

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

In the Matter of the Joint Application of )  
Mid-Kansas Electric Company, LLC, )  
Prairie Land Electric Cooperative, Inc., )  
Southern Pioneer Electric Company, ) Docket No. 16-MKEE-\_\_\_\_\_  
The Victory Electric Cooperative Association, Inc., and )  
Western Cooperative Electric Association, Inc., for )  
Approval of Individual 34.5kV Formula-Based Rates. )

**PREFILED DIRECT TESTIMONY OF**

**STEPHEN J. EPPERSON**

**ON BEHALF OF**

**SOUTHERN PIONEER ELECTRIC COMPANY**

**July 15, 2015**

1                                    **I.        INTRODUCTION AND BACKGROUND**

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

3    A:     My name is Stephen J. Epperson. My business address for legal service is  
4            1850 W. Oklahoma, Ulysses, Kansas 67880 and for mail receipt is PO Box  
5            430, Ulysses, Kansas 67880-0430.

6    **Q:     What is your profession?**

7    A:     I am the President and Chief Executive Officer ("CEO") of Southern Pioneer  
8            Electric Company ("Southern Pioneer") pursuant to a certain Services  
9            Agreement by and between Pioneer Electric Cooperative, Inc. ("Pioneer")  
10           and Southern Pioneer, dated July 7, 2006. Our corporate office is located in  
11           Ulysses, Kansas, with distribution and customer service offices located in  
12           Liberal and Medicine Lodge, Kansas.

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

14   A:     As the CEO, I work directly for the Board of Directors and am responsible  
15           for assisting in establishing policy, implementing strategic programs,  
16           establishing rates, and overseeing the overall operation of Pioneer and  
17           Southern Pioneer to ensure reliable service at a competitive cost using  
18           generally acceptable industry business practices. I also serve on the Board  
19           of Directors of Mid-Kansas Electric Company, LLC ("Mid-Kansas") and  
20           Sunflower Electric Power Corporation ("Sunflower), the wholesale  
21           generation and transmission suppliers for Southern Pioneer and Pioneer,  
22           respectively.

1    **Q:    What is your educational background?**

2    A:    I graduated in 1991 from Ozark Christian College, a cooperative program  
3        with Missouri Southern State University, with a Bachelor's Degree, which  
4        included double majors in Bible and Psychology. In 2002, I successfully  
5        completed the National Rural Electric Cooperative Association's  
6        Management Internship Program through the University of Nebraska at  
7        Lincoln, Nebraska. In 2010, I received my Masters of Business  
8        Administration from Bradley University.

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

10   A:    I was appointed Southern Pioneer's CEO effective January 1, 2011. Prior to  
11        that date, I served as the President and CEO at McDonough Power  
12        Cooperative located in Macomb, Illinois, from July 2006 to December 31,  
13        2010. From August 2001 to July 2006, I served as the Senior Vice  
14        President of Northeast Rural Services, Inc., a subsidiary of Northeast  
15        Oklahoma Electric Cooperative. I have also served in other capacities in  
16        both utilities and the private not-for-profit sectors: as a business supervisor,  
17        consultant, business development director, and counselor.

18   **Q:    Have you previously presented testimony before the Kansas**  
19        **Corporation Commission ("Commission")?**

20   A:    Yes. I have provided testimony in Commission Docket Nos. 12-MKEE-380-  
21        RTS, 13-MKEE-447-MIS, 13-MKEE-452-MIS, 13-MKEE-699-RTS and 14-  
22        SPEE-507-RTS.

1   **Q:     What is the purpose of your testimony in this matter?**

2   A.     The purpose of my testimony is to support the Joint Application of Southern  
3           Pioneer requesting approval of a 34.5kV FBR to recover costs associated  
4           with its 34.5kV sub-transmission facilities. Specifically, my testimony will (i)  
5           provide a high level overview of Southern Pioneer and its proposed 34.5kV  
6           FBR, including the differences in Southern Pioneer's proposed 34.5kV FBR  
7           as compared to the 34.5kV FBRs of the other distribution cooperatives who  
8           are Joint Applicants in this proceeding; and (ii) discuss Southern Pioneer's  
9           experiences with formula-based rate-making methodologies.

10   **Q:     In addition to your testimony, is Southern Pioneer offering other**  
11           **testimony in support of this Joint Application?**

12   A:     Yes. Mr. Richard J. Macke, rate consultant with Power System Engineering,  
13           Inc. ("PSE"), will provide supporting testimony (i) describing in detail  
14           Southern Pioneer's requested 34.5kV FBR, including an overview of  
15           Southern Pioneer's proposed cost of service methodology, financial  
16           coverage ratio, protocols and formula template; and (ii) explaining the  
17           benefits of a formula-based rate mechanism for Southern Pioneer's 34.5kV  
18           facilities. Additionally, Mr. H. Davis Rooney, Vice President and Chief  
19           Financial Officer for Mid-Kansas Electric Company, LLC ("Mid-Kansas") will  
20           provide testimony explaining the reasons for Mid-Kansas' involvement in  
21           this Joint Application and the policy justification for instituting a 34.5kV FBR.

1            **II. SOUTHERN PIONEER AND ITS PROPOSED 34.5kV FBR**

2    **Q: Please provide a brief overview of Southern Pioneer.**

3    A: Southern Pioneer is a not-for-profit, taxable Kansas corporation with its  
4       principal place of business located in Ulysses, Kansas, with distribution and  
5       customer service offices in Liberal and Medicine Lodge, Kansas. Southern  
6       Pioneer serves approximately 17,300 total retail customers, as well as  
7       provides local access delivery service ("LADS") to wholesale 34.5kV sub-  
8       transmission users in ten southcentral and southwest Kansas counties.  
9       Southern Pioneer is a certificated electric public utility regulated by the  
10      Commission and is a wholly owned subsidiary of Pioneer, a not-for-profit  
11      Kansas member-owned electric cooperative not subject to Commission  
12      regulation for retail ratemaking purposes pursuant to K.S.A. 66-104d.  
13      Southern Pioneer was granted public utility status on November 21, 2013,  
14      when the Commission approved the transfer of the retail certificated  
15      territory, customers, Rules and Regulations, and tariffs from Mid-Kansas to  
16      Southern Pioneer in Docket No. 13-MKEE-447-MIS.

17   **Q: Is Southern Pioneer regulated by the Commission differently than the**  
18   **other three distribution cooperatives who are Joint Applicants to this**  
19   **proceeding?**

20   A: Yes. Southern Pioneer does not qualify as an entity that is eligible for self-  
21       regulation of its retail rates under K.S.A. 66-104d. However, the other three  
22       distribution cooperatives that are Joint Applicants in this proceeding do  
23       qualify, and have elected for self-regulation. While each of the Joint

1 Applicants remains subject to Commission jurisdiction for purposes of their  
2 local access charge ("LAC") to provide local "transmission service" to  
3 wholesale LADS customers, only Southern Pioneer is subject to  
4 Commission jurisdiction for purposes of its retail rates.

5 **Q: Please summarize the 34.5kV FBR requested by Southern Pioneer in**  
6 **the Joint Application.**

7 A: I will defer to the Prefiled Direct Testimony of Mr. Macke to thoroughly  
8 explain Southern Pioneer's proposed 34.5kV FBR requested in the Joint  
9 Application. However, generally, Southern Pioneer is requesting  
10 Commission approval of a 34.5kV FBR that establishes a formula for the  
11 annual and systematic recovery of its revenue requirement from wholesale  
12 LADS and its retail customers associated with owning, operating, and  
13 maintaining its 34.5kV sub-transmission facilities (now existing or  
14 hereinafter constructed).<sup>1</sup> The revenue requirement associated with the  
15 34.5kV sub-transmission facilities is recovered on a load ratio share basis  
16 from wholesale LADS customers through Southern Pioneer's LAC under  
17 Southern Pioneer's LADS tariff, and from retail customers through the  
18 applicable retail tariff rates.<sup>2</sup> If this proposed formulaic methodology for  
19 Southern Pioneer's 34.5kV sub-transmission facilities is approved by the

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<sup>1</sup> The proposed 34.5kV FBR also allows Southern Pioneer to allocate the costs of lower voltage distribution plant that provides service to a wholesale LADS customer(s) through utilization of a distribution ratio as outlined in the proposed Protocols, provided that such plant is existent and the associated costs are not already accounted for in a separate rate-making mechanism. This is consistent with the LADS tariff, Applicability and Character of Service sections.

<sup>2</sup> Currently, the wholesale LADS customer's and Southern Pioneer retail customers' load ratio shares of the 34.5kV system costs is approximately 37% and 63%, respectively.

Commission, it will be applied by Southern Pioneer in future annual update filings to update its LAC and applicable retail rate schedules.

**Q: But doesn't Southern Pioneer already have a formula-based rate mechanism in place?**

A: Yes, Southern Pioneer has in place a Debt Service Coverage Formula Based Rate five-year Pilot Plan ("DSC-FBR Pilot Plan"), approved by Commission Order on September 26, 2013, in Docket No. 13-MKEE-452-MIS ("13-452 Docket"). The DSC-FBR Pilot Plan provides for the annual recovery through retail rates of Southern Pioneer's revenue requirement associated with owning, operating, and maintaining its distribution system; however, 34.5kV system costs are expressly excluded from the DSC-FBR Pilot Plan. Therefore, the 34.5kV FBR requested in this Joint Application is in complement to Southern Pioneer's DSC-FBR Pilot Plan.

**Q: Is Southern Pioneer's proposed 34.5kV FBR the same as the 34.5kV FBRs of the other distribution cooperatives who are Joint Applicants in this proceeding?**

A: While it is certainly similar, it is not entirely the same, partly due to the fact that Southern Pioneer remains retail rate regulated by the Commission, and as such has different considerations than the other Joint Applicants. For the other distribution cooperatives who are Joint Applicants, the LAC rate resultant from their respective 34.5kV FBRs and applicable directly to their respective wholesale LADS customers is the only rate subject to Commission approval. However, for Southern Pioneer, whose 34.5kV FBR

1 also calculates the LAC applicable to its wholesale LADS customers, an  
2 additional step is needed to convert the LAC rate into the corresponding  
3 retail rates, as both the resulting LAC rate *and* the corresponding retail  
4 rates that together recover the total revenue requirement associated with  
5 the 34.5kV facilities require Commission approval. For a more detailed  
6 discussion regarding the technical mechanics of the 34.5kV FBR, please  
7 see the testimony of Mr. Macke.

8 **Q: Are there other components of Southern Pioneer's proposed 34.5kV**  
9 **FBR that are different from the other distribution cooperatives'**  
10 **proposed 34 .5kV FBRs?**

11 A: Yes. As previously discussed, Southern Pioneer's proposed 34.5kV FBR is  
12 in complement to its retail distribution DSC-FBR Pilot Plan. Therefore,  
13 Southern Pioneer is requesting Commission approval of a 34.5kV FBR that  
14 is slightly different than the other distribution cooperatives' proposed 34.5kV  
15 FBRs, in order to provide for the same methodology that has already been  
16 approved in the DSC-FBR Pilot Plan, thereby ensuring equitable rates to all  
17 affected customers.

18 **Q: Please explain the specific differences in Southern Pioneer's**  
19 **proposed 34.5kV FBR, as compared to the other Joint Applicant**  
20 **Members' 34.5kV FBRs, necessary to align the 34.5kV FBR with**  
21 **Southern Pioneer's DSC-FBR Pilot Plan.**

22 A: First, Southern Pioneer is requesting a 1.75 Modified Debt Service  
23 Coverage ("MDSC") ratio target as the determinant for its return



1 requirement, calculated in accordance with Southern Pioneer's loan  
2 covenants with its lender. Southern Pioneer has a single primary lender,  
3 CoBank, ACB ("CoBank"), unlike the other Joint Applicants, who may be  
4 using National Rural Utilities Cooperative Finance Corporation ("CFC")  
5 and/or Department of Agriculture's Rural Utilities Service ("RUS"). CoBank's  
6 primary financial compliance measurement is a Debt Service Coverage  
7 ratio ("DSC"). In addition, the MDSC formula CoBank applies to Southern  
8 Pioneer varies from a traditional MDSC calculation, i.e., it is specific to  
9 Southern Pioneer. The proposed 1.75 MDSC, calculated in accordance with  
10 this CoBank specific formula, is the same methodology instituted by  
11 Southern Pioneer in its Commission-approved DSC-FBR Pilot Plan.

12 **Q: Please continue.**

13 A: Second, Southern Pioneer is requesting in its 34.5kV FBR Protocols an  
14 Annual Update filing schedule and a procedure that is similar to its DSC-  
15 FBR Pilot Plan Protocols. The purpose of requesting a similar filing  
16 schedule and procedure is to provide for, among other things, symmetry  
17 between and ease of administration of both of the formula-based rates.  
18 Southern Pioneer's DSC-FBR Pilot Plan Protocols provide that within sixty  
19 (60) days of the date of the filing, Staff and Interveners may file testimony  
20 with the Commission. If deficiencies are alleged, Southern Pioneer will file  
21 rebuttal testimony within 75 days from the date of the filing. Within 90 days  
22 from the date of filing, the Commission issues an order either approving the  
23 filing based upon the paper record, or ordering an evidentiary hearing to be

1 held to address the issues raised by Staff and/or Interveners. The hearing,  
2 if necessary, is to proceed as expeditiously as possible, with the explicit  
3 goal of a Commission Order within 120 days from the Filing Date. This  
4 DSC-FBR Pilot Plan Annual Update filing schedule is quite similar to the  
5 schedule Southern Pioneer is requesting for its proposed 34.5kV FBR in the  
6 instant proceeding, with a few exceptions:

7 (i) Southern Pioneer proposes an alternative to Staff and Interveners  
8 filing formal testimony within sixty (60) days of the date of the filing. If  
9 all parties are in agreement that Southern Pioneer's filing is in  
10 compliance with its 34.5kV FBR and will result in just and reasonable  
11 rates, then Staff may simply file a Report and Recommendation  
12 ("R&R") in support of Southern Pioneer's filing. This is not intended  
13 to deny Interveners the opportunity to file testimony in the event of a  
14 relevant objection relating to the filing, but rather, the purpose of the  
15 Staff R&R is to relieve Staff and Interveners of the obligation to file  
16 formal testimony in the event formal testimony is unnecessary due to  
17 the lack of relevant objection to the filing.

18 (ii) Southern Pioneer proposes to provide more formality around the  
19 schedule for the technical conference and resolution of issues with  
20 the Annual Update filing. The one-day technical conference, if  
21 determined necessary by the parties, will be set sometime during  
22 days 40-45 from the date of the filing. The conference will be utilized  
23 as a forum to informally resolve any party's issues with the Annual

1 Update filing. If there are additional issues that arise within the  
2 technical conference, the schedule would allow time for a party to  
3 issue follow-up data requests to Southern Pioneer post-technical  
4 conference. A telephone conference call would subsequently be held  
5 between the parties sometime during days 50-55 to discuss the  
6 status of any outstanding issues and if there are not any outstanding  
7 issues, discuss Staff's filing of a Report and Recommendation  
8 indicating that the Annual Update filing will result in just and  
9 reasonable rates.

10 **Q: If Southern Pioneer is situated differently than the other Member Joint**  
11 **Applicants, why did it elect to submit to the Commission the request**  
12 **for a 34.5kV FBR as part of a joint filing, rather than an individual**  
13 **filing?**

14 A: Southern Pioneer is submitting this Joint Application, as opposed to an  
15 individual application, because the Commission's Staff requested that when  
16 this filing was made, that the respective parties collaboratively present the  
17 issue to the Commission, which we took to mean a joint application.

18 **III. EXPERIENCE WITH FORMULA-BASED RATE PLANS**

19 **Q: What are the reasons for Southern Pioneer's request to implement the**  
20 **proposed 34.5kV FBR?**

21 A: In Southern Pioneer's opinion, and based on our recent experience in  
22 implementing the DSC-FBR Pilot Plan, the FBR approach reduces the  
23 costs and regulatory lag of a traditional rate case while ensuring the

1 Commission and interested parties are afforded a comprehensive and  
2 systematic review of the resultant rates (which, by the inherent design of  
3 the proposed 34.5kV FBR, remain cost-based). The Prefiled Direct  
4 Testimony of Richard J. Macke further highlights the advantages that a  
5 formula-based rate approach offers to the Commission, affected utilities and  
6 their respective lenders and customers, as compared to a traditional rate  
7 proceeding.

8 **Q: In your opinion, has Southern Pioneer experienced the advantages of**  
9 **the suggested policy arguments in favor of an FBR?**

10 A: Yes. Southern Pioneer's first DSC-FBR Pilot Plan annual update was filed  
11 in May 2014. The costs of the first annual filing paled in comparison to the  
12 amount that would have been expended on a traditional rate case. Although  
13 the initial approval of the DSC-FBR Pilot Plan ("13-452 Docket") took  
14 considerable time and resources, the subsequent annual filings in place of  
15 a traditional rate case have so far resulted in far less regulatory and  
16 consulting costs due to the use of an agreed upon formula and procedural  
17 protocols providing for a consolidated review period for the Commission  
18 and any interested parties. While we are in the midst of our second annual  
19 filing, I believe that the process last year and the process to-date in the  
20 current annual filing have and are continuing to proceed smoothly.

1 **Q: Does Southern Pioneer have any additional experience with the FBR**  
2 **approach?**

3 A: Yes. Southern Pioneer also has filed for and received Commission approval  
4 of a Property Tax Surcharge rider, a formulaic mechanism that annually  
5 recovers property taxes paid but not recovered by base retail rates.  
6 Additionally, Southern Pioneer's Commission-approved Energy Cost  
7 Adjustment ("ECA") is also representative of a formulaic mechanism with  
8 automatic monthly and annual updates.

9 **IV. MID-KANSAS AS A JOINT APPLICANT**

10 **Q: If Southern Pioneer owns all of the 34.5kV facilities that are the**  
11 **subject of Southern Pioneer's proposed 34.5kV FBR, why is there a**  
12 **need for Mid-Kansas to be a Joint Applicant with Southern Pioneer in**  
13 **this proceeding?**

14 A: Mid-Kansas is a Joint Applicant in this proceeding due to the fact that Mid-  
15 Kansas previously agreed in prior Commission proceedings to be the  
16 "single point of contact" and LAC billing agent for wholesale LADS over the  
17 Members' 34.5kV facilities.<sup>3</sup> Currently, Mid-Kansas is responsible for  
18 administering wholesale LADS over Southern Pioneer's 34.5kV facilities  
19 pursuant to the terms of the Mid-Kansas Open Access Transmission Tariff.  
20 If Southern Pioneer's proposed 34.5kV FBR is approved by the  
21 Commission, Southern Pioneer's LAC under its LADS tariff will be updated  
22 annually and Mid-Kansas will bill wholesale LADS customers the updated

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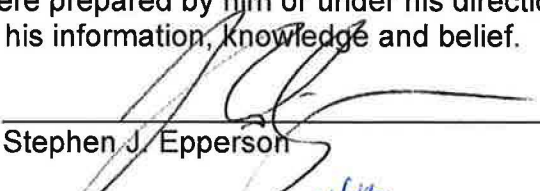
<sup>3</sup> See Docket Nos. 09-MKEE-969-RTS and 11-GIME-597-GIE.

- 1 LAC in accordance with the provisions for LADS under the Mid-Kansas  
2 OATT. Please see the Prefiled Direct Testimony of Mr. Rooney for a more  
3 detailed explanation of Mid-Kansas' administration of wholesale LADS over  
4 Southern Pioneer's 34.5kV sub-transmission facilities.
- 5 **Q: Does this conclude your testimony?**
- 6 A: Yes, it does.

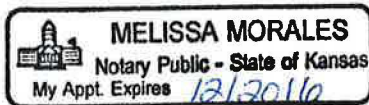
**VERIFICATION OF STEPHEN J. EPPERSON**

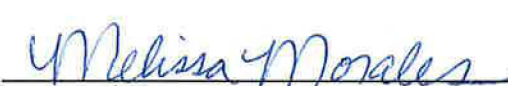
STATE OF KANSAS       )  
                                      ) ss:  
COUNTY OF GRANT     )

Stephen J. Epperson, being first duly sworn, deposes and says that he is the Stephen J. Epperson referred to in the foregoing document entitled "Direct Testimony of Stephen J. Epperson" before the State Corporation Commission of the State of Kansas, that he is an officer of Southern Pioneer Electric Company, and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
Stephen J. Epperson

SUBSCRIBED AND SWORN to before me this 14<sup>th</sup> day of July, 2015.



  
\_\_\_\_\_  
Notary Public

My Appointment Expires: 12/2016