

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF KANSAS CITY POWER COMPANY] KCC Docket No. 15-KCPE-116-RTS
TO MAKE CERTAIN CHANGES IN ITS]
CHARGES FOR ELECTRIC SERVICE]

TESTIMONY SUPPORTING THE PARTIAL STIPULATION AND AGREEMENT ON
THE REVENUE REQUIREMENT

ANDREA C. CRANE

ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD

June 18, 2015

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

2 A. My name is Andrea C. Crane and my business address is PO Box 810, Georgetown,
3 CT 06829.

4
5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes, on May 11, 2015, I filed Direct Testimony on behalf of the Citizens' Utility
7 Ratepayer Board ("CURB"). My Direct Testimony presented CURB's recommended
8 revenue requirement for the Kansas City Power and Light Company ("KCP&L" or
9 "Company") based on my analysis of KCP&L's Application and supporting
10 documentation. On May 26, 2015, I filed Cross Answering Testimony, which
11 addressed recommendations made by various Staff witnesses relating to the use of
12 updated actual results through March 31, 2015.

13
14 **Q. Please summarize the recommendations contained in your Direct Testimony and
15 in your Cross-Answering Testimony.**

16 A. In my Direct Testimony, I recommended that the Kansas Corporation Commission
17 ("KCC" or "Commission") approve a rate increase for KCP&L of \$16,889,734. I
18 based my recommendation on the cost of capital recommended by CURB witness Dr.
19 J. Randall Woolridge. In addition, I recommended that the KCC approve KCP&L's
20 request to implement a Transmission Delivery Charge ("TDC") rider, although I
21 recommended certain changes to the specific TDC mechanism proposed by the

1 Company. I also recommended that the KCC reject KCP&L's requests to implement
2 a Vegetation Management Cost tracker and a tracker for Critical Infrastructure
3 Protection ("CIP") / Cybersecurity costs. Finally, I recommended that the KCC
4 approve the Company's request to file an abbreviated rate case within twelve months
5 of an Order in this case.

6 In my Cross-Answering Testimony, I expressed concerns about the extensive
7 "updates" that Staff had included in the development of its revenue requirement. I
8 also expressed concerns about the updating process. I noted that the Company itself
9 did not update its claim but rather only provided a series of piecemeal updates
10 through the discovery process. Finally, if the KCC believes that base rate filings
11 should be updated with post-test year data, I recommended that the Commission
12 enunciate a clear policy regarding the extent to which updates will be accepted and
13 require the utilities to provide formal updates. In addition, I recommended that the
14 KCC require that the company update all data request responses as well. I also
15 recommended that the KCC provide sufficient time in future procedural schedules for
16 all parties to review the updates and to undertake additional discovery, if required.
17 Finally, I expressed my concern about Staff's failure to update the Company's pro
18 forma revenue adjustment to reflect additional growth since the midpoint of the Test
19 Year.

20
21 **Q. Since your Direct Testimony was filed, have the parties engaged in settlement**

1 **discussions?**

2 A. Yes, the parties to this case have engaged in subsequent settlement discussions. As a
3 result, the parties have entered into a Partial Settlement Agreement (“Partial
4 Stipulation”) that resolves all the revenue requirement issues in this case except for
5 return on equity, the treatment of unrecovered meter costs, and the amount of fossil
6 fuel inventory. In addition, the parties have entered into a separate Stipulated
7 Agreement that addresses class cost of service and rate design issues. My testimony
8 addresses the Partial Stipulation relating to revenue requirement issues. Stacey
9 Harden is providing testimony addressing cost of service and rate design.

10

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

12 A. The Partial Stipulation resolves all revenue requirement issues except for the return
13 on equity, the ratemaking treatment of unrecovered costs of meters that are being
14 replaced by more advanced models, and the appropriate level of fossil fuel inventory.
15 Because there are a few outstanding issues remaining, the parties were not able to
16 agree to an overall revenue increase. However, they have agreed to a rate base of
17 \$2,114,033,286. This rate base is based primarily on Staff’s Direct Testimony,
18 adjusted to reflect reductions to the post-test year capital costs for the La Cygne
19 Environmental Project and Wolf Creek capital additions, as proposed in the
20 Company’s Rebuttal Testimony. This rate base excludes unrecovered meter costs and
21 costs associated with the Company’s proposed Electric Vehicle Charging Station

1 program.

2 All other adjustments proposed by Staff and CURB have been settled for an
3 increase of \$3,793,453 to Staff's position. Cash working capital, bad debt expense,
4 rate case costs, and the TDC rate will all be updated based on the final revenue
5 requirement resulting from the KCC's decisions regarding the contested issues. The
6 Partial Stipulation specifies that rates will be determined based on a capital structure
7 of 50.48% common equity, 48.97% long-term debt, and 0.55% preferred stock. It
8 also specifies a cost of debt of 5.55%.

9 The Partial Stipulation also identifies the depreciation rates that will be used
10 by KCP&L, requests the KCC's authorization of the decommissioning cost accruals
11 proposed by the Company, identifies the ad valorem tax expense included in base
12 rates, and identifies the amounts and amortization periods for the pension and OPEB
13 trackers. The Partial Settlement also identifies the amortization amounts and
14 amortization periods for Flood Reimbursements, Transource Account Review
15 adjustments, and the La Cygne Deferred Depreciation regulatory asset. The Partial
16 Stipulation provides that rate case costs will be updated by August 15, 2015 from the
17 amount included in Staff's Direct Testimony, subject to a cap of \$1.83 million as
18 projected in the Application, and amortized over 3 years. However, in the Partial
19 Stipulation, Staff reserved its right to challenge recovery of unamortized rate case
20 costs in the Company's next base rate case.

21 The Partial Stipulation provides for an Abbreviated Rate Proceeding to be

1 filed within 14 months of the Commission’s Order in this case and identifies the
2 issues to be addressed in the abbreviated case. The Partial Stipulation also states that
3 the parties agree that KCP&L has met the in-service criteria for the La Cygne
4 Environmental Project.

5 The Partial Stipulation further states that the Company will not implement a
6 tracker for vegetation management costs. It does provide for the implementation of a
7 TDC, as modified in the Company’s Rebuttal Testimony. It also provides for
8 implementation of a Critical Infrastructure Protection (“CIP”)/Cybersecurity Tracker,
9 limited to non-labor costs specific to CIP/Cybersecurity activities. The
10 CIP/Cybersecurity tracker will terminate upon completion of the first KCP&L rate
11 case filed on or after January 1, 2020, unless specifically reauthorized by the
12 Commission.

13 The Partial Stipulation also provides that the parties will request that the KCC
14 open a generic docket to examine issues related to electric vehicle charging stations
15 and KCP&L’s Clean Charge Network. The parties anticipate that this generic docket
16 will be completed in time for the Company to take into account the impact of any
17 decision made by the Commission in the generic docket in the abbreviated case. All
18 parties have retained their rights to take any position in the generic docket, including
19 opposing the inclusion of any costs of electric vehicle charging stations built or
20 owned by the utility in customer rates.

21 Finally, the Partial Stipulation also addresses certain procedural issues.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

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

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

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

Q. Has each party had an opportunity to be heard on its reasons for opposing the Partial Stipulation?

A. I participated personally in settlement negotiations in this case and each party had a full and complete opportunity to be heard. The parties discussed issues, resolved certain numerical discrepancies, and negotiated aggressively. While not all parties are

1 signatories to this Partial Stipulation, at this time, I am not aware of any party that
 2 opposes the Partial Stipulation addressed in this testimony.

3

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

6 A. Yes, it is. The Company requested a base rate increase of \$56.28 million, after
 7 adjustment for the TDC. CURB recommended a base rate increase of \$16.88 million
 8 and Staff recommended an increase of \$35.45 million. The two most significant
 9 differences between Staff and CURB were the cost of equity and Staff's use of
 10 updates through March 31, 2015, as shown below:

11

	Company Claim	CURB Position	Staff Position
Pro Forma Rate Base	\$2,087,480,331	\$2,072,500,820	\$2,121,932,092
Required Cost of Capital	7.94%	7.06%	7.41%
Required Return	\$165,812,738	\$146,398,867	\$157,300,948
Operating Income @ Present Rates	131,792,200	136,201,836	135,868,622
Operating Income Deficiency	\$34,020,538	\$10,197,031	\$21,432,326
Revenue Multiplier	1.6543	1.6563	1.6543
Revenue Increase	<u>\$56,278,815</u>	<u>\$16,889,734</u>	<u>\$35,454,640</u>

12

13

1 The cost of equity has not been resolved in the Partial Stipulation. However,
2 if Staff had utilized CURB's cost of equity of 8.55%, Staff's proposed rate increase
3 would have declined to \$23.06 million. Moreover, the remaining differences between
4 Staff and CURB were largely attributable to Staff's update of the Company's rate
5 base. As shown above, Staff's proposed rate base was approximately \$49.43 million
6 higher than the rate base recommended by CURB. The majority of this difference
7 relates to updates for plant-in-service, accumulated depreciation, and accumulated
8 deferred income taxes that were reflected in Staff's revenue requirement calculation.

9 The rate base of \$2.114 billion included in the Partial Stipulation is based
10 primarily on Staff's proposed rate base, adjusted to reflect reductions in the amount
11 of post-test year additions associated with the La Cygne Environmental Project and
12 Wolf Creek. The Company's Application was based on budgeted amounts for these
13 projects. Staff proposed a small reduction in its testimony associated with the La
14 Cygne Environmental Project, based on actual expenditures to date. However, in its
15 Rebuttal Testimony, KCP&L proposed a larger reduction to the La Cygne budgeted
16 costs as well as a reduction to the Wolf Creek budgeted additions. Therefore, in the
17 Partial Stipulation, Staff's rate base was adjusted to reflect these further reductions in
18 the projected costs for La Cygne and Wolf Creek.

19 For purposes of this Partial Stipulation, I believe that the use of Staff's rate
20 base, as adjusted, is reasonable. I still have concerns about the proper use of updates
21 in the ratemaking process. However, those concerns relate to the timing of when

1 costs should be reflected in rates as well as the documentation that should be
2 provided if a Company proposes to update its original Application. For purposes of
3 this Partial Stipulation, CURB has agreed to defer these concerns to another forum.
4 Therefore, I believe that the rate base of \$2.114 billion represented in the Partial
5 Stipulation is based on substantial evidence in the record.

6
7 **Q. Is the cost-of-service adjustment of \$3,793,453, related to other revenue**
8 **requirement issues, also based on substantial evidence in the record?**

9 A. Yes, it is. As demonstrated above, the revenue, expense, and tax adjustments
10 proposed by Staff and CURB resulted in very similar results for operating income at
11 present rates - \$135,868,622 and \$136,201,836 respectively. While in many cases
12 Staff and CURB proposed different adjustments, the net impact on the Company's
13 revenue requirement was similar in both cases.

14 CURB's operating income adjustments reduced the Company's revenue
15 requirement by \$7,303,680 million.¹ Since the Partial Stipulation adds back an
16 adjustment of \$3,793,453, approximately 48% of the value of CURB's adjustments is
17 reflected in the Partial Stipulation. Since the Partial Stipulation is a "black box"
18 settlement and therefore we cannot identify the specific adjustments that have been
19 accepted by the parties, the revenue increase included in the Partial Stipulation does
20 reflect a substantial amount of the overall operating income adjustments proposed by

¹ Based on my recommended operating income adjustment of \$4,409,636 per Schedule ACC-1 and recommended revenue multiplier of 1.6563.

1 CURB. While I continue to believe that all of the adjustments in my Direct
2 Testimony have merit, I acknowledge that there is always litigation risk.
3 Accordingly, I believe that the proposed adjustment of \$3,793,453 reflected in the
4 Partial Stipulation is based on substantial evidence in the record and represents a
5 reasonable compromise among the parties.
6

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

8 A. The Partial Stipulation only addresses certain revenue requirement issues. The rates
9 resulting from this proceeding are not addressed by the Partial Stipulation – only
10 certain elements that make up the revenue requirement. Because certain issues that
11 will impact the revenue requirement are still in dispute, as is rate design, I do not
12 know what the final rates will be, nor if they will be just and reasonable. However, I
13 believe that the process by which the parties have reached a partial settlement was
14 reasonable, and the elements of the revenue requirement reflected in the Partial
15 Stipulation are reasonable. Only after the Commission has resolved all of the
16 outstanding issues would I be able to state an opinion as to whether the resulting rates
17 are reasonable. To the extent that the KCC approves the Partial Stipulation on the
18 revenue requirement, and resolves all of the outstanding contested issues in favor of
19 CURB, I believe that the revenue requirement underlying the approved rates would
20 be reasonable.
21

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

4 A. This Partial Stipulation is in the public interest. While the Partial Stipulation does not
5 address all issues in this proceeding, it does significantly narrow the issues that the
6 KCC will need to resolve and likely will reduce the costs of litigating this rate case.
7 The Partial Stipulation includes a rate base that primarily reflects Staff's adjustments.
8 CURB had no disagreement with Staff's rate base adjustments, other than concerns
9 expressed in my Cross-Answering Testimony relating to the use of updates and the
10 process by which those updates were provided. However, for purposes of resolving
11 this case, I believe that the use of Staff's proposed rate base is reasonable. With
12 regard to operating income issues, the Partial Stipulation includes approximately 48%
13 of the revenue requirement reductions proposed by CURB.

14 The Partial Stipulation also eliminates the proposed vegetation management
15 tracker and revises the TDC formula to exclude projected data, both of which are in
16 the public interest. It also limits the CIP/Cybersecurity Tracker to non-labor costs and
17 provides for the eventual termination of the CIP/Cybersecurity Tracker, as these costs
18 become more stable in time. The Partial Stipulation also outlines a process for
19 examination and resolution of issues relating to the Company's proposed electric
20 vehicle charging station program.

21 Finally, as noted above, I am not aware of any party to this proceeding that is

1 opposed to the Partial Stipulation. Therefore, the interests of customers represented
2 by all parties to this proceeding have been considered.

3

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

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

10

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

12 A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss:

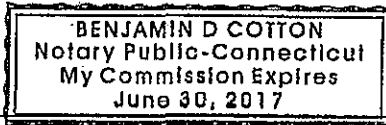
Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing Testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane
Andrea C. Crane

Subscribed and sworn before me this 17th day of June, 2015.

Notary Public Benjamin D Cotton

My Commission Expires:



CERTIFICATE OF SERVICE

15-KCPE-116-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 18th day of June, 2015, to the following parties:

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

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

GLENDA CAFER, ATTORNEY
CAFER PEMBERTON, L.L.C.
3321 SW 6TH ST
TOPEKA, KS 66606
glenda@caferlaw.com

TERRI PEMBERTON, ATTORNEY
CAFER PEMBERTON LLC
3321 SW 6TH ST
TOPEKA, KS 66606
terri@caferlaw.com

ROGER W. STEINER, CORPORATE COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
roger.steiner@kcpl.com

MARY BRITT TURNER, DIRECTOR REGULATORY AFFAIRS
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
mary.turner@kcpl.com

DARRIN R. IVES, VICE PRESIDENT REGULATORY AFFAIRS
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY , MO 64141-9679
darrin.ives@kcpl.com

ROBERT J. HACK, LEAD REGULATORY COUNSEL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679
rob.hack@kcpl.com

ANDREW J. ZELLERS, GEN COUNSEL/VP REGULATORY AFFAIRS
BRIGHTERGY, LLC
1617 MAIN ST 3RD FLR
KANSAS CITY, MO 64108
andy.zellers@brightergy.com

WALKER HENDRIX, DIR, REG LAW
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH ST
OVERLAND PARK, KS 66213-2634
whendrix@onegas.com

DAVID L. WOODSMALL
WOODSMALL LAW OFFICE
308 E HIGH ST STE 204
JEFFERSON CITY, MO 65101
david.woodsmall@woodsmalllaw.com

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067
jflaherty@andersonbyrd.com

ROBERT V. EYE
ROBERT V. EYE LAW OFFICE, L.L.C.
123 SE 6TH AVENUE, SUITE 200
TOPEKA, KS 66603-3850
bob@kauffmaneye.com



Della Smith
Administrative Specialist