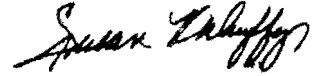


BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

MAY 10 2010



IN THE MATTER OF THE APPLICATION]
OF THE EMPIRE DISTRICT ELECTRIC]
COMPANY FOR APPROVAL OF THE]
COMMISSION TO MAKE CERTAIN]
CHANGES IN ITS CHARGES FOR]
ELECTRIC SERVICE]

KCC Docket No. 10-EPDE-314-RTS

TESTIMONY IN SUPPORT OF SETTLEMENT

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

May 10, 2010

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

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

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

6 A. Yes, on March 31, 2010, I filed Direct Testimony on
7 revenue requirement and cost of capital issues on behalf of
8 the Citizens' Utility Ratepayer Board ("CURB"). In that
9 testimony, I recommended that the KCC approve a rate increase
10 of \$3,163,661 for the Empire District Electric Company
11 ("Empire"). On April 12, 2010, I filed Cross Answering
12 Testimony addressing the testimony submitted by Michael B.
13 Mount of the KCC Staff regarding weather normalization. In my
14 Cross Answering Testimony, I also discussed a formula error in
15 my Direct Testimony and revised my recommended rate increase
16 to \$2,873,490.

17
18 **Q. Since your Direct Testimony and Cross Answering Testimony were
19 filed, have the parties engaged in settlement discussions?**

20 A. Yes, Empire, Commission Staff and CURB have engaged in
21 subsequent settlement discussions. I understand that Kansas
22 City Power and Light Company ("KCP&L), the only other party to

1 this docket, opted out of participating in the discussions.
2 As a result of our discussions, the negotiating parties filed
3 a Joint Motion on May 4, 2010 requesting approval of a
4 Stipulation and Agreement ("S&A") to resolve the issues in
5 this case. I have been told that KCP&L is not signing onto
6 the settlement agreement, but has indicated that it does not
7 intend to oppose it.

8
9 **Q. Can you please summarize the terms of the S&A?**

10 **A.** The S&A provides for a base rate increase of \$2,790,000. In
11 addition, the S&A permits Empire to defer operating and
12 maintenance expenses and depreciation expenses associated with
13 both the Iatan 2 Generation Facility ("Iatan 2") and the Plum
14 Point Generating Facility ("Plum Point"). Deferred costs will
15 be recovered over a 3 to 5 year period, beginning with the
16 effective dates of rates in the abbreviated rate case. These
17 deferrals will begin when the respective generating units are
18 in-service and Empire will not recover any carrying charges on
19 these deferred costs. The S&A also provides that Empire will
20 continue to accrue an Allowance for Funds Used During
21 Construction ("AFUDC") on capital costs relating to Iatan 2
22 and Plum Point that were not included in rate base in this
23 case.

1 In addition, the S&A specifies amortization periods for
2 certain storm damage and rate case costs, and identifies the
3 amount of property taxes included in base rates as a result of
4 this case. It also states that costs relating to Air Quality
5 Control System ("ACQS") consumables will not be recovered in
6 base rates, but instead will be recovered through the Energy
7 Cost Adjustment ("ECA") tariff.

8 The S&A also addresses the Company's request for a
9 tracking mechanism for its pension and Other Post-Employment
10 Benefit ("OPEB") costs. The parties have agreed that Empire
11 will adopt the tracking mechanism recently approved by the KCC
12 for Westar Energy, Inc. ("Westar) and for Kansas Gas Service
13 ("KGS").

14 With regard to rate design, the S&A states that the
15 parties agree to collaborate and to file a rate design no
16 later than May 11, 2010. It is my understanding that the
17 parties subsequently agreed to adopt the rate design proposed
18 by Staff witness Sonya Cushinberry in her Direct Testimony.

19 The S&A also outlines the issues that may be addressed in
20 the subsequent abbreviated rate case and establishes an
21 overall cost of capital of 8.4% that will be used to set rates
22 in the abbreviated rate case. Prudence issues relating to the
23 Iatan 1 ACQS, Iatan 2, and Plum Point are deferred to the

1 abbreviated rate case.

2

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

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

15 I understand that CURB counsel will address item 3, i.e.,
16 does the agreement conform to applicable law, in her opening
17 statement at the upcoming hearing. Since I am not an
18 attorney, it is more appropriate for CURB counsel to address
19 this issue than for me to address it. However, I will discuss
20 the remaining four guidelines used by the KCC to evaluate
21 settlements.

22

23 **Q. Has each party had an opportunity to be heard on its reasons**

1 **for opposing the settlement?**

2 A. I did participate personally in settlement negotiations and
3 each party had a full and complete opportunity to be heard.
4 The parties discussed issues, resolved certain numerical
5 discrepancies, and negotiated aggressively. At this time, I
6 am not aware of any party to the case who opposes the
7 settlement. At various times during the negotiations, KCP&L
8 was informed of the progress of the discussions, and
9 apparently offered no objection or input to our discussions or
10 the resulting settlement agreement. I have been told by
11 counsel that KCP&L, which co-owns the Iatan II plant with
12 Empire, has been monitoring this case for any decisions or
13 agreements concerning the costs of the Iatan II plant that
14 might impact KCP&L's pending rate case. To my knowledge,
15 there are no terms in the settlement that would impact KCP&L
16 now or in the future.

17
18 **Q. Is the agreement supported by substantial evidence in the**
19 **record as a whole?**

20 A. Yes, it is. As noted in the S&A, the Company requested a rate
21 increase of \$5,203,483. CURB recommended a rate increase of
22 \$2,873,490 and Staff recommended a rate increase of
23 \$2,549,873. Thus, the negotiated rate increase of \$2,790,000

1 is well within the range proposed by Staff and CURB.

2 Much of the difference between CURB's proposed rate
3 increase and the amount reflected in the S&A relates to three
4 issues: the AQCS consumables, depreciation expense for Iatan 2
5 and Plum Point, and cost of capital. CURB's recommendation
6 included the recovery in base rates of AQCS consumables
7 associated with various generating facilities. Pursuant to
8 the S&A, recovery of AQCS consumables will be transferred from
9 base rates to the ECA. In addition, CURB's recommendation
10 included the recovery in base rates of depreciation expense on
11 Iatan 2 and Plum Point. These costs will now be deferred for
12 future recovery. These two adjustments would have reduced
13 CURB's recommendation by about \$370,000. This reduction is
14 offset by the higher cost of capital of 8.4% reflected in the
15 S&A, versus the 8.00% recommended by CURB in my testimony.
16 Thus, CURB's filed position is very close to the rate increase
17 of \$2.79 million included in the S&A when adjusted for the
18 treatment of AQCS consumables, for the treatment of
19 depreciation expense for Iatan 2 and Plum Point, and for the
20 higher return included in the S&A.

21 In addition, while CURB opposed any tracking mechanism
22 for pension and OPEB costs, I stated in my Direct Testimony
23 that if a tracker was adopted by the KCC, it should mirror the

1 mechanism adopted for Westar and KGS. The pension and OBEP
2 tracker included in the S&A is consistent with this
3 recommendation.

4
5 **Q. Will the agreement result in just and reasonable rates?**

6 **A.** Yes, I believe that the S&A will result in just and reasonable
7 rates. As discussed above, the revenue increase included in
8 the S&A is substantially less than the amount requested by
9 Empire. In addition, the settlement increase of \$2.79 million
10 is well within the ranges proposed by Staff and CURB.
11 Therefore, rates will be based on a revenue requirement that
12 is just and reasonable.

13 With regard to the actual rate design, I understand that
14 Staff's rate design proposal, which has since been accepted by
15 the parties, represents a compromise between the rate design
16 proposals filed by Empire and by CURB witness Brian Kalcic.
17 Given this compromise, and the fact that the underlying
18 revenue requirement is just and reasonable, the resulting
19 rates should also be found by the KCC to be just and
20 reasonable.

21
22 **Q. Are the results of the agreement in the public interest,**
23 **including the interests of customers represented by any party**

1 **not consenting to the agreement?**

2 A. As noted above, all parties to this proceeding support the
3 S&A. Therefore, the interests of customers represented by all
4 parties to this proceeding have been considered. This
5 agreement is in the public interest. It results in a revenue
6 increase that is approximately 53.6% of the increase requested
7 by Empire. It defers recovery of operating and maintenance
8 costs and depreciation expenses for Iatan 2 and Plum Point
9 until those generating units are actually in service. It
10 provides protection to ratepayers by allowing the parties to
11 address issues of prudence for the Iatan 1 AQCS, Iatan 2, and
12 Plum Point in the upcoming abbreviated case. It establishes a
13 tracking mechanism for pension and OPEB costs that is
14 consistent with mechanisms approved for Westar and KGS, and
15 which eliminates the carrying costs on deferred pension and
16 OPEB amounts that had been requested by Empire. Approval of
17 the S&A will also reduce rate case costs, which would
18 otherwise be passed on to ratepayers.

19

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

21 A. I recommend that the KCC find that the S&A is supported by
22 substantial evidence in the record, will result in just and
23 reasonable rates, and is in the public interest. Therefore, I

1 recommend that the KCC approve the S&A as filed.

2

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

4 **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 17th of May, 2010.

Notary Public Marjorie M. Berlin

My Commission Expires: December 31, 2013

CERTIFICATE OF SERVICE

10-EPDE-314-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, electronic service, or hand-delivered this 10th day of May, 2010, to the following:

* JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 SOUTH HICKORY
PO BOX 17
OTTAWA, KS 66067
Fax: 785-242-1279
jflaherty@andersonbyrd.com

* GLENDA CAFER, ATTORNEY
CAFER LAW OFFICE, L.L.C.
3321 SW 6TH STREET
TOPEKA, KS 66606
Fax: 785-271-9993
gcafer@sbcglobal.net

* KELLY WALTERS, VICE-PRESIDENT
EMPIRE DISTRICT INDUSTRIES, INC.
602 JOPLIN
PO BOX 127
JOPLIN, MO 64802-0127
Fax: 417-625-5173
kwalters@empiredistrict.com

WILLIAM RIGGINS, GENERAL COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PLACE
1200 MAIN STREET (64105)
P.O. BOX 418679
KANSAS CITY, MO 64141-9679
Fax: 816-556-2787
bill.riggins@kcpl.com

* VICKIE SCHATZ, CORPORATE COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PLACE
1200 MAIN STREET (64105)
P.O. BOX 418679
KANSAS CITY, MO 64141-9679
Fax: 816-556-2992
victoria.schatz@kcpl.com

* MARY TURNER, DIRECTOR, REGULATORY AFFAIRS
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PLACE
1200 MAIN STREET (64105)
P.O. BOX 418679
KANSAS CITY, MO 64141-9679
Fax: 816-556-2110
mary.turner@kcpl.com

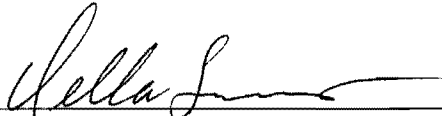
* DANA BRADBURY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
d.bradbury@kcc.ks.gov
**** Hand Deliver ****

* TERRI PEMBERTON, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
t.pemberton@kcc.ks.gov
**** Hand Deliver ****

* ANNE E. CALLENBACH, ATTORNEY
POL SINELLI SHUGHART
6201 COLLEGE BLVD
SUITE 500
OVERLAND PARK, KS 66211
Fax: 913-451-6205
acallenbach@polsinelli.com

* FRANK A. CARO, JR., ATTORNEY
POL SINELLI SHUGHART
6201 COLLEGE BLVD
SUITE 500
OVERLAND PARK, KS 66211
Fax: 913-451-6205
fcaro@polsinelli.com

ROGER W. STEINER, ATTORNEY
SONNENSCHNEIN NATH & ROSENTHAL LLP
4520 MAIN STREET
SUITE 1100
KANSAS CITY, MO 64111
Fax: 816-531-7545
rsteiner@sonnenschnein.com



Della Smith

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