

In the Matter of the Annual Filing of Southern)
Pioneer Electric Company for Approval to Make)
Certain Changes to Its Charges for Electric)
Services, Pursuant to the Consolidated Formula) Docket No. 21-SPEE-_____-RTS
Based Ratemaking Plan Approved in Docket No.)
19-SPEE-240-MIS and Implementation of Rate)
Adjustment Pursuant to Docket No. 20-SPEE-)
169-RTS.)

PREFILED DIRECT TESTIMONY OF

**CHANTRY C. SCOTT
EXECUTIVE VICE PRESIDENT/CHIEF FINANCIAL OFFICER
SOUTHERN PIONEER ELECTRIC COMPANY**

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

May 3, 2021

1 **I. INTRODUCTION AND OVERVIEW**

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

3 A. My name is Chantry C. Scott. My business address for legal service is 1850 W. Oklahoma,
4 Ulysses, Kansas 67880 and for mail receipt, PO Box 430, Ulysses Kansas 67880-0430.

5 **Q. What is your profession?**

6 A. I am the Executive Vice President/Chief Financial Officer (“CFO”) and Assistant Secretary
7 of Southern Pioneer Electric Company (“Southern Pioneer”), a wholly owned subsidiary
8 of Pioneer Electric Cooperative, Inc. (“Pioneer”), pursuant to the Services Agreement
9 entered into between Pioneer and Southern Pioneer on July 7, 2006. Our corporate office
10 is located in Ulysses, Kansas, and our distribution-customer service offices are located in
11 Liberal and Medicine Lodge, Kansas.

12 **Q. Please describe your responsibilities with Southern Pioneer.**

13 A. As the CFO, I work directly for the President-Chief Executive Officer. I am responsible
14 for assisting with establishing financial policy and rates, implementing Board-approved
15 strategic programs, and the overall financial operations of Southern Pioneer. As the
16 Assistant Secretary, in the absence of the Corporate Secretary, I sign and attest to corporate
17 resolutions and other documents as necessary or as authorized or directed by the Board of
18 Directors.

19 **Q. What is your educational background?**

20 A. I graduated from the University of Kansas in 2000 with a Bachelor of Science in both
21 Accounting and Business Administration, and in 2001 with a Master of Accounting and
22 Information Systems. I attended and completed various industry specific trainings

1 including the National Rural Electric Cooperative Association's Financial Planning and
2 Strategies Workshop and the Cooperative Financial Professional Certificate program.

3 **Q. What is your professional background?**

4 A. I began work at Pioneer in June of 2001 as Senior Accountant, where I assisted the Manager
5 of Finance and Administration in completing general accounting activities. In December
6 2003, I was promoted to Manager of Accounting where I oversaw the Financial Accounting
7 department's activities such as budgeting, financial forecasting, monthly and annual
8 reporting, and various other accounting activities. In May 2011, I was promoted to Chief
9 Financial Officer and VP of Finance and Accounting at Pioneer. In November 2020, I was
10 promoted to my current position of Executive Vice President and Chief Financial Officer
11 at Pioneer. Pursuant to the July 7, 2006 Services Agreement between Pioneer and Southern
12 Pioneer, I was also appointed Southern Pioneer's Chief Financial Officer and VP of
13 Finance and Accounting and Southern Pioneer's Assistant Secretary.

14 **Q. Have you previously presented testimony before the Commission?**

15 A. Yes. I provided direct, and in some instances rebuttal, testimony in Docket No. 12-MKEE-
16 380-RTS ("12-380 Docket"), Docket No. 13-MKEE-699-RTS ("13-699 Docket"), Docket
17 No. 15-SPEE-161-RTS ("15-161 Docket"), Docket No. 18-KPEE-343-COC ("18-343
18 Docket"), and Docket No. 19-SPEE-240-MIS ("19-240 Docket"). I have also assisted with
19 preparing responses and supporting documents for responses to numerous information
20 requests and have provided review of witness testimony in numerous Southern Pioneer
21 dockets.

22 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to support Southern Pioneer’s Application for its first
2 annual update under its Consolidated FBR Plan approved by Order dated August 11, 2020
3 in Docket No. 19-SPEE-240-MIS (“19-240 Order” and “19-240 Docket”). The filing
4 includes the annual adjustment to Southern Pioneer’s retail rates for service on its
5 distribution system and its annual adjustment to both retail rates and wholesale Local
6 Access Delivery Service (“LADS”) for services over Southern Pioneer’s 34.5kV sub-
7 transmission system. Additionally, this Application includes the rate adjustment approved
8 by the Commission’s July 14, 2020 Order issued in Southern Pioneer’s last general rate
9 case in Docket No. 20-SPEE-169-RTS (“20-169 Order” and “20-169 Docket”), including
10 the re-basing of property taxes as set forth therein.

11 My testimony provides (1) background information on Southern Pioneer, (2) the
12 presentation of comments from Southern Pioneer’s Consumer Advisory Council
13 (“Council”) as it relates to the implementation of the adjustments proposed in this
14 Application, (3) discussion of Southern Pioneer’s financials related to the 1.6 DSC ratio
15 and the 15% distribution equity cap, and (4) affirmation that Southern Pioneer’s calculation
16 of the revenue requirement adjustment removes 100% of certain promotional or corporate
17 advertising expenses and limits to 50% the amount of certain dues, donations and charitable
18 contribution expenses.

19 **Q. In addition to your testimony, is Southern Pioneer offering other testimony in**
20 **support of this Application?**

21 A. Yes. Utilizing the prescribed FBR Plan Protocols (“Protocols”) adopted in the 19-240
22 Docket, Mr. Richard J. Macke, rate consultant with Power System Engineering, Inc.
23 (“PSE”), is providing direct testimony on (1) Southern Pioneer’s revenue adjustment and

1 the corresponding allocation to the retail rate classes for the distribution system , (2)
2 Southern Pioneer’s 34.5kV FBR Revenue Requirement, resultant wholesale LADS rate,
3 and the corresponding allocation of the retail portion of the 34.5kV FBR increase to the
4 retail rate classes , (3) implementation of the rate case adjustments from the 20-169 Docket,
5 (4) re-basing of the property tax surcharge rider, and (5) a summary of the net-impact of
6 the proposed adjustments to all retail rate classes and 34.5kV customers, and the
7 corresponding proposed combined rate tariffs.

8 **Q. Are there Exhibits to support the Application?**

9 A. Yes, all of the Exhibits, as outlined in the Protocols, are attached to the Application
10 rather than attached to individual testimony.

11 **Q. Provide an overview of the requests contained in Southern Pioneer’s Application**
12 **in this docket.**

13 A. The Consolidated FBR Plan results in a first annual rate increase of \$1,902,389 for the
14 distribution system, or overall rate increase of 2.9 percent, and a decrease of \$633,267
15 for the 34.5kV sub-transmission system, or overall rate decrease of 11.8 percent.
16 Applying a load ratio share (“LRS”) of the increase for the 34.5kV sub-transmission
17 system, approximately \$226,613 or about 36 percent is applicable to Southern Pioneer’s
18 wholesale LADS customers, and the remaining approximate \$406,654, or 64 percent, is
19 applicable to those Southern Pioneer retail consumers taking service over its 34.5kV
20 sub-transmission system. The resultant proposed wholesale LADS rate is \$4.29/kW.

21 **II. SOUTHERN PIONEER**

22 **Q. Please provide some historical information on the origination of Southern Pioneer,**
23 **its business activities and rates.**

1 A. Southern Pioneer was formed in 2005 in response to Aquila-WPK's announcement of
2 its intention to sell its Kansas electric assets. Five member-owner cooperatives of
3 Sunflower Electric Power Corporation ("Sunflower") and Southern Pioneer, a wholly-
4 owned subsidiary of Pioneer, joined to form Mid-Kansas Electric Company, LLC
5 ("Mid-Kansas"), a not-for-profit limited liability company, to acquire and serve the
6 former Aquila service territory. On February 23, 2007, the Commission approved the
7 Acquisition, and pursuant to Commission order, on April 1, 2007, Southern Pioneer
8 began to serve and independently operate a designated geographic portion of the Mid-
9 Kansas certificated territory formerly serviced by Aquila-WPK. At that time, Mid-
10 Kansas held the Certificate of Convenience and Necessity for the former Aquila-WPK
11 area and Southern Pioneer was serving a portion of the area via a Commission-approved
12 Electric Customer Service Agreement. On November 21, 2015, the Commission issued
13 an order in Docket No. 13-MKKE-447-MIS ("13-447 Docket") approving Mid-Kansas'
14 transfer of its Certificate to Southern Pioneer for the territory presently served by
15 Southern Pioneer.

16 **Q. Please describe Southern Pioneer's operations.**

17 A. Southern Pioneer is a not-for-profit corporation, wholly owned by Pioneer Electric
18 Cooperative, Inc. Southern Pioneer provides retail service to approximately 17,300
19 customers in 34 communities in southwest Kansas. Southern Pioneer also provides sub-
20 transmission service to 34.5kV wholesale sub-transmission users located in its territory.

21 **Q. How are Southern Pioneer's rates set?**

22 A. Initially, Southern Pioneer adopted the rates in effect when Mid-Kansas transferred its
23 Certificate. Thereafter, the Commission approved for Southern Pioneer a 5-year DSC Pilot

1 Program that ran from 2014 to 2020 and allowed for annual retail rate adjustments for
2 service over Southern Pioneer’s distribution system.¹ The Commission also approved a 3-
3 year 34.5kV FBR Plan that ran from 2017 to 2020 and allowed for annual adjustments to
4 retail rates and wholesale LADS charge for service over Southern Pioneer’s 34.5kV sub-
5 transmission system.²

6 **Q. What occurred after the terms of the initial FBR Programs concluded?**

7 A. Southern Pioneer filed an application to continue its annual adjustments under a new 5-
8 year program, consolidating the two programs into one annual filing referred to as the
9 Consolidated FBR Plan. That new plan was approved by the Commission in the 19-240
10 Docket, and this is the first annual filing under the Consolidated FBR Plan.

11 **III. SOUTHERN PIONEER CONSUMER ADVISORY COUNCIL**

12 **Q. As part of the Protocols set forth in Consolidated FBR Plan, Southern Pioneer is**
13 **to consult with its Consumer Advisory Council (“Council”) regarding the**
14 **ratepayer impact of the annual filings and include with the Application the**
15 **summary comments received from the Council. Is that summary attached to the**
16 **filing?**

17 A. Yes. Included with the Application, as **Exhibit 14**, is the summary of the comments
18 from the Council as regards this Application.

19 **IV. SOUTHERN PIONEER’S FINANCIALS – 1.6 DSC AND 15% EQUITY CAP**

20 **Q. What financial matters are you addressing in this Application?**

¹ Docket No. 13-MKEE-452-MIS (“13-452 Docket”), *Order Approving Non-Unanimous Settlement Agreement*, Order issued September 26, 2013.

² Docket No. 16-MKEE-023-TAR (16-023 Docket”), *Order Approving Settlement*, issued March 10, 2016.

1 A. I am providing background on the establishment of Southern Pioneer's 1.6 DSC and the
2 15% equity cap agreed to for annual adjustments under the Consolidated FBR Plan.

3 **Q. What is the 1.6 DSC and how does it apply in this case?**

4 A. Southern Pioneer's rates are set using a Debt Service Coverage ratio instead of the return
5 on equity method ("ROE") applied to investor-owned utilities. The DSC ratio is
6 common for cooperatives and has been the mechanism used in Southern Pioneer's
7 previous FBR Programs. Additionally, the DSC ratio is one of the primary mandatory
8 coverage ratios imposed by Southern Pioneer's creditor. In Southern Pioneer's initial
9 DSC and 34.5 kV FBR Programs, a DSC of 1.75 was used. However, because of certain
10 improvements in Southern Pioneer's financial condition and management's desire to
11 balance service, price and risk, a 1.6 DSC was proposed and approved in the 19-240
12 Docket.

13 **Q. Please explain the 15% equity cap.**

14 A. In the initial FBR Programs, Staff requested an equity cap be imposed to avoid high
15 adjustments during the 5-year term of the program. At the commencement of the initial
16 FBR Programs, Southern Pioneer's equity was very low – about 1.59% - as a result of
17 the Aquila-WPK acquisition being financed primarily by debt. Staff wanted assurance
18 that adjustments under the FBR would not be without limitation. The initial cap
19 included Southern Pioneer's total equity, meaning it included equity from its
20 distribution operations and from other associated organizations. In the 19-240 Docket,
21 the parties agreed the equity cap should be modified to include only equity from its
22 distribution operations ("Distribution Equity"), excluding equity in other associated
23 organizations from the calculation.

1 **Q. Does the equity cap have any impact on the rates proposed in this Application?**

2 A. No. At the end of the test year, Southern Pioneer's Distribution Equity was 0.70%³,
3 below the 15% limit established in the 19-240 Docket. As such, the equity test does not
4 have any impact on the rates proposed in this Application.

5 **VI. ADVERTISING, DUES, DONATIONS, CHARITABLE CONTRIBUTIONS**

6 **Q. In previous filings, Southern Pioneer has included and sought recovery of 100% of**
7 **expenses associated with corporate advertising and dues, donations and charitable**
8 **contributions made by Southern Pioneer. In the Protocols agreed to by the parties**
9 **in the 19-240 Docket, these expenses are to be excluded from the filing. Has**
10 **Southern Pioneer excluded them in this filing?**

11 A. Yes, we have. In the previous FBR dockets, the KCC Staff recommended adjustments
12 by disallowing 100% of corporate advertising and 50% of dues, donations and
13 contributions. Southern Pioneer has never agreed that these costs should be excluded
14 from its revenue requirement as they are an important and necessary part of doing
15 business in our small, rural territory. Southern Pioneer does not believe it is in the best
16 interests of its customers to discontinue incurring these costs, and as a not-for-profit
17 company, Southern Pioneer has no means to recover these expenditures other than
18 through its operating margins. However, Southern Pioneer understands this is Staff and
19 the Commission's policy as regards the treatment of these expenditures, so we agreed
20 to accept their disallowance in filings under the Consolidated FBR Plan.

21 **Q. Does this mean or imply that sometime in the future, Southern Pioneer will not**
22 **seek to include these excluded costs as part of its rate filings?**

³ Exhibit 3, pg 3, ln 64.

1 **A.** No, this should not be construed as Southern Pioneer’s acquiescence on this issue.
2 Southern Pioneer instead remains optimistic that the Commission and its Staff will
3 reconsider their position on this issue in the future with a more comprehensive
4 understanding of the impacts these disallowances have on a not-for-profit utility like
5 Southern Pioneer.

6 **Q.** **In applying the Commission’s current policy and practice of disallowing 100% of**
7 **corporate advertising and 50% of dues, donations and contributions, can you**
8 **summarize Southern Pioneer’s process in complying with this practice?**

9 **A.** Certainly. Using the list of dues, donations, charitable contributions, promotional
10 advertising, penalties, fines and entertainment expenses compiled in **Exhibit 12**,
11 Southern Pioneer reviewed each item listed to identify its purpose, categorically
12 classified, and then applied the appropriate level of inclusion or exclusion. For example,
13 penalties and advertising were 100% excluded, but dues and donations were 50%
14 excluded.

15 **Q.** **And in using this methodology, what was the outcome?**

16 **A.** In total, **Exhibit 12** represents \$202,237 in expenditures related to dues, donations,
17 charitable contributions, promotional advertising, penalties, fines and entertainment
18 expenses. Of this total amount, \$83,901 was included in the annual revenue requirement
19 after applying the criteria discussed above.

20 **Q.** **Based on this analysis and in your opinion, are the amounts included by Southern**
21 **Pioneer reasonable and appropriate.**

22 **A.** Yes. As previously noted, Southern Pioneer analyzed the items in **Exhibit 12** based on
23 past dockets and made the appropriate adjustments.

1 **VII. OTHER ADJUSTMENTS**

2 **Q. Section F.1 of the Protocols specify a number of adjustments to be made. Why are**
3 **the adjustments included in the Protocols?**

4 A. The various adjustments are detailed in the direct testimony of Richard Macke. The
5 adjustments are included in the Protocols to either align the DSC calculation with
6 covenant definitions in Southern Pioneer's lender agreement or to allow for annual true-
7 ups or adjustments agreed upon by parties in the 19-240 Docket.

8 **Q. Have these adjustments have been made in Exhibit 3?**

9 A. Yes.

10 **Q. Have any other adjustments been made?**

11 A. Yes. Southern Pioneer has made one other adjustment in **Exhibit 3**. Adjustment 8 adds
12 \$940,000 to Line 26 Non-Operating Margins – Other, which reduces the overall revenue
13 requirement in the DSC calculation.

14 **Q. Please explain.**

15 A. During 2020, to help lessen the financial impact of COVID-19, Southern Pioneer
16 borrowed \$940,000 from the Paycheck Protection Program ("PPP") which was created
17 as part of the Federal Cares Act in order to assist companies in retaining their current
18 labor force. If certain qualifications are met, the program allows for loan forgiveness to
19 be requested.

20 **Q. Has Southern Pioneer requested loan forgiveness of the \$940,000 loan?**

21 A. Yes. Southern Pioneer has submitted the necessary forms and documentation to request
22 loan forgiveness of the entire \$940,000 loan. We anticipate approval of the loan
23 forgiveness in 2021.

1 **Q. Since the loan forgiveness will occur outside of the test year and is not listed as an**
2 **approved adjustment in the Protocols, why has Southern Pioneer included the**
3 **\$940,000 in Exhibit 3.**

4 A. During 2020, Southern Pioneer's kWh sales and financial performance was impacted
5 by COVID-19. As such, Southern Pioneer feels the PPP loan forgiveness should be
6 aligned with the time period the impact occurred and used to help lessen the rate burden
7 resulting from this Application.

8 **Q. Will the PPP loan forgiveness impact future FBR Applications?**

9 A. Yes. If approved, the PPP loan forgiveness will result in income to be recognized in
10 Non-Operating Margins – Other during 2021. As a result, Southern Pioneer would make
11 an adjustment in next year's FBR Application to remove the income. In other words,
12 Southern Pioneer is requesting to move the anticipated income from next year's FBR
13 Application to the current Application in order to reduce the rate impact to consumers
14 this year.

15 **Q. Does this conclude your direct testimony?**

16 A. Yes, it does.

VERIFICATION OF CHANTRY C. SCOTT

STATE OF KANSAS)
) ss:
COUNTY OF GRANT)

Chantry C. Scott, being first duly sworn, deposes and says that he is the Chantry C. Scott referred to in the foregoing document titled "Prefiled Direct Testimony of Chantry C. Scott" before the State Corporation Commission of the State of Kansas, that he is an officer of Southern Pioneer Electric Company, 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.



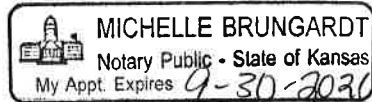
Chantry C. Scott

SUBSCRIBED AND SWORN to before me this 3rd day of May 2021.



Michelle Brungardt
Notary Public

Seal



My Appointment Expires: 9-30-2021

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a true and correct copy of the foregoing Testimony was electronically served this 3rd day of May, 2021 to:

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