

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY FOR ADJUSTMENT]
OF ITS NATURAL GAS RATES IN] KCC Docket No. 14-ATMG-320-RTS
THE STATE OF KANSAS]

CROSS-ANSWERING TESTIMONY OF

ANDREA C. CRANE

RE: REVENUE REQUIREMENTS

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

May 30, 2014

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: 90 Grove Street, Suite 211, Ridgefield, CT 06877).

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

7 A. Yes, on May 20, 2014, I filed Direct Testimony on behalf of the Citizens' Utility Ratepayer
8 Board ("CURB"). In my Direct Testimony, I recommended that the Kansas Corporation
9 Commission ("KCC") find that Atmos has a Test Year, pro forma, revenue surplus of
10 \$507,853, instead of the revenue deficiency of \$7,005,215 claimed by the Company. In
11 addition, I recommended that the KCC reject the Company's request to implement a
12 regulatory asset associated with system integrity investment.

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

15 A. The purpose of my Cross-Answering Testimony is to respond to the Direct Testimony
16 prepared by Staff Witnesses Justin T. Grady and Leo M Haynos. Specifically, I am
17 addressing Staff's proposal that the KCC adopt a new cost recovery mechanism that Mr.
18 Grady is sponsoring in this case. Staff's proposed Alternative Regulatory Asset
19 ("Alternative RA") is in response to the Company's proposal to implement a regulatory
20 asset between base rate cases to provide for recovery of system integrity investment. In

1 addition, I will address Staff's proposal that the Company's rate base be updated to reflect
2 actual balances at March 31, 2014.

3
4 **B. Staff's Alternative Proposal for a Regulatory Asset Cost Recovery Mechanism**

5 **Q. Please describe the deficiencies in the Atmos proposed Regulatory Asset that Mr.**
6 **Grady identifies in his Direct Testimony.**

7 A. Mr. Grady identifies various deficiencies inherent in the Company's proposal to establish a
8 regulatory asset, as noted on pages 8-9 of his Direct Testimony,

- 9 1. There are no annual limits on the amount of capital investment eligible for deferral;
- 10 2. There are no plans or specificity as to the exact type of assets that Atmos would
11 target for investment or over what time period;
- 12 3. There is no reporting mechanism to monitor replacement of the infrastructure;
- 13 4. The carrying cost calculation is based on a pre-tax cost of capital;
- 14 5. There is no recognition of offsets related to accumulated deferred income taxes;
- 15 6. There is no recognition of the depreciation offset related to plant that has been
16 retired; and
- 17 7. There is no need to include incremental property taxes since such taxes are
18 recoverable through the Ad Valorem surcharge.

19
20 **Q. Given these deficiencies, is Staff recommending that a regulatory asset be rejected?**

21 A. No, instead of rejecting a regulatory asset outright, Staff seeks to "correct" the deficiencies in

1 the Company's proposal. Mr. Grady proposes an Alternative RA that includes:

- 2 1. Deferral limited to projects relating to replacement of Atmos' base steel service/yard
3 lines;
- 4 2. Deferral of depreciation expenses and carrying charges on up to \$6 million in annual
5 plant investment;
- 6 2. An offset relating to depreciation expense that is no longer being incurred due to
7 retirements and an offset related to accumulated deferred income taxes;
- 8 3. Exclusion of property taxes since these would be recovered through the Ad Valorem
9 Surcharge;
- 10 4. Requirement for annual compliance filings to report on the progress of replacing all
11 base steel service/yard lines within six years;
- 12 5. No changes in base rates for a four-year period;
- 13 6. No Gas System Reliability Surcharge ("GSRS") rate treatment for costs included in
14 the Alternative RA.

15
16 **Q. Do you support the proposed Alternative RA described in Mr. Grady's Direct**
17 **Testimony?**

18 A. No, I do not. While Staff's Alternative RA proposal is an improvement over the Company's
19 proposal, there is no evidence that any alternative regulatory mechanism is needed at this
20 time. Moreover, Staff's proposal circumvents the action of the Legislature that put important
21 regulatory safeguards on alternative cost recovery mechanisms. For both these reasons,

1 Staff's Alternative RA should be rejected.

2
3 **Q. Why do you believe that there is no evidence that any alternative regulatory mechanism**
4 **is necessary?**

5 A. The Company did not provide any testimony to suggest that the replacement of bare steel
6 service/yard lines necessitated an alternative regulatory mechanism. In fact, Atmos did not
7 identify any specific projects that it proposed to include in its proposed regulatory asset.
8 Rather, Atmos' proposal was a general proposal that included essentially all investment
9 except for revenue-producing plant. Atmos' proposal was clearly directed at reducing
10 perceived regulatory lag and increasing shareholder earnings.

11 Staff Witness Leo Haynos supports Staff's proposal with reference to Company
12 Witness Barton W. Armstrong, stating that "Mr. Armstrong's testimony states that Atmos
13 intends to accelerate investment in replacing pipelines constructed of bare steel, PVC plastic,
14 and pipelines made of DuPont Aldyl A polyethylene."¹ But as noted in Mr. Armstrong's
15 Direct Testimony at page 7, "Atmos Energy has been proactive in replacing these obsolete
16 pipelines over the past several decades." Moreover, Mr. Haynos acknowledges that "In its
17 application, Atmos makes no commitment to a rate of replacement for any of the obsolete
18 materials...."² There is no evidence in the record that the current system is unsafe or that
19 replacement of pipe will not be undertaken unless a regulatory asset is approved. Moreover,
20 Mr. Haynos acknowledges that "...there is no evidence that obsolete piping is in imminent

1 Testimony of Mr. Haynos, page 4.

2 Id., page 7.

1 danger of failing...”.³ Mr. Haynos’ support of the Alternative RA proposal is based on his
2 opinion that “...the probability of failure for piping that has been in service for more than 50
3 years only increases with time.”⁴ However, Mr. Haynos and Mr. Grady both acknowledge
4 that the current GSRS surcharge mechanism could be used by Atmos for replacement of bare
5 steel service/yard lines.

6 Staff’s Alternative RA is based on its opinion that it would be in the public interest to
7 accelerate such replacement over and above the limitations imposed by the GSRS statute.⁵
8 However, Staff did not quantify any benefits to ratepayers of this acceleration. Nor did Staff
9 demonstrate that any such benefits would outweigh the harm to ratepayers caused by higher
10 utility rates and a weakening of regulatory safeguards, both of which would occur under
11 Staff’s proposal.

12
13 **Q. Do you believe that Staff should be designing a proposed replacement program for bare**
14 **steel service/yard lines?**

15 A. No, I do not believe that this is Staff’s role, especially in this base rate case. If Staff believes
16 that the current Atmos system is unsafe, then undoubtedly it has an obligation to bring this to
17 the KCC’s attention and to recommend that the KCC mandate that corrective action be taken.
18 I am not aware of any such investigation or recommendation by Staff.

19 Instead, Staff is using the Company’s proposal for a recovery mechanism to address
20 alleged regulatory lag as an opportunity to design a pipe replacement program for the

3 Id., pages 8-9.

4 Id., page 9.

1 Company. Atmos did not propose a specific pipe replacement program in this case. It is the
2 Company's management, and not Staff, who should develop such a program if the Company
3 believes that such a program is necessary for the provision of safe and reliable service.
4 While I understand that it may be desirable from an engineering perspective to accelerate
5 certain pipeline replacements, the Company has not attempted to justify its proposed
6 regulatory asset on the basis that such a proposal is necessary to ensure safety while
7 maintaining the Company's financial integrity.

8
9 **Q. How does Staff's proposal circumvent the Legislature's intent to balance the need for
10 accelerated replacements with the need to protect Kansas ratepayers?**

11 A. One of the reasons that Mr. Grady gives for his Alternative RA is that "... in Atmos' recent
12 GSRS filing, it reached the maximum amount allowed to be billed to residential customers
13 under the statute." However, there was a reason why the Legislature imposed this limit, i.e.
14 because it apparently felt that the need for accelerated infrastructure replacement should be
15 balanced against the need to mitigate the impact on residential ratepayers. Staff's proposal
16 would eliminate this ratepayer protection and instead insert its judgment in place of the
17 Legislature's judgment regarding the level of increases to ratepayers between base rate cases.

18
19 **Q. Did the KCC previously reject a proposal similar to the one proposed by Staff?**

1 A. Yes, it did. As noted in my Direct Testimony, the KCC rejected a proposal by Kansas Gas
2 Service (“KGS”) to implement an Infrastructure Replacement Program Surcharge to fund the
3 replacement of gas iron mains in KCC Docket No. 12-KGSG-721-TAR. It is my
4 understanding that the infrastructure program included in the KGS proposal was even more
5 well-defined than the program included in Staff’s Alternative RA proposal in this case, and
6 certainly more defined than the Company’s regulatory asset proposal, which did not identify
7 any specific projects, costs, or timelines. In the KGS case, Staff argued that the pipe to be
8 replaced was inherently unsafe but offered no evidence to quantify the benefits of
9 accelerating replacement. Without evidence, the KCC stated that “finding the tradeoffs of
10 this particular proposal to be in the public interest is quite difficult.”⁶ In the current case,
11 Staff again offers no evidence to support the need or the tradeoff it suggests is in the public
12 interest. In KGS, the KCC found no reason to eschew a legislatively-approved GSRS
13 mechanism in favor of a new regulatory mechanism and instead determined that “the cost
14 should be recovered through the legislatively-approved GSRS mechanism.”⁷ There is no new
15 evidence in Staff’s testimony that, in my opinion, should cause the KCC to make a different
16 determination in this case.

17
18 **C. Staff’s Proposal to Extend the Test Year an Additional Six Months**

19 **Q. Do you also have a concern regarding Staff’s proposal to utilize a rate base updated at**
20 **March 31, 2014?**

⁶ Order in KCC Docket No. 12-KGSG-721-TAR, paragraph 22.

1 A. Yes, I do. The Company's filing was based on an historic Test Year ending September 30,
2 2013. It was the Company that chose the Test Year in this case. By updating rate base to
3 March 31, 2014, Staff is extending the Test Year for an additional six months. This is
4 another example of Staff taking on the role of utility management by substituting its Test
5 Year preference for the Test Year utilized by Atmos.

6 In addition, Staff did not include a post-test year adjustment to reflect higher revenues
7 resulting from customer growth. If the KCC adopts Staff's recommendation to utilize a rate
8 base ending March 31, 2014, then it should annualize customer growth through that same
9 date. The Company's filing is based on actual Test Year customers during the twelve months
10 ending September 30, 2013. I recommended an adjustment to annualize customers at
11 September 30, 2013, i.e., to reflect revenues as if the customers present at the end of the Test
12 Year were in place for a full twelve months. However, if the KCC adopts Staff's post-test
13 year rate base, then it should make an additional revenue adjustment to annualize revenues
14 based on actual customers at March 31, 2014.

15
16 **Q. Please summarize your Cross-Answering Testimony.**

17 A. I recommend that the KCC reject Staff's proposed Alternative RA recovery mechanism.
18 This mechanism is not needed and it circumvents important ratepayer safeguards provided by
19 the GSRS adopted by the Kansas Legislature. In addition, I recommend that the KCC reject
20 Staff's proposal to extend the Company's rate base by an additional six months. If, in spite

7 Order in KCC Docket No. 12-KGSG-721-TAR, paragraph 27.

1 of my recommendation, the KCC adopts Staff's rate base proposal, then it should also
2 annualize pro forma revenue at March 31, 2014.

3

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

5 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 23rd day of May, 2014.

Notary Public *Benjamin D. Cotton*



My Commission Expires: _____

CERTIFICATE OF SERVICE

14-ATMG-320-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 30th day of May, 2014, to the following parties:

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