13 Stadler states that making a prospective ITC amortization adjustment would result in an  
14 annual ITC amortization of \$1,365,068 in Westar North and of \$1,589,629 in Westar South,  
15 instead of the ITC amortization amounts of \$3,130,994 and \$2,693,100 reflected in the most  
16 recent rate case.

17  
18 **Q. What is CURB's position with regard to changing the methodology used to amortize**  
19 **ITCs by excluding net salvage?**

20 A. As stated in CURB's Petition for Reconsideration, filed on March 30, 2007, CURB does not  
21 believe that this remand proceeding is an appropriate forum to examine the ITC issue.

1           Instead, CURB recommends addressing the ITC issue in a separate docket. I have been  
2           advised by counsel that CURB is reserving all of its rights with regard to its Motion for  
3           Reconsideration, including any rights of appeal, relating to this issue.

4           However, if the KCC decides to make a determination in this case with regard to the  
5           ITC issue, then CURB agrees with Mr. Stadler's recommendation that only a "prospective"  
6           adjustment should be made at this time. Unfortunately, Mr. Stadler's testimony is internally  
7           inconsistent, in that there is a discrepancy between his stated methodology and the actual  
8           amortization amounts included in his testimony.

9  
10   **Q.    Please explain.**

11   A.    There are two issues with regard to the ITC amortization. First, going forward, what would  
12   the annual amortization be a) assuming the current unamortized ITC balance and b) assuming  
13   that the prospective amortization amount excludes the net salvage component? A second  
14   issue is whether the KCC should attempt to go back and retroactively make adjustments to  
15   reflect what the unamortized ITC balance and the annual ITC amortizations would have  
16   been, had the Company excluded net salvage over the past 30 years or so since the ITC was  
17   first recognized by the Company. Mr. Stadler states that his amortization amounts of  
18   \$1,365,068 and \$1,589,629 for Westar North and Westar South respectively are based only  
19   on prospective adjustments using the actual unamortized balance at December 31, 2006.  
20   However, these amounts are actually based on revising the unamortized balance to reflect  
21   what the balance would have been, had the Company excluded net salvage in its calculation

1 of the ITC amortizations in the past. Thus, Mr. Stadler's proposed ITC amortization amount  
2 is based on a theoretical unamortized balance that reflects retroactive adjustments.

3  
4 **Q. How do you know that Mr. Stadler's annual amortization amounts are based on**  
5 **retroactively revising the unamortized ITC balance?**

6 A. Mr. Stadler informally sent me some of his workpapers prior to preparing his testimony in  
7 this case. In those workpapers, Mr. Stadler showed the development of the amortization  
8 amounts of \$1,365,068 and \$1,589,629. These workpapers demonstrate that these annual  
9 amortization amounts are not based solely on prospective adjustments, but rather are based  
10 on retroactive adjustments going back to the period in which the ITC was first recognized.  
11 Mr. Stadler confirmed this to me subsequent to the filing of his testimony. I believe that Mr.  
12 Stadler inadvertently included the incorrect amortization amounts in his testimony.  
13 Moreover, I understand that Mr. Stadler plans to file revised testimony correcting this error.

14  
15 **Q. Did Mr. Stadler indicate what the correct annual ITC amortization amounts should be,**  
16 **assuming that only a prospective adjustment is made?**

17 A. Yes, he did. Prior to filing his testimony, Mr. Stadler indicated that the annual ITC  
18 amortization amounts would be \$915,070 for Westar North and \$1,557,371 for Westar  
19 South, assuming a prospective adjustment using the December 31, 2006 unamortized  
20 balances. However, Mr. Stadler did not provide workpapers or calculations for this  
21 prospective adjustment.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

**Q. What do you recommend?**

A. As stated previously, if the KCC decides to address the ITC issue in this remand proceeding, then I recommend that it limit its adjustment to a prospective annual amortization amount, based on the December 31, 2006 unamortized balances. Mr. Stadler has informally indicated that this would result in annual ITC amortization amounts of \$915,070 for Westar North and of \$1,557,371 for Westar South. However, Mr. Stadler should file supporting workpapers and calculations in either his Revised Testimony or in his Responsive Testimony so that the parties can independently confirm his calculations and verify that these amortization amounts relate solely to prospective adjustments.

I am not recommending that the KCC address any issues relating to possible retroactive adjustments at this time. Any such retroactive adjustments would be premature, since the IRS has not stated that such retroactive adjustments are necessary. Moreover, the quantification of any retroactive adjustments, and the resulting ratemaking implications, are very complex issues requiring the recalculation of amortizations over a period that exceeds thirty years. This calculation is further complicated by the fact that new plant eligible for ITCs was added throughout this period and by the fact that there have been several changes in depreciation rates over this period. Therefore, any changes that are made to the ITC amortization should be limited to prospective changes in the annual amount of the ITC amortization. No retroactive adjustments should be made to the unamortized ITC balance. If the IRS rules at some point in the future that some retroactive adjustment is necessary in

1 order to comply with the normalization requirements of the IRS, then the KCC should  
2 institute a separate proceeding at that time to investigate what actions, if any, should be taken  
3 from a ratemaking perspective. Since Westar and the Commission Staff have indicated that  
4 they agree with my proposal to limit any change to the ITC to prospective changes only, the  
5 Commission should find, if it takes any action in this docket with respect to the ITC, that a  
6 prospective adjustment is all that should be made at this time.

7  
8 **B. Other Remand Issues**

9 **Q. Do you have any other recommendations relating to the remand proceeding?**

10 A. Yes, I do. As part of the remand proceeding, the Company's depreciation rates were revised.  
11 While the specific level of depreciation expense that should be incorporated in the  
12 Company's revenue requirement is outside of the scope of my testimony, all parties should  
13 have the opportunity to review the revenue requirement impact of any depreciation  
14 adjustment to ensure that the quantification of the revenue requirement impact is correct.  
15 Similarly, to the extent that other adjustments are made by the KCC, such as a change to the  
16 annual ITC amortization, the parties should have the opportunity to review the calculations  
17 showing the applicable revenue requirement impact. Westar, CURB, and Staff have held  
18 some informal discussions on this issue and I believe there is general agreement regarding  
19 how the revenue requirement impact of various adjustments should be calculated. However,  
20 at this time we have not been provided with final calculations regarding the depreciation  
21 expense adjustment. Nor do we have a final decision of the KCC regarding the ITC

1           amortization of the transmission delivery charge (“TDC”) issues. Mr. Brian Kalcic is  
2           providing testimony discussing CURB’s positions on calculating the appropriate amount of  
3           transmission costs that should be placed in rates going forward and how the refunds relating  
4           to the TDC should be calculated. Once all issues are resolved, the parties should have the  
5           opportunity to ensure that the decisions of the KCC have been appropriately reflected in the  
6           Company’s overall revenue requirement and, ultimately, in the actual rates charged to  
7           customers.

8

9    **Q.    Does this complete your testimony?**

10   **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 10th day of April, 2007.

Notary Public Marjorie M. Berlin

My Commission Expires: December 31, 2008

**CERTIFICATE OF SERVICE**

05-WSEE-981-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 18th day of April, 2007, to the following:

KURT J. BOEHM, ATTORNEY  
BOEHM, KURTZ & LOWRY  
36 EAST SEVENTH STREET  
SUITE 1510  
CINCINNATI, OH 45202  
Fax: 513-421-2764  
kboehm@bkllawfirm.com

MICHAEL L. KURTZ, ATTORNEY  
BOEHM, KURTZ & LOWRY  
36 EAST SEVENTH STREET  
SUITE 1510  
CINCINNATI, OH 45202  
Fax: 513-421-2764  
mkurtz@bkllawfirm.com

CHARLES M. BENJAMIN, ATTORNEY AT LAW  
CHARLES M. BENJAMIN  
P.O. BOX 3809  
CARSON CITY, NV 89702-3809  
Fax: 785-841-5922  
chasbenjamin@sbcglobal.net

JAY C. HINKEL, ASSISTANT CITY ATTORNEY  
CITY OF WICHITA  
CITY HALL 13TH FLOOR  
455 N MAIN STREET  
WICHITA, KS 67202  
Fax: 316-268-4335  
jhinkel@wichita.gov

GARY E. REBENSTORF, CITY ATTORNEY  
CITY OF WICHITA  
CITY HALL 13TH FLOOR  
455 N MAIN STREET  
WICHITA, KS 67202  
Fax: 316-268-4335  
grebenstorf@wichita.gov

COLIN WHITLEY, GENERAL MANAGER  
CITY OF WINFIELD  
200 EAST 9TH  
PO BOX 646  
WINFIELD, KS 67156  
cwhitley@winfieldks.org

CURTIS M. IRBY, ATTORNEY  
GLAVES, IRBY & RHOADS  
120 SOUTH MARKET  
SUITE 100  
WICHITA, KS 67202-3892  
Fax: 316-264-6860  
cmirby@sbcglobal.net

JOHN WINE, JR.  
410 NE 43RD  
TOPEKA, KS 66617  
Fax: 785-246-0339  
jwine2@cox.net

DANA BRADBURY, ASSISTANT GENERAL COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
d.bradbury@kcc.state.ks.us  
\*\*\*\* Hand Deliver \*\*\*\*

SUSAN CUNNINGHAM, GENERAL COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD ROAD  
TOPEKA, KS 66604-4027  
Fax: 785-271-3354  
s.cunningham@kcc.state.ks.us  
\*\*\*\* Hand Deliver \*\*\*\*

MICHAEL LENNEN, ATTORNEY  
MORRIS LAING EVANS BROCK & KENNEDY CHTD  
OLD TOWN SQUARE SUITE 200  
300 N MEAD STREET  
WICHITA, KS 67202-2722  
Fax: 316-262-5991  
mlennen@morrislaing.com

KEVIN K. LA CHANCE, ATTORNEY  
OFFICE OF THE STAFF JUDGE ADVOCATE  
HQ, 24TH INFANTRY DIVISION & FORT RILEY  
BUILDING 200, PATTON HALL  
FORT RILEY, KS 66442-5017  
Fax: 785-239-0577  
kevin.lachance@us.army.mil

**CERTIFICATE OF SERVICE**

05-WSEE-981-RTS

JAMES P. ZAKOURA, ATTORNEY  
SMITHYMAN & ZAKOURA, CHTD.  
7400 W 110TH STREET  
SUITE 750  
OVERLAND PARK, KS 66210  
Fax: 913-661-9863  
zakoura@smizak-law.com

DAVID BANKS, ENERGY MANAGER  
UNIFIED SCHOOL DISTRICT 259  
SCHOOL SERVICE CENTER COMPLEX  
3850 N HYDRAULIC  
WICHITA, KS 67219-3399  
Fax: 316-973-2150  
dbanks@usd259.net

SARAH J LOQUIST, ASSISTANT GENERAL COUNSEL  
UNIFIED SCHOOL DISTRICT 259  
ROOM 405  
201 N WATER  
WICHITA, KS 67202  
Fax: 316-973-4497  
sloquist@usd259.net

ROBERT A. GANTON, ATTORNEY  
UNITED STATES DEPARTMENT OF DEFENSE  
D/B/A UNITED STATES DEPARTMENT OF DEFENSE  
REGULATORY LAW OFFICE  
DEPARTMENT OF THE ARMY  
901 N. STUART STREET, SUITE 525  
ARLINGTON, VA 22203-1837  
Fax: 703-696-2960  
robert.ganton@hqda.army.mil

MARTIN J. BREGMAN, EXEC DIR, LAW  
WESTAR ENERGY, INC.  
818 S KANSAS AVENUE  
PO BOX 889  
TOPEKA, KS 66601-0889  
Fax: 785-575-8136  
martin\_bregman@wr.com



---

Niki Christopher