

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY CORPORATION]
FOR ADJUSTMENT OF ITS NATURAL] KCC Docket No. 16-ATMG-079-RTS
GAS RATES IN THE STATE OF KANSAS]

TESTIMONY OF ANDREA C. CRANE

IN SUPPORT OF STIPULATION

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

January 21, 2016

1 **A. Introduction**

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

3 A. My name is Andrea C. Crane and my business address is PO Box 810, Georgetown,
4 Connecticut 06829. (Mailing address: 16 Old Mill Road, Redding, CT 06877).

5

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

7 A. Yes, on December 21, 2015, I filed Direct Testimony on behalf of the Citizens' Utility
8 Ratepayer Board ("CURB") with the Kansas Corporation Commission ("KCC" or
9 "Commission"). My Direct Testimony presented CURB's recommended revenue
10 requirement for Atmos Energy Corporation ("Atmos" or "Company") based on my analysis
11 of Atmos' Application and supporting documentation.

12

13 **Q. Please summarize the Company's request in this case.**

14 A. Atmos requested a base rate increase of \$5.667 million. In addition to the proposed base rate
15 increase of \$5.667 million, the Company also requested authorization for a rate case expense
16 rider, which would increase rates by another \$950,000 for a period of one year. Therefore,
17 the Company requested a total increase of \$6.617 million. which would have resulted in an
18 overall increase of approximately 11.4%. The base rate increase included certain costs that
19 are currently being recovered through the annual Gas System Reliability Surcharge ("GSRS")
20 and Ad Valorem Tax Surcharge, which are currently recovering \$388,000 and \$78,000
21 respectively, in annual surcharges.

22 In addition to the proposed rate increase, Atmos also requested that the KCC

1 authorize a new regulatory mechanism, the Annual Review Mechanism ("ARM"), to set new
2 rates annually based on a formula rate mechanism. Atmos also requested the establishment
3 of a System Integrity Program ("SIP") Tariff to reflect quarterly revenue requirement
4 increases related to certain infrastructure replacement projects.

5
6 **Q. Please summarize the recommendations contained in your Direct Testimony.**

7 A. In my Direct Testimony, I recommended that that the KCC authorize a base rate decrease of
8 \$716,730 for Atmos. This was in contrast to the Company's claimed deficiency of
9 \$5,666,621. My recommendation was based on a capital structure for Atmos that consisted
10 of 53% common equity and 47% long-term debt. In addition, I recommended that the KCC
11 authorize a 9.1% cost of equity. My recommended capital structure and equity return were
12 identical to those authorized by the KCC in the Company's last base rate case, KCC Docket
13 No. 14-ATMG-320-RTS ("320 Docket"). My revenue requirement recommendation included
14 the recovery of rate case expense in base rates, and I recommended that the KCC deny the
15 Company's request for a one-year rate case expense rider.

16 In addition, I recommended that the KCC deny the Company's request to implement
17 the ARM and instead rely upon traditional rate base/ rate of return regulation, which provides
18 proper incentives to the Company. Finally, I recommended that the Commission consider
19 issues relating to recovery of infrastructure replacement costs between base rates cases in the
20 KCC's generic docket, Docket No. 15-GIMG-343-GIG, In the Matter of the General
21 Investigation Regarding the Acceleration of Replacement of Natural Gas Pipelines

1 Constructed of Obsolete Materials Considered to be a Safety Risk ("343 Docket").

2
3 **B. Overview of the Settlement Agreement**

4 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement**
5 **discussions?**

6 A. Yes, the parties to this case have engaged in subsequent settlement discussions. As a result,
7 the parties have entered into a Unanimous Settlement Agreement ("Settlement") that resolves
8 all the disputed issues in this case.

9
10 **Q. Can you please summarize the revenue requirement terms of the Settlement?**

11 A. The Settlement provides for a base rate increase of \$2,218,903. This revenue increase
12 includes the recovery of rate case expenses. This increase also includes recovery of costs that
13 are currently being collected through the GSRS and Ad Valorem Tax Surcharge that will
14 now be recovered through base rates. The Settlement does not specifically state a return on
15 equity. However, it does authorize Atmos to utilize a pre-tax cost of capital of 11.04% in an
16 abbreviated rate case and in certain surcharge filings. The Settlement also identifies the
17 amortization periods to be used for amortizations relating to rate case costs and the pension
18 and other post-employment benefit ("OPEB") trackers. It also identifies the amounts
19 included in base rates for costs subject to tracking mechanisms or surcharges. The
20 Settlement specifies the depreciation rates that will be used prospectively. The Settlement
21 also permits Atmos to file an abbreviated rate case to reflect plant additions through March

1 31, 2017, but otherwise provides for a three-year base rate moratorium.

2
3 **Q. Please describe the Settlement provisions relating to the abbreviated rate filing.**

4 A. The Settlement provides for an abbreviated case to update the revenue requirement to reflect
5 non-growth related capital costs through March 31, 2017. The parties anticipate that rates
6 from the abbreviated case would be effective by September 1, 2017. The abbreviated case
7 will be based on a pretax cost of capital of 11.04% and the increase resulting from the
8 abbreviated case will be allocated among customer classes based on the same percentages
9 used in the Settlement.

10
11 **Q. What provisions are included in the Settlement relating to proposed new surcharges?**

12 A. The Settlement's revenue requirement includes costs related to recovery of rate case expense
13 in base rates. Therefore, the rate case expense rider proposed by Atmos is not included in the
14 Settlement. In addition, the Settlement does not include the ARM requested by Atmos,
15 although it does allow the Company to utilize the abbreviated rate case process. Finally, the
16 Settlement does permit Atmos to implement a System Integrity Program ("SIP") Tariff, but
17 with additional limitations and provisions agreed to by the parties.

18
19 **Q. Please describe the SIP included in the Settlement.**

20 A. The Settlement permits Atmos to implement a SIP pilot program beginning January 1, 2017,
21 to recover capital expenditures associated with accelerated replacement of obsolete pipe.

1 The SIP would be a pilot program for a period of five years. The SIP Tariff provides for
2 semi-annual rate adjustments to reflect the revenue requirement associated with projects that
3 have been completed and placed into service. The SIP Tariff is limited to the revenue
4 requirement associated with capital spending of up to \$75 million over this five-year period.

5 Pursuant to the Settlement, Atmos will submit a five-year SIP program setting forth
6 its objectives and planned capital expenditures by July 1, 2016. This filing will also include
7 a detailed plan for year one. The Settlement anticipates that the KCC will issue an Order by
8 November 1, 2016 that will rule on the Company's proposals for the first year of the SIP, as
9 well as the Company's proposals for the overall five-year plan. No later than July 15, 2017,
10 Atmos will make a filing to request approval of the first SIP surcharge, which will include
11 both a return on and a return of capital costs for projects completed and placed into service
12 prior to the filing. Staff will then have 45 days to submit a report to the KCC and it is
13 anticipated that the timing of the KCC's final Order would permit the SIP surcharge to
14 become effective on October 1, 2017, provided there are no contested issues.

15 In addition, by June 1, 2017, Atmos will file a detailed year two plan for Commission
16 approval. It is anticipated that the KCC will issue an order on the year two plan by October
17 1, 2017. By January 15, 2018, Atmos will file its next surcharge application. Staff will again
18 have 45 days for review and it is anticipated that an Order would be issued with an effective
19 date of April 1, 2018. Thereafter, the Company will file detailed annual plans on June 1,
20 with approval anticipated by October 1, of each year. Semi-annual surcharge filings would
21 be made on July 15 and January 15, with rates effective approximately 75 days later on

1 October 1 and April 1 each year. The final SIP surcharge filing would be made on January
2 15, 2022.

3
4 **Q. Does the Settlement address the 343 Docket, which is currently examining the issue of**
5 **infrastructure replacement for all Kansas gas utilities?**

6 A. Yes, it does. The Settlement provides that the SIP surcharge “shall be subject to any changes
7 or additions that may be required so the SIP complies with any Commission decision issued
8 in the 343 Docket.”¹ Thus, the Settlement recognizes and acknowledges that the outcome of
9 the 343 Docket could impact the SIP Tariff agreed upon in this case for Atmos, but also does
10 not allow any such impact to affect the other terms of the Settlement.

11
12 **Q. How does the Settlement resolve the class cost of service and rate design issues in this**
13 **case?**

14 A. The Settlement identifies the new rates that will be implemented for each rate class. The
15 overall base rate increase (excluding special contract revenues) is 3.98%. Residential and
16 small commercial customers would receive increases of approximately 3.98% and 4.25%
17 respectively. The residential customer charge would increase from \$18.19 per month to
18 \$18.91 per month, or 3.98%, while the commercial customer charge increase from \$40.88 to
19 \$42.62 per month, or 4.25%. Thus, the Settlement provides for an across-the-board rate
20 design increase within the Residential and Commercial classes. CURB finds this outcome

¹ Settlement Agreement, paragraph 33.

1 acceptable as it represents a reasonable compromise between the rate design litigation
2 positions of (i) CURB (no increase to customer charges) and (ii) the Company (recover 100%
3 of the Residential and Commercial class increases in customer charges).

4 In addition, the Settlement states that Atmos agrees to eliminate the minimum usage
5 threshold for a commercial customer to be eligible to receive transportation service. The
6 Company also agrees to track migration of small commercial customers from sales to
7 transportation service and to identify the impact of any such migration on its design day
8 requirement in its annual Purchase Gas Adjustment filings. Atmos also agrees to allow
9 transportation customers the option of paying for required electronic flow measurement
10 (“EFM”) equipment either upfront when they elect to take transportation services or through
11 a monthly equipment charge of \$30.00. Atmos also agrees not to charge the customer for the
12 cost of a new meter or for meter upgrades if the replacement or upgrade is required to
13 accommodate the EFM equipment. In summary, the Settlement provides an opportunity for
14 smaller commercial customers to migrate to transportation service, while requiring Atmos to
15 identify any impact of such migration on the Company’s design day capacity requirements.
16 In CURB’s view, this required migration analysis will (i) assist the parties in determining the
17 extent of commercial customer interest in transportation service and (ii) protect the interests
18 of remaining sales customers should migration have a significant impact on Atmos’ design
19 day requirements.

20 Finally, Atmos agrees to submit a class cost of study in its next base rate case that
21 segregates the costs of providing sales and transportation services to commercial and public

1 authority customers.

2
3 **C. Reasonableness of the Settlement Agreement**

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

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

12 I understand that CURB counsel will address item 3, i.e., does the Settlement
13 conform to applicable law, in opening statements at the upcoming hearing. Since I am not an
14 attorney, it is more appropriate for CURB counsel to address this issue than for me to address
15 it. However, I will discuss the remaining four guidelines.

16
17 **Q. Has each party had an opportunity to be heard on its reasons for opposing the**
18 **Settlement?**

19 A. The Settlement represents a unanimous agreement by all parties to this proceeding.
20 Therefore, at this time, I am unaware of any party that opposes the Settlement. Moreover, I
21 participated personally in settlement negotiations in this case and each party had a full and

1 complete opportunity to be heard. The parties discussed issues, resolved certain numerical
2 discrepancies, and negotiated aggressively. While the details of settlement negotiations are
3 confidential, there was lively discussion and give-and-take from all parties representing
4 diverse interests.

5
6 **Q. Is the Settlement supported by substantial evidence in the record as a whole?**

7 A. Yes, it is. The Company requested an increase of \$6.617 million, which included a base
8 revenue increase of \$5.667 million and the rate case expense rider of \$0.950 million. CURB
9 recommended a base revenue decrease of \$716,730 and Staff recommended an increase of
10 \$1.493 million. Therefore, the proposed increase of \$2,218,903 is within the range of the
11 revenue recommendations submitted by both Staff and CURB in this case.

12 Although there is no stated return on equity in the Settlement, the agreement is based
13 on an explicit pre-tax rate of return of 11.04%. Using the capital structure and cost of debt
14 reflected in my Direct Testimony, which was based on the capital structure approved in the
15 320 Docket, the resulting return on equity would be 9.41%. Using the Company's capital
16 structure, which was also the capital structure recommended by Staff, a pre-tax return of
17 11.04% would result in a cost of equity of 9.1%. Both CURB and Staff recommended that
18 the KCC adopt a cost of equity of 9.1% in this case. Thus, regardless of capital structure, the
19 implied return on equity is significantly closer to the 9.1% cost of equity recommended by
20 CURB and Staff than to the 10.5% cost of equity proposed by Atmos.

21 While CURB recommended a revenue decrease in the case, the revenue increase of

1 \$2,218,903 included in the Settlement is only approximately 33.5% of the \$6.617 million
2 base rate increase and rate case expense surcharge requested by Atmos. Therefore, the
3 proposed increase represents a significant reduction from the Company's claim. Moreover,
4 the settlement agreement provides for recovery of rate case costs through the base rate case
5 process instead of transferring recovery into a new surcharge mechanism.

6 In addition, the allocation of the revenue increase to the Residential and Commercial
7 classes, as shown in Appendix B to the Settlement, is within the range of outcomes proposed
8 by the parties and included in the record of this proceeding. Residential ratepayers are
9 receiving the same base rate percentage increase as the overall system average increase and
10 commercial customers are receiving an increase that is only slightly higher than the system
11 average. While the specific allocations were the result of negotiations and compromise, the
12 revenue allocations contained in the Settlement appear reasonable based on the testimony of
13 the parties.

14 Finally, the Residential and Commercial monthly service charges reflected in the
15 Settlement are within the ranges proposed in this case. In addition, the percentage increases
16 in the customer charges for Residential and Commercial customers are the same as the
17 percentage increases in the volumetric charges for each of these classes, thereby preserving
18 the existing relationship between fixed and volumetric charges.

19
20 **Q. Will the Settlement result in just and reasonable rates?**

21 **A.** Yes, the Settlement will result in just and reasonable rates. As noted above, the revenue

1 increase reflected in the Settlement is only approximately 33.5% of the revenue increase
2 requested by Atmos. In addition, the proposed increase is based on a pre-tax cost of capital
3 that reflects an equity range of 9.1% to 9.4%, substantially lower than the Company's
4 requested 10.5%. In addition, the Settlement results in monthly basic service charges that are
5 well below those requested by Atmos.

6 The Settlement will also permit the Company to recover the rate case expenses
7 incurred in this proceeding without the need to burden ratepayers with an additional
8 surcharge mechanism. In addition, the Settlement does not include the ARM, which would
9 have shifted risk from shareholders to ratepayers without any commensurate ratepayer
10 benefit. The Settlement also provides some rate certainty for Kansas ratepayers through the
11 three-year base rate moratorium, while still addressing the Company's concerns regarding
12 regulatory lag by permitting Atmos to make an abbreviated filing in the interim to update its
13 capital expenditures.

14 The Settlement also addresses the Company's concerns regarding accelerated
15 replacement of obsolete infrastructure. The SIP will allow Atmos to invest \$75 million over
16 the next five years in infrastructure replacement projects. This investment is in addition to
17 any investment that Atmos will recover through the GSRS, which is estimated to be
18 approximately \$7 million annually. Thus, Atmos will be able to triple its investment in
19 annual capital expenditures without incurring a material impact on its earnings. At the same
20 time, the cap on total program expenditures will protect ratepayers with regard to the overall
21 magnitude of the costs as well as to the period of time during which the pilot will operate.

1 This is a good compromise for all parties.

2

3 **Q. Are the results of the Settlement in the public interest, including the interests of**
4 **customers represented by any party not consenting to the agreement?**

5 A. As noted previously, no party is opposing the Settlement. Moreover, based on the following
6 factors, I believe that the Commission can find that the Settlement is in the public interest.
7 The Settlement will result in a significant reduction from the revenue increase originally
8 requested by Atmos and the revenue requirement is based on a cost of equity range that is
9 close to the recommendations made by Staff and CURB. The Settlement will also result in
10 significantly lower monthly customer service charges than proposed by the Company. In
11 addition, the Settlement does not include several Atmos proposals that I believed were
12 particularly detrimental to ratepayers, such as the ARM and the rate case expense surcharge.

13 The Settlement provides some savings for Kansas customers through a base rate case
14 moratorium, but also provides a mechanism for the Company to begin recovery of capital
15 expenditures through the abbreviated rate case process.

16 The Settlement allows Atmos to accelerate recovery of certain infrastructure
17 replacement projects but it does so in a way that closely mirrors the current GSRS surcharge.

18 In addition, the Settlement provides the parties, including the KCC, with more realistic
19 review periods than those proposed in the Company's original filing, which will allow
20 CURB to participate in the review process. The Settlement also protects ratepayers by
21 limiting the duration and the total expenditures of the SIP pilot, and provides some

1 predictability in the magnitude of the increases that will result from the surcharge. Finally,
2 the Settlement provides the parties, and the KCC, with the ability to modify the SIP to
3 comply with any KCC determination in the 343 Docket, without affecting the enforceability
4 of the other terms of the Settlement.

5 In summary, the Settlement reflects a significantly lower revenue increase than the
6 increase proposed by Atmos, reflects lower monthly service charges than those requested,
7 eliminates the ARM, rejects the new rate case expense surcharge, and provides a pathway for
8 accelerated replacement of aging infrastructure. While the Settlement represents a
9 compromise of the positions put forth by the parties in this case, on balance I believe that the
10 Settlement is in the public interest.

11
12 **Q. What do you recommend?**

13 A. I recommend that the KCC find that all parties had the opportunity to participate in the
14 settlement process, that the Settlement is supported by substantial evidence in the record, that
15 the Settlement will result in just and reasonable rates, and that the S&A in the public interest.
16 Therefore, I recommend that the KCC approve the Settlement as filed.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.

VERIFICATION

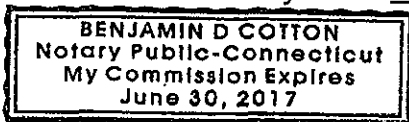
STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss:

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 in Support of Stipulation, 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 20th day of January, 2016.

Notary Public Benjamin D Cotton



My Commission Expires: _____

CERTIFICATE OF SERVICE

16-ATMG-079-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 21st day of January, 2016, to the following:

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