

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of)
Mid-Kansas Electric Company, LLC for)
Approval to Make Certain Changes in its) Docket No. 12-MKEE-410-RTS
Charges for Electric Service in the)
Geographic Service Territory Served by)
Lane Scott Electric Cooperative, Inc.)

DIRECT TESTIMONY OF

STUART S. LOWRY

ON BEHALF OF MID-KANSAS ELECTRIC COMPANY, LLC

AUGUST 3, 2012

1 **Q. Please state your name.**

2 A. My name is Stuart S. Lowry.

3 **Q. By whom are you employed and what is your business address?**

4 A. I am employed by Sunflower Electric Power Corporation (“Sunflower”). My business
5 address is 301 W. 13th Street, Hays, Kansas. I am not an employee of Mid-Kansas as it has
6 no employees. By contract approved by the Commission, Sunflower, through its
7 employees, operates Mid-Kansas.¹

8 **Q. What is your present position at Mid-Kansas and how long have you held this
9 position?**

10 A. I am the president and chief executive officer. I began in such position in August 2011
11 when I was selected by the Mid-Kansas Board of Directors to serve as its president and
12 chief executive officer.

13 **Q. What is your educational and professional background?**

14 I am a graduate of the University of Kansas and Washburn University School of Law. Just
15 prior to joining Mid-Kansas, I served as Executive Vice-President/General Counsel at
16 Kansas Electric Cooperatives, Inc., the Kansas statewide organization.

17 **Q. What is the purpose of your testimony?**

¹ The original Service and Operation Agreement (available on the Commission’s website at <http://estar.kcc.ks.gov/estar/portal/kcc/page/docket-docs/PSC/DocketDetails.aspx?DocketId=61fc7358-59e9-49b3-a57f-9e9de6b0148d>) was approved by the Commission in the Order Adopting Stipulation and Agreement, KCC Docket No. 06-MKEE-524-ACQ, ¶ 14.B. (Feb. 23, 2007), available on the Commission’s website at <http://www.kcc.state.ks.us/scan/200702/20070223114828.pdf> (2007 Acquisition Order). The Agreement is also available on the Commission’s website at: <http://estar.kcc.ks.gov/estar/portal/kcc/page/docket-docs/PSC/DocketDetails.aspx?DocketId=3fa03184-9702-45cc-8957-0e44759aa03e>. This is the currently effective version, which was approved in the Order Approving Spin-Down of Distribution Assets, Docket No. 08-MKEE-099-MIS (Dec. 21, 2007) (*Distribution Transfer Order*), available on the Commission’s website at <http://estar.kcc.ks.gov/estar/ViewFile.aspx?id=95db96d0-03e6-4c96-8a16-b04d2d239104>.

1 A. The purpose of my testimony is to provide: (1) background information on Mid-Kansas;
2 and (2) background and summary information of the Application including the general rate
3 impacts of establishing a divisional rate of Mid-Kansas for the geographical area of the
4 Mid-Kansas certificated territory serviced by Lane-Scott Electric Cooperative, Inc.
5 (“Lane-Scott”), a member of Mid-Kansas.

6
7 **I. BACKGROUND INFORMATION ON MID-KANSAS**

8
9 **Q. Please provide an overview of the business of Mid-Kansas.**

10 A. Mid-Kansas is a Kansas limited liability company with its principal place of business
11 located in Hays, Kansas. Mid-Kansas is owned by five Kansas consumer-owned
12 cooperatives and one subsidiary of a consumer-owned cooperative which organized
13 Mid-Kansas for the purpose of acquiring and operating the former Aquila-WPK electric
14 utility business and operations. The five Kansas cooperatives and subsidiary company,
15 collectively referred to as Mid-Kansas Members, and their headquarters are as follows:
16 Lane-Scott Electric Cooperative, Inc., Dighton; Prairie Land Electric Cooperative
17 Association, Inc., Norton; Victory Electric Cooperative Association, Inc., Dodge City;
18 Western Cooperative Electric Association, Inc., WaKeeney; Wheatland Electric
19 Cooperative, Inc., Scott City; and Southern Pioneer Electric Company, a subsidiary of
20 Pioneer Electric Cooperative, Inc., Ulysses. Mid-Kansas was organized in 2005. The five
21 cooperative Members of Mid-Kansas plus Pioneer Electric also own Sunflower Electric
22 Power Corporation.

23 **Q. When did Mid-Kansas acquire the Aquila-WPK electric assets?**

1 A. Mid-Kansas was notified that it was the successful bidder for the Aquila-WPK electric
2 assets in September, 2005. On November, 15, 2005, Aquila and Mid-Kansas made a joint
3 filing before the Commission to transfer the Kansas electric assets to Mid-Kansas. On
4 February 23, 2007, the Commission issued an order approving the sale and transfer of the
5 Aquila-WPK electric assets to Mid-Kansas. Mid-Kansas subsequently began operation of
6 those assets on April 1, 2007.

7 **Q. Please describe the current rate structure of Mid-Kansas.**

8 A. Prior to Mid-Kansas' rate case in Docket No. 09-MKEE-969-RTS (969 Docket),
9 Mid-Kansas had adopted the rate structure of Aquila that existed at the time of the
10 acquisition. In subsequent dockets, Mid-Kansas established a rate structure to facilitate its
11 transition to a typical cooperative model structure. The cooperative model consists of a
12 generation and transmission cooperative (G&T) serving its distribution cooperative
13 members who also own the G&T. To facilitate this model, wholesale rates were established
14 for the G&T segment of Mid-Kansas and Mid-Kansas divisional rates were established for
15 all six geographical areas served by the six Mid-Kansas Members pursuant to the Electric
16 Customer Service Agreements (Service Agreements).

17 **Q. Mr. Lowry, please describe the generation and transmission assets acquired by**
18 **Mid-Kansas that are used to provide wholesale electric service to the Mid-Kansas**
19 **Members.**

20 A. Mid-Kansas owns approximately 1,083 miles of transmission line facilities and associated
21 substation facilities which consists of 932 miles of 115 kV, 76 miles of 138 kV, 171 miles
22 of 230 kV transmission line, and 40 substations. Mid-Kansas owns 389 MW of gas-fired
23 generation which consists of 145 MW at Fort Dodge Station, 99 MW at Great Bend

1 Station, 68 MW at Clifton Station; and 77 MW at Cimarron River Station. Additionally,
2 Mid-Kansas has a purchase power agreement for 175 MW of coal-fired capacity from
3 Jeffrey Energy Center and 75 MW of wind generation which consists of 50 MW from the
4 Gray County Wind facility and 25 MW from the Smoky Hills Wind Farm facility.

5 **Q. You previously said that five of the six Members of Mid-Kansas are consumer-owned**
6 **cooperatives. What does that mean?**

7 A. Five of the Members of Mid-Kansas, including Lane-Scott, are non-profit cooperative
8 corporations owned by their customers. All of the electric customers of these Members
9 become owners of the cooperative when they purchase utility service from the cooperative.
10 That is, all year-end revenues in excess of the cooperatives' actual cost of service are
11 allocated to capital accounts for the benefit of the customers and may be periodically
12 refunded to the customer. In addition, members participate in management oversight of the
13 cooperative by electing its directors. In a cooperative utility, the ratepayers and the owners
14 of the utility are one and the same. There are no competing interests between stockholders
15 who want higher returns and customers who want lower rates and better service.

16 **Q. Does operating like a consumer-owned cooperative mean that rates are not an issue?**

17 A. No. Rates are an issue because cooperative members want low rates like anyone else.
18 However, in a cooperative business model, there are not competing interests between the
19 ratepayer and the owner of the utility as there are with an investor-owned utility. In a
20 cooperative, only the customer is benefited if rates exceed the cost of service, so there is no
21 incentive for the cooperative to charge rates in excess of the true cost of service. There is no
22 external motive by Mid-Kansas for the Lane-Scott Division to charge more than necessary
23 to provide efficient and sufficient service and meet the loan covenants of its lender.

1 **Q. Are Mid-Kansas and the operations provided by the Members of Mid-Kansas**
2 **regulated by the Kansas Corporation Commission (Commission)?**

3 A. Yes. Mid-Kansas and the operations of the service territory by the Mid-Kansas Members
4 are currently fully regulated by the Commission and will continue to be regulated unless
5 Mid-Kansas seeks to remove Commission regulation over their rates pursuant to the
6 provisions found in K.S.A. 66-104d. Currently, four of the members are deregulated as to
7 their specific certificated territory and expect to be deregulated as to their Mid-Kansas
8 division once the Mid-Kansas certificated territory is transferred. Lane-Scott is one such
9 member. Mid-Kansas is currently in the process of preparing an application to seek
10 approval from the Commission of the transfer to the six Members.

11

12 **II. OVERVIEW OF THE APPLICATION**

13 **Q. Please provide a brief summary of the Application?**

14 A. Basically, Mid-Kansas is requesting an increase in the divisional rate for the designated
15 geographical service territory served by Lane-Scott.

16 **Q. What do you mean by divisional rates?**

17 A. Currently, the Mid-Kansas customers are served through Commission-approved divisional
18 rates that are based on specific cost of service of the Mid-Kansas customers served by the
19 individual Mid-Kansas Member. In this Application, Mid-Kansas is requesting that the
20 Commission approve divisional rates for the geographical service territory served by
21 Lane-Scott, which rates are based upon the specific cost of service rendered to Mid-Kansas
22 by Lane-Scott for service of the Mid-Kansas customers in that geographic service area.

23 **Q. Will this rate change affect other Mid-Kansas customers served through the**
24 **Mid-Kansas Members?**

1 A. No. The application does not seek the implementation of any changes for any other
2 divisional retail or wholesale rate of Mid-Kansas other than for the Lane-Scott Division.

3 **Q. Why is there a need for divisional rates?**

4 A. The customers served by the Mid-Kansas Members are Mid-Kansas customers, although
5 their primary contact and relationship is with the servicing Mid-Kansas Member. The
6 services provided to Mid-Kansas pursuant to the Service Agreements with each Member
7 results in differing cost of service for the customers served by each Mid-Kansas Member,
8 thereby resulting in the need for a Mid-Kansas rate specifically applicable to the customers
9 within the specific geographical area served by the individual Mid-Kansas Member.
10 Therefore, until Mid-Kansas' certified service territory and associated customers are
11 transferred to the Mid-Kansas Members, divisional rates are necessary to ensure rates to
12 the customers are just and reasonable.

13 **Q. What is the rate impact to the Mid-Kansas customers served by Lane-Scott?**

14 A. Mid-Kansas proposes in its Application a 13.34 percent overall increase in its revenue
15 requirement. The cost of service information supporting this level of increase is contained
16 in the Direct Testimony of Mid-Kansas witness, Mr. Doug Shepherd.

17

18 III. CONCLUSION

19 **Q. In summary what are the actions Mid-Kansas is requesting of the Commission?**

20 A. As stated in the Application, Mid-Kansas is requesting approval of a divisional retail rate
21 for Mid-Kansas retail customers in the geographical service territory served under contract
22 by Lane-Scott.

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

24 A. Yes.

VERIFICATION OF STUART S. LOWRY

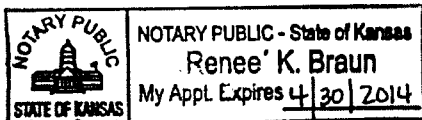
STATE OF KANSAS)
) ss:
COUNTY OF ELLIS)

Stuart S. Lowry, being first duly sworn, deposes and says that he is Stuart S. Lowry referred to in the foregoing document entitled "Direct Testimony of Stuart S. Lowry" before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

Stuart S. Lowry

Stuart S. Lowry

SUBSCRIBED AND SWORN to before me this 3rd day of August, 2012.



Renee K. Braun

Notary Public

My Appointment Expires: