

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Received
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by
State Corporation Commission
of Kansas

IN THE MATTER OF THE APPLICATION OF]
MID-KANSAS ELECTRIC COMPANY, LLC] KCC Docket No. 12-MKEE-380-RTS
FOR APPROVAL TO MAKE CERTAIN]
CHANGES IN ITS CHARGES FOR]
ELECTRIC SERVICES IN THE GEOGRAPHIC]
SERVICE TERRITORY SERVED BY]
SOUTHERN PIONEER ELECTRIC COMPANY]

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

April 27, 2012

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

2 A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211,
3 Ridgefield, Connecticut 06877. (Mailing Address: PO Box 810, Georgetown, Connecticut
4 06829.)

5
6 **Q. Did you previously file testimony in this proceeding?**

7 A. Yes, on April 20, 2012, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer
8 Board ("CURB"). My Direct Testimony addressed CURB's recommended rate increase for
9 the Southern Pioneer Division of Mid-Kansas Electric Company ("MKEC" or "Company").
10 In that Direct Testimony, I recommended that the Kansas Corporation Commission ("KCC"
11 or "Commission") approve a rate increase for the Company of \$1,787,075, and that
12 \$1,598,135 of this increase be allocated to retail ratepayers.

13
14 **Q. What is the purpose of your Cross-Answering Testimony?**

15 A. The purpose of my Cross-Answering Testimony is to address an issue raised in the Direct
16 Testimony of KCC Staff Witness Adam H. Gatewood. In his Direct Testimony filed on
17 April 20, 2012, Mr. Gatewood states that it is necessary to include all of the Company's debt
18 and interest expense in determining its revenue requirement. Mr. Gatewood states on page 2,
19 at lines 5-11 of his testimony that,

20

1 This is because there are no investors to absorb the interest expenses
2 that are disallowed, as would be the case when expenses are excluded
3 from an investor-owned utility's revenue requirement. In the case of
4 an investor-owned utility disallowing an expense results in a lower
5 profit margin for its equity investors (stockholders); however, with a
6 cooperative structure (or in this instance a corporation owned by a
7 cooperative), the ratepayers are providing the equity capital, thus that
8 shift cannot occur.
9

10 I disagree with Mr. Gatewood and recommend that debt service on \$9,686,404 of Southern
11 Pioneer's long-term debt be disallowed for ratemaking purposes. The reasons for my
12 recommended disallowance are fully discussed in my Direct Testimony. Thus, I will limit
13 my Cross-Answering Testimony to the conceptual disagreement with Mr. Gatewood
14 regarding the need to include all debt service costs in utility rates regardless of whether those
15 costs are justified or reasonable.
16

17 **Q. What is the basis for your disagreement with Mr. Gatewood?**

18 **A.** There are several reasons for my disagreement with Mr. Gatewood. My primary concern is
19 that Mr. Gatewood's position would prevent regulators from ever disallowing debt service
20 costs for a cooperative utility, no matter how unreasonable those costs were. Instead, the
21 KCC would be forced to pass along all debt service costs, even if the underlying debt
22 amounts or applicable interest rates were excessive. Mr. Gatewood's position would prevent
23 Staff, CURB, or any other party from opposing any debt service costs in future cases.

24 Moreover, Mr. Gatewood's position could be extended to all of the expenses incurred
25 by cooperative utilities as well, since theoretically, there are no shareholders to absorb other

1 types of disallowances. Since Staff apparently believes that it is reasonable to disallow other
2 types of costs, then it should be reasonable to disallow debt service costs as well.

3 Regulatory utilities, including regulated cooperatives, must be held accountable for
4 the decisions made by their managements, especially those decisions that have a direct
5 financial impact on ratepayers. Mr. Gatewood's recommendation would mean that
6 cooperative utilities would no longer be held accountable for their financing decisions, a
7 result that would significantly weaken the regulatory oversight process with negative
8 consequences for ratepayers.

9
10 **Q. How can cooperative utilities fund costs that have been disallowed by regulators?**

11 A. It is not the job of regulators to determine how a cooperative utility should finance costs that
12 are not appropriate to pass along to regulated ratepayers. However, I note that all parties in
13 this proceeding have recommended debt service coverage ratios that are higher than the
14 minimum ratios required by Southern Pioneer's lender. Thus, pursuant to the
15 recommendations being made in this case, the Company will have funds over and above
16 those required to meet its debt service coverage requirements. These additional funds can be
17 used by the Company in whatever way it chooses, including to finance costs that have been
18 disallowed by regulators.

19
20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD)

ss: Ridgefield

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 April, 2012.

Notary Public Sandra P. Mosiello

My Commission Expires: _____

SANDRA P. MOSIELLO
NOTARY PUBLIC
MY COMMISSION EXPIRES MAY 31, 2017

CERTIFICATE OF SERVICE

12-MKEE-380-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 27th day of April, 2012, to the following parties:

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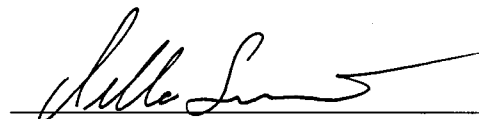
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