

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

In the Matter of Southern Pioneer Electric )  
Company for Approval of the Continuation )  
of its Debt Service Coverage and 34.5 kV ) Docket No. 25-SPEE-\_\_\_-\_\_\_  
Formula Based Ratemaking Plans. )

**DIRECT TESTIMONY OF**  
**CHANTRY C. SCOTT**  
**CFO AND VICE PRESIDENT OF FINANCE AND ACCOUNTING**  
**SOUTHERN PIONEER ELECTRIC COMPANY**  
  
**ON BEHALF OF**  
**SOUTHERN PIONEER ELECTRIC COMPANY**

SEPTEMBER 15, 2025

## **I. INTRODUCTION AND BACKGROUND**

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

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

**Q. What is your profession?**

A. I am the Executive VP – Assistant CEO & CFO (“Assistant CEO”) and Assistant Secretary of Southern Pioneer Electric Company, (“Southern Pioneer”), with its corporate office in Ulysses, Kansas and distribution-customer service offices located in both Liberal and Medicine Lodge, Kansas. I am also Assistant CEO of Pioneer Electric Cooperative, Inc. (“Pioneer Electric”), 100% owner of Southern Pioneer. Pioneer is a member-owned electric cooperative not subject to Kansas Corporation Commission (“KCC” or “Commission”) jurisdiction for rate setting.

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

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

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

A. The purpose of my testimony is to provide support for renewal of the Southern Pioneer Electric Company Combined Formula Based Rate (“FBR”). In addition, I will support suggested changes to the existing FBR protocols which are described in more detail in the

1       direct testimony of company witness, Mr. Rich Macke. I will also briefly discuss the  
2       historical creation of Southern Pioneer as an entity.

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

4       A. I graduated from the University of Kansas in 2000 with a Bachelor of Science in both  
5       Accounting and Business Administration, and in 2001 with a Master of Accounting and  
6       Information Systems. I attended and completed various industry specific trainings  
7       including the National Rural Electric Cooperative Association's Financial Planning and  
8       Strategies Workshop and the Cooperative Financial Professional Certificate program.

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

10      A. I began work at Pioneer in June of 2001 as Senior Accountant, where I assisted the Manager  
11       of Finance and Administration in completing general accounting activities. In December  
12       2003, I was promoted to Manager of Accounting where I oversaw the Financial Accounting  
13       department's activities such as budgeting, financial forecasting, monthly and annual  
14       reporting, and various other accounting activities. In May 2011, I was promoted the position  
15       of Chief Financial Officer and VP of Finance and Accounting at Pioneer. Pursuant to the  
16       July 7, 2006 Services Agreement between Pioneer and Southern Pioneer, I was also  
17       appointed Southern Pioneer's Chief Financial Officer and VP of Finance and Accounting  
18       and Southern Pioneer's Assistant Secretary. Finally, in March 2024, I was promoted to my  
19       current position of Executive VP – Assistant CEO & CFO., with the responsibilities  
20       described herein. Pursuant to the July 7, 2006, Services Agreement between Pioneer  
21       Electric and Southern Pioneer, I fulfill these same roles for Southern Pioneer.

22      **Q. Have you previously presented testimony before the KCC?**

1       A. Yes. I provided direct, and in some instances rebuttal, testimony in Docket No. 12-MKEE-  
2       380-RTS (“12-380 Docket”), Docket No. 13-MKEE-699-RTS (“13-699 Docket”), Docket  
3       No. 15-SPEE-161-RTS (“15-161 Docket”) and Docket No. 18-KPEE-343-COC (“18-343  
4       Docket”), Docket No. 19-SPEE-240-MIS (“19-240 Docket”), Docket No. 20-SPEE-169-  
5       RTS (“20-169 Docket”), and Docket No. 21-SPEE-331-GIE (“21-331 Docket”), 24-SPEE-  
6       415-TAR (“24-415 Docket”), 25-SPEE-307-MIS (“25-307 Docket”), 25-SPEE-395-RTS  
7        (“25-395 Docket”), 25-SPEE-353-TAR (“25-353 Docket”). I have also provided review of  
8       or assisted with preparing responses to and supporting documents for numerous data  
9       requests and witness testimony in numerous Southern Pioneer dockets.

10      **II. THE CREATION OF SOUTHERN PIONEER**

11      **Q. Please provide some historical information on the origination of Southern Pioneer and  
12       describe the business activities of the Company.**

13      A. Southern Pioneer was formed in 2005 in response to Aquila’s announcement of its intention  
14       to sell its Kansas electric assets. Five member-owner cooperatives of Sunflower Electric  
15       and Southern Pioneer, a wholly owned subsidiary of Pioneer Electric, joined to form Mid-  
16       Kansas Electric Company, Inc. (“Mid-Kansas”), a not-for-profit corporation, to acquire and  
17       serve the former Aquila service territory. Mid-Kansas and Aquila executed an Asset  
18       Purchase Agreement dated September 21, 2005 (“the Acquisition”) and submitted the  
19       agreement to the State Corporation Commission of the State of Kansas (“Commission” or  
20       “KCC”) for approval in the 06-524 Docket. On February 23, 2007, the Commission  
21       approved the Acquisition, and pursuant to Commission order, on April 1, 2007, Southern  
22       Pioneer began to serve and independently operate a designated geographic portion of the  
23       Mid-Kansas certificated territory formerly serviced by Aquila. At that time, Mid-Kansas

1 held the Certificate of Convenience and Necessity for the former Aquila area and Southern  
2 Pioneer was serving a portion of the area via a Commission-approved Electric Customer  
3 Service Agreement.

4 **Q. Please continue.**

5 A. As a Mid-Kansas member-owner, and pursuant to a Commission-approved Electric Customer  
6 Service Agreement, Southern Pioneer contractually provided retail service to approximately  
7 17,300 Mid-Kansas consumers in 34 communities in the Mid-Kansas “Southern Pioneer  
8 Division.” Southern Pioneer also provided sub-transmission service to 34.5kV wholesale sub-  
9 transmission users. The Commission approved this arrangement until such time that the Mid-  
10 Kansas certificated territory and customers were transferred to the member-owners on  
11 November 21, 2013, when the Commission issued its order in Docket No. 13-MKEE-447-MIS  
12 (13-447 Docket), approving the Mid-Kansas “spin-down”, which provided for, among other  
13 things, the transfer of the individual certificated territories, consumers, KCC-approved rules  
14 and regulations, and tariffs to each of the Mid-Kansas Members, including Southern Pioneer.  
15 As part of the 13-447 Docket, the Commission granted to Southern Pioneer public utility status,  
16 and the Mid-Kansas customers being served by Southern Pioneer, by virtue of the Electric  
17 Customer Service Agreement noted above, officially became Southern Pioneer Customers.

18 **Q. How was the purchase of the Aquila properties financed by Mid-Kansas?**

19 A. Mid-Kansas financed the Aquila purchase with debt. That debt was apportioned to the Mid-  
20 Kansas members when the Aquila territories and facilities were spun down to those members.  
21 Thus, the assets received by Southern Pioneer were financed 100% by debt, which is the reason  
22 why Southern Pioneer’s initial capital structure was 100% debt with no equity.

1      **III. RENEWAL OF SOUTHERN PIONEER'S FBR PLAN**

2

3      **Q. Please explain your understanding of the proposals being made by Southern Pioneer**

4      **in this case.**

5      A. Southern Pioneer is asking the Commission to approve the continuation of its annual rate

6      adjustment mechanisms, first adopted on September 26, 2013, in Docket No. 13-MKEE-

7      452-MIS (13-452 Docket) as the DSC FBR pilot plan on Southern Pioneer's retail rates,

8      and on March 10, 2016, in Docket No. 16-MKEE-023-TAR (16-023 Docket) as the 34.5

9      kV FBR plan for Southern Pioneer's Local Access Delivery Service (LADS) rates for use

10     of its 34.5 kV sub-transmission assets, and finally in the 19-240 Docket as the Combined

11     FBR Plan.

12     **Q. Is Southern Pioneer recommending any changes to the FBR Protocols?**

13     A. Yes, Southern Pioneer is requesting the following changes be made to the FBR Protocols:

14       1) Removing the "equity cap" that is part of the FBR Template and Protocols, and

15       2) Requested changes to how a revenue adjustment determined by the FBR Plan in an

16       annual update filing is implemented in retail rate design, as discussed in pages 13–17 of

17       the Direct Testimony of Richard J. Macke filed in this docket.

18      **IV. EQUITY TEST**

19      **Q. Why do you recommend modification of the Equity Test?**

20     A. Initially, I believe it is important to note that during the early development of the Equity

21     Test at the time of Initial FBR Plans were created, it was not a prominently disputed issue,

22     since no one expected the cap to come into play during the initial 5 years of the Plan.

23     Southern Pioneer's total equity percentage was so low at the inception of the FBR that

24     reaching the 15% threshold was not of great concern at the time. In addition, at the time of

1 the 13-452 Docket, Southern Pioneer was aware that creating a formula based ratemaking  
2 plan to set distribution rates was a new concept for regulated utilities in Kansas. As such,  
3 Southern Pioneer was willing to provide as many protections as possible to help alleviate  
4 concerns of other stakeholders in the regulatory process. At the time, Southern Pioneer did  
5 not feel its equity would exceed the established equity level cap and the Equity Test seemed  
6 to provide some level of comfort to other parties that rates would not escalate too fast at the  
7 agreed upon DSC level.

8 However, the parties made it clear in the 16-023 Settlement agreement that the 15% cap  
9 was “only for the purpose of the initial three year term of this 34.5 kV FBR Plan” to make  
10 it consistent with the DSC-FBR Plan already in place, and that the term “will not be  
11 considered precedential, or asserted as such, in any other dockets or proceedings, including  
12 any proceeding to extend or otherwise modify this 34.5 kV FBR Plan.”<sup>1</sup>

13 Similarly, in the 19-240 Docket, the Commission approved the Parties’ settlement  
14 changing the Equity Test from a Total Equity Test to a Distribution Equity Test, with a  
15 limitation of 15% Distribution Equity.<sup>2</sup> The Commission expressly stated that “[t]his  
16 Distribution Equity Level is only for the first five years under the Consolidated FBR Plan  
17 and is intended to be an intermediate step and not a permanent target equity ratio. At the  
18 end of the first five years, Southern Pioneer will include in any renewal application a  
19 recommended Equity Test level for the subsequent five-years and a mechanism to limit the  
20 growth of Equity, once Equity nears that recommended level.”<sup>3</sup>

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<sup>1</sup> Unanimous Settlement Agreement, pp. 4-5, ¶12.

Similarly, the Settlement Agreement Protocols in the 13-452 Docket provide that the “agreement on a 15% equity level is for purposes of this DSC-FBR Plan only and will not be considered precedential, or asserted as such, in any other dockets or proceedings.” (P. 5, of the Protocols, section H.)

<sup>2</sup> See Order Approving Settlement, filed August 11, 2020 in the 19-240 Docket, at ¶ 13.e.

<sup>3</sup> *Id.*

1     **Q. Do you believe the experience gained since that time supports a revision to the equity**  
2     **cap?**

3     A. Yes, our experience demonstrates that the Equity Test level should be raised if not  
4     eliminated completely.

5                 The change from a total equity test to a distribution equity test in the 19-240 docket was  
6     an appropriate first step in reforming the Equity Test aspect of Southern Pioneer’s FBR.  
7     Unlike total equity, distribution equity more accurately represents the health of Southern  
8     Pioneer operations and its ability to withstand losses from outside investments, and the one  
9     component impacting equity in which Southern Pioneer has control over is requesting a  
10    reasonable revenue requirement through the FBR Plan. More to the point, Southern  
11    Pioneer does not believe an equity cap serves a substantial purpose if the DSC Parameter in  
12    the FBR Plan is driving it, which is currently the case. Ultimately, equity thresholds do not  
13    drive DSC, which is Southern Pioneer’s primary loan covenant. Rather, DSC drives equity.  
14    It is Southern Pioneer’s position that the focus of the FBR methodology should be the DSC,  
15    and that therefore the Equity Test should be either removed entirely or raised to a much less  
16    onerous level. At current levels, the Equity Test inserts unnecessary regulatory risk in a  
17    formula-based rate plan that was designed to reduce such risk and complication. Indeed,  
18    the recommended DSC Parameter is set at a reasonably low level, below state and national  
19    averages, in order to minimize the potential rate impact on customers. By contrast, the  
20    Equity Test serves little practical purpose at this point, and is not a useful tool to help  
21    minimize rate impacts on customers.

22                 In the end, if the Commission still believes an equity test is absolutely necessary,  
23    Southern Pioneer recommends a distribution equity threshold in line with average

1 distribution equity of similarly situated not-for-profit utilities (e.g. not-for-profit electric  
2 cooperatives). Those averages are:

Distribution Equity		
Year	US Median OTIER	KS Median OTIER
2020	37.37	36.77
2021	37.82	34.70
2022	36.34	33.27
2023	36.16	33.40
2024	35.91	33.74
Ave.	36.72	34.38

3  
4 Although a distribution equity cap in line with the Kansas or national average distribution  
5 equity levels for not-for-profit electric cooperatives would be a meaningful improvement  
6 on the current equity cap, Southern Pioneer's preference would be to remove the Equity  
7 Test altogether at this point for the reasons set forth above.

8 **Q. Do you believe the Equity Test is consistent with good regulatory policy?**

9 A. In this context, I do not, for the reasons explained above. It certainly is not good regulatory  
10 policy at a level as low as 15%. By contrast, it is my understanding that the Commission's  
11 general policy is to encourage utility companies to maintain a balanced capital  
12 structure.<sup>4</sup> Certainly Southern Pioneer is not the same as other regulated utilities, particularly  
13 investor-owned, in Kansas. It is much more like a not-for-profit cooperative in its form and  
14 function. Therefore, to the extent the Commission believes an Equity Cap is necessary, the  
15 cap level should be well above 15%, and should be commensurate with other non-profit  
16 cooperatives.

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<sup>4</sup> Direct Testimony of Adam Gatewood, filed on September 12, 2018 in Docket No. 18-KCPE-480-RTS, p. 9 ("healthy, financially sound electric utilities have traditionally employed capitalization policies of about 50% debt and 50% equity.").

1   **Q. What do you believe is an appropriate capitalization policy for electric distribution**  
2   **utilities and what do lenders typically expect?**

3   A. I believe the goal for Southern Pioneer should be to have a capital structure similar to other  
4   electric distribution utilities, roughly 35-45% distribution equity. Pioneer Electric strives to  
5   maintain a 40-45% distribution equity level. Additionally, in the 16-023 Docket, the  
6   Commission established a distribution equity ratio test of 36.31% for Prairie Land, Victory  
7   Electric and Western Cooperative.<sup>5</sup>

8       In my experience, this type of capitalization policy is consistent with the desires of most  
9   lenders. Data compiled by CFC shows the median distribution equity for CFC borrowers is  
10   37.60% nationally and 35.92% in Kansas. Furthermore, Southern Pioneer's lender, CoBank,  
11   has recently expressed the same expectation in correspondence with Southern Pioneer, stating,  
12   "CoBank typically likes to see that an electric distribution borrower maintain an equity ratio  
13   greater than 25%, and our strongest borrowers maintain equity ratios in the range of 35-45%."  
14   Additionally, these lender equity standards are typically minimum thresholds. One could argue  
15   higher equity positions are acceptable in cases where the utility has substantial risk, such as  
16   dependence on certain industries or individual customers or regulatory and legislative risks.

17   **Q. Do you feel the Equity Test aligns with overall FBR objectives?**

18   A. Generally speaking, I do not. Limiting the recovery of revenue requirements based on an  
19   equity cap is incongruous with several of the overall FBR objectives. One FBR objective,  
20   of primary importance to Southern Pioneer and its lender, is to provide a level of regulatory  
21   certainty around Southern Pioneer's ability to establish rates necessary to meet minimum  
22   lender financial covenants. As stated above, the Equity Test directly conflicts with this

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<sup>5</sup> Order Approving Settlement, issued March 10, 2016, p. 3.

1 primary FBR objective, creating uncertainty and business risk for Southern Pioneer. When  
2 an Equity Cap is in place, especially an unreasonably low Equity Cap, lenders cannot rely  
3 on rates being adjusted under the formula to allow the company to meet its debt covenants  
4 since the Cap could prevent a necessary adjustment simply because it would cause the equity  
5 of the company to go over the Cap. This injects regulatory uncertainty into the equation  
6 and undermines one of the most important purposes of the FBR Plan.

7 **Q. Does the current FBR protocols allow for a waiver of the Equity Test limitation if its  
8 application would be expected to force Southern Pioneer to violate its loan covenant(s)  
9 with its lender?**

10 A. Yes. However, this does not eliminate the regulatory uncertainty described above. Southern  
11 Pioneer has the burden to prove a financial covenant is likely to be violated. In order to  
12 prove the argument, Southern Pioneer would have to forecast or speculate on financial  
13 results a year or two in advance due to the timing lag built into the FBR. Additionally, by  
14 the time Southern Pioneer has completed the process to prove a loan covenant may be  
15 violated, the rate change may not have enough time to ultimately insure the loan covenant  
16 is met. As such, the Equity Test seems to add unnecessary business risk to Southern Pioneer.

17 **Q. Does the Equity Test conflict with other objectives of the FBR?**

18 A. Yes. Another primary objective of the FBR is to minimize annual rate adjustments and  
19 hopefully eliminate rate shock to ratepayers. The Equity Test, if implemented, pushes  
20 revenue requirement needs into future years, resulting in larger, increases to consumers in  
21 the future years. Removing the Equity Test enables Southern Pioneer to provide smaller  
22 incremental increases that can be planned for, when necessary, and it helps avoid  
23 unnecessarily large increases that can negatively impact the plans of consumers.

1     **Q. How do you respond to Staff’s prior arguments that the Equity Cap is appropriate**  
2         **because Southern Pioneer’s customers have no claim to the equity earned by the utility**  
3         **company from which they buy electricity?**

4     A. First, our customers are best served when Southern Pioneer is a financially strong utility  
5         company that can access debt at the best rates possible. A balanced equity ratio serves that  
6         goal; an arbitrary equity cap does not.

7             Second, I believe customers are more impacted and concerned with fluctuations in  
8         Southern Pioneer’s rates rather than the capital structure it decides to utilize. The FBR Plan,  
9         by design, directly addresses this primary concern of consumers—reasonable rates, and  
10         smoothed rate increases. It allows for smaller incremental rate changes on a predictable  
11         timeline, ensures rates are adequate to meet Southern Pioneer’s needs to provide reliable  
12         service and mitigate for various business risks, and guarantees the revenue requirements are  
13         just and reasonable due to a lower than average DSC parameter. Furthermore, to more  
14         directly address the question, I do not believe this is a valid concern normally addressed in  
15         rate cases by the Commission, and given the low DSC parameter requested in the FBR Plan,  
16         I do not feel the Equity Cap protects the consumer in any way.

17     **V. ADDITIONAL REVISIONS**

18     **Q. Are there additional revisions to the FBR Plan that Southern Pioneer is proposing?**

19     A. As discussed in the Direct Testimony of Richard J. Macke (cite pages), Southern Pioneer is  
20         requesting that rate adjustments be allocated pursuant to the updated CCOSS filed by  
21         Southern Pioneer in Docket 24-SPEE-415-TAR (24-415 Docket) In addition, as stated in  
22         Mr. Macke’s testimony at page 16, Southern Pioneer is requesting that rate adjustments be  
23         applied proportionally across all rate components, including the Demand Charge established

1 in Docket the 24-415 Docket. Southern Pioneer's position on these additional changes is  
2 adequately addressed in Mr. Macke's Direct Testimony. I am not adding any analysis to  
3 what is provided in his testimony on these two additional changes, I am simply identifying  
4 and highlighting that Southern Pioneer is requesting the changes, in addition to those  
5 discussed in depth in my testimony.

6 **VI. DEBT SERVICE COVERAGE PARAMETER**

7 **Q. What is your recommendation with respect to the Debt Service Coverage ("DSC")**  
8 **parameter set at 1.60?**

9 A. Southern Pioneer is not requesting and I do not recommend a change to the Debt Service  
10 Coverage ratio, which was established in the 19-240 Docket at 1.60. Again, Southern  
11 Pioneer desires to provide the best possible service to our customers at the lowest possible  
12 cost while mitigating business risks. Lower DSC reduces cost to our customers. Southern  
13 Pioneer was pleased in the 19-240 Docket to be able to reduce the DSC Parameter from  
14 1.75 to 1.60. Our experience over the intervening years has been that the DSC at a level of  
15 1.60 has been favorable, and therefore does not need to be adjusted in this docket.

16 **Q. Why shouldn't the DSC Parameter be dropped to lower than 1.60?**

17 A. As I mentioned, Southern Pioneer must maintain a year-end DSC level of 1.35 to meet  
18 lender requirements. A DSC Parameter less than 1.60 provides minimal margin for error.  
19 Considering the natural revenue recovery lag built into the proposed FBR Plan and  
20 prevailing risks in the utility industry (such as weather events, loss of kWh sales, or  
21 construction needs), a DSC Parameter of 1.60 allows Southern Pioneer to meet its lender  
22 requirements, balancing business risk with the impact of rate increases on our customers.

23 **VII. CONCLUSION**

1      **Q. Does this conclude your Direct Testimony?**

2      A. Yes, it does.

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## VERIFICATION

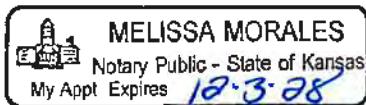
STATE OF KANSAS        )  
                              ) ss:  
COUNTY OF GRANT        )

The undersigned, Chantry C. Scott, upon oath first duly sworn, states that he is Executive VP – Assistant CEO & Chief Financial Officer of Southern Pioneer Electric Company, that he has reviewed the foregoing document titled “Direct Testimony of Chantry C. Scott” before the State Corporation Commission of the State of Kansas, 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.



Chantry C. Scott

Subscribed and sworn to before me this 8<sup>th</sup> day of September, 2025.



Notary Public

My appointment expires: 12-3-28

## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the above and foregoing was electronically filed with the Kansas Corporation Commission on September 17, 2025, and that one copy was delivered electronically to all parties on the service list as follows:

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