

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.) Docket No. 17-SPEE-_____-RTS
13-MKEE-452-MIS and 34.5kV Formula)
Based Ratemaking Plan Approved in)
Docket No. 16-MKEE-023-TAR.)

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

April 26, 2017

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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. PSE 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; Topeka, Kansas; Lexington, Kentucky; 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, Kentucky, Minnesota, 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,

1 Louisiana, I assisted in various electric and gas utility matters. I also provided general
2 financial, management, and public policy support to clients.

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

20 **Q. Have you previously presented testimony before the Kansas Corporation Commission**
21 **(“KCC” or “Commission”)?**

22 A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-
23 PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-RTS;
24 Mid-Kansas Electric Company, LLC (“Mid-Kansas”) in Docket Nos. 09-MKEE-969-RTS, 11-
25 MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, 13-MKEE-452-MIS, and 16-

1 MKEE-023-TAR; Southern Pioneer Electric Company (“Southern Pioneer”) in Docket Nos.
2 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, and 16-
3 SPEE-501-TAR; Prairie Land Electric Cooperative, Inc. in Docket No. 16-PLCE-490-TAR;
4 Victory Electric Cooperative Association, Inc. in Docket No. 16-VICE-494-TAR; and Western
5 Cooperative Electric Association in Docket No. 16-WSTE-496-TAR.

6 **Q. Do you have any other relevant experience?**

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

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

15
16 **PART II - SUMMARY OF DIRECT TESTIMONY**

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

18 A. The purpose of my testimony is to support the Application of Southern Pioneer for the approval
19 of the Debt Service Coverage (“DSC”) Formula Based Rate (“FBR”) annual ratemaking
20 mechanism for the distribution system (“DSC-FBR Plan”) and 34.5kV FBR annual ratemaking
21 mechanism for the sub-transmission system (“34.5kV FBR Plan”) for the 2016 Test Year in
22 the instant Docket.

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1 **Q. Please explain how your testimony is organized.**

2 A. Part III below is bifurcated into Sections A and B. Section A, Sub-sections 1-4, describes the
3 results of the DSC-FBR Plan calculation for the Test Year; and Section B, Sub-sections 1-4,
4 discusses the results of the 34.5kV FBR Plan calculation for the Test Year.

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

7 A. Yes. My testimony concerns, and is supported by, the following Exhibits to the Application
8 in the instant Docket:

9 Exhibit 3-A - DSC-FBR Calculation for Test Year

10 Exhibit 3-B - 34.kV FBR Calculation for Test Year

11 Exhibit 11 - Proposed Tariffs Reflecting Combined DSC-FBR and 34.5kV FBR Rate
Adjustment

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

13 A. Yes.

14
15 **PART III - FBR CALCULATIONS**

16 **SECTION A - DSC-FBR PLAN**

17 **1. SUMMARY OF THE DSC-FBR PLAN RESULTS**

18 **Q. Please briefly recap the DSC-FBR Plan.**

19 A. The DSC-FBR Plan, as approved by the Commission in Docket No. 13-MKEE-452-MIS
20 ("13-452 Docket"), provides a method for periodic adjustments to rates, as might be
21 necessary, to achieve a DSC ratio of 1.75. If the result is a DSC that is less than 1.75, then
22 a rate increase would be implemented, so long as such an increase does not exceed 10
23 percent calculated on an annual system-wide basis and the equity ratio does not exceed 15
24
25

1 percent.¹ If the DSC is above 1.75, then a rate decrease would be implemented. If the
2 resultant DSC equals 1.75, there would be no change in rates. The details of the calculations
3 for the DSC and any corresponding rate adjustments are outlined in Section E of the DSC-
4 FBR Protocols, which are attached to Southern Pioneer's Application as Attachment A.

5 **Q. What data formed the basis for the 2017 DSC-FBR Plan calculation?**

6 A. Consistent with the Protocols, the calculation was based upon a 2016 Historical Test Year. As
7 such, it utilizes historical figures from Southern Pioneer's December 2016 Financial and
8 Statistical Report ("Form 7"), Trial Balance, and Payroll Journal.²

9 **Q. Please summarize the results of the 2017 DSC-FBR Plan calculation.**

10 A. Completing the DSC-FBR Plan template calculation consistent with the DSC-FBR Plan
11 Protocols approved by the Commission in the 13-452 Docket results in the need for a slight
12 revenue decrease of \$745,507. This reflects a Test Year DSC of approximately 1.88 compared
13 to a Commission-authorized target DSC of 1.75, thereby requiring a revenue decrease to lower
14 the DSC to the target level. In accordance with Section I of the DSC-FBR Plan Protocols, the
15 decrease is to be spread amongst the retail rate schedules of Southern Pioneer based upon the
16 Test Year base revenue (i.e., gross revenue less purchased power expense). The DSC-FBR
17 Plan calculation for the Test Year is contained in Exhibit 3-A. Table 1-A on the following
18 page summarizes the revenue adjustment in total and the allocation to each of the retail rate
19 schedules.

24 ¹ Unless such an increase was necessary for Southern Pioneer to avoid violating its debt covenants with its
lender, DSC-FBR Plan Protocols, Page 5, Section H.

25 ² Included in Southern Pioneer's Application as part of Exhibits 2 (Form 7), 4 (Trial Balance), and 10a
(Payroll Journal).

Table 1-A

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 (16-RS)			
2	General Use	15,763,392	(288,053)	-1.83%
3	Space Heating	921,170	(16,169)	-1.76%
4	General Service Small (16-GSS)	1,782,516	(35,370)	-1.98%
5	General Service Large (16-GSL)	17,257,351	(270,008)	-1.56%
6	General Service Space Heating	566,001	(8,052)	-1.42%
7	Industrial Service (16-IS)	3,887,870	(51,096)	-1.31%
8	Industrial Service-Primary Discount	-	-	N.A.
9	Real -Time Pricing (13-RTP)	1,845,507	-	N.A.
10	Transmission Level Service (16-STR)	23,358,311	(27,586)	-0.12%
11	Municipal Power Service (16-M-I)	197,384	(3,393)	-1.72%
12	Water Pumping Service (16-WP)	686,955	(10,747)	-1.56%
13	Irrigation Service (16-IP-I)	299,002	(5,375)	-1.80%
14	Temporary Service (16-CS)	22,336	(480)	-2.15%
15	Lighting	1,083,757	(29,179)	-2.69%
16	Total Retail Rates	67,671,552	(745,507)	-1.10%

2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the DSC-FBR PLAN

Q. You stated that 2016 actual results formed the basis for the DSC-FBR Plan calculation.

The DSC-FBR Plan Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer’s actual 2016 financial results in completing the DSC-FBR Plan template?

A. Consistent with Section E.1 of the DSC-FBR Plan 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

Further, per Section G(f) of the DSC-FBR Plan Protocols and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), the following expense categories were adjusted to remove certain amounts associated with the dues, donations, charitable contributions, promotional advertising, penalties and fines, and entertainment expenses incurred during the Test Year:³

- Distribution Expense - Operation
- Customer Accounts Expense
- Customer Service and Informational Expense
- Sales Expense
- Administrative and General (“A&G”) Expense
- Other Deductions

The position and reasoning in support of inclusion or exclusion of these items is provided in the testimony of Mr. Randall D. Magnison, filed on behalf of Southern Pioneer in the instant Docket. Additionally, Section E.3 of the DSC-FBR Plan Protocols mandates that certain revenue and expense categories be further allocated to remove the costs associated with Southern Pioneer’s 34.5kV sub-transmission facilities.

Q. Please describe the adjustments made to the 2016 Test Year Operating Revenue and Patronage Capital.

A. The amount of \$673,949 was added to recognize a rate adjustment (increase) approved by the Commission on August 2, 2016 in Southern Pioneer’s third annual DSC-FBR Plan update filed in the 16-SPEE-497-RTS Docket. The entire adjustment is further detailed in Exhibit 3-A,

³ K.S.A. 66-101f (a) allows adoption of a policy of “ disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate.”

1 Page 4, Lines 2-7. Accordingly, actual Operating Revenue and Patronage Capital of
2 \$69,890,650, reported on Southern Pioneer's December 2016 Form 7, was increased by
3 \$673,949, resulting in an adjusted Operating Revenue and Patronage Capital of \$70,564,599.

4 **Q. Please describe the adjustments made to the 2016 Test Year Tax Expense - Other.**

5 A. Section E.1.b of the DSC-FBR Plan Protocols calls for an adjustment to reflect only cash tax
6 expense. In 2016, the total amount of taxes paid by Southern Pioneer in cash was \$25,000, as
7 evidenced in Work Paper 3-A attached to Exhibit 3-A. Therefore, an adjustment was made to
8 remove \$3,269,166 of non-cash tax expense from the Test Year. The adjustment is detailed in
9 Exhibit 3-A, Page 5, Lines 37-41.

10 **Q. Please describe the adjustments made to the 2016 Test Year Interest on Long-Term Debt.**

11 A. The historical amount of Interest on Long-Term Debt for the 2016 Test Year was \$5,660,152
12 as reported on Southern Pioneer's Form 7. The DSC-FBR Plan Protocols, in Section E.1.c.,
13 specify that the actual amount be adjusted to reflect Southern Pioneer's budgeted amount for
14 2017. Southern Pioneer's budgeted long-term interest expense is \$5,517,254, and so a
15 downward adjustment of \$142,898 was included. The details of this adjustment are shown in
16 Exhibit 3-A, Page 5, Lines 43-47.

17 **Q. Please describe the adjustments made to the 2016 Test Year Interest Expense - Other.**

18 A. The historical amount of Other Interest Expense for the 2016 Test Year was \$83,838 as
19 reported on Southern Pioneer's Form 7. Consistent with Section E.1.d of the DSC-FBR Plan
20 Protocols, the amount has been adjusted to reflect Southern Pioneer's 2016 Budget for short-
21 term interest expense of \$126,543. To accomplish this, an upward adjustment in the amount
22 of \$42,705 was included. The details of the adjustment can be found in Exhibit 3-A, Page 5,
23 Lines 49-53.

24 **Q. Please describe the adjustments made to the 2016 Test Year Debt Service Payments.**

1 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.

2 Since I previously discussed the adjustments to interest expense, I will here focus on the
3 adjustment to principal payments. The historical amount of Principal Payments for the 2016
4 Test Year was \$2,206,843 (as reported on Southern Pioneer's Form 7). The DSC-FBR Plan
5 Protocols, in Section E.1.e, require that the Test Year be adjusted to reflect Southern Pioneer's
6 budgeted amount for 2017. Southern Pioneer's budget for 2017 principal payments is
7 \$2,342,097, so an upward adjustment in the amount of \$135,254 was included. This
8 adjustment is detailed in Exhibit 3-A, Page 5, Lines 55-59.

9 **Q. Please describe the adjustments made to the 2016 Test Year Operating Expenses in**
10 **conjunction with Section G(f) of the Protocols and the Commission's policy per K.S.A.**
11 **66-101f (a).**

12 A. The historical amounts of the following operating expenses were adjusted as shown:

- 13 • 2016 Distribution Expense - Operation expense of \$4,420,104 was reduced by \$22,546,
14 resulting in the \$4,397,558 adjusted amount.
- 15 • Customer Accounts Expense of \$1,250,910 was reduced by \$2,424, resulting in the
16 \$1,248,486 adjusted amount.
- 17 • Customer Service and Informational Expense of \$132,233 was reduced by \$21,942,
18 resulting in the \$110,291 adjusted amount.
- 19 • Sales Expense of \$13,594 was reduced by \$13,455, resulting in the \$139 adjusted
20 amount.
- 21 • A&G Expense of \$1,868,421 was reduced by \$16,379, resulting in the \$1,852,042
22 adjusted amount.
- 23 • Other Deductions of \$829,459 was reduced by \$35,628, resulting in the \$793,831
24 adjusted amount.

1 Overall, \$112,374 was removed. The details are shown in Exhibit 3-A, Page 4, Lines 25-
2 35.

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

5 A. Section E.3 of the DSC-FBR Plan Protocols specifies the methodology for removal of costs
6 associated with Southern Pioneer's 34.5kV sub-transmission facilities. Following is an
7 explanation of the allocations.

8 Per Section E.3.a of the DSC-FBR Plan Protocols, 34.5kV system-related revenues are to
9 be direct-assigned using 34.5kV system rates effective during the Test Year. An amount of
10 \$4,535,551 was removed to account for the 34.5kV system direct-assigned revenues. This
11 includes \$4,232,408 in base rate revenues obtained by multiplying the total 34.5kV system
12 billing demand by the Local Access Delivery Service ("LADS") rate effective during the Test
13 Year.⁴ In addition, it includes \$303,143 in 2016 Property Tax Surcharge ("PTS") rider
14 revenues to reflect the portion attributable to the 34.5kV system. The latter amount was
15 determined by multiplying the total 34.5kV system billing demand by the PTS rate effective
16 during the Test Year.⁵ The entire adjustment is further detailed in Exhibit 3-A, Page 4, Lines
17 9-23. After the removal of the direct-assigned 34.5kV system revenues, the resultant DSC-
18 FBR Plan Operating Revenue and Patronage Capital is \$66,029,048, as evident on Page 1, Line
19 2, Column "DSC-FBR" of Exhibit 3-A.

20 For Depreciation and Amortization Expense, as per Section E.3.c of the DSC-FBR Plan
21 Protocols, \$869,471 was deducted from the historical Form 7 amount of \$3,026,359 to produce
22 a remainder of \$2,156,888 to be included in the DSC-FBR Plan.

24 ⁴ As noted on Page 4 of Exhibit 3-A, the \$4.51/kW LADS rate effective during the Test Year changed to
25 \$4.19/kW in August per Commission Order issued in 16-SPEE-501-TAR docket.

⁵ Per 16-SPEE-306-TAR.

1 For A&G, Property and Gross Receipts Tax, Interest on Long-Term Debt, Other Interest,
2 Other Capital Credits, Principal Payments, and other applicable items per Sections E.3.b, E.3.d,
3 and E.3.f of the DSC-FBR Plan Protocols, the following two allocation ratios are calculated:
4 Transmission Labor Ratio (“LAB”) and Net Transmission Plant Ratio (“NP”). Subtracting
5 their values from 1 (where “1” is representative of 100 percent, or the total system) to
6 determine a remainder produces the corresponding Distribution Allocation factors used to
7 define the amounts to be included in the DSC-FBR Plan.⁶ These allocation factors, as well as
8 the corresponding resultant expense amounts, are listed on Exhibit 3-A, Pages 1-2,
9 “Distribution Allocation Factor” and “DSC-FBR” Columns, Lines 2-45. The calculation is
10 detailed in Work Paper 1-A attached to Exhibit 3-A.

11 Tax Expense - Other (cash portion) was allocated to the DSC-FBR Plan based on Operating
12 Margins per Section E.3.e of the DSC-FBR Plan Protocols. The resulting allocation factor was
13 calculated at 0.8882, as evidenced in Exhibit 3-A, Page 1, “Distribution Allocation Factor”
14 Column, Line 16. Accordingly, the resulting amount assigned to the DSC-FBR Plan was
15 \$22,205, as reflected in the “DSC-FBR” Columns, Line 16.

16 **3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT**

17 **Q. Using the DSC-FBR Plan template, what is Southern Pioneer’s DSC ratio for the 2016**

18 **Test Year after performing all of the adjustments detailed above?**

19 A. The DSC-FBR Plan template with the adjustments and allocations prescribed by the Protocols
20 produces a DSC ratio of 1.88 for the 2016 Test Year. This is calculated by dividing the Total
21 Adjusted Debt Service Margins of \$10,797,266 by the Total Adjusted Debt Service Payments
22 of \$5,734,668 as detailed in Exhibit 3-A, Page 2, DSC-FBR Column, Line 48. This resultant
23
24

25 ⁶ Meaning the remaining portion is attributable to the 34.5kV system portion.

1 ratio is above the 1.75 target DSC. Consistent with the provisions of Section G of the DSC-
2 FBR Plan Protocols, a downward rate adjustment is being requested.

3 **Q. Please identify and explain how the revenue adjustment was determined within the DSC-**
4 **FBR Plan template for the 2016 Test Year.**

5 A. Section G of the DSC-FBR Plan Protocols directs that the revenue adjustment is to be
6 determined by comparing the Test Year DSC to a 1.75 DSC Ratio. Subsection G.b addresses
7 the scenario when the Test Year DSC is higher than the target DSC, specifically instructing
8 that a decrease in rates will be necessary to bring the Test Year DSC down to 1.75. The first
9 step then is to subtract the Test Year DSC from the target DSC, which would be 1.75 minus
10 1.88, for a variance of (0.13). Multiplying this variance by the Test Year debt service payments
11 yields a \$745,507 decrease. When compared to the DSC-FBR Plan revenue of \$66,029,048,
12 this represents a 1.1 percent decrease in revenue.

13 **4. ALLOCATION OF THE DSC-FBR PLAN REVENUE ADJUSTMENT TO RATE**
14 **SCHEDULES**

15 **Q. Please describe how you allocated the \$745,507 revenue decrease to the individual rate**
16 **schedules.**

17 A. Section I of the DSC-FBR Plan Protocols details that any rate adjustment resulting from the
18 DSC-FBR Plan is to be allocated to the retail rate classes on the Test Year base revenues by
19 rate schedule unless Southern Pioneer files a COS study supporting something different and
20 the Commission approves such a request for variance. For purposes of this 2016 Test Year
21 DSC-FBR Plan adjustment, Southern Pioneer is not submitting a COS study and has
22 apportioned the rate adjustment to retail rate classes using the Test Year base revenues, as
23 initially approved in the 13-452 Docket.

24 Consistent with the Protocols, the 2016 Test Year DSC-FBR Plan Retail Rate Adjustment
25 was apportioned accordingly:

- 1 1. First, all power costs recovered in rates were removed from the historical revenues
2 recorded for each schedule to arrive at the base revenues by rate schedule.
- 3 2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base
4 revenues was determined.
- 5 3. The base revenue ratios were then applied to the DSC-FBR determined revenue
6 adjustment to establish each rate schedule's apportioned revenue adjustment.⁷

7 Table 2-A on the following page summarizes the results of this process. Exhibit 3-A, Page
8 6 provides further detail.

23 ⁷ As per the DSC-FBR Plan Protocols, Section J, the FBR adjustment for the STR class was determined first
24 and system-wide without the impact of additional debt service for investments in distribution plant in the
25 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-A, Page 6 and corresponding work papers containing
 the electronic format of Exhibit 3-A.

Table 2-A

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 (16-RS)			
2	General Use	15,763,392	(288,053)	-1.83%
3	Space Heating	921,170	(16,169)	-1.76%
4	General Service Small (16-GSS)	1,782,516	(35,370)	-1.98%
5	General Service Large (16-GSL)	17,257,351	(270,008)	-1.56%
6	General Service Space Heating	566,001	(8,052)	-1.42%
7	Industrial Service (16-IS)	3,887,870	(51,096)	-1.31%
8	Industrial Service-Primary Discount	-	-	N.A.
9	Real -Time Pricing (13-RTP)	1,845,507	-	N.A.
10	Transmission Level Service (16-STR)	23,358,311	(27,586)	-0.12%
11	Municipal Power Service (16-M-I)	197,384	(3,393)	-1.72%
12	Water Pumping Service (16-WP)	686,955	(10,747)	-1.56%
13	Irrigation Service (16-IP-I)	299,002	(5,375)	-1.80%
14	Temporary Service (16-CS)	22,336	(480)	-2.15%
15	Lighting	1,083,757	(29,179)	-2.69%
16	Total Retail Rates	67,671,552	(745,507)	-1.10%

Q. What is your recommendation concerning how the resulting decreases by rate schedule are to be implemented?

A. The DSC-FBR Plan 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 decrease 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 decreased by class and is shown in Column (k) of Exhibit 3-A, Page 6.

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

6 **Q. Why do you recommend that the revenue decrease be implemented by decreasing the**
7 **current energy charges?**

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

19 Further, similar methodology was accepted by the Commission in Southern Pioneer’s
20 earlier DSC-FBR Plan Annual Update filings submitted and approved in Docket Nos. 14-
21 SPEE-507-RTS, 15-SPEE-519-RTS, and 16-SPEE-497-RTS. I would also point out that,
22 especially given the results (i.e., decrease of approximately one percent), the additional effort
23 required to attempt a sort of proportionate change for each rate component is neither
24 economical nor a good use of resources and defeats the intent to minimize consulting and
25 regulatory cost. However, it is possible that this adjustment methodology could change in

1 future years of the DSC-FBR Plan; but given the minor change being made, the benefits of an
2 energy-based adjustment outweigh doing something more detailed, expensive, potentially
3 controversial, and time consuming.

4 **Q. Have the proposed tariffs as required in the DSC-FBR Plan Protocols in Section J.11**
5 **been provided?**

6 A. Yes, they are included as Exhibit 11 of the Application in the instant Docket. Please note that
7 since Southern Pioneer was directed to file its Application for both DSC-FBR Plan and 34.5kV
8 Plan FBR in a single docket this year, the proposed tariffs reflect the net adjustment resulting
9 from combining both of the FBR plans. Table 3, Page 31, Part IV summarizes the combined
10 net adjustment.

11
12 **SECTION B - 34.5KV FBR PLAN**

13 **1. SUMMARY OF THE 34.5kV FBR PLAN RESULTS**

14 **Q. Please briefly recap Southern Pioneer's 34.5kV FBR.**

15 A. The 34.5KV FBR Plan, as approved for Southern Pioneer by the Commission in Docket No.
16 16-MKEE-023-TAR ("16-023 Docket"), is a three-year ratemaking plan that provides for the
17 annual recovery of the costs associated with owning, operating, and maintaining Southern
18 Pioneer's 34.5 kV sub-transmission system. In essence, the 34.5kV FBR Plan serves as a
19 method for periodic adjustments to the following rates: (1) a demand rate for the wholesale
20 LADS over Southern Pioneer's 34.5kV sub-transmission facilities, as well as (2) the resulting
21 retail rates for those Southern Pioneer retail customers taking service over its 34.5kV sub-
22 transmission facilities. The details of the calculations for the corresponding rate adjustments
23 are outlined in Section D of the Commission-approved Southern Pioneer's 34.5kV FBR Plan
24 Protocols, attached as Exhibit A to the March 10, 2016 Commission Order Approving
25

1 Settlement and April 26, 2016 Order Granting Petition for Clarification in the 16-023 Docket.⁸

2 The purpose of this formulaic ratemaking mechanism is to allow for timely adjustments to the
3 aforementioned rates without incurring the substantial expense and/or experiencing regulatory
4 lag typically associated with the preparation of a full rate case.

5 **Q. What data formed the basis for Southern Pioneer's 2017 34.5KV FBR Plan calculation?**

6 A. Consistent with the 34.5kV FBR Plan Protocols, the calculation was based upon a 2016
7 Historical Test Year. As such, it utilizes historical figures from Southern Pioneer's December
8 2016 Form 7, Trial Balance, Payroll Journal.⁹

9 **Q. Please summarize the results of Southern Pioneer's 2017 34.5KV Plan FBR calculation.**

10 A. Completing the 34.5kV FBR Plan template calculation consistent with the Protocols approved
11 by the Commission in the 16-023 Docket results in the Revenue Requirement of \$5,163,317.
12 Considering this is the second Annual Update of the 34.5kV FBR Plan, Section E, Annual
13 True-Up of the Protocols is applicable in this year's filing.¹⁰ Applying the \$9,504 amount of
14 True-Up to the 34.5kV FBR Plan Revenue Requirement resulted in a net \$5,172,821 34.5kV
15 sub-transmission system revenue requirement. In accordance with Section D.4 of the 34.5kV
16 FBR Plan Protocols, the resultant net Revenue Requirement amount was divided by the total
17 billing demand for the Historical Test Year to arrive at the unadjusted wholesale LADS rate of
18 \$5.389/kW.¹¹ Next, the \$0.511/kW Property Tax Surcharge applicable to the 34.5kV system
19 was subtracted to arrive at the final LADS rate of \$4.88/kW, a \$0.69/kW increase from
20 Southern Pioneer's current rate for LADS of \$4.19/kW, last approved in Docket No. 16-SPEE-

21
22 ⁸ Included as Attachment B with the Application in the instant Docket.

23 ⁹ Included in Southern Pioneer's Application as part of Exhibits 2 (Form 7 for test year and 2 prior years), 4
(Trial Balances for test year and 2 prior years), and 10a (Payroll Journals for test year and 2 prior years).

24 ¹⁰ Per E.3 of the 34.5kV FBR Protocols, the initial True-Up becomes applicable with the second Annual Update
filing.

25 ¹¹ The billing demand for the Historical Test Year, shown on page 7 of Exhibit 3-B, is provided by Mid-
Kansas, Southern Pioneer's G&T provider.

1 497-RTS. Translated into total dollars, the this constitutes a \$662,305 overall increase.¹²
 2 Using the Load Ratio Share (“LRS”), \$271,934, or about 41 percent, of the increase is
 3 applicable to Southern Pioneer’s wholesale LADS customers; and the remaining \$390,371, or
 4 59 percent, is applicable to Southern Pioneer’s retail customers. In accordance with Section
 5 D.5 of the 34.5kV FBR Plan Protocols, the increase is to be spread amongst the retail rate
 6 schedules of Southern Pioneer based upon the Test Year base revenue (i.e., gross revenue less
 7 purchased power expense). The detailed 34.5KV Plan FBR calculation for the Test Year is
 8 contained in Exhibit 3-B attached to the Application filed in the instant Docket. Table 1-B
 9 below summarizes the revenue adjustment in total and the allocation to each of the applicable
 10 retail rate schedules.

11 **TABLE 1-B**

SOUTHERN PIONEER ELECTRIC COMPANY			
Allocation of 34.5kV FBR Retail Rate Adjustment to Rate Classes			
Rate Schedule	Test Year Rate Schedule Revenue	34.5kV FBR Adjustment	Change As Percent
	(\$)	(\$)	(\$)
Residential Service (16-RS)			
General Use	15,763,392	156,378	0.99%
Space Heating	921,170	8,778	0.95%
General Service Small (16-GSS)	1,782,516	19,202	1.08%
General Service Large (16-GSL)	17,257,351	146,582	0.85%
General Service Space Heating	566,001	4,371	0.77%
Industrial Service (16-IS)	3,887,870	27,739	0.71%
Interruptible Industrial Service (16-INT)	-	-	0.00%
Real -Time Pricing (13-RTP)	1,845,507	-	0.00%
Sub-transmission Level Service (16-STR)	23,358,311	-	0.00%
Municipal Power Service (16-M-I)	197,384	1,842	0.93%
Water Pumping Service (16-WP)	686,955	6,460	0.94%
Irrigation Service (16-IP-I)	299,002	2,918	0.98%
Temporary Service (16-CS)	22,336	260	1.17%
Lighting	1,083,757	15,840	1.46%
Total Retail Rates	67,671,552	390,371	0.58%

25 ¹² Applied to Test Year total billing determinants.

1 **2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the 34.5kV FBR PLAN**

2 **Q. You stated that 2016 actual results formed the basis for the 34.5KV FBR PLAN**
3 **calculation. The 34.5kV FBR Plan Protocols specify a limited number of adjustments to**
4 **be made. What adjustments did you make to Southern Pioneer’s actual 2016 financial**
5 **results in completing the 34.5kV FBR Plan template?**

6 A. Consistent with Section D.1 of the 34.5kV FBR Plan Protocols, adjustments to reflect the
7 projected amounts for the 2017 Budget Year were made to the following:¹³

- 8 • Interest on Long-Term Debt
- 9 • Interest Expense - Other
- 10 • Debt Service Payments

11 In addition, Other Taxes were adjusted to reflect cash only portion for the Test Year.¹⁴

12 Further, per Sections D.1.b and D.1.g of the 34.5kV FBR Plan Protocols, and in recognition
13 of the Commission policy adopted per K.S.A. 66-101f (a), A&G expense and “Other
14 Deductions” were adjusted to remove certain amounts associated with the dues, donations,
15 charitable contributions, promotional advertising, penalties and fines, and entertainment
16 expenses incurred during the Test Year.¹⁵ The excluded amounts are noted on Page 8 of
17 Exhibit 3-B. The supporting detail for the exclusions is provided by Southern Pioneer in
18 Exhibit 9 attached to the Application in the instant Docket.

21 ¹³ 34.5kV FBR Plan Protocols also direct to remove Acquisition Premium amortization. Given the approved
22 Template, populated as Exhibit 3-B, only lists Transmission and General Plant Depreciation, the
23 amortization of Acquisition Premium is excluded by default; and no further adjustment is necessary.
Additionally, 34.5kV FBR Plan Protocols direct to make certain adjustments to Distribution Operation and
Maintenance (“O&M”) expenses if lower voltage distribution plant is used to provide LADS. Southern
Pioneer notes it is not applicable at this time. Therefore, there were no adjustments shown to Distribution
O&M.

24 ¹⁴ 34.5kV FBR Plan is assigned the remainder of what was allocated to the DSC-FBR Plan.

25 ¹⁵ K.S.A. 66-101f (a) allows adoption of a policy of “disallowing a percentage, not to exceed 50%, of utility
dues, donations and contributions to charitable, civic and social organizations and entities, in addition to
disallowing specific dues, donations and contributions which are found unreasonable or inappropriate.”

1 Finally, Section D.2 of the 34.5kV FBR Plan Protocols mandates that certain revenue and
2 expense categories be further allocated to remove the costs unassociated with Southern
3 Pioneer's 34.5kV sub-transmission facilities.

4 **Q. Please describe the adjustments made to the 2016 Test Year Interest on Long-Term Debt.**

5 A. The historical amount of Interest on Long-Term Debt for the 2016 Test Year was \$5,660,152
6 as reported on Southern Pioneer's Form 7. The 34.5kV FBR Plan Protocols, in Section D.1.e,
7 specify that the actual amount be adjusted to reflect Southern Pioneer's budgeted amount for
8 2017. Southern Pioneer's budgeted long-term interest expense is \$5,517,254, and so a
9 downward adjustment of \$142,898 was included. The details of this adjustment are shown in
10 Exhibit 3-B, Page 4, Lines 18-21.

11 **Q. Please describe the adjustments made to the 2016 Test Year Interest Expense - Other.**

12 A. The historical amount of Other Interest Expense for the 2016 Test Year was \$83,838 as
13 reported on Southern Pioneer's Form 7. Consistent with Section D.1.f of the 34.5kV FBR Plan
14 Protocols, the amount has been adjusted to reflect Southern Pioneer's 2017 Budget for short-
15 term interest expense of \$126,543. To accomplish this, an adjustment in the amount of \$42,705
16 was included. The details of the adjustment can be found in Exhibit 3-B, Page 4, Lines 28-31.

17 **Q. Please describe the adjustments made to the 2016 Test Year Debt Service Payments.**

18 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.
19 Since I previously discussed the adjustments to interest expense, I will here focus on the
20 adjustment to principal payments. The historical amount of Principal Payments for the 2016
21 Test Year was \$2,206,843 (as reported on Southern Pioneer's Form 7). The Protocols, in
22 Section D.1.h, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted
23 amount for 2017 principal payments, which is \$2,342,097; so an adjustment in the amount of
24 \$135,254 was included. This adjustment is detailed in Exhibit 3-B, Page 4, Lines 37-40.

25 **Q. Please describe the adjustments made to the 2016 Other Taxes.**

1 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.

2 Per Section D. 1.d of the 34.5kV FBR Plan Protocols, Other Taxes should be adjusted to
3 reflect the cash only portion for the Test Year. Southern Pioneer paid \$25,000 in cash taxes in
4 2016, as evidenced in the historical Test Year amount of the year-to-date transactions for the
5 General Ledger (“GL”) accounts of \$236.71. Accordingly, a downward adjustment of
6 \$3,269,166 is applied to this expense category, as noted in Exhibit 3-B, Page 4, Lines 13-16.

7 **Q. Please describe the adjustments made to the 2016 Test Year Operating Expenses in**
8 **conjunction with the 34.5kV FBR Plan Protocols’ Section D.1, parts b and g, and the**
9 **Commission’s policy per K.S.A. 66-101f (a).**

10 A. The historical amounts of the following operating expenses, assignable to the 34.5kV FBR
11 Plan, were adjusted as shown:

- 12 • A&G Expense of \$1,868,421 was reduced by \$16,379, resulting in the \$1,852,042
13 adjusted amount.
- 14 • Other Deductions of \$829,459 was reduced by \$35,628, resulting in the \$793,831
15 adjusted amount.

16 Overall, \$52,007 was removed from the 34.5kV FBR Plan. The summary is shown in
17 Exhibit 3-B, page 8. The detailed listings of the aforementioned items by GL account and the
18 corresponding adjustments performed can be found in Exhibit 9 attached to the Application in
19 the instant Docket.

20 **Q. You have explained how the historical overall system (i.e., transmission and distribution)**
21 **costs were adjusted in accordance with the 34.5kV FBR Plan Protocols. Next, please**
22 **describe how the adjusted system-wide financial results were allocated to the 34.5kV sub-**
23 **transmission system to arrive at Southern Pioneer’s 34.5kV FBR Plan Revenue**
24 **Requirement that includes only those costs which are associated with the Company’s**
25 **34.5kV sub-transmission facilities.**

1 A. Section D.2 of the 34.5kV FBR Plan Protocols specifies the methodology for allocating
2 applicable total system-wide operating expenses and margin requirements to the 34.5kV
3 system so as to arrive at the Revenue Requirement associated with Southern Pioneer’s 34.5kV
4 sub-transmission facilities used to provide LADS.¹⁶ Following is an explanation of the
5 allocations:

- 6 • Per Section D.2.a of the 34.5kV FBR Plan Protocols, the A&G expenses are to be
7 allocated using a Labor ratio, or LAB, where the latter is calculated as a ratio of
8 Transmission Labor to Total Non-A&G Labor. The corresponding labor dollar
9 amounts are found in the Labor Amount Column of the December 31, 2016 Payroll
10 Journal, included with Exhibit 10a attached to the Application filed in the instant
11 Docket. Next, Exhibit 3-B, Page 5, Lines 7-20 show how the resultant LAB ratio of
12 0.057057 is calculated. Applying LAB to the \$1,852,042 in Adjusted Historical Test
13 Year A&G expense assigns \$105,672 to the 34.5kV FBR, as shown in Exhibit 3-B,
14 Page 1, Line 10, Column (i).
- 15 • Depreciation and Amortization Expense for Transmission plant is to be calculated
16 directly (a.k.a. “direct-assignment”) in accordance with Section D.2.b of the 34.5kV
17 FBR Plan Protocols. Therefore, the entire 2016 historical amount of \$633,372 in
18 Transmission Depreciation Expense is assigned to the 34.5kV FBR Plan. The same
19 Section D.2.b directs to allocate the historical amount of the General Plant Depreciation
20 Expense on the LAB ratio, ultimately assigning \$10,438 to the 34.5kV FBR Plan, as
21 evidenced on Page 1, Line 14, Column (i) of Exhibit 3-B.

22
23
24
25 ¹⁶ Again, to clarify, “system-wide,” as used in this context, is intended to mean combined distribution and transmission.

- 1 • Tax Expense - Other is to be allocated based on the percentage of calculated margin
2 using the actual cash taxes paid during the Test Year. The DSC-FBR Plan, as described
3 in Section A above, allocated 88.82 percent of the \$25,000 paid by Southern Pioneer
4 in cash during 2016 to the distribution system, leaving the remaining 11.18 percent, or
5 \$2,795, to be assigned to the 34.5kV FBR Plan, as reflected in Exhibit 3-B, Page 1,
6 Line 16, Column (i).
- 7 • For allocating Other Deductions, Interest on Long-Term Debt, Other Interest, Principal
8 Payments, and Offsets to Margin Requirements, the NP is calculated. The NP, as
9 defined in Section D.2 of the 34.5kV FBR Plan Protocols, reflects the ratio of
10 Transmission Net Plant to Total Net Plant for the Test Year.¹⁷ The calculation of the
11 NP allocation factor is detailed on Page 5, Lines 22-47 of Exhibit 3-B. The results of
12 applying the calculated Budget Year NP of 0.281900 to the corresponding Adjusted
13 Historical Test Year expenses are evidenced on Page 1, Lines 15-26, Column (i) of
14 Exhibit 3-B.¹⁸
- 15 • The Transmission O&M Expense is a category that is directly related to the provision
16 of the LADS. Therefore, \$1,296,041 in Transmission O&M was assigned 100 percent
17 (i.e., using allocator of 1.0) to the 34.5kV FBR Plan Revenue Requirement.

18 **3. 34.5kV FBR PLAN REVENUE REQUIREMENT AND RATE CALCULATION**

19 **Q. How was Southern Pioneer's 34.5kV FBR Plan Revenue Requirement for Year 2017**
20 **calculated after performing all of the adjustments and allocations detailed above?**

21 A. Per Section D.4 of the 34.5kV FBR Plan Protocols, the Total 34.5kV FBR Plan Revenue
22 Requirement is a sum of all the applicable operating expenses, margin requirements, and true-
23

24
25 ¹⁷ NP includes a General Plant allocation based upon a LAB ratio.

1 up. Specifically, after the 2016 actual operating expenses were adjusted to the budgeted levels,
2 as allowed by the 34.5kV FBR Plan Protocols, and allocated to reflect the portion applicable
3 to Southern Pioneer's sub-transmission facilities. the Total Cost of Service was quantified at
4 \$3,863,087, as evidenced on Page 1, Line 21, Column (i) of Exhibit 3-B. Next, the Net Margin
5 Requirement was calculated using 1.75 OTIER and MDSC metrics, as per Section D.3 of the
6 34.5kV FBR Plan Protocols. Applying the \$1,300,231 in Net Margin Requirement generates
7 the 34.5kV FBR Plan Total Revenue Requirement of \$5,163,317. Finally, per Section I of the
8 34.5kV FBR Plan Protocols, the True-Up, calculated to be \$9,504, is applied on Page 1 of
9 Exhibit 3-B, Line 35.¹⁹

10 **Q. Please describe how the True-Up was calculated in this year's filing.**

11 A. In accordance with Section I of the 34.5kV FBR Plan Protocols, the True-Up amount is the
12 result of the comparison of "[t]he projected revenue requirement of the projected items from
13 the previous Budget Year; and, [t]he actual revenue requirement calculation of those same
14 items for the test year." The 2016 34.5kV FBR Plan Net Revenue Requirement, based on the
15 2015 Historical Test Year for all Cost of Service items other than debt service, which reflected
16 2016 Budgeted projections for Interest on Long-Term Debt, Interest-Other, and Principal
17 Payments, was approved by the Commission at \$4,423,534.²⁰ Substituting the 2016 actual
18 values in place of the projections produces the Net Revenue Requirement of \$4,433,038, which
19 is \$9,504 higher than that approved in last year's 34.5kV FBR Plan Annual Update.
20 Accordingly, the True-Up being added this year is \$9,504. The details of the True-Up
21 calculations are contained on Pages 17-20 of Exhibit 3-B (Work Papers 12-B through 15-B).

22
23
24 ²⁰ Docket 16-SPEE-501-TAR, Order Granting Application; Approving Adjustments and Adopting Staff R&R,
25 filed August 2, 2016 (Para. 7 and 8). See also Notice of Filing of Staff's Report and Recommendation, filed
July 5, 2016, Exhibit CCU-1, Page 1, Line 36.

1 **Q. What is the resultant Revenue Requirement?**

2 A. After applying the \$9,504 in True-Up amount, the resultant Net Revenue Requirement is
3 \$5,172,821.

4 **Q. Please explain how the resultant wholesale demand rate for LADS was determined.**

5 A. Section D.4 of the 34.5kV FBR Plan Protocols further directs that the 34.5kV FBR Plan
6 Revenue Requirement is to be divided by the Total Billing Demand for the Test Year. The
7 latter is comprised of both retail and wholesale billing determinants (as provided by Mid-
8 Kansas -- a G&T company who serves as Southern Pioneer's wholesale power supplier, as
9 well as metering and billing agent for Southern Pioneer's wholesale LADS service) and then
10 factoring in the appropriate losses' percentages, as specified in Southern Pioneer's
11 Commission-approved wholesale LADS tariff. For the 2016 Test Year, the Total Billing
12 Demand for Southern Pioneer's 34.5kV sub-transmission system was quantified at 959,863
13 kW, as reflected on Page 1, Line 37, Column (i) of Exhibit 3-B and further detailed on Page 7
14 of the same Exhibit. Dividing \$5,172,821 in Revenue Requirement by 959,863 kW results in
15 a \$5.389/kW LADS rate. Next, subtracting \$0.511/kW of PTS currently in effect from the 17-
16 SPEE-273-TAR produces the final LADS rate of \$4.88/kW, resulting in a \$0.69/kW increase
17 compared to the current effective LADS rate of \$4.19/kW. Southern Pioneer's wholesale
18 customers taking LADS service on its 34.5kV sub-transmission facilities will be charged this
19 resultant demand rate directly. For the retail customers taking service on its 34.5kV sub-
20 transmission facilities, the resulting per kW increase is converted to the total dollar amount of
21 \$390,371 using the respective LRS allocation. Next, it is allocated to individual rate classes.

22 **Q. Do you have any additional comments regarding the \$0.69/kW increase in wholesale**
23 **LADS rate?**

24 A. Yes. Last year, in Southern Pioneer's first 34.5kV FBR Plan Annual Update, Commission
25 Staff directed and Commission approved for Southern Pioneer to include two one-time

1 payments received from the Kansas Electric Power Cooperative, Inc. (“KEPCo”) and Kansas
2 Municipal Energy Agency (“KMEA”). These two payments, together totaling \$679,237, were
3 applied as an offset to the 2016 34.5kV FBR Plan calculated Revenue Requirement. Doing so
4 in essence held the LADS rate down from what it would have otherwise been. If these
5 payments had not been included in the 16-SPEE-501-TAR as an offset to the 34.5kV FBR Plan
6 calculated Revenue Requirement, the LADS rate would have been at \$4.88/kW beginning last
7 year. In fact, on Page 3 of its Report and Recommendation issued July 5, 2016 in 16-SPEE-
8 501-TAR, Staff specifically noted: “The elimination of this one-time reduction to the net
9 revenue requirement will likely cause a net increase to the revenue requirement in the 2017
10 filing.” That is in fact what the 2017 filing and resulting increase is confirming.

11 **4. ALLOCATION OF THE 34.5kV FBR PLAN REVENUE ADJUSTMENT TO RETAIL**

12 **RATE SCHEDULES**

13 **Q. Please describe how you allocated the \$390,371 in retail revenue increase to the individual**
14 **rate schedules.**

15 A. Section D.5 of the 34.5kV FBR Plan Protocols details that any rate adjustment resulting from
16 the 34.5kV FBR Plan is to be allocated to the applicable retail rate classes on the Test Year
17 base revenues by rate schedule (including ECA, less sum of power supply costs for the Test
18 Year, determined by applying the average cost of power supply per kWh from the most recent
19 Commission-approved COS).²¹

20 Consistent with the 34.5kV FBR Plan Protocols, the 2016 Test Year 34.5kV FBR Plan
21 Retail Rate Adjustment was apportioned accordingly:

22
23
24 ²¹ The most recent class cost of service, or CCOS, for Southern Pioneer, was submitted in Docket No. 12-
25 MKEE-380-RTS in Exhibit RJM-14 contained in the Rebuttal Testimony of Rich Macke filed on May 9,
2012.

1 A. The 34.5kV FBR Plan Protocols do not specify how the rate schedule components (i.e.
2 Customer Charge, Energy Charge, Demand Charge, etc.) should be revised to implement rate
3 adjustments. Similar to my recommendation noted in Section A previously for the DSC-FBR
4 Plan, I recommend that the increases by rate schedule be implemented as a slight increase to
5 each rate schedule's energy charges only. This is easily determined by dividing the revenue
6 adjustment for each schedule by the historical energy sales. The result is the amount that the
7 current energy charges need to be increased by class and is shown in Column (k) of Exhibit 3-
8 B, Page 2.

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

14 **Q. Why do you recommend that the 34.5kV FBR Plan retail revenue increase be**
15 **implemented by increasing the current energy charges?**

16 A. The reasoning is the same as already outlined in Section A previously; i.e., handling this type
17 of adjustment as an energy adjustment is simple, common, reasonably accurate, and
18 particularly appropriate given the relatively minor magnitude of the adjustment. Energy
19 adjustments are an industry-accepted approach for flowing through cost changes that occur
20 between full or "traditional" rate cases. For example, Southern Pioneer's current ECA is an
21 energy-based charge established to flow through not only energy cost but also demand cost
22 changes from the amount embedded in rates during the last full rate case. Similarly, Southern
23 Pioneer's PTS rider is an energy adjustment established to pass through changes in property
24 tax expense increases since the last full rate case. Further, similar methodology was accepted
25 by the Commission in Southern Pioneer's DSC-FBR Plan Annual Update filing submitted and

1 approved in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS and in
2 Southern Pioneer's first 34.5kV FBR Plan Annual Update filing in Docket No. 16-SPEE-501-
3 TAR. I would also point out that, especially given the results (i.e., increase of 0.58 percent),
4 the additional effort required to attempt a sort of proportionate change for each rate component
5 is neither economical nor a good use of resources and defeats the intent to minimize consulting
6 and regulatory cost. However, it is possible that this adjustment methodology could change in
7 future years of the 34.5kV FBR Plan; but given the minor change being made, the benefits of
8 an energy-based adjustment outweigh doing something more detailed, expensive, potentially
9 controversial, and time consuming.

10 **Q. Have the proposed tariffs as required in the 34.5kV FBR Plan Protocols in Section E.13**
11 **been provided?**

12 A. Yes, they are included as Exhibit 11 of the Application filed in the instant Docket. As noted
13 in the DSC-FBR Plan Section A of my testimony, the proposed tariffs reflect the net adjustment
14 from combining the results of both FBR plans. The following Table 3 in Part IV summarizes
15 the ensuing combined net adjustment.

16
17 **PART IV - CONCLUSION**

18 **Q. Please recap the results of the DSC-FBR Plan and the 34.5kV FBR Plan for Southern**
19 **Pioneer for 2017.**

20 A. Southern Pioneer's DSC-FBR Plan, updated for 2016 Test Year, results in a DSC ratio of 1.88,
21 requiring a \$745,507 (slightly over 1 percent) revenue decrease, applicable to Southern
22 Pioneer's retail customers. Southern Pioneer's 34.5kV FBR Plan, updated for 2016 Test Year,
23 results in a wholesale LADS of \$4.88/kW. The resultant overall 34.5kV FBR Plan revenue
24 increase of \$662,305 is split 41/59 percent or \$271,934/\$390,371, between Southern Pioneer's
25 wholesale and retail customers, respectively. The retail portion of the 34.5kV FBR Plan

1 revenue increase of \$390,371 represents a change slightly over a half of one percent. The net
 2 retail revenue adjustment from both the DSC-FBR Plan and 34.5kV FBR Plan is a decrease of
 3 \$355,136, or slightly over half of one percent. The allocation of the net change to retail rate
 4 schedules is summarized in Table 3 on the following page.

5 **Table 3**

6

7 **SOUTHERN PIONEER ELECTRIC COMPANY**
Allocation of DSC-FBR and 34.5kV FBR Rate Adjustment to Rate Schedules

8 Line No.	Rate Schedule	Rate Schedule Revenue (\$)	DSC-FBR Adjustment (\$)	34.5kV FBR Adjustment	Net Change	Change as Percent (%)
9 1	Residential Service (16-RS)					
2	General Use	15,763,392	(288,053)	156,378	(131,675)	-0.84%
3	Space Heating	921,170	(16,169)	8,778	(7,391)	-0.80%
10 4	General Service Small (16-GSS)	1,782,516	(35,370)	19,202	(16,168)	-0.91%
5	General Service Large (16-GSL)	17,257,351	(270,008)	146,582	(123,426)	-0.72%
6	General Service Space Heating	566,001	(8,052)	4,371	(3,681)	-0.65%
11 7	Industrial Service (16-IS)	3,887,870	(51,096)	27,739	(23,357)	-0.60%
8	Industrial Service-Primary Discount	-	-	-	-	-
12 9	Real -Time Pricing (13-RTP)	1,845,507	-	-	-	-
10	Transmission Level Service (16-STR)	23,358,311	(27,586)	-	(27,586)	-0.12%
11	Municipal Power Service (16-M-I)	197,384	(3,393)	1,842	(1,551)	-0.79%
13 12	Water Pumping Service (16-WP)	686,955	(10,747)	6,460	(4,287)	-0.62%
13	Irrigation Service (16-IP-I)	299,002	(5,375)	2,918	(2,457)	-0.82%
14 14	Temporary Service (16-CS)	22,336	(480)	260	(219)	-0.98%
15	Lighting	1,083,757	(29,179)	15,840	(13,338)	-1.23%
16	Total Retail Rates	67,671,552	(745,507)	390,371	(355,136)	-0.52%

16 **Q. What is your final recommendation to the Commission?**

17 A. My recommendation is to approve Southern Pioneer’s Application in the instant Docket and
 18 the resultant rates which were determined in accordance to the Commission-approved DSC-
 19 FBR Plan and 34.5kV FBR Plan Protocols, and therefore are just and reasonable and in the
 20 public interest.

21 **Q. Does this conclude your prefiled Direct Testimony?**

22 A. Yes, it does.

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