

BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

JUN 25 2010



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

KCC Docket No. 10-ATMG-495-RTS

TESTIMONY IN SUPPORT OF SETTLEMENT

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

June 25, 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 June 4, 2010, I filed Direct Testimony on revenue requirement and cost of capital
7 issues on behalf of the Citizens' Utility Ratepayer Board ("CURB"). In that testimony, I
8 recommended that the KCC approve a rate increase of \$1,930,581 for Atmos Energy
9 Corporation ("Atmos" or "Company").

10
11 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement
12 discussions?**

13 A. Yes, the parties to this case have engaged in subsequent settlement discussions. As a result,
14 the parties filed a Joint Motion on June 23, 2010 requesting approval of a Stipulation and
15 Agreement ("S&A") to resolve the issues in this case.

16
17 **Q. Can you please summarize the terms of the S&A?**

18 A. The S&A provides for a base rate increase of \$3,885,000. In addition, the S&A specifies that
19 Atmos will implement a tracking mechanism for Pension and Other Post-Employment
20 Benefit ("OPEB") costs that is consistent with the mechanisms recently approved for Westar
21 Energy, Inc. ("Westar"), Kansas Gas Service ("KGS"), Empire District Electric Company

1 (“Empire”). The S&A also identifies the amount of property taxes included in base rates
2 and the amortization period to be used for rate case costs. In the S&A, the Company also
3 agreed to update its weather normalization factors as proposed by Staff, and to utilize data
4 from another Kansas City-area weather station in place of data from the Olathe 3E station,
5 which has been closed. The methodology reflected in the S&A is based on thirty-year
6 weather normals, and in fact the Company, Staff, and CURB all used a thirty-year period for
7 determining normal weather. Finally, the Company agreed not to file a Gas Safety and
8 Reliability Surcharge (“GSRS”) filing between the effective date of new rates and its next
9 base rate case.

10 With regard to rate design, the S&A states that the parties agreed to collaborate and to
11 file a rate design no later than June 25, 2010.

12
13 **Q. Are you familiar with the standards used by the KCC to evaluate a settlement that is**
14 **proposed to the Commission?**

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

21 I understand that CURB counsel will address item 3, i.e., does the agreement conform

1 to applicable law, in her opening statement at the upcoming hearing. Since I am not an
2 attorney, it is more appropriate for CURB counsel to address this issue than for me to address
3 it. However, I will discuss the remaining four guidelines.

4
5 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**
6 **settlement?**

7 A. I participated personally in settlement negotiations in this case and each party had a full and
8 complete opportunity to be heard. The parties discussed issues, resolved certain numerical
9 discrepancies, and negotiated aggressively. At this time, I am not aware of any party to the
10 case who opposes the settlement.

11
12 **Q. Is the agreement supported by substantial evidence in the record as a whole?**

13 A. Yes, it is. As noted in the S&A, the Company requested a rate increase of \$6,014,705.
14 CURB recommended a rate increase of \$1,930,581 and Staff recommended a rate increase of
15 \$4,274,916, which was subsequently amended to \$3,855,432. The negotiated rate increase of
16 \$3,855,000 is slightly less than the midpoint between the Company and CURB positions, and
17 reflects the KCC Staff's filed position, as amended.

18 Moreover, much of the difference between CURB's proposed rate increase and
19 Staff's recommendation related to \$983,495 of ad valorem tax surcharge revenue that was
20 included in revenue at present rates by CURB and by the Company, but which was excluded

1 from revenue at present rates by Staff.¹ Staff correctly excluded this revenue since it was
2 received by the Company through the ad valorem tax surcharge, and not through base rates.
3 Since this revenue was the result of the surcharge, which has been revised since the end of
4 the test year, the Company will not receive the \$983,495 of revenue prospectively. In
5 addition, only base rate revenue should be considered when setting rates. Thus, including
6 this \$983,495 revenue in revenue at present rates overstated the amount of revenue available
7 to the Company to meet its revenue requirement. If I had eliminated this revenue from my
8 revenue requirement calculation, consistent with Staff’s approach, my recommended rate
9 increase would have increased to \$2,914,013, approximately \$971,000 lower than the Staff
10 recommendation that was ultimately adopted by the parties. Most of this remaining
11 difference is due to two factors. First, Staff had another revenue adjustment that decreased
12 pro forma revenues at present rates by \$321,858 relating to the updating of normal weather
13 data and the substitution of certain weather stations. Second, I had a larger adjustment than
14 Staff relating to incentive compensation costs. Staff’s adjustment relating to these issues
15 was only about 25% as large as CURB’s adjustment. While there were other differences
16 between CURB and Staff, the cumulative impact of the remaining issues tended to offset one
17 another on balance. Given that the agreed upon increase of \$3,855,000 is virtually identical
18 to the amount recommended by Staff, there is clearly ample evidence in the record to support
19 such an increase.

20

1 The ad valorem tax surcharge allows the Company to recover its actual costs of property taxes.

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

2 A. Yes, I believe that the SA& will result in just and reasonable rates. As discussed above, the
3 revenue increase included in the S&A is substantially less than the amount requested by
4 Atmos. In addition, the settlement increase of \$3,855,000 is the amount recommended by
5 Staff. Therefore, rates will be based on a revenue requirement that is just and reasonable.
6 In evaluating whether or not the Staff position was reasonable, it was necessary to consider a
7 few factors in addition to those stated above. First, Staff’s position was based on a return on
8 equity of 9.0%. While the S&A does not specify a stated return on equity, I recognize that a
9 return on equity award exceeding 9.0% could result in a revenue requirement that is higher
10 than the \$3,855,000 being recommended by Staff. Second, the S&A states that the Company
11 will not file a GSRS until after its next base rate case. This is a direct benefit to ratepayers,
12 who otherwise could face additional annual GSRS increases over the next few years. Finally,
13 I also considered the fact that the S&A provides for Atmos to utilize the pension and OPEB
14 tracking mechanism agreed to by Westar, KGS, and Empire. While CURB opposed any
15 tracking mechanism for pension and OPEB costs, I stated in my Direct Testimony that if a
16 tracker was adopted by the KCC, it should mirror the mechanism adopted for the other
17 companies in Kansas. The pension and OBEP tracker included in the S&A is consistent with
18 this recommendation.

19
20 **Q. Are the results of the agreement in the public interest, including the interests of**
21 **customers represented by any party not consenting to the agreement?**

1 A. As noted above, all parties to this proceeding support the S&A. Therefore, the interests of
2 customers represented by all parties to this proceeding have been considered. This
3 agreement is in the public interest. It results in a revenue increase that is approximately
4 64.1% of the increase requested by Atmos. It ensures that ratepayers will not pay any GSRS
5 costs during the next few years. It also establishes a tracking mechanism for pension and
6 OPEB costs that is consistent with mechanisms approved for Westar, KGS, and Empire.
7 Approval of the S&A will also reduce rate case costs, which would otherwise be passed on to
8 ratepayers.

9

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

11 A. I recommend that the KCC find that the S&A is supported by substantial evidence in the
12 record, will result in just and reasonable rates, and is in the public interest. Therefore, I
13 recommend that the KCC approve the S&A as filed.

14

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

16 A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss:

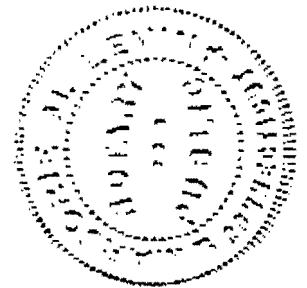
Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 25th day of June, 2010.

Notary Public Margaret Benin

My Commission Expires: December 31, 2013



CERTIFICATE OF SERVICE

10-ATMG-495-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 25th day of June, 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

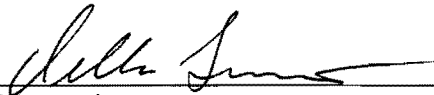
JOE T. CHRISTIAN
ATMOS ENERGY
5420 LBJ FREEWAY (75240)
STE 160
P O BOX 650205
DALLAS, TX 75265-0205
joe.christian@atmosenergy.com

DOUGLAS C. WALTHER, SR ATTORNEY
ATMOS ENERGY CORPORATION
P O BOX 650205
DALLAS, TX 75265-0205
douglas.walther@atmosenergy.com

KAREN P WILKES
ATMOS ENERGY CORPORATION
1555 BLAKE ST 400
DENVER, CO 80202
karen.wilkes@atmosenergy.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 ****



Della Smith

* Denotes those receiving the Confidential version