BEFORE THE KANSAS CORPORATION COMMISSION

OF THE STATE OF KANSAS

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 Debt Service Coverage Formula Based Ratemaking Plan Approved in Docket No.13-MKEE-452-MIS.	))))))	Docket No. 14-SPEE-507-RTS

PREFILED DIRECT TESTIMONY OF

RICHARD J. MACKE
VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS PLANNING
POWER SYSTEM ENGINEERING, INC.

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

May 1, 2014

TABLE OF CONTENTS

TABLES

PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE, Suite 201, Minneapolis, Minnesota 55449.

Q. What is your profession?

A. I am a Vice President and lead the Economics, Rates, and Business Planning Department at Power System Engineering, Inc. ("PSE"), which is headquartered at 1532 W. Broadway, Madison, Wisconsin 53713.

Q. Please describe the business activities of PSE.

A. Power System Engineering, Inc. is a consulting firm serving electric utilities across the country, but primarily in the Midwest. Our headquarters is in Madison, Wisconsin with regional offices in Indianapolis, Indiana; Minneapolis, Minnesota; Marietta, Ohio; and Sioux Falls, South Dakota. PSE is involved in: power supply, transmission and distribution system planning; distribution, substation and transmission design; construction contracting and supervision; retail and wholesale rate and cost of service ("COS") studies; economic feasibility studies; merger and acquisition feasibility analysis; load forecasting; financial and operating consultation; telecommunication and network design, mapping/GIS; and system automation including Supervisory Control and Data Acquisition ("SCADA"), Demand Side Management ("DSM"), metering, and outage management systems.

Q. Please describe your responsibilities with PSE.

A. I lead and direct staff in Indiana, Kansas, Minnesota, Ohio and Wisconsin who provide economic, financial, and rate-related consulting services to investor-owned, cooperative and municipal utilities as well as regulators and industry associations. These services include:

- Cost of Service Studies.
- Capital Credit Allocations.
- Demand Response.
- Distributed Generation Rates.
- Energy Efficiency.
- Financial Forecasting.
- Individual Customer Profitability.
- Large Power Contract Rates/Proposals.
- Line Extension Policies/Charges.
- Load Management Analysis.
- Load Forecasting.
- Market and Load Research.
- Merger Analysis.
- Pole Attachment Charges.
- Policy and Board Audits.
- Power Cost Adjustments.
- Rate Consolidation.
- Retail Rate Design and Analysis.
- Special Fees and Charges.
- Statistical Performance Measurement (Benchmarking).
- Value of Service.

Q. What is your educational background?

A. I graduated from Bethel University in St. Paul, Minnesota in 1996 with a Bachelor of Arts degree in Business, which included an emphasis in Finance and Marketing. In 2007, I received my Masters of Business Administration degree, with an emphasis in Finance and Strategic Management, from the University of Minnesota in Minneapolis, Minnesota. I have also attended numerous industry seminars/courses on cost of service, pricing, valuation, distributed generation, etc.

Q. What is your professional background?

A. From 1996 to 1998, I was employed by PSE in its Minneapolis, Minnesota office as a Financial Analyst in the Utility Planning and Rates Department. My work responsibilities primarily were focused on retail rate studies, including revenue requirements and bundled/unbundled COS studies. I also provided analyses used to support testimony, mergers and acquisitions analysis, and financial forecasting.

From 1998 to 1999, I was employed as a Senior Analyst by Energy & Resource Consulting Group, LLC in Denver, Colorado, a financial, engineering, and management consulting firm. I performed consulting services related to electric, gas, and water rate studies. As part of the Legend Consulting Advisor Team contracted to the City Council of the City of New Orleans, Louisiana, I assisted in various electric and gas utility matters. I also provided general financial, management, and public policy support to clients.

I rejoined PSE in 1999; and from 1999 to 2002, I held the position of Rate and Financial Analyst in the Rates and Financial Planning Department. From 2002 to March 2008, I held the position of Senior Rate and Financial Analyst in the Utility Planning and Rate Division. My responsibilities have included performing complex financial analyses, such as rate studies consisting of determination of revenue requirements, bundled and unbundled COS analysis, and rate design. Other responsibilities included performing analysis of special rates and programs, key account analyses, financial forecasting, merger and acquisition analysis, activity-based costing, policy development and evaluation, and other financial analyses for various PSE clients. Additional responsibilities included strategic planning, litigation support, regulatory compliance, capital expenditure and operational assessments, and advisement. From April 2008 to June 2010, I held the position of Leader, Rates and Financial Planning. In July 2010, my title changed to Vice President, Rates and Financial Planning. Since June 2011, I have held the position of Vice President, Economics, Rates, and Business Planning. In this capacity, I continue to provide, amongst other things: 1) rate, financial, and economic consulting services to clients, 2) management and leadership to the Economics, Rates, and Business Planning Department, and 3) management and leadership at the corporate level to PSE through participation on the Executive Committee and Board of Directors.

Q. Have you previously presented testimony before the Kansas Corporation Commission ("KCC" or "Commission")?

A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-

RTS; and Mid-Kansas Electric Company, LLC in Docket Nos. 09-MKEE-969-RTS, 11-MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, and 13-MKEE-452-MIS.

Q. Do you have any other relevant experience?

A. Yes. I have directed well over 100 rate and COS studies and numerous other rate and financial related projects. Many times these projects were conducted for self-regulated electric utilities. I have also performed such analysis which was filed in regulated rate cases on behalf of cooperatives in Iowa, Kansas, Michigan, Minnesota, New Hampshire, and Texas.

I have also conducted seminars and made presentations to utilities, consumers, and industry groups on a variety of topics including: COS, rate design, rate change communications, line extension policies, mergers and acquisitions, DSM pilot programs, conservation and energy efficiency, distributed generation rates, and industry trends.

PART II - SUMMARY OF DIRECT TESTIMONY

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

A. The purpose of my testimony is to support the Application of Southern Pioneer Electric Company, ("Southern Pioneer") for the approval of the Debt Service Coverage ("DSC") Formula Based Rate ("FBR") annual ratemaking mechanism ("DSC-FBR Plan") for the 2013 Test Year in the instant docket.

Q. Are there particular Exhibits to Southern Pioneer's Application that you will be describing and explaining?

A. Yes. My testimony concerns and is supported by the following Exhibits to the Application in the instant docket:

Exhibit 3	-	DSC-FBR Calculation for Test Year
Exhibit 10	-	Supplemental Schedules to Support Filing
Exhibit 11	-	Proposed Tariffs Including Rate Adjustment

Q. Have the exhibits been prepared by you or under your supervision?

A. Yes.

Q. Please briefly recap the DSC-FBR Plan.

A. The DSC-FBR Plan, as approved by the Commission in Docket No. 13-MKEE-452-MIS ("452 Docket"), provides a method for periodic adjustments to rates, as might be necessary, to achieve a predetermined and agreed-upon DSC ratio of 1.75. If the result is a DSC that is less than 1.75, then a rate increase would be implemented, so long as such an increase does not exceed 10 percent calculated on an annual system-wide basis and the equity ratio does not exceed 15 percent.[1] If the DSC is above 1.75, then a rate decrease would be implemented. If the resultant DSC equals 1.75, there would be no change in rates. The details of the calculations for the DSC and any corresponding rate adjustments are outlined in Section E of the Protocols, which are attached to the Southern Pioneer's Application as Attachment A.

Q. What data formed the basis for the 2013 DSC-FBR calculation?

A. Consistent with the Protocols, the calculation was based upon a 2013 Historical Test Year. As such, it utilizes historical figures from Southern Pioneer's December 2013 Financial and Statistical Report ("Form 7") and Trial Balance.

Q. Please summarize the results of the 2013 DSC-FBR calculation.

A. Completing the DSC-FBR template calculation consistent with the Protocols approved by the Commission in the 452 Docket results in the need for a $497,909 revenue reduction. This reflects a Test Year DSC of approximately 1.85 compared to a Commission authorized target DSC of 1.75, thereby requiring a revenue reduction to bring the DSC down to the target level. In accordance with Section I of the Protocols, the decrease is to

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1 Unless such an increase was necessary for Southern Pioneer to avoid violating its debt covenants with its lender. Protocols, p. 5, Section H. The Protocols were attached as Exhibit A to the 452 Docket Settlement approved by the Commission

be spread amongst the retail rate schedules of Southern Pioneer based upon the Test Year base revenue (i.e., gross revenue less purchased power expense). The DSC-FBR calculation for the Test Year is contained in **Exhibit 3**. The following table summarizes the revenue adjustment in total and the allocation to each of the retail rate schedules.

SOUTHERN PIONEER ELECTRIC COMPANY
Allocation of DSC-FBR Rate Adjustment to Rate Schedules

Line No.	Rate Schedule	Rate Schedule Revenue	DSC-FBR Adjustment	Change as Percent
		($)	($)	(%)
1	Residential Service (13-RS)			
2	General Use	15,795,617	(194,999)	-1.2%
3	Space Heating	974,090	(11,197)	-1.1%
4	General Service Small (13-GSS)	1,973,424	(25,148)	-1.3%
5	General Service Large (13-GSL)	15,910,577	(170,374)	-1.1%
6	General Service Space Heating	604,356	(5,679)	-0.9%
7	Industrial Service (13-IS)	3,062,258	(23,841)	-0.8%
8	Interruptible Industrial Service (13-INT)	-	-	N.A.
9	Real -Time Pricing (RTP)	346,853	-	N.A.
10	Transmission Level Service (13-STR)	24,506,560	(35,488)	-0.1%
11	Municipal Power Service (13-M-I)	195,001	(2,266)	-1.2%
12	Water Pumping Service (13-WP)	602,435	(6,321)	-1.0%
13	Irrigation Service (13-IP-I)	244,652	(3,092)	-1.3%
14	Temporary Service (13-CS)	18,172	(242)	-1.3%
15	Lighting	1,015,807	(19,263)	-1.9%
16	**Total Retail Rates**	65,249,803	(497,909)	-0.8%

PART III - ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS

Q. You stated that 2013 actual results formed the basis for the DSC-FBR calculation. The Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer's actual 2013 financial results in completing the DSC FBR template?

A. Consistent with Section E.1 of the Protocols, adjustments were made to the following categories of revenues and/or costs:

- Operating Revenue and Patronage Capital
- Tax Expense - Other
- Interest on Long-Term Debt
- Interest Expense - Other
- Debt Service Payments

Additionally, Section E.3 of the Protocols mandates that certain revenue and expense categories be further allocated to remove the costs associated with Southern Pioneer's 34.5 kV facilities.

Q. Please describe the adjustments made to the 2013 Test Year Operating Revenue and Patronage Capital.

A. The following adjustments were made to the actual Operating Revenue and Patronage Capital reported in Southern Pioneer's December 2013 Form 7:

1. The amount of $653,421 was added to annualize the Rate Adjustment approved by the Commission in the 13-MKEE-699-RTS Docket ("699 Docket"). This adjustment is further detailed in **Exhibit 3**, page 4, lines 2-7.
2. The amount of $388,085 was added to recognize rate revenues from Southern Pioneer's Property Tax Rider. Note that the stated amount of property tax revenues stems from the 14-SPEE-297-TAR Docket ("297 Docket").[2] The $388,085 recorded reflects only the portion attributable to the 2013 property tax expense, thus excluding the share attributable to the under-recovery of the 2012 property tax expenses.[3] This is correct as it

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[2] Although the Order in the 297 Docket was not approved by the Commission until early January 2014, the application was filed in 2013 and concerned the 2013 property tax expense. Hence, it is appropriate to use the amount from this docket rather than to annualize the amount approved in the prior 13-MKEE-695-TAR Docket. The latter, although approved in the Test Year, addresses the recovery of the property tax expense from a period (i.e., 2012) outside of the Test Year.

[3] Note that Southern Pioneer's property tax rider does not recover the full amount of the annual property tax expense, but only the portion not already being recovered in the base rates.

accurately aligns the revenues and expenses for the Test Year. The entire adjustment is further detailed in **Exhibit 3**, page 4, lines 9-10.

Overall, actual Operating Revenue and Patronage Capital of $66,710,186 was increased by $1,041,506, resulting in an adjusted Operating Revenue and Patronage Capital of $67,751,692.

Q. Please describe the adjustments made to the 2013 Test Year Tax Expense - Other.

A. Section E.1.b of the Protocols call for an adjustment to reflect only cash tax expense. Therefore, an adjustment was made to first remove $1,103,296 of non-cash tax expense from the Test Year. Next, and per the Protocols, another adjustment was made to include $47,000 of taxes paid in cash by Southern Pioneer in the Test Year. The entire adjustment is detailed in **Exhibit 3**, page 4, lines 24-29. The same section in the Protocols allows for a further incremental adjustment to be made to the cash tax associated with any corresponding revenue adjustment, if appropriate. However, the cash taxes paid during the Test Year were due to the Alternative Minimum Tax ("AMT"), and the amount would not be affected by revenue adjustments during the Test Year. It is therefore not necessary to make a further adjustment to the cash taxes paid in the Test Year.

Q. Please describe the adjustments made to the 2013 Test Year Interest on Long-Term Debt.

A. The historical amount of Interest on Long-Term Debt for the 2013 Test Year was $5,458,244 as reported on SPEC's Form 7. The Protocols, in Section E.1.c., specify that the actual amount be adjusted to reflect Southern Pioneer's budgeted amount for 2014. Southern Pioneer's budgeted long-term interest expense is $5,699,626, and so an adjustment of $241,382 was included. The details of this adjustment are shown in **Exhibit 3**, page 4, lines 31-36.

Q. Please describe the adjustments made to the 2013 Test Year Interest Expense - Other.

A. The historical amount of Other Interest Expense for the 2013 Test Year was $88,925 as reported on Southern Pioneer's Form 7. Consistent with Section E.1.d of the Protocols, the amount has been adjusted to reflect Southern Pioneer's 2014 Budget for short-term interest expense of $133,359. To accomplish this, an adjustment in the amount of $44,434 was included. The details of the adjustment can be found in **Exhibit 3**, page 5, lines 38-43.

Q. Please describe the adjustments made to the 2013 Test Year Debt Service Payments.

A. Debt Service Payments are comprised of interest and principal payments on debt outstanding. Since I previously discussed the adjustments to interest expense, I will here focus on the adjustment to principal payments. The historical amount of Principal Payments for the 2013 Test Year was $1,507,969 (as reported on Southern Pioneer's Form 7). The Protocols, in Section E.1.e, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted amount for 2014. Southern Pioneer's budget for 2014 principal payments is $1,587,037, and so an adjustment in the amount of $79,068 was included. This adjustment is detailed in **Exhibit 3**, page 5, lines 45-50.

Q. Please describe the allocations made to remove the costs associated with the 34.5 kV system.

A. Section E.3 of the Protocols specifies the methodology for removal of costs associated with SPEC's 34.5 kV facilities. Following is an explanation of the allocations.

Per Section E.3.a of the Protocols, 34.5 kV system-related revenues are to be direct-assigned. An amount of $3,013,062 was removed to account for the 34.5 kV system direct-assigned revenues. This includes $2,881,403 in base rate revenues obtained by multiplying the total 34.5 kV system billing demand by the Local Access Charge ("LAC") rate effective during the Test Year. In addition, it includes $131,659 in 2013 property tax rider revenues to reflect the portion attributable to the 34.5 kV system. The entire adjustment is further detailed in **Exhibit 3**, page 4, lines 13-22.

For Depreciation and Amortization Expense, as per Section E.3.c of the Protocols, $703,465 was deducted from the historical Form 7 amount of $2,635,881 to produce a remainder of $1,932,416 to be included in the DSC-FBR.[4]

For Administrative and General ("A&G"), Property and Gross Receipts Tax, Tax-Other, Interest on Long-Term Debt, Other Interest, Other Capital Credits, Principal Payments, and other applicable items per Sections E.3.b, E.3.d, and E.3.f of the Protocols, the following two allocation ratios are calculated: Transmission Labor Ratio and Net Transmission Plant Ratio.[5] Subtracting their values from 1 (where "1" is representative of 100%, or the total system) to determine a remainder produces the corresponding Distribution Allocation factors used to define the amounts to be included in the DSC-FBR. These allocation factors, as well as the corresponding resultant expense amounts, are listed on **Exhibit 3**, page 1, "Distribution Allocation Factor" and "DSC-FBR" columns, lines 2-46.

PART IV - CALCULATED DSC AND RATE REVENUE ADJUSTMENT

Q. Using the DSC-FBR template, what is Southern Pioneer's DSC ratio for the 2013 Test Year after performing all of the adjustments detailed above?

A. The DSC-FBR template with the adjustments and allocations prescribed by the Protocols produces a DSC ratio of 1.85 for the 2013 Test Year. This is calculated by dividing the Total Adjusted Debt Service Margins of $9,408,099 by the Total Adjusted Debt Service Payments of $5,091,537 as detailed in **Exhibit 3**, page 2, DSC-FBR Column, line 48. This resultant ratio is above the 1.75 target DSC. Consistent with the provisions of Section G of the Protocols, a downward rate adjustment is being requested.

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4 The $703,465 amount attributable to the 34.5 kV system was arrived at by using the historical spread of the depreciation and amortization amounts as recorded for the corresponding GL accounts (403.5, 403.6, 403.7, and 406), with the depreciation and amortization on A&G plant allocated between distribution and the 34.5 kV system on Transmission Labor. .

5 Tax Expense – Other is the only item allocated based upon Operating Margins, with the non-cash tax expense removed (per Section E.3.e of the Protocols)

Q. Please identify and explain how the revenue adjustment was determined within the DSC-FBR template for the 2013 Test Year.

A. Section G of the Protocols directs that the revenue adjustment is to be determined by comparing the Test Year DSC to a 1.75 DSC Ratio. Specifically, Subsection G.b addresses the scenario when the Test Year DSC is greater than the target DSC, specifically instructing that a reduction in rates will be necessary to reduce the Test Year DSC back to 1.75. The first step then is to subtract the Test Year DSC from the target DSC, which would be 1.85 minus 1.75 for a variance of -0.10. Multiplying this variance by the Test Year debt service payments yields a $497,909 revenue decrease requirement. When compared to the DSC-FBR Plan revenue of $64,738,630, this represents less than a 1 percent revenue reduction.

PART V - ALLOCATION OF THE REVENUE ADJUSTMENT TO RATE SCHEDULES

Q. Please describe how you allocated the $497,909 revenue reduction to the individual rate schedules.

A. Section I of the Protocols details that any rate adjustment resulting from the DSC-FBR Plan is to be allocated to the retail rate classes on the Test Year base revenues by rate schedule unless Southern Pioneer files a COS supporting something different and the Commission approves such a request for variance. For purposes of this 2013 Test Year DSC-FBR adjustment, Southern Pioneer is not submitting a COS study and has apportioned the rate adjustment to retail rate classes using the Test Year base revenues, as initially approved in the 13-452 Docket.

Consistent with the Protocols, the 2013 Test Year DSC-FBR Retail Rate Adjustment was apportioned accordingly:

1. First, all power costs recovered in rates were removed from the historical schedule revenues to arrive at the base revenues by rate schedule.

2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base revenues was determined.
3. The base revenue ratios were then applied to the DSC-FBR determined revenue adjustment to establish each rate schedule's apportioned revenue adjustment.[6]

The following table summarizes the results of this process. **Exhibit 3**, page 6 provides further detail.

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8	Interruptible Industrial Service (13-INT)	-	-	N.A.
9	Real -Time Pricing (RTP)	346,853	-	N.A.
10	Transmission Level Service (13-STR)	24,506,560	(35,488)	-0.1%
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15	Lighting	1,015,807	(19,263)	-1.9%
16	**Total Retail Rates**	65,249,803	(497,909)	-0.8%

Q. How do you recommend the resulting decreases by rate schedule be implemented?

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6 As per the Protocols, Section J, the FBR adjustment for the STR class was determined first and system-wide without the impact of additional debt service for investments in distribution plant in the Budget Year. This resulting revenue adjustment was then allocated to the STR class based upon its base revenue. This STR class revenue adjustment was then subtracted from the total to be allocated to the remaining retail rate classes, as detailed in Exhibit 3, page 6 and corresponding work papers contained electronic format of Exhibit 3.

A. The Protocols do not specify how the rate schedule components (i.e. Customer Charge, Energy Charge, Demand Charge, etc.) should be revised to implement rate adjustments. I recommend that the decreases by rate schedule be implemented as a slight reduction to each rate schedule's energy charges only. This is easily determined by dividing the revenue adjustment for each schedule by the historical energy sales. The result is the amount that the current energy charges need to be reduced by class and is shown in Column (k) of **Exhibit 3**, page 6.

The one exception required is for lighting. Since the lighting rate schedules do not have an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have an estimated energy use for the various sizes/types of lights, and so the energy adjustment can still be applied so as to affect the monthly charge in a way that is proportionate to usage. This approach then provides consistency between all the retail rates being adjusted.

Q. Why do you recommend that the revenue decrease be implemented by reducing the current energy charges?

A. Handling this type of adjustment as an energy adjustment is simple, common, reasonably accurate, and particularly appropriate given the relatively minor magnitude of the adjustment. Energy adjustments are an industry-accepted approach for flowing through costs changes that occur between full, or "traditional", rate cases. For example, Southern Pioneer's current Energy Cost Adjustment ("ECA") is an energy-based charge established to flow through not only energy cost but also demand cost changes from the amount embedded in rates during the last full rate case. Similarly, Southern Pioneer's property tax surcharge rider is an energy adjustment established to pass through changes in property tax expense increases since the last full rate case. The DSC-FBR Plan is not a full rate case with its own cost of service study. Therefore it is reasonable to treat any resulting rate adjustments similar to how the ECA and Property Tax Surcharge are treated; i.e. as a per kWh adjustment.

I would also point out that, especially given the results (i.e., less than 1% decrease), the additional effort required to attempt a sort of proportionate change for each rate component is neither economical nor a good use of resources and defeats the intent to minimize consulting and regulatory cost. However, it is possible that this adjustment methodology could change in future years of the DSC-FBR Plan; but given the minor change being made, the benefits of an energy-based adjustment outweigh doing something more detailed, expensive, potentially controversial, and time consuming.

Q. Please explain Exhibit 10 of the Application.

A. **Exhibit 10**, which corresponds to Protocols J.10, provides support information for the filing. Particular to the DSC-FBR calculation, this exhibit provides the 2013 Trial Balance and 2013 payroll history by general ledger account. This information supports the determination of various adjustments and/or allocators such as Net Transmission Plant and Transmission Labor ratios.

Q. Have the proposed tariffs as required in the Protocols in Section J.11 been provided?

A. Yes, they are included as **Exhibit 11** of the Application.

Q. Does this conclude your prefiled Direct Testimony?

A. Yes, it does.

VERIFICATION

STATE OF MINNESOTA)
) ss
COUNTY OF ANOKA)

The undersigned, Richard J. Macke, upon oath first duly sworn, states that he is an employee of Power System Engineering, Inc., and that he has prepared the foregoing testimony, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

Richard J Macke

Richard J. Macke

Subscribed and sworn to before me this 30th day of April, 2014.

Marilyn M. Cuellar

Notary Public

My appointment expires: 1/31/15

MARILYN M. CUELLAR
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2015