

BEFORE THE CORPORATION COMMISSION

OF THE STATE OF KANSAS



JUN 03 2011

by
State Corporation Commission
of Kansas

IN THE MATTER OF THE PETITION]
OF KANSAS CITY POWER AND LIGHT]
COMPANY FOR DERMINATION OF THE]
RATEMAKING PRINCIPLES AND]
TREATMENT THAT WILL APPLY TO THE]
RECOVERY IN RATES OF THE COST TO]
BE INCURRED BY KCP&L FOR CERTAIN]
ELECTRIC GENERATION FACILITIES]
UNDER K.S.A. 66-1239]

KCC Docket No. 11-KCPE-581-PRE

DIRECT TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

PUBLIC VERSION

June 3, 2011

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Appendix A - List of Prior Testimonies

Appendix B - Referenced Data Requests

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 90 Grove Street, Ridgefield,
4 Connecticut 06877. (Mailing Address: PO Box 810, Georgetown, Connecticut 06829)

5

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

7 A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in
8 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. I became President of the firm in January 2008.

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 Corporation (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the
18 Product 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 350

1 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii,
2 Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma,
3 Pennsylvania, Rhode Island, South Carolina, Vermont, West Virginia and the District of
4 Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid
5 waste, cable television, and navigation utilities. A list of dockets in which I have filed
6 testimony since January 2008 is included in Appendix A.

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

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

12
13 **II. PURPOSE OF TESTIMONY**

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

15 A. On February 23, 2011, Kansas City Power and Light Company (“KCP&L” or “Company”)
16 filed a Petition with the Kansas Corporation Commission (“KCC” or “Commission”)
17 requesting predetermination of ratemaking principles and ratemaking treatment that will
18 apply to costs incurred by KCP&L for certain environmental upgrades at the La Cygne
19 generating station. The Columbia Group, Inc. was engaged by the State of Kansas, Citizens’
20 Utility Ratepayer Board (“CURB”) to review the Company’s Petition and to provide
21 recommendations to the KCC regarding certain policy issues. Testimony is also being

1 submitted on behalf of CURB by Michael J. Majoros, Jr. and Karl Richard Pavlovic of
2 Snavelly King, Majoros and O'Connor, Inc.

3
4 **III. SUMMARY OF CONCLUSIONS**

5 **Q. What are your conclusions and recommendations?**

6 A. Based on my analysis of the Petition, the responses to discovery requests, and my general
7 knowledge and experience in utility regulation, my conclusions and recommendations are as
8 follows:

- 9 ➤ KCP&L will be required to meet environmental requirements regardless of
10 whether this Petition is approved or rejected by the KCC.
- 11 ➤ Predetermination of the projects that are the subject of this Petition will
12 reduce KCP&L's incentive to meet environmental regulations in the most
13 efficient manner.
- 14 ➤ Approval of the Petition will make it very difficult for the KCC to disallow
15 future cost overruns and could lock ratepayers into an environmental program
16 that may not be optimal.
- 17 ➤ Approval of the Petition will transfer risk of both cost overruns and
18 environmental compliance from the management of the Company and its
19 shareholders to ratepayers.
- 20 ➤ The Company's proposal does not benefit ratepayers, but does benefit its
21 shareholders and Company management.

- 1 ➤ The KCC should issue an order denying KCP&L’s Petition and stating that
2 traditional ratemaking principles will apply to the environmental upgrades
3 that are the subject of this Petition.
- 4 ➤ If the KCC does approve the predetermination of the projects requested in
5 this Petition, then it should put the Company at risk for all expenditures
6 exceeding \$1.23 billion and defer a decision on the appropriate depreciable
7 life of the environmental upgrades.
- 8 ➤ If the KCC approves the predetermination Petition, then preapproved projects
9 should be subject to a 100 basis point reduction in the cost of equity in future
10 rate proceedings.
- 11 ➤ If the KCC approves the predetermination Petition, the KCC should deny the
12 Company’s request to recover costs pursuant to an Environmental Cost
13 Recovery Rider (“ECRR”) and instead require any such costs to be recovered
14 through base rates.

16 **IV. DISCUSSION OF THE ISSUES**

17 **A. Background**

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

19 A. KCP&L is seeking predetermination of future ratemaking treatment for various
20 environmental upgrades at its La Cygne generating station. Specifically, the Company is
21 proposing to install wet scrubbers, baghouses and a common dual-fuel chimney for both La

1 Cygne Unit 1 and Unit 2. In addition, it is proposing to install a selective catalytic reduction
2 (“SCR”) system, low-nitrogen oxide (“NOx”) burners (“LNBS”), and an over-fire air
3 (“OFA”) system for La Cygne Unit 2. La Cygne Unit 1 has a net generating capacity of 836
4 MW and Unit 2 has a net generating capacity of 682 MW. KCP&L owns 50% of La Cygne.
5 The remaining 50% is owned by Kansas Gas and Electric Company (“KGE”), a wholly-
6 owned subsidiary of Westar Energy, Inc. (“Westar”).
7

8 **Q. Why is KCP&L required to install the environmental upgrades at La Cygne?**

9 A. As noted in Mr. Ling’s testimony at page 7, in March 2007, KCP&L executed a
10 Collaboration Agreement with the Sierra Club and the Concerned Citizens of Platte County,
11 whereby the Company agreed to seek a Consent Agreement with the Kansas Department of
12 Health and Environment (“KDHE”) incorporating emission limits for La Cygne that are
13 below the presumptive limits under best available retrofit technology (“BART”). The
14 Collaboration Agreement required the Company to use its best efforts to reduce emissions
15 prior to the compliance date under BART, but in any event not later than June 15, 2015.

16 According to Mr. Giles’ testimony at page 4, KCP&L subsequently executed an
17 agreement with the KDHE that requires KCP&L to install BART environmental equipment
18 at both La Cygne units by June 1, 2015. Mr. Giles states that if KCP&L does not comply
19 with the KDHE agreement, then the units would need to be shut down until such time as they
20 are in compliance. The provisions of the agreement were included in the Kansas Regional
21 Haze Rule State Implementation Plan (“SIP”) that was submitted by KDHE to the

1 Environmental Protection Agency (“EPA”) for approval. In addition to the equipment being
2 proposed in this case, BART also requires an SCR for Unit 1, but that equipment has already
3 been installed.
4

5 **Q. Was the equipment that is the subject of this petition included in the Company’s**
6 **Regulatory Plan in KCC Docket No. 04-KCPE-1025-GIE (“1025 Docket”)?**

7 A. The environmental upgrades for La Cygne Unit 1, specifically the baghouse and scrubber,
8 were included in the Regulatory Plan but were never started by the Company. An SCR for
9 Unit 1 was also included in the regulatory plan and was completed in May 2007. None of
10 the environmental upgrades for Unit 2 were included in the Regulatory Plan.
11

12 **Q. What is the cost of the environmental upgrades being proposed by KCP&L?**

13 A. The total estimated cost for the projects is \$1.23 billion, excluding the allowance for funds
14 used during construction (“AFUDC”). This estimate includes:

15 *****Begin Confidential**

16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

22 **End Confidential*****

1 These costs will be shared between KCP&L and Westar. In addition, KCP&L’s costs
2 will be further allocated between the Kansas and Missouri jurisdictions, with approximately
3 45% of the costs being allocated to Kansas.

4 The majority of the project costs relate to an engineer, procure and construct (“EPC”)
5 contract. The Company solicited bids for the contract in November 2010. The Company had
6 not executed a final EPC contract by the time it filed its Petition in this case. However, it
7 stated in its Petition that it believes that its EPC estimate reflected in the filing is reasonable
8 given the bids that were received and the ensuing discussions that have been held with the
9 bidders. Since the Petition was filed, the Company has had continued discussions and
10 negotiations with at least 2 bidders.

11 The remaining direct costs include such items as the chimney, site development,
12 security, plant communications, and other direct project costs not included in the EPC
13 contract. The chimney contract and site development work comprise about 76% of these
14 direct costs. As noted on page 6 of Mr. Archibald’s testimony, KCP&L’s contract for the
15 chimney will be assigned to the EPC contractor once an EPC contract is executed. Indirect
16 costs include construction management, oversight, legal services, and start-up costs.

17
18 **Q. Has the Company previously received pre-approval from the KCC pursuant to K.S.A.**
19 **66 -1239?**

20 **A.** No, this is the first Petition filed by KCP&L pursuant to the predetermination statute. The
21 Company did receive approval of a five-year Regulatory Plan in the 1025 Docket, which

1 involved construction of several capital projects over a five-year period, including
2 construction of Iatan Unit 2.

3
4 **B. Evaluation of the Petition**

5 **Q. Does the predetermination statute discuss specific criteria that should be used by the**
6 **KCC to evaluate the Company's Petition?**

7 A. No, it does not.¹ K.S.A. 66-1239(c) states that,

- 8 (1) Prior to undertaking the construction of, or participation in, a generating facility or
9 prior to entering into a new contract, a public utility may file with the commission a
10 petition for a determination of the rate-making principles and treatment, as proposed
11 by the public utility, that will apply to recovery in wholesale or retail rates of the cost
12 to be incurred by the public utility to acquire such public utility's stake in the
13 generating facility during the expected useful life of the generating facility or the
14 recovery in rates of the contract during the term thereof.
- 15 (2) Any utility seeking a determination of the rate-making principles and treatment under
16 subsection (c)(1) shall as a part of its filing submit the following information: (A) A
17 description of the public utility's conservation measures; (B) a description of the
18 public utility's demand side management efforts; (C) the public utility's ten-year
19 generation and load forecasts; and (D) a description of all power supply alternatives
20 considered to meet the public utility's load requirements.
- 21 (3) In considering the public utility's supply plan, the commission may consider if the
22 public utility issued a request for proposal from a wide audience of participants
23 willing and able to meet the needs identified under the public utility's generating
24 supply plan, and if the plan selected by the public utility is reasonable, reliable and
25 efficient.
- 26 (4) The commission shall issue an order setting forth the rate-making principles and
27 treatment that will be applicable to the public utility's stake in the generating facility
28 or to the contract in all rate-making proceedings on and after such time as the
29 generating facility is placed in service or the term of the contract commences.
- 30 (5) The commission in all proceedings in which the cost of the public utility's stake in the
31 generating facility or the cost of the purchased power under the contract is considered
32 shall utilize the rate-making principles and treatment applicable to the generating

¹ I am not an attorney and my testimony does not offer a legal opinion on the statute.

1 facility or contract.

2 (6) If the commission fails to issue a determination within 180 days of the date a petition
3 for a determination of rate-making principles and treatment is filed, the rate-making
4 principles and treatment proposed by the petitioning public utility will be deemed to
5 have been approved by the commission and shall be binding for rate-making
6 purposes during the useful life of the generating facility or during the term of the
7 contract.

8
9 Subsection (d) states that “The public utility shall have one year from the effective
10 date of the determination of the commission to notify the commission whether it will
11 construct or participate in the construction of the generating or transmission facility or
12 whether it will perform under the terms of the contract.” There are no sections of the statute
13 that discuss the specific criteria that the KCC should use to evaluate the Petition.

14
15 **Q. Please comment on Mr. Giles’ statement on page 9 of his testimony that K.S.A. 66-1239**
16 **requires the KCC to issue an order providing an advance determination of the**
17 **ratemaking principles to be used to recognize the costs of proposed generating**
18 **investment in retail rates.**

19 A. The statute does not require the KCC to issue an order. However, pursuant to the statute, if
20 the KCC fails to issue an order within 180 days of the filing of the Petition, then the rate-
21 making principles and treatment proposed by the Petitioner are deemed to have been
22 approved and shall be binding during the useful life of the generating facility. This
23 requirement assumes, of course, that the Petitioner has met the requirements under the statute
24 to provide a description of the utility’s conservation measures, a description of its demand
25 side management efforts, its ten-year generation and load forecasts, and a description of

1 power supply alternatives. If these requirements are met, then the KCC must issue an order
2 within 180 days or the Petition will be deemed to have been approved.

3
4 **Q. Does the statute provide guidance as to what rate-making principles and treatment**
5 **should be used by the KCC to evaluate the Petition?**

6 A. No, it does not. The statute states that a utility “may” file for predetermination of rate-
7 making principles and treatment. Moreover, it states that the KCC must issue an order on the
8 petition within 180 days or the Petition will be deemed to have been approved. However, the
9 statute does not provide guidance to the KCC regarding whether or not to approve the rate-
10 making principles and treatment requested in the petition. In fact, the statute is silent with
11 regard to evaluation of the referenced petition. Thus, the KCC is given discretion to adopt a
12 utility’s ratemaking principles and treatment, to modify them in some way, or to reject them
13 outright and state that normal rate-making principles and treatment will apply.

14
15 **Q. Do you believe that the Company’s cost of equity is impacted by whether or not the**
16 **KCC predetermines the ratemaking treatment for these costs, as suggested by KCP&L**
17 **witness, Michael Cline?**

18 A. Yes, I do, although I believe that Mr. Cline is incorrect in his statement that the Company’s
19 cost of equity will increase unless the KCC approves its predetermination Petition. Instead, I
20 believe that the cost of equity will decrease if the predetermination is granted. But before
21 discussing the specific impact of the predetermination on the Company’s cost of capital, it is

1 useful to address the overall relationship between risk and return.

2 In appears that KCP&L and I agree that approval of the predetermination petition will
3 reduce risk, although we disagree about what the baseline cost of equity would be in the
4 absence of predetermination. However, Westar, La Cygne’s other owner, apparently has a
5 different view, as will be discussed further later in this testimony.

6
7 **Q. What is the estimated impact of the project on Kansas ratepayers?**

8 A. Assuming a total capital cost of \$1.23 billion, excluding AFUDC, KCP&L is projecting an
9 annual revenue requirement associated with the Project of \$58.2 million beginning in 2016
10 and decreasing to \$35.5 million by 2035. This would equate to an increase of approximately
11 \$0.00827 per kWh in 2016, decreasing to \$0.00370 per kWh by 2035. The Company
12 estimates that the impact on an average residential customer bill, assuming usage of 1,200
13 kWh per summer month and 800 kWh per winter month will initially be an increase of \$8.27
14 per month in 2016, decreasing over 20 years to about \$3.70 per month. If the Company is
15 permitted to recover the costs pursuant to an Environmental Cost Recovery Rider (“ECRR”),
16 the Company estimates that the impact will be slightly less, about \$7.77 per month in 2016,
17 then decreasing to \$3.51 over 20 years. However, under an ECRR, ratepayers would begin to
18 pay for these costs several years earlier.

19
20 **Q. What is the estimated impact on Westar ratepayers?**

21 A. In its Public Notice, Westar estimated an initial impact of \$0.36 per month, increasing to

1 \$3.95 per month in 2017 and 2018 and then decreasing over 20 years to \$1.50 per month.
2 The Westar estimate is significantly lower than the KCP&L estimate, for several reasons.
3 First, Westar's estimate does not include the impact of any operating expenses or property
4 taxes, which account for about 17.9% of KCP&L's 2016 estimate. Second, the Westar
5 estimate also assumes that the average residential customer uses about 11% less than the
6 average residential KCP&L customer. But third and most importantly, Westar has
7 significantly higher energy sales than KCP&L. KCP&L's estimate is based on estimated
8 sales in Kansas of 7.04 billion kWh in 2016. Assuming that Kansas comprises 45% of the
9 Company's sales, this would equate to total 2016 KCP&L sales of about 15.6 billion kWh.
10 Westar's estimate is based on current sales of approximately 21.0 billion kWh, increasing to
11 22.1 billion kWh in 2016. This differential is largely attributable to the significant industrial
12 base in Westar that does not exist in KCP&L.

13
14 **Q. What specific findings is the Company requesting in this case?**

- 15 A. As outlined on page 12 of Mr. Giles' testimony, the Company is requesting that the KCC:
- 16 • Confirm that KCP&L's decision to construct and install the La Cygne Environmental
17 Project is reasonable, reliable, efficient and prudent.
 - 18 • Confirm that a total project cost of \$1.23 billion, excluding AFUDC and property
19 taxes, is a reasonable and prudent cost.
 - 20 • Confirm that amounts in excess of \$1.23 billion, excluding AFUDC and property
21 taxes, would be recoverable subject to further prudence review during a future rate

1 proceeding.

- 2 • Approve a cost recovery rider for recovery of the project costs between base rate
- 3 cases.
- 4 • Find that the applicable initial depreciable life for the project is 22 years.
- 5 • Find that the cost of capital and rate of return applied to the project will be consistent
- 6 with what the KCC generally establishes for KCP&L’s Kansas jurisdictional
- 7 business.

8

9 **Q. What are the specific environmental standards that apply?**

10 A. As discussed in the testimony of Mr. Ling, the pertinent regulations include the Regional

11 Haze Rule, National Ambient Air Quality Standards, and the Acid Rain Emission

12 Requirements, among others. While Mr. Heidbrink noted on page 23 of his testimony that

13 “[i]t is expected that the current retrofit projects will represent the vast majority of the

14 upgrading process for the La Cygne generating units based upon current and proposed

15 environmental regulations,” he goes on to state that “KCP&L cannot anticipate or predict

16 with precision the impact of regulations that may be promulgated sometime in the future.”

17

18 **Q. What level of costs has the Company incurred to date?**

19 A. According to the response to CURB-5, the Company incurred costs of about ***Begin

20 **Confidential** [REDACTED] **End Confidential***** through February 2011. On page 8 of his

21 testimony, Mr. Bell stated that “[a]ssuming the Commission takes the full 180 days to issue

1 its order in this docket, there will be engineering costs incurred for the chimney prior to the
2 Commission issuing an order.” The Company claimed that it would be necessary to award a
3 contract and start construction of the chimney by August 2011 to meet an in-service date of
4 June 15, 2015.

5
6 **Q. As a threshold question, should the KCC approve the Company’s Petition?**

7 A. Mr. Majoros and Mr. Pavlovic discuss the process used by the Company to develop its
8 proposals, as well as the specific environmental upgrades being proposed by the Company
9 and whether those upgrades and associated costs are reasonable in light of existing and
10 proposed regulations. However, from a ratemaking policy position, I do not believe that the
11 Company’s Petition should be approved, for several reasons.

12 First, by its nature, the predetermination process is a departure from traditional
13 ratemaking. Traditional utility ratemaking is based on determining rates in a base rate case,
14 using a test year that matches all components of the regulatory triad. One of these
15 components is the return on equity that a utility is authorized to earn. The return on equity
16 provides a premium over the risk-free rate, or over a utility’s debt costs, because shareholders
17 incur risk in investing in a regulated utility. This risk includes such factors as declines in
18 revenues, increasing expenses, new regulations that the utility is required to meet, and
19 fluctuations in cost of capital. All of these factors are considered in the ratemaking process.
20 The return on equity that the KCC authorizes is intended to compensate shareholders for
21 these risks, as well as to permit a utility to recover its financing costs.

1 Utility regulation is intended to be a substitute for competition. In a competitive
2 environment, a company assumes the responsibility for management of the Company,
3 including the responsibility for making decisions about the most efficient way to address
4 environmental regulations and to determine when to undertake capital improvements in
5 response to those regulations. Predetermination approval by the KCC attempts to transfer
6 this management responsibility from a utility to regulators.

7
8 **Q. What will happen if the KCC does not grant the Company's request for**
9 **predetermination of ratemaking treatment in this case?**

10 A. In my opinion, if predetermination is not granted, the Company will have an even greater
11 incentive to take actions that management deems necessary in order to meet all applicable
12 regulations in the most efficient manner. The KCC should not permit itself to be
13 blackmailed into taking an unnecessary action by KCPL's suggestion of dire consequences.
14 The Commission's action in this case has no impact on the actual environmental regulations
15 that the Company must meet. Thus, if the Company believes that the proposals contained in
16 its filing are the best way to meet these regulations, it will implement those proposals even if
17 the KCC denies the Company's request for predetermination. In fact, without preapproval,
18 KCP&L will have a tremendous incentive to ensure that it is pursuing the most reasonable
19 and efficient alternative.

20
21 **Q. Does KCP&L suggest that La Cygne may need to be shut down if predetermination is**

1 **not granted?**

2 A. KCP&L states that La Cygne would need to be shut down if the planned environmental
3 upgrades are not completed by June 15, 2015. KCP&L also points out that it needs the
4 power from La Cygne to meet its supply requirements. However, KCP&L is obligated to
5 provide power for its customers, and to do so in a safe and cost-effective manner. I do not
6 know what the likelihood is of La Cygne being shut-down if the proposed environmental
7 upgrades are not completed on time. However, the management of KCP&L is unlikely to
8 allow the shut-down of La Cygne unless it is confident that such an action can be justified on
9 a cost basis. These environmental upgrades either make sense for La Cygne or they don't. If
10 they do, then KCP&L will undertake them regardless of whether predetermination treatment
11 is obtained. If these upgrades do not present the best option, then predetermination treatment
12 will relieve the Company of its management obligations and will result in ratepayers paying
13 for environmental upgrades that may not represent the best alternative. Thus, approving the
14 Company's request for predetermination of ratemaking treatment will reduce KCP&L's
15 incentive to continuously examine new ways to meet relevant environmental regulations
16 while minimizing costs.

17
18 **Q. Please comment on the statement at page 8, lines 15-19, of Mr. Giles' testimony that the**
19 **Company "cannot commit to pursue a project of this size and duration absent advance**
20 **confirmation from the Commission regarding the prudence" of both the decision to**
21 **pursue this project as well as the associated costs.**

1 A. The Company’s statement implies that, without KCC approval of its predetermination
2 proposal, it will not undertake the project. The Company’s statement assumes that it is
3 willing to ignore its obligation to provide service while meeting all applicable environmental
4 regulations, as well as the environmental obligations that it committed to in the Collaboration
5 Agreement. KCP&L is not free to pick and choose which regulations it will meet or which
6 agreements it will abide by. Again, the Company implies that predetermination is necessary
7 before it can meet its basic service and contractual obligations in Kansas. While K.S.A. 66-
8 1239 permits a utility to file a petition for predetermination of ratemaking treatment, this
9 statute does not absolve the Company of its service obligations or of its obligations to meet
10 all applicable regulations. If the Company’s proposal is the most efficient way to meet those
11 obligations and to comply with environmental regulations, then it will undertake the
12 proposed projects regardless of whether the KCC has preapproved ratemaking treatment for
13 the associated costs.

14
15 **Q. What other concerns do you have with regard to the approval of the Company’s**
16 **request for predetermination of ratemaking treatment?**

17 A. I have several other concerns. First, predetermination of ratemaking treatment will not only
18 relieve the Company of its responsibility to minimize costs and maximize efficiency, but it
19 could also put ratepayers at risk for far more than the \$1.23 billion currently-estimated cost
20 of the upgrades. The Commission has only to recall the experience surrounding the costs
21 involved with the Regulatory Plan to be reminded of the potential for cost overruns. The

1 Regulatory Plan was approved based on a Total Company KCP&L cost estimate of
2 \$1,231,425,000.² That cost estimate turned out to be grossly understated. In fact, as stated in
3 my testimony in the 415 Docket, the actual costs for the components of the Regulatory Plan
4 that were completed were approximately 50% over-budget. Not only did ratepayers pay
5 significantly more than what was originally projected, but in addition they received
6 considerably less. The original Regulatory Plan included \$63.54 million relating to the
7 baghouse and scrubber on Unit 1. That project was never completed, and instead is included
8 in the Company’s claim in this case. In addition, in KCC Docket No. 10-KCPE-415-RTS
9 (“415 Docket”), the Company distanced itself from the estimates that were initially provided
10 in support of the Regulatory Plan, contending that such estimates did not constitute
11 “Definitive Cost Estimates” and stating that the estimates should not have been relied upon
12 by the parties to the Regulatory Plan.

13 In this case, KCP&L is once again presenting cost estimates for a multi-year project.
14 Moreover, it is requesting a finding that the estimate of \$1.23 billion “is a reasonable and
15 prudent cost to construct and install the La Cygne Environmental Project.” However, the
16 Company is not providing any assurances to ratepayers that the proposed project will be
17 completed within this budget. In fact, KCP&L is specifically requesting that the KCC
18 “[c]onfirm that amounts in excess of the project cost estimate of \$1.23 million, if any, other
19 than the associated AFUDC and property tax, would be recoverable subject to further
20 prudence review during a future rate proceeding....” Given the history of KCP&L with

² See KCPL’s Summarized Comparison of Regulatory Plan Estimates to Current Forecasted Total Project Costs, submitted May 4, 2010 in KCC Docket No. 10-KCPE-415-RTS.

1 regard to presenting cost estimates for the components of the Regulatory Plan, the KCC
2 should be cautious about approving any amounts that the Company itself is not willing to
3 abide by.
4

5 **Q. Does KCP&L consider the \$1.23 billion amount to be a definitive cost estimate?**

6 A. In spite of KCP&L’s emphasis on what constituted a “definitive cost estimate” in the 415
7 Docket, the Company stated in this case that the term “definitive cost estimate” is no longer
8 used in the construction industry.³ In that same response, the Company did state that it
9 considered the \$1.23 billion to be the “original cost estimate” as that term is used in K.S.A.
10 66-128g. Since K.S.A. 66-128g(b)(1) defines “original cost estimate” as the “definitive
11 estimate”, the KCC should consider the \$1.23 billion as the definitive cost estimate as that
12 term was used by KCP&L in the 415 Docket.

13 Moreover, in response to CURB-149, the Company stated that based upon KCP&L’s
14 interpretation of the project cost information available at the time of the predetermination
15 filing and its interpretation of the Association for the Advancement of Cost Engineers
16 (“AACE”) classification system, the \$1.23 billion would constitute a class 1 estimate, which
17 has an expected accuracy rate of -10% to +15%. Even if the proposed projects meet this
18 expected accuracy classification, costs could still be 15%, or \$184.5 million, higher than the
19 costs reflected in this Petition.

20 **Q. If the KCC were to approve the predetermination Petition, would it be reasonable to**

³ Response to CURB-144.

1 **permit the Company to recover amounts in excess of \$1.23 billion, subject to a**
2 **prudence review?**

3 A. No, it would not. In this case, the Company is seeking to deviate from traditional ratemaking
4 practice and to shift risk associated with the environmental upgrades from shareholders to
5 ratepayers. The Company has not provided any assurance that the cost to ratepayers will be
6 limited to the \$1.23 billion cost estimate contained in the Petition. Therefore, ratepayers are
7 not receiving any benefit from the Company's Petition and in fact, may be harmed, if
8 predetermination provides a disincentive to the Company to pursue the most cost effective
9 option. The Commission should be mindful of the lessons learned from the 1025 Docket.
10 Once the KCC preapproves a project, it becomes difficult for the KCC or other parties to
11 subsequently disallow cost overruns. Once the KCC approves the proposed environmental
12 programs, my expectation is that it will be very difficult for the KCC to disallow
13 expenditures in excess of \$1.23 billion, and ratepayers could very well end up bearing
14 significant additional costs. For example, assume that after the \$1.23 billion is approved, the
15 Company finds that its proposed program will cost significantly more, or that changes to
16 environmental regulations make the proposed program insufficient. Under traditional
17 ratemaking, shareholders are at risk for total program costs, or for poor decisions with regard
18 to investment programs. However, with predetermination, the KCC is committing \$1.23
19 billion of ratepayers' funds. How easy will it be for the KCC to deny recovery of cost
20 overruns? My feeling is that it will be very difficult, as evidenced in the 415 Docket.
21 Moreover, once the KCC commits ratepayers to a particular environmental program,

1 ratepayers will be forced to bear these costs even if future circumstances cause the program
2 to be inefficient or insufficient. Yet these risks would be borne by shareholders, and not
3 ratepayers, under a traditional regulatory methodology.

4 Moreover, it should be noted that it was the Company's management, and not the
5 KCC or Kansas ratepayers, that agreed to the Collaboration Agreement with the Sierra Club
6 and the Concerned Citizens of Platte County that resulted in emission limits that are even
7 below the presumptive limits under BART. Shareholders benefitted from this legal
8 settlement, but ratepayers will pay the cost. This creates a disconnect, with ratepayers getting
9 the bill for actions taken on behalf of Company shareholders. If ratepayers are forced to
10 provide the Company with a blank check for settlements negotiated on behalf of
11 shareholders, utilities will have no incentive to consider ratepayer impact when executing
12 these types of agreements.

13
14 **Q. Please summarize your recommendations regarding approval of the predetermination**
15 **Petition.**

16 A. I recommend that the KCC deny the ratemaking principles and treatment requested in the
17 Petition. Instead, I recommend that the KCC issue an Order stating that traditional
18 ratemaking principles will apply. Approving the ratemaking principles and ratemaking
19 treatment proposed by KCP&L will eliminate the Company's incentive to undertake the most
20 cost efficient program to meet environmental regulations. It will also make it very difficult
21 for the KCC to disallow future cost overruns and will lock ratepayers into an environmental

1 program that may not be optimal. Finally, it will transfer risk of both cost overruns and of
2 environmental compliance from the management of the Company and its shareholders to
3 ratepayers.

4
5 **Q. Are there any benefits for ratepayers associated with the KCC approving the**
6 **Company's request for predetermination of the ratemaking principles and ratemaking**
7 **methodology?**

8 A. No, all of the benefits resulting from the Company's proposal accrue to shareholders and
9 Company management.

10
11 **Q. What benefits do shareholders receive as a result of the KCC's predetermination?**

12 A. Shareholders receive the benefit of transferring risk to ratepayers since the Company no
13 longer has any risk that the project will be deemed imprudent by the KCC upon completion.
14 In addition, shareholders receive a guarantee of the opportunity to recover up to \$1.23 billion,
15 regardless of whether the proposed environmental program turns out to be the most efficient
16 means of meeting the Company's environmental commitments. They also receive
17 presumptive recovery of costs in excess of \$1.23 billion.

18
19 **Q. Does KCP&L agree that predetermination impacts risk?**

20 A. Yes, as stated by Mr. Cline on page 6 of his testimony, "The La Cygne project is a significant
21 investment for the Company. Investors, rating agencies, and other financial parties familiar

1 with the utility industry understand very well the regulatory risk profile of a significant
2 project like La Cygne. In addition to financial and operational risk, regulatory risk is
3 significant under traditional ratemaking, where the assessment of decisional prudence and the
4 prudence of costs incurred occurs only after significant funds have already been invested.”

5 Mr. Cline goes on to state at page 10 that “...the Company’s regulatory risk on the La
6 Cygne project would be less with predetermination compared to the same project without the
7 benefit of that mechanism.” However, Mr. Cline then states that investors’ risk will be
8 increased if the KCC does not approve the Company’s predetermination proposal, rather than
9 decreased if KCP&L’s proposal is adopted. On the latter point, I disagree.

10 When the Company’s current cost of equity was established, the Company did not
11 have predetermination approval for any environmental projects. Moreover, when it filed its
12 last base rate case, the Company was certainly aware of the commitments it had made in the
13 2007 Collaboration Agreement. Since both the Company and CURB admit that the proposed
14 predetermination approval will reduce risk, it is reasonable to assume that approval will
15 reduce the Company’s cost of capital from the award granted in the 415 Docket.

16
17 **Q. Does Westar agree that predetermination will reduce risk?**

18 A. No, Mr. Haines suggests that predetermination does not reduce risk. Moreover, he believes
19 that a utility should file for predetermination of ratemaking treatment in all cases that comply
20 with the requirements of K.S.A. 66-1239. His rationale is that the predetermination statute
21 allows the prudence of a decision to be made “on the basis of facts known at the time the

1 decision was made.”⁴ Mr. Haines goes on to state on page 18 of his testimony that
2 predetermination does not shift risk to shareholders because “[p]redetermination deals with
3 the decision, not the execution.” He is incorrect. If the KCC approves KCP&L’s Petition,
4 \$1.23 billion will be deemed to be prudent. Moreover, amounts exceeding \$1.23 billion will
5 have a presumption of prudence. This means that the Company can spend up to \$1.23 billion
6 without having to demonstrate, after the fact, the reasonableness of its expenditures. If
7 predetermination is approved, KCP&L will have no incentive to minimize costs of the
8 project, even if changing circumstances would allow the Company to actually complete the
9 project for less than \$1.23 billion. Thus, predetermination shifts not only the risk of the
10 decision, but also much of the risk of execution, to ratepayers. Mr. Haines suggests that the
11 only real risk is the risk of “poor quality regulation”. With all due respect to Mr. Haines,
12 there is always a risk of poor utility management. Given the history of Westar and the
13 circumstances of Mr. Haines’ return to Westar in 2002, Mr. Haines should be acutely aware
14 of that risk.

15
16 **Q. Do you agree with Mr. Cline that the investment community will look favorably upon**
17 **approval of the predetermination Petition?**

18 A. I absolutely agree with Mr. Cline. Generally speaking, the investment community and the
19 credit rating agencies prefer certainty to uncertainty. It is for exactly that reason that
20 investors are willing to receive a lower return as risk decreases.

⁴Response to CURB-152.

1

2 **Q. Has the Company adjusted its cost of equity to reflect the reduced risk that would**
3 **result if the predetermination Petition is approved?**

4 A. No, it has not. KCP&L has not proposed any adjustment to its cost of equity relating to a
5 reduction in risk if the proposed predetermination Petition is adopted. As noted, the
6 Company's Petition does not reduce overall risk, it simply transfers that risk from
7 shareholders to ratepayers. Thus, approval of the predetermination Petition would result in
8 ratepayers accepting higher risk without a commensurate reduction to the equity premium
9 being paid to shareholders. This is further support for my recommendation that the
10 Company's proposal be denied.

11

12 **C. Recommended Conditions**

13 **Q. If, in spite of CURB's recommendation, the KCC approves the Company's**
14 **predetermination Petition, what safeguards should the KCC include in any such**
15 **approval?**

16 A. If in spite of CURB's primary recommendation, the KCC approves the Company's
17 predetermination Petition, then it should:

18 ➤ Put the Company at risk for all expenditures exceeding \$1.23 billion, i.e., the
19 order should state that costs that exceed the \$1.23 billion should be presumed
20 imprudent, with KCPL bearing the burden of overcoming that presumption
21 for any cost overruns.

- 1 ➤ Defer a decision on the appropriate depreciable life of the environmental
- 2 upgrades;
- 3 ➤ Adopt a reduced return on equity for investment that has been preapproved;
- 4 and
- 5 ➤ Deny the Company's request to recover costs pursuant to an ECRR and
- 6 instead require any such costs to be recovered through base rates.

7

8 **Q. Please explain your first recommendation, i.e., that the Company should be at risk for**
9 **expenditures exceeding \$1.23 billion?**

10 **A.** In spite of statements by Mr. Cline and Mr. Haines to the contrary, the fact is that
11 predetermination of ratemaking treatment is not the norm in Kansas and is a deviation from
12 standard utility ratemaking principles and practice. Thus, in return for binding ratepayers to
13 \$1.23 billion in environmental upgrade costs, the Company and its shareholders should be
14 bound to this same estimate. Therefore, if predetermination is granted, then any expenditures
15 over \$1.23 billion should be borne exclusively by shareholders. This will provide an
16 incentive to KCP&L to take all possible steps to complete the project within the prescribed
17 budget. In addition, this provision has the potential to mitigate harm to ratepayers by
18 limiting their financial exposure to the original estimate. If ratepayers are being required to
19 bear the risk of the environmental project during construction, then shareholders should bear
20 the risk for any cost overruns. Thus, if the predetermination Petition is approved, then the

1 KCC should limit recovery to the \$1.23 billion that the Company has projected, or to a lower
2 estimate if the KCC determines in this proceeding that the proposed project cost is excessive.

3 The point is that if any program is preapproved, the KCC should limit the ratepayers'
4 exposure to recovery of the project's associated estimated cost on which the KCC's decision
5 was based. As a result, if the Commission approves the Petition, its order should state that
6 any costs that exceed the \$1.23 billion should be presumed imprudent, with KCPL bearing
7 the burden of overcoming that presumption for any cost overruns.

8
9 **Q. Should the KCC approve an initial depreciation rate of 22 years for the proposed**
10 **project?**

11 A. As discussed in the testimony of Mr. Majoros, there is no need for the KCC to specify a
12 depreciation rate at this time. Moreover, if the KCC decides that it is appropriate to specify
13 some initial depreciation rate, it should make clear in its Order that this initial rate can be
14 changed by the KCC in future years, depending upon future depreciation studies, investment
15 lives, or other factors impacting depreciation rates. The KCC should ensure that future
16 commissions have maximum flexibility with regard to recovery of these environmental costs.

17
18 **Q. If the predetermination Petition is approved, should the KCC find that a reduction to**
19 **the Company's return on equity is appropriate?**

20 A. Yes, it should. As discussed at length above, approval of the predetermination Petition will
21 significantly reduce the Company's risk with regard to recovery of costs for the

1 environmental projects that are the subject of this Petition. Therefore, it is entirely
2 appropriate to apply a lower return on equity to projects that receive preapproval.
3

4 **Q. Have you quantified the reduction to return on equity that you believe is reasonable?**

5 A. Yes, I have. While the determination of an appropriate reduction involves some subjectivity,
6 the reduction should be large enough to compensate ratepayers for increased risk. Therefore,
7 I am recommending that the KCC adopt a 100 basis point adjustment to the return on equity
8 for projects preapproved pursuant to this Petition. Given the capital structure reflected in
9 Mr. Giles's revenue requirement calculation, which assumes that the Company's capital
10 structure contains 55% common equity, my recommendation results in a reduction of 0.55%
11 to the overall cost of capital, or approximately 90 basis points on the overall pre-tax return.⁵
12

13 **Q. How much of a reduction to the Company's revenue requirement would result from**
14 **your recommendation?**

15 A. The annual impact would depend upon the rate base associated with the environmental
16 upgrades. Assuming the annual rate base amounts reflected in Mr. Giles's testimony, the
17 most significant annual impact would be in 2016, when the Company's annual return would
18 be reduced by approximately \$1.5 million. This is a reduction of about 11.34% in the total
19 after-tax return included in the Company's proposed revenue requirement, and a savings of
20 about 7.43% for ratepayers in the total pre-tax return component of the revenue requirement.

⁵ 1% X 55% X 1.65 (approximate tax factor)

1 The impact of this adjustment would be reduced in subsequent rate cases as the rate base
2 associated with the environmental upgrades declines. Assuming the capital cost rates
3 contained in the Petition of 10% for common equity and 7% for long-term debt, my
4 recommendation results in a reduction of about 33% of the equity vs. debt premium. I
5 believe this proposal provides a reasonable balance between the need to compensate
6 ratepayers for their increased risk and the need to ensure that the Company has the
7 opportunity to earn a reasonable premium over long-term debt costs on that portion of its rate
8 base financed by shareholders.

9
10 **Q. If the KCC approves the environmental upgrades that are the subject of this Petition,**
11 **should the Company recover the associated costs through an ECRR?**

12 A. No, it should not. This issue was litigated in the recent KCP&L rate case, the 415 Docket.
13 In that case, KCP&L argued that its environmental costs should be recovered through an
14 ECRR. However, CURB and Staff opposed the implementation of an ECRR for KCP&L
15 and the Commission rejected the Company's request to implement an ECRRR.

16
17 **Q. Please describe the ECRR that the Company is requesting in this case.**

18 A. As described in the testimony of Mr. Giles, the Company is requesting an ECRR to recover
19 the capital and operating costs associated with environmental improvement projects
20 undertaken by the Company between base rate cases. KCP&L is proposing to recover the
21 return on incremental investment, depreciation expense, related operating and maintenance

1 costs, and income taxes through an annual ECRR.⁶ When new rates are established, these
2 costs would be rolled into base rates.

3
4 **Q. Do you support the establishment of an ECRR for KCP&L?**

5 A. No, I do not. The Company recently completed a five-year Regulatory Plan during which
6 rates to Kansas customers were increased by \$138 million through annual rate cases.
7 Ratepayers should not be subject to another round of annual rate increases through the
8 adoption of a reimbursement mechanism for environmental costs.

9 While the Company may be required to undertake additional environmental
10 investments over the next few years, this investment should be handled like any other
11 investment that is required to provide safe and adequate electric utility service. Between
12 base rate cases, the risk of recovery should be on shareholders, who are given a premium
13 return on equity for taking on such risk. The Company does not begin to recover other types
14 of investment until it files for new base rates and investment in environmental projects
15 should be given the same regulatory treatment. Requiring the Company to recover these
16 costs in a base rate case also provides a better forum for CURB, KCC Staff, and other
17 interveners to review these costs and to determine whether the costs are just and reasonable.
18 While the Company will argue that parties have the ability to review these costs in an ECRR
19 proceeding, the reality is that such proceedings are conducted in a relatively short period of
20 time and many interveners to not have the resources to undertake a comprehensive review

⁶ Unlike KCP&L, it is my understanding that Westar is not requesting recovery of depreciation expenses for these projects during the first five years of recovery through the ECRR.

1 outside of a base rate case. While the Company states that the issue of reasonableness would
2 not arise with regard to these environmental upgrades, since the KCC will have already ruled
3 on the prudence of the overall project, the fact remains that some review would be necessary
4 and that this review would need to be conducted on an expedited basis if the ECRR is
5 approved.

6
7 **Q. Would the Company’s proposal to implement an ECRR shift additional risk onto**
8 **ratepayers?**

9 A. Yes, it would. The Company’s proposed mechanism would shift even more risk from
10 shareholders, where it properly belongs, onto ratepayers without any commensurate reduction
11 in the Company’s return on equity. In addition, the Company’s proposal would result in
12 single-issue ratemaking and would allow KCP&L to increase rates even if the Company was
13 earning its authorized rate of return.

14 Permitting these costs to be recovered between base rate cases will also reduce the
15 Company’s incentive to control and manage these costs. If the Company is required to file a
16 base rate case to recover these costs, it is likely to work harder to keep costs down between
17 base rate cases by investing in the most efficient projects and by managing construction of
18 such projects effectively.

19 An ECRR also results in rate uncertainty for ratepayers. Adopting an ECRR for
20 KCP&L would continue the trend of annual rate increases for Kansas ratepayers. These
21 constant rate changes make it difficult for customers to anticipate their electric charges or to

1 assess the accuracy of their bills. Rate stability can be especially important to residential and
2 small commercial customers. Adoption of an ECRR also puts the KCC in the position of
3 approving rate increases without any idea of the potential magnitude of those increases. The
4 KCC has not examined important issues such as gradualism, rate stability, and the avoidance
5 of rate shock, issues that should be thoroughly explored prior to implementing the ECRR
6 mechanism proposed by KCP&L.

7
8 **Q. Doesn't Westar have a similar ECRR surcharge mechanism?**

9 A. Yes, it does. It should be noted that CURB opposed the adoption of an ECRR for Westar as
10 well, for some of the same reasons outlined above. However, one difference with KCP&L is
11 that this utility has had rate increases each year since the Regulatory Plan was adopted.
12 Ratepayers have the right to expect some rate relief from these annual increases now that the
13 Regulatory Plan has ended.

14
15 **Q. Given your concerns with the ECRR, what do you recommend?**

16 A. I recommend that the KCC reject the Company's proposal. The ECRR results in single-issue
17 ratemaking, provide a disincentive for utility management to control costs, and shifts risk
18 from shareholders to ratepayers. Given the increases that KCP&L ratepayers have
19 experienced under the Regulatory Plan, now is not the time to implement a new mechanism
20 that will result in further annual rate increases. Instead, investment in environmental projects
21 should be treated no differently from other investment that is necessary to provide safe and

1 adequate utility service, and should be recovered only through a base rate case where all
2 parties can undertake a thorough review of the costs. Accordingly, the Company's request
3 for an ECRR should be denied. For many of the same reasons cited in this testimony, I also
4 recommend that these La Cygne costs be excluded from Westar's ECRR, and urge the
5 Commission to revisit its decision to allow the ECRR for Westar.

6

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, 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 1ST day of JUNE, 2011.

Notary Public Majorie M. Berlin

My Commission Expires: DECEMBER 31, 2013

APPENDIX A

List of Prior Testimonies

(Includes Testimonies filed from January 2008-Present)

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al.	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

APPENDIX B

Referenced Data Requests

CURB-5 (Confidential, not provided)

CURB-149

CURB-152

Company Name: KCP&L
Case Description: Kansas LaCygne Predetermination Filing
Case: 11-KCPE-581-PRE

Response to Springe David Interrogatories – Set CURB_20110419
Date of Response: 05/03/2011

Question No. :149

Regarding the cost estimate or estimates for the environmental retrofits of the La Cygne units, please identify: a. the stage or class the cost estimate constitutes under the Association for the Advancement of Cost Engineers, or AACE International, cost classification system referenced in the direct and rebuttal testimony of Daniel F. Meyer; b. the expected accuracy level of the cost estimate or estimates; c. the percentage the Company believes the cost estimate may be exceeded by the actual final costs of the environmental retrofits of the La Cygne units; and d. the AACE “leeway factor,” as that term is used by KCPL witness Daniel F. Meyer in his rebuttal testimony (page 31, line 10), is applicable to the cost estimate or estimates.

RESPONSE:

a) The stage or class the cost estimate constitutes under the Association for the Advancement of Cost Engineers, or AACE International, cost classification system referenced in the direct and rebuttal testimony of Daniel Meyer;

KCP&L presumes CURB is referencing Mr. Meyer’s direct and rebuttal testimony in Docket No. 10-KCPE-415-RTS which did not address any costs associated with the La Cygne environmental retrofit project. Mr. Meyer did not submit testimony in this Docket No. 11-KCPE-581-PRE and has not offered an opinion regarding the applicable AACE International cost classification of the La Cygne project cost estimate.

Based on KCP&L’s interpretation of the project cost information available at the time of the predetermination filing and its interpretation of AACE recommended Practice No. 18R-97, the pre-determination estimate (also referred to as the “original cost estimate” or “definitive estimate” according to Kansas statute K.S.A. 66-128g), in KCP&L’s opinion, would most likely be a class 1 estimate.

b) The expected accuracy level of the cost estimate or estimates;

According to the AACE recommended Practice No. 18R-97, a class 1 estimate has an expected accuracy range of -10% to +15%.

c) The percentage the Company believes the cost estimate may be exceeded by the actual final costs of the environmental retrofits of the LaCygne units;

KCP&L has diligently pursued development of the specifications for this project and has incorporated its best judgment, given the bid proposals received, owner engineer's knowledge, experience with prior projects and other information available, into the \$1.23 billion cost estimate for this project. At this time, KCP&L does not have reason to believe that this cost estimate will be exceeded by the actual final costs of the environmental retrofits of the La Cygne units (excluding Allowance for Funds Used During Construction and property taxes).

Potential risks to meeting the project cost estimate were addressed in KCP&L's response to CURB Data Request No. 88. See the response to Item b above for the expected accuracy range of a class 1 estimate under the AACE recommended Practice No. 18R-97.

d) The AACE "leeway factor" as that term is used by KCPL witness Daniel F. Meyer in his rebuttal testimony (page 31, line 10), is applicable to the cost estimate or estimates.

As noted in response to Item a above, Mr. Meyer did not submit testimony in this proceeding and has not offered an opinion regarding the applicable AACE International cost classification of the La Cygne project cost estimate or any applicable "leeway factor."

Attachment: Q149_Verification.pdf

Verification of Response

Kansas City Power & Light Company

Docket No. 11-KCPE-581-PRE

The response to CURB Data Request# 149, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: 

Title: Senior Director

Date: 5-02-2011

CURB
KCPL Predetermination
11-KCPE-581-PRE
05/06/2011

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Data Request: CURB-152: Benefit of predetermination

What does Mr. Haines believe is the benefit to a utility of receiving predetermination of ratemaking treatment from the KCC?

Response:

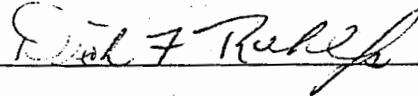
The benefit is that provided by the traditional approach to ratemaking which is that the prudence of a decision to purchase power or add to a transmission or generation facility (all as defined by the statute) will be evaluated on the basis of facts known at the time the decision was made.

Prepared by or Under Supervision of: Haines, Jim

Verification of Response

I have read the foregoing Data Request and Answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Data Request.

Signed by: _____



Dated: _____

5-4-2011

CERTIFICATE OF SERVICE

11-KCPE-581-PRE

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 3rd day of June, 2011, to the following:

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