

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION OF
MID-KANSAS ELECTRIC COMPANY, LLC FOR
APPROVAL OF A DEBT SERVICE COVERAGE
FORMULA-BASED RATEMAKING PILOT PLAN
FOR THE GEOGRAPHIC TERRITORY SERVED
BY ITS MEMBER-OWNER SOUTHERN PIONEER
ELECTRIC COMPANY.

]] KCC Docket No. 13-MKEE-452-MIS

Received
on

MAY 10 2013

by
State Corporation Commission
of Kansas

CROSS-ANSWERING TESTIMONY

OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

May 10, 2013

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,
4 Connecticut 06829)

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

7 A. Yes, on May 3, 2013, I filed Direct Testimony on behalf of the Citizens' Utility
8 Ratepayer Board ("CURB"). In that testimony, I recommended that the Kansas
9 Corporation Commission ("KCC" or "Commission") deny the Application filed by Mid-
10 Kansas Electric Company ("MKEC") seeking approval of a Debt Service Coverage
11 ("DSC") Formula Based Ratemaking ("FBR") Pilot Plan ("DSC-FBR Plan," the "Plan")
12 for the geographic territory served by its Member-owner, Southern Pioneer Electric
13 Company ("Southern Pioneer" or "Company"). I also recommended several changes to
14 the DSC-FBR Plan as proposed by the Company if the KCC decides to adopt some form
15 of ratemaking plan for Southern Pioneer.

16
17 **Q. What is the purpose of your Cross-Answering testimony?**

18 A. The purpose of my Cross-Answering Testimony is to respond to the Direct Testimony
19 filed by Justin Grady, on behalf of KCC Staff, and by Jeffry Pollack, on behalf of the
20 Western Kansas Industrial Energy Consumers ("WKIEC").

21
22 **Q. Do either Mr. Grady or Mr. Pollack support the Company's proposal as filed?**

1 A. No, they do not. Mr. Grady, on behalf of Staff, has recommended several material
2 modifications to the Company's proposal. Mr. Pollack rejects the proposed DSC-FBR
3 Plan outright.

4

5 **Q. What are the major changes to the DSC-FBR Plan as proposed by Staff?**

6 A. As summarized on page 14 of Mr. Grady's testimony, Staff's recommended changes fall
7 into the following categories:

- 8 • Scope of the Annual Review
- 9 • Stakeholder Participation During Annual Review
- 10 • Timeline for Annual Review and Commission Order
- 11 • Additions to the Customer Notification Procedures in the Protocols
- 12 • Annual Re-Calculation to Exclude 34.5 kV Portion of DSC-FBR Plan
- 13 • Debt Service Coverage Parameters for Annual Filing
- 14 • Equity to Assets Ratio limitation to 15%
- 15 • Slight Changes to the Rate Design Section
- 16 • Multiple Year Form 7 Filing Requirement
- 17 • Multiple Year Comparative Operating Statement and Balance Sheet Filing
18 Requirement
- 19 • Detailed Listing and Support for Pioneer Billings and Allocated Expenses
- 20 • Total Southern Pioneer Payroll Expense Reporting Requirement
- 21 • Southern Pioneer Key Ratio Submission Requirement
- 22 • Southern Pioneer Disallowance Expense Reporting Requirement

- 1 • Southern Pioneer Requirement to Provide Customer Advisory Group Meeting
2 Minutes.

3
4 **Q. Do you support the modifications proposed by Staff?**

5 A. I continue to recommend that the KCC reject a formulaic ratemaking plan for Southern
6 Pioneer and instead recommend that the Commission continue to regulate the Company
7 based on the traditional rate case approach. However, if the KCC decides that a
8 ratemaking plan for Southern Pioneer is appropriate, then it should adopt the
9 modifications proposed by Staff, with two exceptions as discussed in more detail below.

10 The modifications proposed by Staff would significantly strengthen the review
11 process and would address many of the concerns expressed by CURB in my Direct
12 Testimony. Staff recommends that all stakeholders be permitted to participate in the
13 review process and that all operating expenses should be subject to review. Staff also
14 recommends that the review period be extended from the 60 days proposed in the filing
15 to 120 days, with further suspension possible up to 240 days. While 120 days is still a
16 very short period of time for review, Staff recommends that Southern Pioneer provide
17 additional supporting documentation with its filing that will hopefully facilitate this
18 review and minimize requests to the Company for additional documentation. All of these
19 items are positive modifications to Southern Pioneer's proposal.

20
21 **Q. What are the two Staff recommendations with which you disagree?**

22 A. Staff has accepted the Company's proposal that any ratemaking plan be limited to its
23 retail distribution rates. I continue to recommend that if the KCC adopts a DSC-FBR
24 Plan that it be applied to both retail rates and to Local Access Charge ("LAC") rates, as

1 discussed in my Direct Testimony. I note that Staff does recommend that the LAC
2 allocation factors be updated annually and this recommendation is a significant
3 improvement over the Company's originally-filed plan. However, I see no reason why
4 different ratemaking methodologies should apply to retail rates vs. LAC rates, especially
5 if the KCC is going to require an annual review of underlying operating expenses and
6 annual updates to the allocation factors. Therefore, while I support Staff's
7 recommendation to update the LAC allocation factors each year, I continue to
8 recommend that any underlying DSC-FBR Plan apply to both retail rates and LAC rates.

9 In addition, I recommend that the KCC reject the debt service coverage ("DSC")
10 ratios proposed by Staff. While again Staff's recommendation is an improvement over
11 Southern Pioneer's proposal, the DSC coverage ratios recommended by Staff are still
12 excessive.

13
14 **Q. How do the DSC coverage ratios proposed by Staff compare with the coverage**
15 **ratios proposed by Southern Pioneer?**

16 A. The Company is proposing to set the target DSC ratio at 1.60 in the first year and at 1.80
17 each year afterward. The DSC floor and DSC ceiling would be established at DSC ratios
18 of 1.60 and 2.00 respectively. Staff has accepted the Company's proposed DSC floor of
19 1.60 but is recommending a DSC target ratio of 1.75 and a DSC ceiling of 1.80.

20
21 **Q. Why do you believe that the DSC ratios being proposed by Staff are excessive?**

22 A. The DSC ratios being proposed by Staff are all well above the DSC ratio of 1.35 that is
23 required by Southern Pioneer's Credit Agreement. Moreover, since rates will be reset

1 annually based on a pro forma DSC calculation, it is not necessary to provide any
2 substantial cushion over the DSC required by the lender. As noted in my Direct
3 Testimony, all of the margin above a DSC ratio of 1.00 is available to Southern Pioneer
4 and can be used to increase the Company's equity. Thus, there is no need to
5 unnecessarily increase rates by implementing a DSC ratio floor of 1.60. While I believe
6 that all three ratios (floor, target and ceiling) recommended by Staff are too high, I am
7 especially concerned about the DSC floor of 1.60, which would result in a significant rate
8 increase even if Southern Pioneer was meeting the 1.35 DSC ratio required by its lender.
9

10 **Q. Would a lower DSC floor still permit the Company to meet the equity targets**
11 **required in the Credit Agreement?**

12 A. Yes, it would. As shown in the response to KCC-5¹, a DSC floor of 1.40 would still
13 allow the Company to meet the equity targets required pursuant to the Credit Agreement.
14 Moreover, these equity ratios would be met even if the DSC target was 1.60, lower than
15 Staff's proposed 1.75. Accordingly, if the KCC adopts the DSC-FBR Plan as proposed
16 by Staff, it should reduce the DSC floor, target and ceiling ratios to no greater than 1.40,
17 1.60, and 1.80 respectively.
18

19 **Q. If the KCC adopts the DSC ratios proposed by Staff, should it modify any of the**
20 **other Protocols recommended by Staff?**

21 A. Yes, it should. If the KCC adopts the DSC coverage ratios recommended by Staff, then it
22 should limit recovery of debt service to the actual costs incurred in the Test Year. Under
23 Staff's current proposal, debt service costs would be based on Test Year costs adjusted

¹ The response to KCC-5 is attached to my testimony.

1 for interest and principal payments anticipated for the Budget Year based on projected
2 plant investments and cash flow needs. If the KCC is going to permit the Company to
3 recover DSC margins that are significantly higher than those required pursuant to the
4 Credit Agreement, then it should limit recovery of the underlying debt service costs to the
5 actual level of debt service incurred in the Test Year. This recommendation would result
6 in a more reasonable level of rates than a formula that would permit Southern Pioneer to
7 recover both projected debt service costs and a margin based on DSC coverage ratios that
8 are significantly above those required by its lender.

9
10 **Q. Do you have any additional comments regarding Staff's Direct Testimony?**

11 A. I have one additional comment. Mr. Grady points out on page 31 of his Direct Testimony
12 that the DSC-FBR Plan submitted by Southern Pioneer "only seeks to include actual cash
13 taxes paid." However, the Protocols provided in Exhibit RJM-2, page 2 include an
14 adjustment for tax obligations associated with any revenue annualization adjustment
15 related to Test Year rate increases. Mr. Grady has modified this Protocol to include only
16 "cash" tax obligations associated with the corresponding revenue annualization.
17 However, the actual cash tax obligation will not be known when the Company makes its
18 annual filing. Therefore, there is a possibility that under the proposed Protocols of both
19 Staff and the Company, Southern Pioneer could recover amounts related to income taxes
20 that are never actually paid by Southern Pioneer. A similar concern is raised by Mr.
21 Pollack on page 23 of his testimony, where he references the income tax calculation
22 provided in Exhibit RJM-6. As noted by Mr. Pollack, the income tax expense calculation
23 proposed by Southern Pioneer is based on a statutory rate of 39.28% and not on actual

1 taxes paid. Thus, while I support Staff's attempt to limit income tax expense to actual
2 taxes paid, it is difficult to see how the KCC can make a pro forma adjustment to income
3 taxes before knowing what the actual income tax liability will be.

4

5 **Q. Do you have any additional comments regarding the Direct Testimony filed on**
6 **behalf of WKIEC by Mr. Pollack?**

7 A. Mr. Pollack raises many of the same concerns that I expressed in my Direct Testimony.
8 Like Mr. Pollack, I do not believe that Southern Pioneer has justified a fundamental
9 change in the way that the KCC regulates the Company's electric rates. While the
10 recommendations contained in Staff Witness Justin Grady's testimony are a significant
11 improvement to the DSC-FBR Plan proposed by Southern Pioneer, like Mr. Pollack I
12 continue to recommend that the KCC reject any ratemaking plan for the Company at this
13 time.

14

15 **Q. Does this complete your testimony?**

16 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 9th day of May, 2013.

Notary Public Barbara C. Serfilippi

**BARBARA C. SERFILIPPI
NOTARY PUBLIC
MY COMMISSION EXPIRES MAY 31, 2015**

My Commission Expires: 5/31/2015

APPENDIX A

Response to KCC-5

**Kansas Corporation Commission
Information Request**

Request No: 5

Company Name Mid-Kansas Electric Company, LLC— Southern Pioneer Electric Company
Docket Number 13-MKEE-452-MIS
Request Date March 21, 2013
Date Information Needed April 1, 2013

RE: DSC Ratemaking Floor, Target, Ceiling

Please Provide the Following:

As stated in Mr. Macke's testimony, the DSC target for the 2013 DSC-FBR Plan year (filed in 2014) would be 1.60, growing to 1.8 after that. However, the floor and target stay at 1.6 and 2.0, respectively.

Please provide the following regarding the floor, target, and ceiling DSC ratios requested as part of this plan:

1. Please explain the process whereby Southern Pioneer chose the specific floor, target, and ceiling DSC ratios presented in the DSC plan presented in this Docket.
2. Are there specific events occurring in 2013 and beyond that dictate the levels of the floor, target, and ceiling, or are they driven more by the minimum DSC ratios in Southern Pioneer's Bond Covenants?
3. In a scenario whereby a floor of 1.4, a target of 1.6, and a ceiling of 1.8 were to be used instead of those levels requested in the application, what would be the result in terms of the annual projected compliance filings, equity levels, and projected rate change?
4. Please explain all of the specific circumstances that influenced Southern Pioneer to request a different floor, target, and ceiling DSC coverage ratios in this DSC-FBR ratemaking plan, than was requested in the 12-MKEE-380-RTS DSC ratemaking plan.

Submitted By Justin Grady

Submitted To Gulley/Magnison

Response:

1. The floor, target and ceiling were established in consideration of 1) achieving financial covenants with CoBank, 2) resulting financial metrics and comparison to the industry, 3) the current and projected financial condition of Southern Pioneer (given projected economic development, capital expenditures, etc.) 4) benefits of the FBR versus traditional rate cases, 5) the resulting projected rate impact on ratepayers, 6) results of prior filings and settlements starting with the 969 Docket. Each of these discussed in my direct testimony. Finally, it is important to note that the floor, target and ceiling are appropriate in achieving a balance of the preceding in the context of the formula requested. In other words, if there are changes to the formula, it will be necessary to revisit the floor, target and ceiling to determine if they are still appropriate.
2. Please reference the response to No. 1 above.
3. Please reference the tables below.

Projected DSC FBR Plan Results

(Staff DR-5)

DSC

Test Year	Projected Compliance Filing Result	DSC Floor	DSC Target	DSC Ceiling	Projected Rate Change
2013	1.12	1.40	1.60	1.80	5.0%
2014	1.51	1.40	1.60	1.80	0.0%
2015	1.33	1.40	1.60	1.80	2.9%
2016	1.48	1.40	1.60	1.80	0.0%
2017	1.36	1.40	1.60	1.80	2.6%

3. Continued from previous page.

**Projected CY DSC
Under DSC FBR Plan
(Staff DR-5)**

<u>Year</u>	<u>Projected CY DSC</u>	<u>CoBank Min. Req.</u>
2013	1.32	1.35
2014	1.44	1.35
2015	1.46	1.35
2016	1.37	1.35
2017	1.35	1.35

**Projected Year End Equity
Under DSC FBR Plan
(Staff DR-5)**

<u>Year</u>	<u>Projected EOY Equity</u>	<u>CoBank Min. Req.</u>	<u>Projected EOY Distribution Equity</u>
2013	1%	2%	-8%
2014	3%	2%	-7%
2015	6%	5%	-6%
2016	9%	5%	-4%
2017	11%	8%	-3%

4. It is impossible to explain all of the specific circumstances that influenced the different floor, target, and ceiling being requested in this application versus the 380 Docket. Especially with regards to financial results and projections, we have new and different information on history and projections and it's not feasible to explain each difference. With that said, we would offer the following.
- a. The Southern Pioneer division rates were increased in the 380 Docket.
 - b. The results are actually fairly similar in terms of the projected DSC and rate increases, slightly lower.
 - c. The inclusion of forward looking debt service in this application reduces the lag further from what was requested in the 380 Docket.
 - d. As part of the 380 Docket an abbreviated filing was approved at a DSC level of 1.8.

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: Richard J. Mault

Date: 4-1-13

CERTIFICATE OF SERVICE

13-MKEE-452-MIS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 10th day of May, 2013, to the following parties who have waived receipt of follow-up hard copies:

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