

BEFORE THE KANSAS CORPORATION COMMISSION  
OF THE STATE OF KANSAS

**In the Matter of the Annual Filing for Approval to Make Certain Changes to its  
Charges for Electric Services, Pursuant to the Debt Service Coverage Formula  
Based Ratemaking Plan Approved in Docket No.13-MKEE-452-MIS**

**of**

**Southern Pioneer Electric Company**

**Docket No. 15-SPEE-519-RTS**

**July 16, 2015**

**PREFILED REBUTTAL TESTIMONY  
RANDALL D. MAGNISON  
EXECUTIVE VICE PRESIDENT-ASSISTANT CHIEF EXECUTIVE OFFICER  
SOUTHERN PIONEER ELECTRIC COMPANY**

**ON BEHALF OF**

**SOUTHERN PIONEER ELECTRIC COMPANY**

1 **I. Part 1 – Introduction**

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

3 A. My name is Randall D. Magnison. My business address is 1850 W. Oklahoma, PO Box 430,  
4 Ulysses Kansas 67880-0430.

5 **Q. Are you the same Randall D. Magnison, who prepared and caused to be prefiled Direct**  
6 **Testimony in the instant case?**

7 A. Yes.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The purpose of this testimony is to summarize and respond to the Direct Testimony of Mr.  
10 Chad Unrein of the Kansas Corporation Commission (“KCC” or “Commission”) Staff and  
11 the Direct Testimony of intervener witness Ms. Stacey Harden for the Citizens’ Utility  
12 Ratepayer Board (“CURB”).

13 **II. Part 2 – Summary of Commission Staff and CURB Testimony**

14 **Q. Please summarize the direct testimony of Commission’s Staff and CURB’s witness in**  
15 **this proceeding.**

16 A. While the direct testimony filed by Commission Staff witness Mr. Unrein and CURB  
17 witness Ms. Harden include recommendations for minor adjustments to Southern  
18 Pioneer’s filing, there is a consensus that the 2015 Debt Service Coverage (“DSC”) Formula Based  
19 Ratemaking (“FBR”) Pilot Plan (“DSC-FBR Plan”) Annual Update Filing (“Annual Update”) supports a rate increase of \$899,288 as contained in Southern Pioneer’s  
20 filing.<sup>1</sup>  
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<sup>1</sup> Unrein Direct, p. 4, lines 12-14 and Harden Direct, p. 24, lines 13-17

1 **III. Part 3 – Rebuttal to Staff Witness, Mr. Chad Unrein**

2 **Q. Please describe the content of your Rebuttal Testimony as it relates to Staff.**

3 A. My rebuttal testimony will respond to recommended adjustments to Southern Pioneer  
4 Electric Company’s (“Southern Pioneer” or “Company”) filed position contained in Mr.  
5 Unrein’s testimony, specifically as it relates to disallowing certain advertising, dues and  
6 donations expenses; clarify an error identified and contained in Unrein’s Exhibit CCU-1;  
7 and affirm Staff’s accounting interpretation and position with regard to the controversy  
8 surrounding donations made through Southern Pioneer’s Benevolent Fund.

9 **Q. You indicate Mr. Unrein’s testimony contains additional recommended adjustments**  
10 **to disallow certain advertising, dues and donations expenses not previously adjusted**  
11 **by Southern Pioneer. Can you briefly quantify these adjustments?**

12 A. Yes, I can. Mr. Unrein testified that when auditing Southern Pioneer’s filed “Exhibit 9 – List  
13 of Dues, Donations, Charitable Contributions, Promotional Advertising, Penalties, Fines and  
14 Entertainment Incurred During Test Year,” Staff identified an additional adjustment of  
15 \$1,536 for certain advertising, dues and donations expenses that Staff viewed as promotional  
16 advertising or sponsorships as opposed to donations as coded and reported by Southern  
17 Pioneer.<sup>2</sup>

18 **Q. Are you concerned with Staff’s adjustments?**

19 A. No, I am not. Because Staff’s adjustments were limited to only five items ranging in  
20 amounts from \$50 to \$750, out of an approximate 420 line items of various transactions,  
21 Southern Pioneer is not concerned and accepts Staff’s recommended changes. Frankly,  
22 because the process of categorizing and disallowing certain expenses in accordance with  
23 K.S.A. 66-101f(a) is somewhat subjective, I am pleased that Southern Pioneer’s first year

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<sup>2</sup> Unrein Direct, p. 7, lines 7-11 and Exhibit CCU-1, lines 10 & 20, and Exhibit CCU-3, p. 1

1 of voluntarily excluding certain advertising, dues and donations expenses mirrored Staff's  
2 so closely and resulted in an adjustment limited to just over \$1,500.<sup>3</sup>

3 **Q. What impacts do the Staff's additional adjustment of \$1,536 to disallow certain**  
4 **advertising, dues and donations expenses have on Southern Pioneer's overall filed**  
5 **revenue requirement?**

6 A. None. Accordingly, Staff recommends approval of Southern Pioneer's requested revenue  
7 increase of \$899,288, and affirms that this amount results in just and reasonable rates.<sup>4</sup>

8 **Q. You indicated that an error was identified in one of Mr. Unrein's testimony exhibits**  
9 **titled Exhibit CCU-1. Please identify and explain.**

10 A. Yes, as Southern Pioneer and its rate consultant, Power System Engineering, Inc. ("PSE"),  
11 were reviewing Staff's exhibits, we noticed that in Exhibit CCU-1, page 1, Line 20, the  
12 wrong number was used for Southern Pioneer's historical, unadjusted Other Deductions.  
13 In visiting with Mr. Unrein, he acknowledged that he modeled different data as part of his  
14 analysis, and this entry was changed in the template as a result of the modeling. He then  
15 did not re-input the correct, original number before preparing his filing exhibit. This was  
16 clearly an inadvertent error, and one that does not affect the resultant revenue requirement.

17 **Q. Has this error been corrected?**

18 A. Yes. Mr. Unrein filed an Errata to his Direct Testimony on July 15, 2015, acknowledging  
19 that an error occurred and that the correction of this error does not alter any of Mr.  
20 Unrein's calculations, recommendations or positions in his testimony.

21 **Q. You indicated earlier that Mr. Unrein provided an opinion regarding the inclusion of**  
22 **donations attributed to Southern Pioneer's Benevolent Fund. Please explain?**

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<sup>3</sup> Before allocation, whereas after the allocators are applied to assign the resultant total system amounts of adjusted expenses to DSC-FBR, this difference would be even smaller at less than \$1,200.

<sup>4</sup> Unrein Direct, p. 7, lines 13-15

1 A. Because CURB's witness, Ms. Harden, raised similar issues in her testimony, albeit she  
2 reached a different conclusion, I will defer my discussion of this issue, and will instead  
3 address both Staff and Ms. Harden collectively in my response to CURB later in this  
4 testimony.

5 **Q. Do you otherwise agree with Mr. Unrein's filed testimony and recommended**  
6 **adjustments?**

7 A. After reviewing Mr. Unrein's testimony and supporting exhibits (CCU1-CCU4), and  
8 comparing to Southern Pioneer's Application and responses to various KCC Staff and  
9 CURB Data Requests, Southern Pioneer concurs with Mr. Unrein's recommendation. As  
10 Mr. Unrein testified, Southern Pioneer's filed revenue increase of \$899,288 results in just  
11 and reasonable rates.<sup>5</sup>

12 **IV. Part 4 – Rebuttal to CURB Witness, Ms. Stacey Harden**

13 **Q. Please describe the content of your Rebuttal Testimony as it relates to CURB.**

14 A. My rebuttal testimony will first address Ms. Harden's general observations or concerns  
15 regarding Southern Pioneer's Application and CURB's discontent with the KCC-approved  
16 DSC-FBR Plan and the Annual Update filings. My rebuttal testimony will continue by  
17 responding to additional recommended adjustments to Southern Pioneer's filed position  
18 contained in Ms. Harden's testimony, specifically as it relates to disallowing certain  
19 advertising, dues and donations expenses. I will also respond to the suggested  
20 disallowance of certain legitimate business expenses for employee socials, golf  
21 tournaments, parties and gifts, etc.; and lastly, I will refute CURB's assertions to offset  
22 Benevolent Fund donations by affirming Staff's accounting interpretation and position

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<sup>5</sup> Unrein Direct, p. 4, lines 12-14

1 with regard to the controversy surrounding donations made through Southern Pioneer's  
2 Benevolent Fund.

3 **Q. You advised that Ms. Harden made several general observations and expressed**  
4 **concerns regarding Southern Pioneer's application, the overall DSC-FBR Plan and**  
5 **Annual Update filing process. Please summarize these observations and concerns.**

6 A. Ms. Harden contends the following (*paraphrased*):<sup>6</sup>

7 #1. The Commission approved a DSC ratio of 1.75, which is higher than  
8 Southern Pioneer's required minimum loan covenants.

9 #2. It appears that Southern Pioneer was able to build its equity position in 2014  
10 and that Southern Pioneer's total margins and equities increased.

11 #3. Despite Southern Pioneer achieving a DSC roughly 17% higher than its  
12 required loan covenants and more than doubling its equity position, Southern  
13 Pioneer is still seeking a rate increase.

14 #4. The abbreviated format approved by the Commission effectively limits  
15 intervener's ability to scrutinize expenses and CURB must rely partially upon  
16 a pre-filled formula. Specifically, Ms. Harden raised questions with regard to  
17 certain expenses and argued the existing process limits her ability to inquire  
18 as to her concerns.

19 **Q. Should the Commission be concerned or moved by CURB's comments to modify the**  
20 **various components of the Commission-approved DSC-FBR Plan and does Southern**  
21 **Pioneer have an opinion?**

22 A. No, the Commission should not be concerned or moved to alter the Commission-approved  
23 DSC-FBR Plan. Many of the items cited by Harden have already been fully addressed in

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<sup>6</sup> Harden Direct, p. 6, lines 17-22; p. 7, lines 1-22 and p. 8, lines 1-8

1 the Final Order approving the DSC-FBR Plan in Docket 13-MKEE-452-MIS (“13-452”  
2 Docket). Further, it is Southern Pioneer’s opinion that CURB’s comments are unfounded,  
3 misleading and are nothing more than attempts to create confusion within this Annual  
4 Update filing.

5 **Q. Please continue.**

6 A. As an example, and as summarized in item #1, in the Commission’s “Order Approving  
7 Non-Unanimous Settlement Agreement” in the 13-452 Docket (“13-452 Order”), the  
8 Commission determined that the 1.75 DSC ratio used in the DCS-FBR Plan was arrived at  
9 through a negotiated settlement and while it was higher than what CURB initially  
10 advocated, it was within the range of DSC ratios proposed by the parties in their pre-filed  
11 testimony. Plus, CURB’s claim (at that time) that the 1.75 DSC ratio is excessive was  
12 inconsistent with its position only a year earlier in the 12-MKEE-380-RTS Docket (“12-  
13 380 Docket”) in which it was a party to a unanimous settlement agreement where the use  
14 of a 1.8 DSC ratio was approved.<sup>7</sup> As a matter of fact, CURB’s expert, Ms. Andrea  
15 Crane, testified in the 12-380 Docket that she believed a DSC of 1.75 provides a  
16 reasonable balance between the need to provide some cushion to Southern Pioneer and the  
17 need to approve utility rates that are just and reasonable.<sup>8</sup> Accordingly, the Commission  
18 determined in the 13-452 Order that CURB’s testimony opposing a 1.75 DSC as excessive  
19 was not credible.<sup>9</sup> CURB’s comments in the instant docket regarding the Commission-  
20 approved DSC are inappropriate because the Commission has already determined the  
21 appropriate DSC level to be used for the duration of the DSC-FBR Plan, and the issue,  
22 therefore, is not one properly litigated as part of the Annual Update filings. Further, no

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<sup>7</sup> Docket 13-MKEE-452-MIS “Order Approving Non-Unanimous Settlement Agreement”, p. 7, ¶27 & ¶28

<sup>8</sup> Direct Testimony of Andrea C. Crane, Docket No. 12-MKEE-380-RTS (April 20, 2012) p. 17

<sup>9</sup> Docket 13-MKEE-452-MIS Order Approving Non-Unanimous Settlement Agreement, p. 8, ¶30

1 facts or circumstances have changed since that determination and, therefore, CURB's  
2 concerns today are unwarranted and baseless.

3 **Q. In items #2 and #3, Ms. Harden addresses Southern Pioneer's equity position by**  
4 **quantifying the year-over-year change and that Southern Pioneer is seeking a rate**  
5 **increase even though it exceeded the required minimum loan covenants and it more**  
6 **than doubled its equity position. Is Harden's statement accurate?**

7 A. No, it is not. In fact, it is grossly misleading. Southern Pioneer does not dispute that its  
8 equity position has improved slightly as systematically growing its financial health was  
9 one of the key milestones when adopting the DSC-FBR Plan as it was 100% debt financed  
10 and had zero equity<sup>10</sup>, but to state Southern Pioneer doubled its equity level and insinuate  
11 that as a result Southern Pioneer should not increase rates to meet the Commission-  
12 approved DSC target of 1.75 is ill advised. What Ms. Harden fails to disclose in her  
13 testimony is that Southern Pioneer's equity ratio on a percentage basis went from only  
14 2.32% to 3.85% in the second year of the DSC-FBR Plan.<sup>11</sup> While dollar-wise, equity and  
15 margin levels increased by approximately \$2 million, this increase was primarily due to  
16 patronage allocations by Mid-Kansas Electric Company, LLC, and not from Southern  
17 Pioneer's distribution operations. Additionally, although as a percentage of assets the  
18 equity levels show as doubled, the resultant ratio is still well below the agreed to 15%  
19 equity cap, which triggers a point where a rate increase will not be allowed.<sup>12</sup>

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<sup>10</sup> Docket 13-MKKEE-452-MIS Order Approving Non-Unanimous Settlement Agreement, p. 14, ¶46

<sup>11</sup> The referenced ratios are as stated in Unrein Direct Testimony (Exhibit CCU-1, page 3, Line 62, Unadjusted Historical Test Year column) filed in 14-SPEE-507-RTS and in the Application for Southern Pioneer Electric Company (Exhibit 3 –DSC Template, page 3, line 62, Unadjusted Historical Test Year [2013] column) filed in the instant Docket.

<sup>12</sup> Docket 13-MKKEE-452-MIS Non-Unanimous Settlement Agreement, Exhibit A, Section H, p.5



1        Additionally, Southern Pioneer’s 2014 3.85% equity as a percentage of total assets ratio  
2        pales in comparison to the state median of 44.11%.<sup>13</sup>

3        **Q. In item #4, Ms. Harden complains that the Commission-approved abbreviated**  
4        **format, (i.e. the 60-days after Southern Pioneer’s Annual Filing to review the**  
5        **application, prefiled testimony/exhibits and then file testimony), effectively limits**  
6        **CURB’s ability to scrutinize expenses. Did other parties, such as Staff, express**  
7        **similar concerns or experience such constraints?**

8        A. As the central point of contact for all of Southern Pioneer’s regulatory filings, prior to  
9        receiving CURB’s testimony in this proceeding, I was not aware of any complaints,  
10        concerns or constraints resulting from this timeline. To my knowledge, Staff did not have  
11        an issue meeting its obligations under the timeline. As a matter of fact, Southern Pioneer  
12        made every effort to facilitate both Staff and CURB’s review and drafting by providing all  
13        documents (Application, testimony, exhibits, data request/responses) in electronic, fully  
14        functional formats on its secure Box.net site by May 1<sup>st</sup>, and in some instances on its own  
15        accord, provided data request responses before the stated due dates. Additionally, on a  
16        couple of occasions, Southern Pioneer was requested to, and did provide responses to Staff  
17        and CURB Data Requests prior to the required 7 or 10 day (as applicable) deadlines, so  
18        that the parties could incorporate the information into their testimony prior to the July 1<sup>st</sup>  
19        deadline for Staff and interveners to file testimony.

20        **Q. Were there other examples of Southern Pioneer fostering an environment to ensure**  
21        **that Staff and CURB had every opportunity to meet their filing deadline?**

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<sup>13</sup> State average quoted is Ratio 16 from the National Rural Utilities Cooperative Finance Corporation (“CFC”) Key Ratio Trend Analysis 2014, State Grouping.

1 A. Yes. As early as May 19, 2015, in accordance with the DSC-FBR Plan Protocols,  
2 Southern Pioneer attempted via email to schedule the required Technical Conference with  
3 Staff and CURB representatives, so that the parties could reserve the date and prepare any  
4 questions or requests for information or that Southern Pioneer representatives be available.  
5 See Exhibit **RDM-1**, p.5, which is an e-mail string between Southern Pioneer, Staff and  
6 CURB representatives regarding scheduling the Technical Conference and requesting  
7 topics to be discussed, etc.

8 **Q. And what was the result of this solicitation?**

9 A. Our request went un-responded to until June 10, 2015, when CURB's counsel, Mr. David  
10 Springe, e-mailed and inquired if the date had been set. See Exhibit **RDM-1**, p.4.  
11 Subsequently, on June 15<sup>th</sup>, Staff and CURB's non-legal staff participating in the  
12 Technical Conference confirmed their availability and the Technical Conference was  
13 scheduled for the very next day, June 16<sup>th</sup>. It should be noted that in the spirit of  
14 cooperation, Southern Pioneer suggested and waived the requirement in the Protocols that  
15 Staff and Interveners must provide at least 10-days' notice prior to the Technical  
16 Conference. This waiver was offered as an accommodation to Staff and CURB to ensure  
17 that the Technical Conference could be completed prior to Staff's and CURB's testimony  
18 filing deadline of July 1<sup>st</sup>. Further, just one day prior to the filing of Staff and Intervenor  
19 Direct Testimony, CURB issued a data request, to which Southern Pioneer immediately  
20 responded. For Ms. Harden to now criticize the timeline when Southern Pioneer went out  
21 of its way to be accommodating is frustrating, insulting, and disheartening.

22 **Q. It appears that Southern Pioneer made every effort and used technology to its fullest**  
23 **extent to accommodate the request of Staff and CURB, would you not agree?**

1 A. Yes, I agree that we made every attempt to be responsive.

2 **Q. While not providing any facts or evidence to support her comments, as noted above**  
3 **in item #4, Ms. Harden suggests that it would be useful to seek answers to several**  
4 **cost-based questions. Did CURB issue any Data Requests to Southern Pioneer to**  
5 **inquire about these various issues?**

6 A. No, not to my knowledge. As the recipient of all Data Requests for this docket, I did not  
7 receive any such data requests at any time during the pendency of this proceeding. It is  
8 unfortunate that CURB did not elect to exercise its right to issue a Data Request seeking  
9 clarification when it had every opportunity to do so.

10 **Q. As part of the June 16<sup>th</sup> Technical Conference in which CURB (Ms. Harden and Ms.**  
11 **Crane) participated, did any CURB representative raise these same questions in**  
12 **advance or as part of the Technical Conference?**

13 A. No. The only items Ms. Harden requested to discuss during the conference call was the  
14 sale of scrap metal and how the revenue was accounted for in the Application, which is  
15 related to the Southern Pioneer Benevolent Fund. See Exhibit **RDM-2**, p.1.

16 **Q. Do the Protocols require that parties work to informally resolve outstanding issues**  
17 **prior to the filing of formal testimony?**

18 A. Yes. Section B, page 1 of Exhibit A (the Protocols) attached to the 13-452 Order  
19 specifically provides:

20 *“Prior to the filing of testimony that indicates that the results of the DSC-FBR*  
21 *Plan are unjust or unreasonable, Staff and interveners shall make a*  
22 *reasonable attempt to resolve any issues surrounding the DSC-FBR filing*  
23 *informally with Southern Pioneer.”*

1 **Q. Do you have any idea why CURB elected to disregard the Commission-approved**  
2 **Protocols by making no attempt to informally resolve its concerns, and instead raise**  
3 **an issue for the first time as part of its filed testimony?**

4 A. No, I have no idea why CURB would file testimony of the nature it did. The content of  
5 the testimony not only disregards the Commission's prior findings in establishing the  
6 DSC-FBR Plan, but the manner in which certain issues were raised is contrary to the  
7 Protocols.

8 **Q. You indicated previously that CURB suggested additional recommended**  
9 **adjustments to Southern Pioneer's filed position, specifically as it relates to**  
10 **disallowing certain advertising, dues and donations expenses. Will you please briefly**  
11 **summarize the adjustments, quantify the impact to Southern Pioneer's filed annual**  
12 **revenue requirement, and state whether you concur with CURB's recommendation?**

13 A. Ms. Harden recommended eleven (11) adjustments in total, resulting in a total  
14 disallowance of only \$2,185.21 for certain advertising, dues and donations expenses.<sup>14</sup> Of  
15 these 11 adjustments, only two, totaling \$1,000, were the same donations identified and  
16 disallowed by Staff, while the remaining \$1,185 plus were unrelated to Staff's  
17 recommended adjustments. CURB's rationale for recommending disallowance of these  
18 items was that in its view, the items are promotional advertising or sponsorship, as  
19 opposed to donations, or previously disallowed in the 2014 Annual Filing by Staff.

20 Other than the two common transactions disallowed by both Staff and CURB, I do not  
21 agree with the remainder of CURB's suggested adjustments or the methodology used to  
22 identify such disallowances. Because the overall total dollar amount of the adjustments is  
23 minimal when calculating the resulting revenue requirement, the adjustments, even if

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<sup>14</sup> Harden Testimony, pages 10-15 and Schedules SMH-2 and SMH-4

1 made, would not affect (reduce in this case) the revenue requirement.<sup>15</sup> However, because  
2 Southern Pioneer philosophically disagrees with the adjustments recommended by CURB  
3 for the stated reasons, Southern Pioneer recommends that should the Commission choose  
4 to make a specific finding as to the accounting adjustments, as opposed to making a  
5 finding limited to the overall revenue requirement increase, that the Commission reject  
6 CURB's adjustments and instead adopt Staff's recommendation.

7 **Q. Did CURB have other concerns with Southern Pioneer's list of dues, donations**  
8 **advertising as listed in Exhibit 9?**

9 A. Yes, Ms. Harden identified a single transaction totaling \$130.67 for the purchase of baby  
10 blankets and bibs that was not included in this year's Exhibit 9. Evidently, through  
11 comparing Exhibit 9 for the 2014 filing (last year) with the 2015 Annual Filing Exhibit 9,  
12 and comparing general ledger account detail for select accounts, Ms. Harden noticed that a  
13 similar item was listed as promotional expense last year but miscellaneous expense this  
14 year. Ms. Harden stated that this expense should be disallowed, and that its absence in the  
15 2015 Exhibit 9 is concerning because it is not clear whether Southern Pioneer intentionally  
16 omitted the item, simply miscoded the item, or missed the item entirely when populating  
17 the Exhibit 9 template for the 2015 filing.<sup>16</sup>

18 **Q. Can you explain why this item was absent from Exhibit 9 in the 2015 Annual Update**  
19 **Filing?**

20 A. Yes, I can. In the 2014 Annual Update Filing, such an item was coded as a promotional  
21 expense and listed on Exhibit 9. However, baby blankets and bibs containing the  
22 Southern Pioneer insignia are used for internal purpose, i.e. given to employees who have

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<sup>15</sup> Harden Testimony, p. 24, lines 13-17

<sup>16</sup> Harden Testimony, p. 15, lines 20-22 and p. 16, lines 1-22

1 a birth in their family, and are not provided to outside parties to promote the Company like  
2 other promotional items. Therefore, this year it was properly classified as a miscellaneous  
3 business expense and coded as such and, therefore, the absence of the item in Exhibit 9  
4 was intentional and legitimate. It was inaccurately coded in the 2014 Annual Update  
5 Filing and correctly coded in the 2015 Annual Update Filing.

6 **Q. Did Ms. Harden suggest other adjustments to Southern Pioneer's 2014 revenue**  
7 **requirement outside of those listed in Exhibit 9 and the single transaction?**

8 A. Yes, she suggested disallowance of \$9,715.99 of certain expenses related to employee  
9 appreciation events, golf tournaments, Christmas parties and gifts, etc.<sup>17</sup>

10 **Q. Do you agree with this suggested adjustment?**

11 A. No, Southern Pioneer does not agree with this adjustment. These are legitimate business  
12 expenses and it appears that Ms. Harden is disallowing these expenses on purely  
13 philosophical reasons.

14 **Q. Earlier, you briefly mentioned that the donations made through Southern Pioneer's**  
15 **Benevolent Fund (HUGS Program) and the accounting thereof were a source of**  
16 **controversy for Staff and CURB. Please explain.**

17 A. Initially when evaluating Exhibit 9 and the donations attributed to the Benevolent Fund,  
18 which were included in Exhibit 9 and subject to the Commission's current policy to  
19 disallow up to 50% of such items pursuant to K.S.A. 66-101f(a), and during the Technical  
20 Conference conducted June 16, 2015, Staff and CURB both expressed frustration in  
21 understanding the purpose and workings of the Benevolent Fund, and questioned both the  
22 accounting methodology used to account for the sale of scrap metal and the recording of  
23 the gain/loss on the sale of disposition of assets. Staff and CURB each issued several Data

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<sup>17</sup> Harden Testimony, p. 17, lines 10-20

1 Requests before and after the Technical Conference seeking clarification and detailed  
2 explanations on the sale of scrap and the use of these proceeds, to which Southern Pioneer  
3 responded.

4 **Q. After providing detailed responses, was this controversy concerning the Benevolent**  
5 **Fund resolved?**

6 A. Yes, partially. As a result of responding to Staff Data Request No. 10 and 11, and CURB  
7 Data Request No. 13, Mr. Unrein acknowledged that while the accounting methodology  
8 was overly complex and unnecessary, Southern Pioneer was recording the transactions in  
9 accordance with RUS accounting methodology.<sup>18</sup> To avoid future confusion, Mr. Unrein  
10 suggested that Southern Pioneer simply account for these entries, as any other donation  
11 the company makes from normal operating funds through the year by recording the  
12 donation expense when they occur.<sup>19</sup> Mr. Unrein further stated that the Commission  
13 should apply the 50% inclusion/exclusion to donations made from the Benevolent Fund.<sup>20</sup>

14 **Q. You indicate that this controversy was partially resolved. Can you please elaborate?**

15 A. The controversy was resolved as relates to Staff, but not with CURB. While Staff  
16 acknowledged that Southern Pioneer is accounting for the Benevolent Fund transactions  
17 and the associated scrap sales correctly, CURB, despite being provided the same Data  
18 Request responses and participating in the same Technical Conference, disagrees with or  
19 chooses to ignore RUS accounting guidelines. CURB requests that the Commission offset  
20 the sale of scrap against all donations and only allow any excess donations above the

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<sup>18</sup> Unrein Testimony, p. 8, lines 17-19

<sup>19</sup> Unrein Testimony, p. 8, lines 19-23 and p. 9, line 1

<sup>20</sup> Unrein Testimony, p. 9, lines 16-26 and p. 10, lines 1-3

1 offset to be included in Southern Pioneer's cost of service, at which point it will then be  
2 subject to the Commission's current 50% inclusion/exclusion policy.<sup>21</sup>

3 **Q. If CURB's recommendation were adopted, what impact would this have on Southern**  
4 **Pioneer's 2015 donation expense?**

5 A. As detailed in Harden's Schedule SMH-3 attached to her testimony, this would effectively  
6 result in an adjustment (reduction) of \$11,835 to Southern Pioneer's donation expense that  
7 is part of the DSC-FBR Plan.

8 **Q. Do you agree with Ms. Harden's recommendation regarding the Benevolent Fund**  
9 **transactions?**

10 A. No. Southern Pioneer is confident that it is accurately accounting for these transactions,  
11 which is affirmed by Staff who has clearly articulated that Southern Pioneer is following  
12 RUS accounting guidelines. Adopting CURB's recommendation would be in conflict  
13 with RUS accounting guidelines and would be unfairly penalizing Southern Pioneer.

14 **Q. Can you summarize CURB's total recommended adjustments?**

15 A. Including the adjustments to Exhibit 9, the single transaction for the baby blanket and  
16 bibs, and its desired offsets due to the Benevolent Fund activity, CURB's  
17 recommendations would result in a total reduction of the operating expenses in the DSC-  
18 FBR Plan of \$23,867.21.

19 **Q. If the Commission were to approve CURB's adjustments, what impact would it have**  
20 **on Southern Pioneer's DSC-FBR rate increase?**

21 A. As Ms. Harden testifies, even if CURB's recommended adjustments are imputed into the  
22 DSC-FBR Plan, they are not substantial enough to impact Southern Pioneer's request to  
23 increase rates \$899,288.<sup>22</sup>

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<sup>21</sup> Harden Testimony, p. 21, lines 4-15



1 **V. Conclusion**

2 **Q. In concluding, please summarize your testimony and recommendation as it relates to**  
3 **concerns raised by CURB, the impact of Staff and CURB's recommended**  
4 **adjustments and the treatment of Southern Pioneer's Benevolent Fund.**

5 A. Certainly.

6 First, the various concerns and comments raised by CURB's witness Stacey Harden  
7 regarding the appropriate DSC level and Southern Pioneer's equity ratio should be  
8 dismissed. These items have been previously addressed by the Commission and were  
9 inappropriately raised in this Annual Update Filing.

10 Second, the Commission should not be moved to alter the 90-day procedural schedule  
11 agreed to in the 13-452 Docket simply because CURB believes it limits their ability to  
12 scrutinize expenses. No other parties have expressed concern with the abbreviated  
13 schedule and Southern Pioneer, as agreed to in the Protocols, makes all documents  
14 available electronically upon making the Annual Update Filing, so Staff and parties  
15 granted intervention can immediately, and easily review and audit the filing and  
16 supporting schedules. Further, in this instance, CURB unfairly raises issues for which it  
17 did not issue Data Requests seeking clarification, or mention during the Technical  
18 Conference, which the Commission approved DSC-FBR Plan Protocols specifically  
19 established for the purpose of resolving any outstanding issues.

20 Third, Staff, and more so CURB, recommended adjustments to disallow certain  
21 promotional advertising, dues and donations as well as other legitimate business expenses.

22 While the parties obviously differ in opinion as to which dues, donations and promotional  
23 advertising expenses should be recoverable, and CURB chooses to philosophically

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<sup>22</sup> Harden Testimony, p. 24, lines 13-17 and Schedule SMH-1

1 disallow legitimate business expenses related to employee activities, both Staff and CURB  
2 note that despite the recommended adjustments, there is no resulting reduction to the  
3 requested rate increase of \$899,288. Staff even went as far as to recommend that the  
4 Commission approve the rate request as just and reasonable.

5 Last, as Southern Pioneer responded to in both Staff and CURB Data Requests and as  
6 affirmed by Mr. Unrein's testimony, Southern Pioneer is accurately and appropriately  
7 accounting for the transactions related to the Benevolent Fund and related donations such  
8 that CURB's recommendations in this area are without merit.

9 Therefore, since Staff and CURB have audited Southern Pioneer's Annual Update  
10 Filing and determined that the recommended adjustments do not impact Southern  
11 Pioneer's request to increase rates by \$899,288, Southern Pioneer requests that the  
12 Commission approve the filed request as soon as administratively possible and find that  
13 the issues raised by CURB are unwarranted.

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

15 A. Yes.

**VERIFICATION**

STATE OF KANSAS            )  
                                          ) ss  
COUNTY OF GRANT         )

The undersigned, Randall D. Magnison, upon oath first duly sworn, states that he is an officer of Southern Pioneer Electric Company, and that he has prepared the foregoing testimony, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

  
Randall D. Magnison

Subscribed and sworn to before me this 16 day of July, 2015.



  
Notary Public

My appointment expires: December 2016

**Randy Magnison**

**From:** Chad Unrein <c.unrein@kcc.ks.gov>  
**Sent:** Monday, June 15, 2015 3:29 PM  
**To:** Randy Magnison; Stacey Harden; David Springe  
**Cc:** Glenda Cafer (glenda@caferlaw.com); Terri Pemberton (terri@caferlaw.com); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Della Smith; ctolumbia@aol.com; Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke (macker@powersystem.org)'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Randy

My list of Exhibit 6 questions are below, please let me know if you have any questions, comments, or concerns.

**Exhibit 6 Questions:**

Are Pioneer Management Services provided in the Exhibit 6: List of All Directly Assigned Costs from Pioneer also included in Exhibit 6: List of Pioneer Employee's Time and Cost Billed or are the expense separate?

For Exhibit 6: Pioneer List of All Directly Assigned Costs from Pioneer, why are the costs from Pioneer Electric Cooperative Debited while the remaining expenses are shown as credits.

For Exhibit 6: Pioneer List of All Directly Assigned Costs, can Southern Pioneer provide a summary that would group different directly assigned expenses from Pioneer into a summary of cost categories.

For Exhibit 6: discuss different drivers for increased labor costs found in the List of Pioneer Employee's Time and Cost Billed between 2012, 2013, and 2014 from Pioneer Electric Cooperative.

Thanks,  
 Chad

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**From:** Randy Magnison [mailto:rmagnison@pioneerelectric.coop]  
**Sent:** Monday, June 15, 2015 2:21 PM  
**To:** Stacey Harden; Chad Unrein; David Springe  
**Cc:** Glenda Cafer (glenda@caferlaw.com); Terri Pemberton (terri@caferlaw.com); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Della Smith; ctolumbia@aol.com; Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke (macker@powersystem.org)'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Stacey, Andrea, Chad, Rich, Elena, Chantry and Sherry:

In response to Chad's suggestion, and after checking with Southern Pioneer representatives, we can accommodate the short-notice and conduct a preliminary Technical Conference Call Tuesday, June 16 from 3:30 to 5:00 PM (or whenever we quit) to discuss Staff's initial items. Chad, while we feel comfortable explaining Exhibit 9, if you could be more specific on Exhibit 6 that would be most beneficial to ensure that we have the necessary information available for the GoToMeetings site and use everyone's time wisely.

Further, because this is short notice, and not everybody (the non-attorney's) may be able to make it or the parties may have other items to discuss but are not prepared to do so by tomorrow, we can certainly schedule a follow up conference call or in-person meeting, whichever is most appropriate, over the next couple of weeks, etc.

I will send out a calendar-GoToMeetings invitation in a few moments and let me know if you have questions in the meantime.

Randy Magnison

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**From:** Stacey Harden [<mailto:s.harden@curb.kansas.gov>]  
**Sent:** Monday, June 15, 2015 12:55 PM  
**To:** Chad Unrein; Randy Magnison; David Springe  
**Cc:** Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com)); Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Della Smith; [ctcolumbia@aol.com](mailto:ctcolumbia@aol.com); Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org))'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

All –

Tomorrow at 3:30, while not optimal, will work for me and possibly Andrea Crane, as well.

The other two dates (June 25, 26) could interfere with our testimony during the KCPL evidentiary hearing.

Stacey Harden  
Regulatory Analyst  
Citizens' Utility Ratepayer Board  
1500 SW Arrowhead Rd  
Topeka, KS 66604  
(785) 271-3117  
[s.harden@curb.kansas.gov](mailto:s.harden@curb.kansas.gov)

---

**From:** Chad Unrein  
**Sent:** Monday, June 15, 2015 12:14 PM  
**To:** Randy Magnison; David Springe

**Cc:** Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com)); Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Stacey Harden; Della Smith; [ctcolumbia@aol.com](mailto:ctcolumbia@aol.com); Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org))'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Randy,

I spoke with Justin earlier today, and his schedule is extremely tight through the end of June, so I will be the only participant for Staff at the technical conference. I was hoping to set-up the conference technical conference up on any of the following dates:

- Tomorrow at 3:30 on June 16;
- Thursday at 9:00 am on June 25;
- Friday at 9:00 am on June 26.

The topics I would like to discuss at the conference are:

- Exhibit 6: Format of data presented in the DSC-FBR rate cases.
- Exhibit 9: Differences between the amended Exhibit 9 provided in CURB DR 3.
- Exhibit 9: CURB DR 13 changes in the accounting method for the Benevolent Funds.

Please let me know if I need to breakdown these items into individual questions or if we can simply have a general discussion around these topics. Additionally, please let me know if these items can be discussed prior to the 10 day notice.

Thank you,  
Chad

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**From:** Randy Magnison [<mailto:rmagnison@pioneerelectric.coop>]  
**Sent:** Monday, June 15, 2015 11:33 AM  
**To:** Chad Unrein; David Springe  
**Cc:** Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com)); Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Stacey Harden; Della Smith; [ctcolumbia@aol.com](mailto:ctcolumbia@aol.com); Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org))'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Chad and All:

Thanks for following up on available dates for the Technical Conference. Unfortunately, it will be difficult to find a date that all parties will be available as we have several conflicts that include preparing for and conducting Board Meeting June 18 & 19 and 23 & 24. However, the following are dates in which the majority of our key staff and at least one PSE representatives can be available, if conducted via conference call, to answer questions.

- ? June 15 – After 3 PM (this date is sooner than the requirement to provide at least 10 days' notice, but depending on nature of questions, may be able to accommodate)
- ? June 16 – After 3:30 PM (this date is sooner than the requirement to provide at least 10 days' notice, but depending on nature of questions, may be able to accommodate)
- ? June 22 – All Day (this date is sooner than the requirement to provide at least 10 days' notice, but depending on nature of questions, may be able to accommodate)
- ? June 25 – All Day (this date is right at the requirement to provide at least 10 days' notice)
- ? June 26 – All Day
- ? June 29 – All Day

If any of these dates in June are not workable, we can look at the first 10 days of July. Please advise your preference and availability.

Thanks

Randy Magnison

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**From:** Chad Unrein [<mailto:c.unrein@kcc.ks.gov>]  
**Sent:** Friday, June 12, 2015 2:58 PM  
**To:** Randy Magnison; David Springe  
**Cc:** Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com)); Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Stacey Harden; Della Smith; [ctcolumbia@aol.com](mailto:ctcolumbia@aol.com); Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org))'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Randy,

I wanted to see what dates were available to hold the 15-519: DSC-FBR Technical Conference. I have started the review the data request responses, and I will have a better handle on the data early next week to submit the Technical Conference questions. I know Staff is interested in exploring both the accounting methodology and impact that the

KEPCo Plains Metering/Billing error and the KMEA settlement will have on the 2016 DSC-FBR rate case. If you could give me a selection of dates, I will get with Justin and find a date that will work with his schedule.

Thanks,  
Chad

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**From:** Randy Magnison [<mailto:rmagnison@pioneerelectric.coop>]

**Sent:** Wednesday, June 10, 2015 4:57 PM

**To:** David Springe

**Cc:** Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com)); Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Chad Unrein; Justin Grady; Chantry Scott; Sherry Easton; Stacey Harden; Della Smith; [ctcolumbia@aol.com](mailto:ctcolumbia@aol.com); Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org))'

**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

David,

The date for the Technical Conference for the non-attorney's has not been set yet as I had not received feedback until now. Southern Pioneer still stands ready to block a date and depending on the depth of the requested information that parties may want to discuss, may be flexible on waiving 10-day notice requirement, just need to work around a couple of board meeting dates that unfortunately we cannot move.

Just an FYI to all, Southern Pioneer has uploaded to Box.net responses to Staff DRs 1-9 and CURB DRs 1-2. Responses to CURB DRs 3-13 should be uploaded early tomorrow morning as I have completed my review and we are awaiting signature of the verification pages. I assume all of this may temper what may need to be discussed at the Technical Conference.


As always, I look forward to your suggestions and in this case, a date in which to conduct the Technical Conference.

*Randy Magnison*

Executive Vice President - Assistant CEO  
Southern Pioneer Electric Company

 PO Box 430

1850 W. Oklahoma  
Ulysses, KS 67880-0430

 Tele. 620-424-5211

 Fax: 620-356-4306

 Cellular: 620-353-8518

 e-mail: [rmagnison@pioneerelectric.coop](mailto:rmagnison@pioneerelectric.coop)  
[www.southernpioneer.net](http://www.southernpioneer.net)

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**From:** David Springe [<mailto:d.springe@curb.kansas.gov>]

**Sent:** Wednesday, June 10, 2015 4:38 PM

**To:** Randy Magnison

**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Randy...did a technical conference date ever get set?

ds



**From:** Randy Magnison [<mailto:rmagnison@pioneerelectric.coop>]

**Sent:** Tuesday, May 19, 2015 4:58 PM

**To:** Justin Grady; Chad Unrein; Robert Vincent; David Springe; Niki Christopher; Stacey Harden; Della Smith; Shonda Smith

**Cc:** Terri Pemberton ([terri@caferlaw.com](mailto:terri@caferlaw.com)); Lindsay Shepard; Rich Macke ([macker@powersystem.org](mailto:macker@powersystem.org)); Larson, Elena (Kanaeva-Larson); Chantry Scott; Sherry Easton; Steve Epperson; Glenda Cafer ([glenda@caferlaw.com](mailto:glenda@caferlaw.com))

**Subject:** Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Staff and CURB:

As required in the protocols for Southern Pioneer's Annual DSC-FBR Pilot Plan, and because available dates will fill up quickly and I assume Staff and CURB will want to conduct the Technical Conference before their Testimony is due July 1, 2015, I wanted to explore possible dates in which the parties (non-attorney staff) can conduct the "Technical Conference". If you recall, last year due to the minor rate adjustment, the parties agreed to conduct a GoToMeetings Conference Call as opposed to a face-to-face meeting in Ulysses (see last year's attached agenda). While you all probably have not had time to fully digest the May 1<sup>st</sup> compliance filing due to other workload, based on the slight increase, Southern Pioneer and Power Systems Engineering ("PSE") would again be amenable to conducting via GoToMeetings. Alternatively, if there are substantial issues, of course Southern Pioneer will host the meeting at its corporate office in Ulysses, KS.

Currently, for Southern and PSE, all day June 15-17 (Monday-Wednesday) are open. Hopefully, this far out would allow the parties time to finalize the review of the May 1<sup>st</sup> filing, issue any DRs and receive our responses, and then submit to Southern Pioneer the written list of questions or required information to be discussed 10-days in advance of the meeting or call. If this date range works, please advise your date and time preference. If there are conflicts, please suggest alternate dates and times, etc.


I look forward to scheduling the Technical Conference and if you have questions, do not hesitate to contact me.


*Randy Magnison*

Executive Vice President - Assistant CEO  
Southern Pioneer Electric Company

 PO Box 430

1850 W. Oklahoma  
Ulysses, KS 67880-0430

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 e-mail: [rmagnison@pioneerelectric.coop](mailto:rmagnison@pioneerelectric.coop)  
[www.southernpioneer.net](http://www.southernpioneer.net)



**Randy Magnison**

---

**From:** Stacey Harden <s.harden@curb.kansas.gov>  
**Sent:** Monday, June 15, 2015 3:27 PM  
**To:** Randy Magnison  
**Cc:** Chantry Scott; ctolumbia@aol.com; Chad Unrein  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Randy –

I know it was on Chad's list of things to discuss, but I would like to have someone with Southern Pioneer walk me through the donations made with scrap metal proceeds. I'm having a real hard time deciphering (based upon accounting/GL records) what is happening with these transactions.

To begin the conversation – I would like to know specifically, the following questions:

- (1) How much revenue did Southern Pioneer receive during the 2014 test year from the sale of scrap metal?
- (2) Is this revenue accounted for in Southern Pioneer's application?

Once I have the answers to these questions, I will be able to determine what, if any, other questions I have.

Thanks!

Stacey Harden  
Regulatory Analyst  
Citizens' Utility Ratepayer Board  
1500 SW Arrowhead Rd  
Topeka, KS 66604  
(785) 271-3117  
s.harden@curb.kansas.gov

---

**From:** Randy Magnison [mailto:rmagnison@pioneerelectric.coop]  
**Sent:** Monday, June 15, 2015 2:21 PM  
**To:** Stacey Harden; Chad Unrein; David Springe  
**Cc:** Glenda Cafer (glenda@caferlaw.com); Terri Pemberton (terri@caferlaw.com); Lindsay Shepard; Justin Grady; Chantry Scott; Sherry Easton; Della Smith; ctolumbia@aol.com; Robert Vincent; Niki Christopher; 'Larson, Elena (Kanaeva-Larson)'; 'Rich Macke (macker@powersystem.org)'  
**Subject:** RE: Southern Pioneer Docket 15-SPEE-519-RTS Technical Conference

Stacey, Andrea, Chad, Rich, Elena, Chantry and Sherry:

In response to Chad's suggestion, and after checking with Southern Pioneer representatives, we can accommodate the short-notice and conduct a preliminary Technical Conference Call Tuesday, June 16 from 3:30 to 5:00 PM (or whenever we quit) to discuss Staff's initial items. Chad, while we feel comfortable explaining Exhibit 9, if you could be more specific on Exhibit 6 that would be most

**CERTIFICATE OF SERVICE**

I, the undersigned, hereby certify that a true and correct copy of the above *Rebuttal Testimony of Randall Magnison* was electronically served, hand-delivered or mailed, postage prepaid, this 16<sup>th</sup> day of July, 2015 to:

MICHAEL DUENES, ADVISORY COUNSEL  
KANSAS CORPORATION COMMISSION  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604-4027

AMBER SMITH, CHIEF LITIGATION COUNSEL  
KANSAS CORPORATION COMMISSION  
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NIKI CHRISTOPHER, ATTORNEY  
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1500 SW ARROWHEAD RD  
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DELLA SMITH  
CITIZENS' UTILITY RATEPAYER BOARD  
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SHONDA SMITH  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604

DAVID SPRINGE, CONSUMER COUNSEL  
CITIZENS' UTILITY RATEPAYER BOARD  
1500 SW ARROWHEAD RD  
TOPEKA, KS 66604

*/s/ Terri Pemberton*  
TERRI PEMBERTON  
GLENDA CAFER