

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF SOUTHERN PIONEER ELECTRIC]
COMPANY FOR APPROVAL TO MAKE]
CERTAIN CHANGES TO ITS CHARGES FOR]
ELECTRIC SERVICE PURSUANT TO THE] KCC DOCKET NO. 23-SPEE-792-RTS
CONSOLIDATED FORMULA BASED]
RATEMAKING PLAN APPROVED IN]
DOCKET NO. 19-SPEE-240-MIS]

TESTIMONY IN SUPPORT OF ADJUSTMENTS

PATRICK ORR

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

JUNE 30, 2023

1 **I. STATEMENT OF QUALIFICATIONS**

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

3 A. My name is Patrick N. Orr, and my business address is 1500 SW Arrowhead Road, Topeka,
4 Kansas 66604.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Kansas Citizens' Utility Ratepayer Board (CURB) as a Regulatory
7 Analyst.

8 **Q. Please summarize your professional experience in the utility industry.**

9 A. I have been employed as a rate analysis with CURB since 2019. Since beginning my
10 employment with CURB I have researched and analyzed various utility dockets filed with
11 the Kansas Corporation Commission ("KCC" or "Commission").

12 **Q. Have you previously testified before the Commission?**

13 A. Yes, I have testified in various dockets before the Commission. Relevant to this docket, I
14 provided cross-answering testimony in KCC Docket No. 19-SPEE-240-MIS ("19-240
15 Docket"), regarding the Southern Pioneer Electric Company's ("Southern Pioneer") Debt
16 Service Coverage ("DSC") and 34.5 kV Formula Based Rate ("FBR") Plans.

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

18 A. I have a Bachelor of Business Administration degree in Finance and Personnel
19 Management from Washburn University (1980). I worked for the Kansas Department of
20 Administration for thirty years. In that position, I was responsible for preparing rates for
21 information technology (IT) services in accordance with *Circular A-87 Cost Principles for*

1 *State, Local and Indian Tribal governments.*

2

3 **II. PURPOSE OF TESTIMONY**

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

5 A. The purpose of my testimony is to provide support for the adjustments to Southern
6 Pioneer's DSC and 34.5 kV FBR, as presented in Southern Pioneer's application in this
7 docket ("23-792 Docket"). The application that Southern Pioneer filed in the 23-792
8 Docket is Southern Pioneer's third annual rate adjustment since the Commission last
9 approved Southern Pioneer's FBR.¹

10 **Q. Please provide a historical overview concerning Southern Pioneer.**

11 A. Southern Pioneer was formed in 2005 in response to Aquila's announcement of its intention
12 to sell its Kansas electric assets. Five member-owner cooperatives of Sunflower Electric
13 and Southern Pioneer, a wholly owned subsidiary of Pioneer Electric, joined to form Mid-
14 Kansas Electric Company, Inc. ("Mid-Kansas"), a not-for-profit corporation, to acquire
15 and serve the former Aquila service territory. The acquisition of the Aquila territory was
16 approved by Commission order on April 1, 2007. Southern Pioneer began to serve, and
17 independently operate a portion of the Mid-Kansas certificated territory which was
18 serviced by Aquila. Southern Pioneer serves approximately 17,300 Mid-Kansas
19 consumers in 34 communities.

20 Mid-Kansas financed the Aquila purchase with debt which they apportioned to their

1. Application for Pioneer Electric Cooperative, Inc., dated May 1, 2023, p. 1.

1 members when Aquila territories and facilities were spun down to those members. Thus,
2 the assets received by Southern Pioneer were financed 100% by debt, which is the reason
3 why Southern Pioneer's initial capital structure was 100% debt with no equity.²

4 **Q. Please provide an overview of Southern Pioneer's current FBR Plan.**

5 A. On August 11, 2020, the Commission approved Southern Pioneer's current FBR Plan in
6 the 19-240 Docket. The 19-240 Docket established a five-year FBR plan beginning August
7 2020 with various changes to the rate making process, as well as a number of protocols for
8 Southern Pioneer to manage ratemaking. The settlement agreement from the 19-240
9 Docket increased the DSC ratio used for rates to 1.60. Considering the natural revenue
10 recovery lag built into the proposed FBR Plan and prevailing risks in the utility industry
11 (such as weather events, loss of kWh sales, or construction needs), a DSC Parameter of
12 1.60 allows Southern Pioneer to meet its lender requirements, balancing business risk with
13 the impact of rate increases on our customers.³ In addition, the Settlement in the 19-240
14 Docket established an Equity Test which places a limit on the amount Southern Pioneer's
15 rates can be increased based on a cap of 15% equity generated by revenue from its
16 distribution customers. The FBR mechanism allows Southern Pioneer to make annual
17 updates to its retail rates charged to customers receiving service from its distribution
18 system, and to its Local Access Delivery Service ("LADS") rate to those customers
19 receiving service off its 34.5 kV sub-transmission system. These adjustments enable

2. 19-SPEE-240 Docket, Direct Testimony of Randall Magnison, Executive Vice President & Assistant Chief Executive Officer, Southern Pioneer Electric Company, December 9, 2019, p. 6.

3. 19-SPEE-240 Docket, Direct Testimony of Chantry Scott, CFO & Vice President of Finance and Accounting, Southern Pioneer Electric Company, December 9, 2019 p. 8.

1 Southern Pioneer to maintain a 1.60 DSC ratio for both systems.

2 **Q. What is the purpose of Southern Pioneer's FBR Plan Protocols?**

3 A. The FBR Plan Protocols ("Protocols") purpose is to allow for timely adjustments to the
4 wholesale LADS charge and retail rates. This is an annual formula-based ratemaking
5 mechanism without the expense (public and private) and regulatory lag related to preparing
6 and presenting a full rate case every year before the Commission.⁴

7 The initial filing under this FBR Plan occurred in 2021. Every five years while the
8 Plan is in effect, Southern Pioneer may file with the Commission a request to continue the
9 FBR Plan for another five years, with support and rationale for its position. Typically,
10 Southern Pioneer will file testimony explaining the rationale for requesting the
11 continuation of the FBR Plan and any proposed changes to the FBR Plan.⁵

12 **Q. What methodology must Southern Pioneer follow to calculate its DSC and FBR costs?**

13 A. Each filing shall be based on actual results as presented in the sources below and utilizing
14 the Rural Utilities Service ("RUS") Uniform System of Accounts:

- 15 • December National Rural Utilities Cooperative Finance Corporation
16 Financial and Statistical Report (CFC Form 7).
- 17 • December Trial Balance
 - 18 • December Payroll Journal
 - 19 • December Balance Sheet
- 20

21 The calculations follow the form and format approved by the Commission in the

4. Southern Pioneer FBR Plan Protocols, Exhibit 1, May 1, 2023, p. 2.

5. Id, p. 3.

1 19-240 Docket.⁶ These exhibits are supported by the Application for Pioneer Electric
2 Cooperative, Inc. and the Prefiled Direct Testimony of Richard J. Macke on Behalf of
3 Southern Pioneer Electric Company dated May 1, 2023, and amended testimony dated May
4 19, 2023.

5 **Q. Please provide an overview of the DSC formula.**

6 A. As defined in Article 7, Section 7.1 of Southern Pioneer's Credit Agreement with CoBank,
7 the Debt Service Coverage Ratio means:

8 The ratio of: (a) net income (after taxes and after eliminating any gain or
9 loss on sale of assets or other extraordinary gain or loss), plus depreciation
10 expense, amortization expense, and interest expense, non-cash tax expense,
11 and other non-cash expenses (such as actuarial pension expenses) minus
12 non-cash patronage, and non-cash income from joint ventures, and cash tax
13 expense; to (b) all principal payments due within the period on all Long-
14 Term Debt ... plus interest expense (all as calculated on a consolidated basis
15 for the applicable period in accordance with the Accounting Standards).⁷
16

17 **Q. Please provide an overview of the 15% Equity Test.**

18 A. Section E *Debt Service Coverage Parameters and Equity Test* of Southern Pioneer's Credit
19 Agreement with CoBank, defines the Equity Test as:

20 A rate increase will not be implemented that would achieve or maintain an
21 equity percent of assets in excess of 15 percent, unless such an increase is
22 reasonably determined to be necessary to allow Southern Pioneer to meet
23 its loan covenant(s) with its lender. For this purpose, equity shall be
24 Distribution Equity, calculated as total equity and total assets less
25 equity/investment from associated organizations.⁸
26

27 Southern Pioneer must show the proposed rate increase will maintain an equity test

6. Southern Pioneer FBR Plan Protocols, Exhibit 1, May 1, 2023, p. 4.

7. 19-SPEE-240-MIS Docket, Direct Testimony of Richard Macke, December 9, 2019, p. 21.

8. Id, p. 4.

1 ratio of 15% or less. This calculation involves subtracting investments in associated
2 organizations from total margins and equities and dividing the result by the sum of total
3 assets less investments in associated organizations.

4
5 **III. SUMMARY OF ADJUSTMENTS**

6 **Q. What data did CURB review to formulate its recommendation?**

7 A. CURB reviewed the *Application for Pioneer Electric Cooperative, Inc.*, dated May 1,
8 2023; the *Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer*
9 *Electric Company* dated May 1, 2023; and Mr. Macke's Amended Direct Testimony filed
10 on May 19, 2023, and accompanying exhibits. In addition, CURB reviewed *Form 7:*
11 *National Rural Utilities Cooperative Financial and Statistical Report* for the past three
12 operating years, workpapers detailing the allocation of costs between the 34.5 kV System
13 and Distribution System, and historical revenue rates and energy sales by rate schedules.

14 **Q. What adjustments did Southern Pioneer make to test year expenditure categories?**

15 A. Southern Pioneer made adjustments to actual results for the Test Year as follows:
16

- 17 • Annualize rate changes approved in last year's FBR Plan
- 18 • Property Tax Surcharge expense
- 19 • Debt service principal payments
- 20 • Operating expenses⁹

21 **Q. What changes in Southern Pioneer's operations led to a rate increase?**

22 A. Southern Pioneer experienced overall increases in the cost of electric service. These

9. Amended Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 19, 2023, pp. 10-13.

1 include increases in employee compensation, purchased power expense as well as total
2 operation and maintenance expense.

3 **Q. Please provide a summary of Southern Pioneer's adjustments in this filing.**

4 A. In its initial May 1, 2023, filing in this docket, Southern Pioneer requested a distribution
5 system revenue decrease of \$287,652 representing an average 0.3%.¹⁰ This modification
6 would bring the DSC ratio for the distribution system rate to 1.60. After further analysis,
7 Southern Pioneer discovered a formulaic error in the calculation of its distribution system
8 adjustments. As a result, Southern Pioneer filed an updated plan that contained a revenue
9 increase of \$1,171,612 (or 1.4%) to increase the DSC to 1.60.¹¹

10 **Q. What is the projected increase in an average residential customer's monthly bill?**

11 A. As shown in Exhibit 3 of the Amended SPEC 2023 FBR Plan Template and Workpapers
12 Rate Adjustment Tab, Southern Pioneer projects an average residential customer delivery
13 charge increasing from \$0.13872 to \$0.14367.¹² The monthly bill impact on a residential
14 customer using approximately 1,000 kWh per month will be an increase of approximately
15 \$5.00 per month.¹³

16 **Q. Please provide a summary of the revenue adjustments to the FBR as proposed by**
17 **Southern Pioneer for its Distribution System Customers.**

18 A. As I testified earlier, Southern Pioneer Electric's FBR Plan is designed to achieve a DSC

10. Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 1, 2023, p. 7.

11. Amended Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 19, 2023, p. 7.

12. Exh-03 Amended SPEC 2023 FBR Plan Template and Workpapers Rate Adjustment Tab, dated June 20, 2023.

13. Id, Rate Adjustment Tab.

1 ratio of 1.60 for its distribution system. After updating its FBR template, Southern Pioneer
2 calculated a DSC ratio of 1.48 for its distribution system for the 2022 test year. Since the
3 ratio was less than 1.60, Southern Pioneer subtracted 1.48 ratio from the targeted ratio of
4 1.60 resulting in a variance of 0.12. Southern Pioneer then multiplied the variance by 2022
5 debt service payments to calculate the net operating increase.

6 Southern Pioneer projects the total adjustment from combined distribution systems
7 and 34.5 kV facilities to be \$1,516,168. This amount includes \$344,556 from the 34.5 kV
8 System Adjustment and \$1,171,612 from the Distribution System Adjustment.¹⁴ Note,
9 these figures are inclusive of true-up amounts. The increase will be spread amongst
10 distribution system customers based upon test year base revenue.

11 **Q. Please provide a summary of the revenue adjustments to the FBR as proposed by**
12 **Southern Pioneer for its 34.5 kV Sub-Transmission Customers.**

13 A. The calculation shows that Southern Pioneer achieved a DSC ratio of 1.42 for the 34.5 kV
14 sub-transmission 2022 test year. Since the ratio was less than 1.60, Southern Pioneer
15 subtracted 1.42 from 1.60 which resulted in a variance of 0.18 yielding a net operating
16 income increase of \$480,024. This represents an average 12.1% increase.¹⁵ Southern
17 Pioneer then allocates approximately 28% or \$135,469 of these costs to wholesale LADS
18 customers and 72% or \$344,556 to retail customers who take service over their 34.5 kV
19 facilities. As a result, the proposed wholesale LADS rate will increase by \$0.56 per kWh

14. Amended Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 19, 2023, p. 8.

15. Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 1, 2023, p. 6.

1 increase to the current rate of \$4.03/kW.¹⁶ Cost increases are due to Transmission and
2 Administrative Expense and Operating Margins increases.

3 **Q. Did Southern Pioneer properly calculate the DSC ratio of 1.60 for the 34.5 kV and**
4 **Distribution System adjustments?**

5 A. Yes, the protocols require Southern Pioneer to follow established procedures to produce a
6 DSC ratio for both systems. As evidenced in Exhibit 3 *Amended SPEC 2023 FBR Plan*
7 *Templates and Workpapers*, Southern Pioneer calculated the DSC ratio by dividing total
8 debt service margins by debt service payments:

9 34.5 kV System: $\$2,895,108 \div \$2,039,943 = 1.42$

10 Distribution System: $\$10,250,834 \div \$6,948,873 = 1.48^{17}$

11 The result of this calculation returns an equity test result of 7.81% which is under
12 the 15% ceiling. Therefore, the proposed adjustments fall within the boundaries
13 established by the Protocols.

14
15 **IV. RECOMMENDATION**

16 **Q. What is your recommendation regarding Southern Pioneer's Updated FBR Filing?**

17 A. CURB supports Southern Pioneer's calculations and amended FBR filing requesting a rate
18 increase and, therefore, recommends that the Commission approve Southern Pioneer's

16. Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 1, 2023, p. 16.

17. Amended Prefiled Direct Testimony of Richard J. Macke on Behalf of Southern Pioneer Electric Company, dated May 19, 2023, p. 15.

1 application. Southern Pioneer's filing complies with the methodology established in the
2 19-240 Docket and results in just and reasonable rates by providing Southern Pioneer a
3 reasonable opportunity to generate sufficient revenue to meet its loan covenant.

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

5 A. Yes, it does.

VERIFICATION

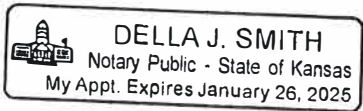
STATE OF KANSAS)
)
COUNTY OF SHAWNEE) ss:

I, Patrick Orr, of lawful age and being first duly sworn upon my oath, state that I am a Regulatory Analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.



Patrick Orr

SUBSCRIBED AND SWORN to before me this 30th day of June, 2023.





Notary Public

My Commission expires: 01-26-2025.

CERTIFICATE OF SERVICE

23-SPEE-792-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 30th day of June, 2023, to the following:

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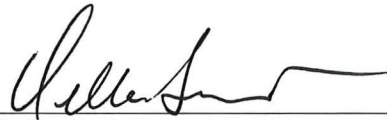
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