

STATE OF KANSAS
BEFORE THE
KANSAS CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION) Docket No. 14-BHCG-502-RTS
OF BLACK HILLS/KANSAS UTILITY)
COMPANY, LLC, d/b/a/ BLACK HILLS)
ENERGY FOR APPROVAL OF THE)
COMMISSION TO MAKE CERTAIN)
CHANGES IN ITS RATES FOR NATURAL)
GAS SERVICE)

TESTIMONY OF ANDREA C. CRANE
IN SUPPORT OF
STIPULATION AND AGREEMENT

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

November 4, 2014

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, CT 06877. (Mailing address: PO Box 810, Georgetown, CT, 06829).

4

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

6 A. Yes, on September 12, 2014, I filed testimony on behalf of the State of Kansas, Citizens'
7 Utility Ratepayer Board ("CURB"). My testimony addressed the rate filing by Black
8 Hills/Kansas Gas Company, LLC, d/b/a Black Hills Energy ("Black Hills Kansas" or
9 "Company") seeking a rate increase of approximately \$7.28 million in its rates for natural gas
10 service. The Company's Application was based on a base rate increase of \$9.51 million,
11 offset by rebasing \$2.23 million that is currently being collected through the Gas System
12 Reliability Surcharge ("GSRS"). In addition, the Company's claim included \$2.24 million of
13 costs that are currently being recovered through the Ad Valorem Surcharge. Therefore, after
14 the reduction of the Ad Valorem Surcharge, the net impact of the Company's request was a
15 net increase of \$5.04 million. Black Hills Kansas also sought authorization to establish a
16 tracker for pension and other post-employment benefit ("OPEB") costs, to establish a
17 regulatory asset related to a proposed Future Track Workforce Development Program
18 ("Future Track"), and to establish a Bypass Revenue Rider ("BRR") credit mechanism for
19 revenues received from certain customers acquired from Anadarko Natural Gas Company
20 ("Anadarko"). In addition, the Company requested authorization for an Accelerated Pipeline
21 Rehabilitation Rider ("APRR") to recover the costs of investments that go into service

1 between base rate cases.

2
3 **Q. Please summarize the recommendations contained in your Direct Testimony.**

4 A. In my Direct Testimony, I recommended that the Company be awarded a base rate increase
5 of \$3.61 million. After reflecting the GSRS roll-in and the reduction in the Ad Valorem
6 Surcharge, the net impact of my revenue requirement recommendations was an overall
7 revenue decrease of approximately \$0.86 million. My recommendations reflected CURB's
8 recommended cost of equity of 8.75% and an overall rate of return of 6.59%.

9 In addition, I recommended that the KCC approve the Company's request to establish
10 tracker mechanisms for its pension and OPEB costs. I recommended that the KCC deny the
11 Company's requests to establish a regulatory asset associated with Future Track, to establish
12 a BRR credit mechanism, and to implement an APRR. Testimony on behalf of CURB was
13 also filed by Dr. J. Randall Woolridge, Brian Kalcic, and Michael Majoros.

14
15 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement**
16 **discussions?**

17 A. Yes, the parties to this case have engaged in subsequent settlement discussions. As a result,
18 the parties have entered into a Stipulated Settlement Agreement ("Stipulation") to resolve the
19 issues in this case.

1 **Q. Can you please summarize the terms of the Stipulation?**

2 A. The Stipulation includes a base rate increase of \$5,234,616. After adjusting for the
3 reductions of \$2,229,412 in the GSRS and of \$2,240,959 in the Ad Valorem Surcharge, the
4 net increase to ratepayers is \$764,245. The parties agreed that the depreciation rates
5 proposed by Staff witness William Dunkel will be implemented. In addition, Black Hills
6 will continue to maintain Regulatory Liability accounts related to the costs of removal.¹

7 The Stipulation does not identify a return on equity but the parties agreed that a pre-
8 tax rate of 9.763% will be adopted for purposes of calculating carrying charges on the GSRS.
9 In addition, Black Hills agreed to track costs incurred in association with future issuances of
10 new common equity.

11 Pursuant to the Stipulation, Black Hills agreed to withdraw its request for the
12 regulatory asset associated with Future Track, to withdraw its request for a BRR credit
13 mechanism, and to withdraw its request for the APRR. The Stipulation notes that Black
14 Hills Kansas will participate in future discussions regarding possible legislative changes to
15 the GSRS. The Stipulation adopts pension and OBEP trackers for the Company and
16 identifies the expenses included in prospective rates relating to these costs. The Stipulation
17 also specifies amortization periods for rate case costs and for costs related to the Anadarko
18 acquisition.

19 Finally, the parties agreed on an allocation of the rate increase among customer
20 classes and on a proposed rate design. The proposed rate design caps the residential

¹ See page 20 of Mr. Majoros' Direct Testimony for CURB's recommendation that the Company continue to book a regulatory liability.

1 customer charge at \$17.25 per month.

2

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

5 A. Yes, I am. The KCC has adopted five guidelines for use in evaluating settlement agreements.

6 These include: (1) Has each party had an opportunity to be heard on its reasons for opposing

7 the settlement? (2) Is the agreement supported by substantial evidence in the record as a

8 whole? (3) Does the agreement conform to applicable law? (4) Will the agreement result in

9 just and reasonable rates? (5) Are the results of the agreement in the public interest, including

10 the interests of customers represented by any party not consenting to the agreement?

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

12 to applicable law, in opening statement at the upcoming hearing. Since I am not an attorney,

13 it is more appropriate for CURB counsel to address this issue than for me to address it.

14 However, I will discuss the remaining four guidelines.

15

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

18 A. I participated personally in settlement negotiations in this case and each party had a full and

19 complete opportunity to be heard. The parties discussed issues, resolved certain numerical

20 discrepancies, and negotiated aggressively. At this time, I am not aware of any party to the

21 case who opposes the settlement.

22

1 **Q. Is the Stipulation supported by substantial evidence in the record as a whole?**

2 A. Yes, it is. As noted in the Stipulation, the Company initially requested a base rate increase of
 3 \$9,508,112. CURB recommended a base rate increase of \$3,613,683 and Staff
 4 recommended a base rate increase of \$4,691,139, which it subsequently revised to
 5 \$4,928,804.² Following are the base rate increases recommended by each party, as well as
 6 the net increases after consideration of the GSRS roll-in and the reduction in the Ad Valorem
 7 Surcharge:

	Company	CURB	Staff	Settlement
Base Rates	\$9,508,112	\$3,613,683	\$4,928,804	\$5,234,616
GSRS Roll-in	(\$2,229,412)	(\$2,229,412)	(\$2,229,412)	(\$2,229,412)
Ad Valorem Surcharge Reduction	(\$2,240,959)	(\$2,240,959)	(\$2,240,959)	(\$2,240,959)
Total Impact	\$5,037,741	(\$856,688)	\$458,433	\$764,245

9
 10 The negotiated base rate increase of \$5.23 million is approximately 55% of the
 11 Company's original request and it is only slightly higher than Staff's recommended rate
 12 increase. The proposed base rate increase is also well below the mid-point between CURB's
 13 recommendation of \$3.61 million and the Company's request of \$9.51 million. Given the
 14 roll-in of the GSRS and the reduction in the Ad Valorem Surcharge, the net impact on
 15 ratepayers will be a modest increase of \$764,245, or approximately 15% of the net increase
 16 requested by Black Hills Kansas.

17 While the Stipulation does not state a specific return on equity, the pre-tax carrying

1 charge of 9.763% used for the GSRS would result in a return on equity of 9.1% for GSRS
2 investment, assuming the Company's proposed capital structure and cost of debt.³ A return
3 on equity of 9.1% was recently authorized by the KCC in the Atmos Energy, Inc. base rate
4 case, KCC Docket No. 14-ATMG-320-RTS.

5 In addition, ratepayers will continue to benefit in future years by not having to pay for
6 incremental investment that goes into service between base rate cases through the APRR. As
7 stated in my Direct Testimony, Black Hills Kansas already has a GSRS that provides for
8 recovery of certain investments between base rate cases. The Kansas Legislature has enacted
9 certain requirements associated with the GSRS, including a cap on annual rate increases.
10 The proposed APRR would have effectively eliminated these ratepayer safeguards and would
11 have transferred risk from shareholders to ratepayers without any commensurate reduction in
12 shareholder return.

13 The withdrawal of the proposed regulatory asset associated with Future Track costs is
14 also supported by substantial evidence in the record. As discussed in my Direct Testimony,
15 the costs for recruiting and training employees is an integral part of any business and such
16 costs should be recovered through the normal ratemaking process. Black Hills Kansas did
17 not demonstrate that a new ratemaking mechanism was necessary to recover these costs or to
18 continue to provide safe and reliable service.

19 Finally, the Stipulation does not include the BRR that was requested by Black Hills
20 Kansas related to certain Anadarko revenues. As noted in my Direct Testimony, revenues

2 Stipulated Settlement Agreement, paragraph 5.

3 Neither CURB nor Staff recommended any adjustments to the Company's proposed capital structure or cost of debt.

1 from these recently-acquired customers should not receive special ratemaking treatment.
2 Instead, a normalized level of these revenues should be included in the Company's pro forma
3 revenue requirement, as reflected in the proposed Stipulation. Thus, the provisions contained
4 in the Stipulation with regard to these three ratemaking mechanisms are supported by
5 substantial evidence in the record.
6

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

8 A. Yes, I believe that the Stipulation will result in just and reasonable rates. As discussed
9 above, the revenue increase included in the Stipulation is substantially less than the amount
10 originally requested by Black Hills Kansas. In addition, the settlement increase of \$5.23
11 million is less than the mid-point between the Company's claim and amount recommended
12 by CURB. Therefore, rates will be based on a revenue requirement that incorporates many
13 of the adjustments proposed by CURB and Staff.

14 The Stipulation provides for an overall base rate increase of approximately \$5.23
15 million or 12.25%. The stipulated Residential increase is 10.64%, which is consistent with
16 the below-average increase supported by Staff's cost-of-service study. The stipulated Small
17 Commercial increase is 16.11% or 1.32 times the system average, which reflects a reasonable
18 compromise between the 1.00 and 1.44 times system average increases proposed by Staff and
19 Black Hills Kansas, respectively.

20 Pursuant to the Stipulation, the Residential customer charge will increase from
21 \$16.00 to \$17.25 per month. As a result, the percentage of total base rate revenues collected

1 from the customer charge will decline from the current level of 65.1% to 63.4%. This
2 movement is consistent with CURB's policy position regarding the appropriate level of
3 residential revenues to be collected from fixed charges.⁴

4 In addition, the Small Commercial customer charge will increase from \$22.75 to
5 \$26.45 per month or 16.26%, which is approximately equal to the class average increase of
6 16.11%. As a result, the percentage of total Small Commercial revenues collected from the
7 customer charge will remain relatively constant at the conclusion of this case. CURB finds
8 this result acceptable.

9
10 **Q. Are the results of the agreement in the public interest, including the interests of**
11 **customers represented by any party not consenting to the agreement?**

12 A. As noted above, all parties to this proceeding support the S&A. Therefore, the interests of
13 customers represented by all parties to this proceeding have been considered. It results in a
14 base revenue increase that is approximately 55% of the increase requested by Black Hills
15 Kansas. The net increase to customers, after reflecting the roll-in of the GSRS and the
16 reduction in the Ad Valorem Surcharge, will be a modest \$764,245, or approximately 15% of
17 the Company's requested net increase. Moreover, the pre-tax rate used for future carrying
18 costs applied to the GSRS will be 9.764%, considerably lower than the 12.073% pre-tax rate
19 (8.687% after-tax) reflected in the Company's June 2014 GSRS filing. The Stipulation
20 reflects a reasonable class cost allocation and rate design. It also provides additional rate
21 stability since ratepayers will not be subject to rate changes resulting from the ARPP, the

4 See the Direct Testimony of Brian Kalcic, at page 8.

1 BRR credit mechanism, or Future Track costs that would have been deferred for future
2 recovery. The Stipulation will result in rates that are just and reasonable, and therefore I
3 believe that it is in the public interest.

4

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

6 A. I recommend that the KCC find that all parties had the opportunity to participate in the
7 settlement process, that the Stipulation is supported by substantial evidence in the record,
8 that the Stipulation will result in just and reasonable rates, and that the Stipulation is in the
9 public interest. Therefore, I recommend that the KCC approve the Stipulation as filed.

10

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

12 A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD)

SS:

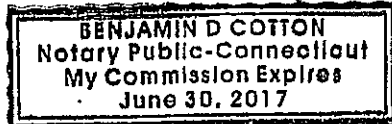
Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing Testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 3rd day of November, 2014.

Notary Public

Benjamin D. Cotton



My Commission Expires: _____

CERTIFICATE OF SERVICE

14-BHCG-502-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 4th day of November, 2014, to the following:

JAMES G. FLAHERTY
ANDERSON & BYRD, LLP
216 SOUTH HICKORY
P.O. BOX 17
OTTAWA, KANSAS 66067
jflaherty@andersonbyrd.com

ROBERT J. AMDOR, MANAGER REGULATORY SERVICES
BLACK HILLS CORPORATION
1102 E. FIRST STREET
PAPILLION, NE 68046
robert.amdor@blackhillscorp.com

PATRICK J. JOYCE, SENIOR MANAGING COUNSEL
BLACK HILLS CORPORATION
1102 E. FIRST STREET
PAPILLION, NE 68046
patrick.joyce@blackhillscorp.com

ANDREW FRENCH, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
a.french@kcc.ks.gov

SAMUEL FEATHER, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027
s.feather@kcc.ks.gov

BRIAN G. FEDOTIN, ASSISTANT GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
b.fedotin@kcc.ks.gov

ANNE E. CALLENBACH, ATTORNEY
POL SINELLI PC
6201 COLLEGE BOULEVARD
SUITE 500
OVERLAND PARK, KS 66211
acallebach@polsinelli.com

FRANK A. CARO, ATTORNEY
POL SINELLI PC
6201 COLLEGE BOULEVARD
SUITE 500
OVERLAND PARK, KS 66211
fcaro@polsinelli.com

MONTGOMERY ESCUE
SOUTHWEST KANSAS NON-PROFIT UTILITIES
AGRICULTURAL ENERGY SERVICES INC
1755 W BROADWAY ST STE 6
OVIDO, FL 32765
montgomery.escue@agenergy.com

DAN CLAWSON
SWKI- SEWARD-WEST CENTRAL, INC.
BOX 279
PLAINS, KS 67869
dan@clawsonoffice.com

KIRK HEGER
SWKI-STEVEN'S SOUTHEAST
PO BOX 100
HUGOTON, KS 67951
kirkheger@gmail.com



Della Smith
Administrative Specialist