

**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

H. DAVIS ROONEY

ON BEHALF OF MID-KANSAS ELECTRIC COMPANY, LLC

July 15, 2015

1 **Q: Please state your name.**

2 A: My name is H. Davis Rooney.

3 **Q: By whom are you employed and what is your business address?**

4 A: I am employed by Sunflower Electric Power Corporation ("Sunflower"). My
5 business address is 301 W. 13th Street, Hays, Kansas. By agreement,
6 Sunflower, through its employees, operates Mid Kansas Electric
7 Company, LLC ("Mid-Kansas").

8 **Q: What is your present position at Mid-Kansas?**

9 A: I am the Vice President and Chief Financial Officer. I also serve as Vice
10 President and Chief Financial Officer for Sunflower.

11 **Q: What prior positions have you held?**

12 A: Prior to joining Mid-Kansas, I held positions at Kansas City Power & Light
13 Company ("KCP&L"), Aquila, Inc. ("Aquila"), and Arthur Andersen.

14 **Q: Please describe your education, experience, and employment
15 history.**

16 A: I graduated from the University of Kansas. I received a B.A. with
17 distinction in mathematics, and a B.S. with distinction in business, with
18 majors in accounting and business administration and a concentration in
19 computer science. I obtained my certified public accountant certificate in
20 1983 and practiced in public accounting from 1983 to 1992. In 1992, I
21 joined Aquila as controller of its WestPlains Energy division. This division
22 was later reorganized into WestPlains Energy – Colorado and WestPlains
23 Energy – Kansas ("WPEK"). At Aquila, I held several positions focused on

1 financial management and analysis, including director of accounting and
2 finance for the Missouri Electric divisions of Aquila Networks. My last
3 position at Aquila was as director of resource planning and commodity
4 analysis. At KCP&L, I held the position of manager, CEP business
5 operations. My responsibilities included business planning and analysis
6 concerning infrastructure investment projects for KCP&L, and Aquila d/b/a
7 KCP&L Greater Missouri Operations Company.

8 **Q: What is the purpose of your testimony today?**

9 A: The purpose of my testimony is to provide information regarding (1) the
10 policy reasons for instituting a formula based rate ("FBR") and how the
11 Mid-Kansas and Sunflower FBRs have provided benefit to each company,
12 and (2) the reasons for Mid-Kansas' involvement in this Joint Application.

13 **1. POLICY REASONS FOR INSTITUTING AN FBR AND ITS BENEFITS**

14 **Q: What are the general policy reasons for instituting an FBR?**

15 A: FBRs are widely used by utilities to recover their costs on a timely basis.
16 In short, an FBR minimizes regulatory costs for the Commission, the
17 public utility, and its customers, while allowing customers to bear the
18 actual cost of the system in as close to real time as possible.

19 **Q: How does an FBR minimize regulatory costs for the Commission?**

20 A: While the Commission will certainly expend resources in this docket to
21 review, analyze, and approve an appropriate FBR, the future costs
22 associated with rate changes are drastically reduced. An FBR is an
23 approved formula that calculates the annual revenue requirement.

1 Instead of seeking an approval of a full-fledged rate case each year, the
2 utility need only make a yearly update filing of the revenue requirement
3 (as determined by the formula), which will take into account any
4 substantive changes for the upcoming rate year, as specified in the
5 formula rate implementation protocols approved by the Commission. The
6 Commission's review of that annual filing is far less burdensome than a
7 full-fledged rate case.

8 **Q: How does an FBR minimize regulatory costs for the public utility and**
9 **its customers?**

10 A: For the same reasons that it minimizes the regulatory costs to the
11 Commission, the avoidance of annual rate cases. Rate cases require an
12 enormous amount of time and resources on behalf of both the
13 Commission and the utility seeking its approval. The cost of filings,
14 motions, discovery, hearings, and consultants can be significant. The
15 ability to avoid a large portion of those costs, while still obtaining
16 regulatory approval, is an enormous benefit to the utility. In turn, because
17 those costs are ultimately borne by customers, an FBR provides
18 considerable cost savings to the customers themselves.

19 **Q: How does an FBR allow “customers to bear the actual cost of the**
20 **system in as close to real time as possible”?**

21 A: With a traditional rate case, there is a “regulatory lag” in recovery through
22 rates. What that means is that after a traditional rate case is approved,
23 the utility recovers rates that are based off a historical test year's costs,

1 and in most cases, it continues to do so for several years in a row until a
2 subsequent rate case is filed. Thus, under the traditional rate case format,
3 a utility will often need to play catch up to recover appropriate costs to
4 provide service, which can cause large rate “swings” in the amount paid
5 by the customer for service. While there are different approaches to FBRs
6 (fully historical test year, hybrid test year with limited projections, or fully
7 projected test year), the proposed 34.5kV FBRs update historical costs
8 every year, as well as use limited projections for a following year,
9 therefore syncing up when the costs occur with their recovery in a much
10 more efficient way than a traditional rate case. In other words, customers
11 are paying costs as close to the time they are occurring as is possible
12 while avoiding large rate adjustments each year associated with a
13 traditional rate case.

14 **Q: What is the advantage associated with allowing customers to bear**
15 **the actual cost of the system in as close to real time as possible?**

16 A: The advantage is that customers who are using the current system are
17 able to pay for the current system through current rates. An FBR aligns
18 the period of time in which costs are incurred to the period of time in which
19 rates are paid, making the rate under an FBR a more accurate reflection
20 of the system that any one ratepayer is currently using in real time.

21 **Q: Does Mid-Kansas or Sunflower have an FBR in place?**

22 A: Yes, Mid-Kansas and Sunflower each have an FBR in place for their
23 transmission rate.

1 **Q: Do you estimate that the Mid-Kansas and Sunflower FBRs have**
2 **reduced the regulatory costs of approving an annual rate?**

3 A: Yes, the costs of Mid-Kansas' annual filings are less in comparison to the
4 amount that would have been expended on a traditional rate case.
5 Although the initial approval of the FBR takes considerable time and
6 resources, the annual filings in place of a rate case create far less
7 regulatory costs.

8 **Q: In your opinion, have Sunflower and Mid-Kansas seen the**
9 **advantages of the policy arguments in favor of an FBR?**

10 A: Yes.

11 **2. MID-KANSAS AS A JOINT APPLICANT**

12 **Q: Does Mid-Kansas own any portion of the 34.5kV sub-transmission**
13 **facilities that are the subject of the formula-based rate applied for in**
14 **this docket?**

15 A: No.

16 **Q: Why then, is Mid-Kansas a joint applicant in this proceeding?**

17 A: The answer to that question requires a review of the historical background
18 of the 34.5kV sub-transmission facilities that are the subject of this
19 formula-based rate ("34.5kV Facilities"). In short, Mid-Kansas previously
20 agreed to serve as the single point of contact for the Kansas Electric
21 Power Cooperative, Inc. ("KEPCo") and the Kansas Power Pool ("KPP")
22 for wholesale local access delivery service ("LADS") provided over the
23 34.5kV Facilities, and more specifically, as the single consolidated billing

1 agent for each Mid-Kansas Members' local access charge ("LAC") under
2 the LADS tariff. Currently, service over the 34.5kV Facilities is provided to
3 all wholesale LADS customers, administered by Mid-Kansas pursuant to
4 the terms of the Mid-Kansas Open Access Transmission Tariff ("OATT").¹

5 **Q: Please give a historical overview of how that arrangement came to**
6 **be.**

7 A: On February 23, 2007, the Commission issued an Order Adopting
8 Stipulation and Agreement in Docket No. 06-MKEE-524-ACQ, approving
9 the transfer of Aquila, Inc. d/b/a Aquila Networks – WPK's ("WPK")
10 generation, transmission and local distribution facilities located in Kansas
11 to Mid-Kansas. Those assets were operated by WPK as a vertically
12 integrated utility. However, on December 21, 2007, the Commission
13 issued an Order Approving Spin-Down of Distribution Assets in Docket
14 No. 08-MKEE-099-MIS, approving the transfer of certain Mid-Kansas
15 assets to the six Mid-Kansas Members.

16 **Q: Did the transfer of assets in Docket No. 08-MKEE-099-MIS include the**
17 **34.5kV Facilities?**

18 A: Yes.

19 **Q: Are the 34.5kV Facilities "transmission facilities" as per Attachment**
20 **AI to the SPP Open Access Transmission Tariff?**

21 A: The Commission concluded in the 11-GIME-597-GIE Docket ("11-597
22 Docket") that "the 34.5kV facilities at issue are not 'transmission facilities'

¹ Currently, KEPCo, KPP and the Kansas Municipal Energy Agency are the only wholesale LADS customers taking service over the 34.5kV Facilities.

1 as per Attachment AI to Southwest Power Pool, Inc.'s ("SPP") Open
2 Access Transmission Tariff ("SPP OATT")². The Commission found, in
3 part,

4 that a necessary condition for inclusion of the Member's
5 facilities in the SPP transmission system and under the SPP
6 OATT is not met because ownership and control of the
7 facilities resides with the MKEC Members who are not
8 members of SPP, and a stipulated finding that the facilities
9 that currently provide or are necessary to provide
10 transmission service to one or more wholesale customers
11 (Member Facilities) are being used to provide "transmission
12 service" under Kansas law and such service must be
13 provided under the Mid-Kansas open access transmission
14 tariff³

15 **Q: If the Members own the 34.5kV Facilities, why was there a need for**
16 **Mid-Kansas to be a "billing agent"?**

17 A: In Docket No. 09-MKEE-969-RTS ("09-969 Docket"), KPP and KEPCo
18 requested that the terms and conditions of wholesale LADS service over
19 the 34.5kV Facilities, including the billing of the Member LAC, be
20 coordinated directly with Mid-Kansas. It was believed that such a
21 structure would coordinate a seamless, nondiscriminatory interface with
22 wholesale LADS customers.⁴ Through continued negotiations with KPP
23 and KEPCo, the following final agreement was reached in Section III.D.
24 paragraph 9 of the Stipulation and Agreement, as approved and
25 incorporated by reference into the Order Approving Unanimous Stipulation
26 and Agreement in the 09-969 Docket:

² 11-597 Docket, Order Addressing Joint Motion to Approve Stipulation and Agreement, ¶18.

³ *Id.*

⁴ Docket No. 09-MKEE-969-RTS, Direct Testimony of Larry W. Holloway, Page 17, Lines 3-15.

1 In order to provide KPP and KEPCo with long term open access
2 transmission service from their sources of supply to their
3 respective delivery points which now exist and may be added on
4 the 34.5-kV and lower-voltage facilities owned by the Mid-
5 Kansas Members, and as a condition of settlement, Mid-Kansas
6 and the Mid-Kansas Members will enter into an agency
7 agreement designating Mid-Kansas as the agent for the Mid-
8 Kansas Members for these purposes. Mid-Kansas, as agent,
9 shall serve as the single point of contact for KEPCo and KPP for
10 all local delivery service on the affected Mid-Kansas Members'
11 34.5-kV and lower-voltage facilities. . . . Additionally, Mid-
12 Kansas, as agent, will provide single consolidated billing of the
13 Mid-Kansas Members' LAC for KEPCo and KPP.

14
15 (Emphasis added.)

16 **Q: Is that the sole instance where Mid-Kansas agreed to serve as the**
17 **single point of contact for KEPCo and KPP, or other third party**
18 **wholesale LADS customers with respect to the 34.5kV Facilities?**

19 A: No. Subsequent to the 969 Docket, the same “single point of contact”
20 issues were raised in the 11-597 Docket. The 11-597 Docket centered
21 around the classification of the services provided by the 34.5kV Facilities.
22 In paragraph 8 of the 11-597 Docket Order Addressing Joint Motion to
23 Approve Stipulation and Agreement, the Commission found that the
24 34.5kV Facilities that serve a wholesale LADS customer(s) do provide a
25 local “transmission service” regulated by the Commission under Kansas
26 law, but are not classified as “transmission facilities” under Attachment A1
27 of the SPP’s OATT. Because this transmission service over the 34.5kV
28 Facilities is not administered under the SPP OATT, and Mid-Kansas
29 agreed in the 09-969 Docket to serve as the single point of contact and
30 billing agent for wholesale LADS (“transmission service”) over the 34.5kV

1 Facilities, Mid-Kansas was obligated to function as the billing agent for this
2 transmission service over the 34.5kV Facilities, and further agreed to
3 amend its Open Access Transmission Tariff to provide for the *pro forma*
4 terms and conditions under which such service would be administered.

5 **Q: After the 11-597 Docket, did Mid-Kansas file for approval of an**
6 **amended OATT?**

7 A: Yes, the amended Mid-Kansas OATT was initially approved in Docket No.
8 12-MKEE-650-TAR ("12-650 Docket"). Mid-Kansas administers wholesale
9 LADS over the Member-owned 34.5kV Facilities through the Mid-Kansas
10 OATT, and has since the 12-650 Docket.⁵

11 **Q: If the proposed 34.5kV FBR for each Member is approved by the**
12 **Commission, how will the corresponding Member-LAC rates actually**
13 **be billed to wholesale LADS customers?**

14 A: As I previously stated, Mid-Kansas administers wholesale LADS under the
15 Mid-Kansas OATT. The Member LAC rates, which will now be set
16 annually by individual 34.kV FBRs for each Member, are the charges for
17 wholesale LADS customers under the corresponding Member's LADS
18 tariff, incorporated by reference into the Mid-Kansas OATT. Once set by
19 the corresponding Member-34.5kV FBR, Mid-Kansas will bill wholesale
20 LADS customers the adjusted LAC in accordance with the provisions for

⁵ The current version of the Mid-Kansas OATT was approved by the Commission on April 29, 2014 in Docket No. 14-MKEE-170-TAR.

- 1 LADS under the Mid-Kansas OATT.⁶
- 2 **Q: Does this conclude your testimony?**
- 3 **A:** Yes, it does.

⁶ Mid-Kansas bills each Member's LAC pursuant to Schedules 7, 8 and 9 and Attachment H of the Mid-Kansas OATT, as applicable depending on the type of LADS secured by the wholesale LADS customer and as reflected in the wholesale LADS agreements. Once the Member's adjusted LAC is approved by the Commission under the 34.5kV FBR, the Member's LAC under such schedules and attachment will automatically update accordingly without the need for a separate filing by Mid-Kansas.

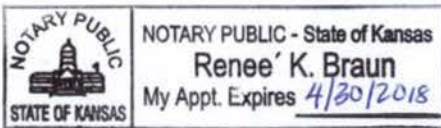
VERIFICATION OF H. DAVIS ROONEY

STATE OF KANSAS)
) ss:
COUNTY OF ELLIS)

H. Davis Rooney, being first duly sworn, deposes and says that he is the H. Davis Rooney referred to in the foregoing document entitled "Direct Testimony of H. Davis Rooney" before the State Corporation Commission of the State of Kansas 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.

H. Davis Rooney
H. Davis Rooney

SUBSCRIBED AND SWORN to before me this 15th day of July, 2015.



Renee K. Braun
Notary Public

My Appointment Expires: April 30, 2018