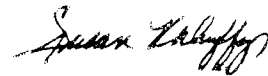


BEFORE THE STATE OF KANSAS
STATE CORPORATION COMMISSION

STATE CORPORATION COMMISSION

FEB 07 2008

 Docket Room

IN THE MATTER OF THE JOINT APPLICATION OF)
AQUILA, INC., D/B/A AQUILA NETWORKS - KGO,)
BLACK HILLS CORPORATION AND BLACK) DOCKET NO. 07-BHCG-1063-ACQ
HILLS/KANSAS GAS UTILITY COMPANY, LLC)
("BH KANSAS GAS"), JOINT APPLICANTS, FOR)
AN ORDER APPROVING THE TRANSFER TO)
BH KANSAS GAS OF AQUILA'S CERTIFICATE OF)
CONVENIENCE AND NECESSITY AND)
FRANCHISES WITH RESPECT TO ALL OF)
AQUILA'S KANSAS NATURAL GAS BUSINESS,)
INCLUDING ITS TRANSMISSION AND)
DISTRIBUTION FACILITIES LOCATED IN THE)
STATE OF KANSAS, AND FOR OTHER RELATED)
RELIEF)

IN THE MATTER OF THE JOINT APPLICATION OF)
GREAT PLAINS ENERGY INCORPORATED,)
KANSAS CITY POWER & LIGHT COMPANY,) DOCKET NO. 07-KCPE-1064-ACQ
AND AQUILA, INC. FOR APPROVAL OF THE)
ACQUISITION OF AQUILA, INC. BY GREAT)
PLAINS ENERGY INCORPORATED)

TESTIMONY IN SUPPORT OF SETTLEMENT

FILED IN DOCKET NO. 07-BHCG-1063-ACQ

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

February 7, 2008

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 199 Ethan Allen Highway, 2nd Floor, Ridgefield, Connecticut 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829)

Q. Did you previously file testimony in this proceeding?

A. Yes, on December 18, 2007, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer Board ("CURB"). My Direct Testimony addressed two Joint Applications that have been filed with the Kansas Corporation Commission ("KCC"), and provided recommendations for the KCC's consideration in evaluating those Joint Applications. The first Joint Application, filed by Aquila, Inc. d/b/a Aquila Networks-KGO ("Aquila"), Black Hills Corporation and Black Hills/Kansas Gas Utility Company, LLC (collectively "Black Hills") seeks authorization for Black Hills to purchase Aquila's gas assets, including those gas assets located in Kansas, as well as Aquila's electric operations in Colorado (Docket No. 07-BHCG-1063-ACQ). The second Joint Application, filed by Aquila, Great Plains Energy, Inc. ("GPE") and Kansas City Power and Light Company ("KCPL"), seeks authorization for GPE to purchase the stock of Aquila and its remaining electric operations in Missouri (07-KCPE-1064-ACQ).

1 **Q. What is the purpose of your Settlement Testimony?**

2 A. The Kansas Corporation Commission Staff (“Staff”), CURB, United School District 259
3 (“USD 259”), along with Aquila, Black Hills, and GPE, have entered into a Settlement
4 Agreement (“Settlement”) to resolve the issues in Docket No. 07-BHCG-1063-ACQ. The
5 purpose of this testimony is to outline the Settlement and to explain how the Settlement
6 addresses the concerns raised in my Direct Testimony.

7

8 **Q. With regard to the Black Hills/Aquila transaction, what were the conclusions and**
9 **recommendations contained in your Direct Testimony?**

10 A. In my Direct Testimony, I concluded that the Black Hills/Aquila acquisition, as originally
11 proposed, is not in the public interest and should be denied by the KCC. I expressed
12 concerns that the Black Hills/Aquila transaction would unfairly burden ratepayers with
13 recovery of costs relating to an acquisition premium, transaction costs, and transition costs
14 over the next twenty-five years. Accordingly, I recommended that if the KCC approves the
15 Black Hills/Aquila acquisition, the KCC should prohibit Black Hills from passing through to
16 ratepayers any acquisition costs, including acquisition premiums, transaction costs and
17 transition costs.

18

19 **Q. Please outline the provisions of the proposed Settlement.**

20 A. The proposed Settlement contains the following provisions:

- 21 • The Settlement prohibits Black Hills from seeking recovery of any acquisition
22 premium, transaction costs and transition costs from ratepayers. The Settlement also

1 prohibits Black Hills from seeking to include any unamortized acquisition premium,
2 transaction costs and transition costs in rate base.

- 3 • The Settlement prohibits Black Hills from filing a base rate case with an effective
4 date that is less than three years from the closing date of the transaction. Thus, the
5 Settlement effectively contains a three-year stay-out provision with regard to base
6 rates.
- 7 • The Settlement precludes any of the other parties from challenging Black Hills' base
8 rates for a period of eight years after the closing of the transaction, unless Black Hills
9 files a base rate case during that period. Moreover, if Black Hills files a base rate
10 case during this period, then the Settlement caps certain overhead allocations at 2009
11 budgeted levels plus an annual inflation adjustment. This latter provision only
12 applies to the first base rate case filed during the eight-year period.
- 13 • The Settlement permits Black Hills to file certain rate changes during the rate
14 moratorium period, such as purchased gas adjustment ("PGA") clauses, weather
15 normalization adjustment ("WNA") clauses, revenue-neutral rate changes, and
16 surcharges permitted pursuant to K.S.A. 66-2202 related to safety and reliability
17 projects. The latter surcharges are limited to projects that CURB agrees are
18 appropriate for recovery under K.S.A. 66-2202.
- 19 • The Settlement establishes ring fencing provisions to protect ratepayers from cross-
20 subsidizing non-regulated operations or operations in other states. These include
21 structural protections, such as requiring the creation of a utility holding company and
22 requiring the creation of legal entities for the acquired operations in each state.

- 1 • The Settlement requires Black Hills to maintain separate money pools for regulated
2 and non-regulated operations, prohibits the utility from financing non-utilities,
3 prohibits the pledging of utility assets in support of non-utility debt, and prohibits the
4 utility from guaranteeing any debt obligations of non-utility affiliates.
- 5 • The Settlement requires each state entity to maintain separate books and records of
6 account for its utility operations. In addition, it addresses procedures for allocating
7 and/or directly charging costs among subsidiaries and affiliates.
- 8 • The Settlement limits the payment of dividends by the Kansas state utility if such
9 dividends would result in the utility's equity falling below 40% of the capital
10 structure.
- 11 • The Settlement requires Black Hills to operate its businesses in accordance with
12 industry practices.
- 13 • The Settlement addresses the adoption of performance standards and potential
14 penalties in the event that certain standards are not met.
- 15 • The Settlement requests that the KCC approve the proposed transaction, subject to
16 the conditions outlined in the Settlement, as summarized above.

17
18 **Q. In your opinion, is the Settlement in the public interest?**

19 A. Yes, it is. As stated earlier, my primary recommendations were that the KCC deny Black
20 Hills' request to recover the acquisition premium, transaction costs, and transition costs from
21 ratepayers. The Settlement satisfactorily addresses these concerns, by prohibiting Black
22 Hills from seeking recovery of any of these costs from ratepayers.

1 **Q. Doesn't the Settlement provide Black Hills with the opportunity to recover at least**
2 **some of these costs during a rate moratorium?**

3 A. The Settlement does not provide for any explicit recovery of these costs from ratepayers.
4 The Settlement recognizes that Black Hills will record these costs, either as a current expense
5 or as an amortization, on its books and records of account for financial reporting purposes.
6 However, these costs will not be reflected in any future rate filing made by Black Hills.

7 If, between rate cases, the Company achieves sufficient savings, Black Hills can use
8 those savings to "recover" some portion of the acquisition costs, including the acquisition
9 premium, transaction costs and transition costs. However, this is no different than what
10 happens with any utility between rate cases, i.e., if cost savings are generated, those cost
11 savings generally accrue to the benefit of shareholders. The Settlement does provide for a
12 rate moratorium of at least three years that may provide some benefit to shareholders,
13 assuming that Black Hills achieves cost savings. However, I view this rate moratorium as a
14 benefit to ratepayers, since the rate moratorium will provide them with base rate stability
15 during this period.

16
17 **Q. Is the Settlement contingent upon a successful resolution of Docket No. 07-KCPE-1064-**
18 **ACQ?**

19 A. Yes, it is. Obviously, the Black Hills/Aquila transaction and the KCPL/Aquila transaction
20 are inextricably linked. The Settlement is contingent upon the successful resolution of the
21 KCPL/Aquila transaction.

1 **Q. Does the Settlement resolve any issues relating to the KCPL/Aquila transaction?**

2 A. No, it does not. The Settlement relates solely to the Black Hills/Aquila transaction. The
3 issues contained in my Direct Testimony with regard to the KCPL/Aquila transaction have
4 not been resolved or addressed in this Settlement.

5

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

7 A. I recommend that the KCC approve the Settlement. The Settlement adopts CURB's
8 recommendation that Black Hills not be allowed to seek recovery of the acquisition
9 premium, transaction costs, and transition costs from ratepayers. In addition, the Settlement
10 provides for a base rate moratorium of at least three years, and perhaps as many as eight
11 years, during which ratepayers will have no changes to base rates. The Settlement also
12 includes important ring fencing provisions and other affiliated interest provisions that protect
13 Kansas ratepayers from subsidizing non-regulated operations or operations in other states.
14 Moreover, the Settlement adopts certain performance standards that will clearly benefit
15 ratepayers. Finally, the Settlement will reduce regulatory costs for all parties and eliminate
16 the regulatory uncertainty that exists with a fully litigated case. For all these reasons, I
17 believe that the Settlement is in the public interest and I recommend that the KCC approve
18 the proposed Settlement.

19

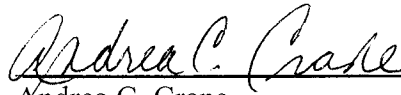
20 **Q. Does this complete your testimony?**

21 A. Yes, it does.

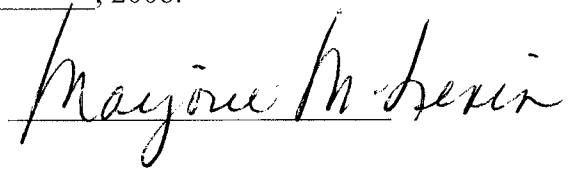
VERIFICATION

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

Subscribed and sworn before me this 4 th day of Feb., 2008.

Notary Public 

My Commission Expires: DECEMBER 31, 2008

CERTIFICATE OF SERVICE

07-BHCG-1063-ACQ

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing docket was placed in the United States mail, postage prepaid, or hand-delivered this 7th day of February, 2008, to the following:

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