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STATE OF KANSAS

BEFORE THE KANSAS CORPORATION COMMISSION

Application for Revised Rates, Tariffs, and Rate Design Changes

of

Mid-Kansas Electric Company, LLC

Docket No. 12-MKEE-380-RTS

May 11, 2012

**PREFILED REBUTTAL TESTIMONY
RICHARD J. MACKE
VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS PLANNING
POWER SYSTEM ENGINEERING, INC.**

**ON BEHALF OF
MID-KANSAS ELECTRIC COMPANY, LLC**

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1 **PREFILED REBUTTAL TESTIMONY**
2 **RICHARD J. MACKE**
3 **VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS PLANNING**
4 **POWER SYSTEM ENGINEERING, INC.**

5 **ON BEHALF OF**
6 **MID-KANSAS ELECTRIC COMPANY, LLC**

7 **PART I - INTRODUCTION**

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

9 A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE,
10 Suite 201, Minneapolis, Minnesota 55449.

11 **Q. Are you the same Richard J. Macke who prepared and caused to be prefiled Direct**
12 **Testimony in the instant case?**

13 A. Yes.

14 **Q. Do you have any response to the prefiled direct testimony of Kansas Corporation**
15 **Commission (“KCC” or “Commission”) Staff and intervenor witnesses in Docket No.**
16 **12-MKEE-380-RTS concerning the Mid-Kansas Electric Company, LLC (“Mid-**
17 **Kansas” or “MKEC”) cost of service and rate design for the Southern Pioneer**
18 **Electric Company (“Southern Pioneer” or “Company”) division?**

19 A. Yes. I will be responding to the testimony of KCC Staff and intervenors on the topics of
20 cost of service study and rate design. While I am not commenting on each and every issue
21 raised or recommendation made by the witnesses such should not be interpreted as
22 agreement.

23 **PART II - REBUTTAL TESTIMONY**

24 **Q. Please describe the content and organization of your prefiled Rebuttal Testimony.**

25

1 A. My Rebuttal Testimony is comprised of two sections. First I will briefly discuss my
2 review of Staff's witness Elena Larson's prefiled direct testimony concerning the cost of
3 service study. Second I will discuss the prefiled direct testimony of Staff witness Robert
4 Glass and CURB witness Brian Kalcic on the issue of rate design.

5
6 **COST OF SERVICE STUDY**

7 **Q. Have you reviewed the testimony and exhibits of Staff witness Ms. Larson**
8 **concerning the cost of service study for the Southern Pioneer division?**

9 A. Yes.

10 **Q. Is Ms. Larson's cost of service study similar to your prefiled direct testimony?**

11 A. The major difference is in the level of the Staff's revenue requirement that is allocated in
12 her cost of service study. Staff's revenue requirement, as discussed in my rebuttal filed on
13 May 9, 2012 is deficient in several areas and understates the cost of providing service in
14 the Southern Pioneer division. Otherwise, Ms. Larson has utilized the same cost of
15 service study as I provide with my prefiled direct testimony, albeit with a few minor
16 revisions.

17 **Q. Other than the level of the revenue requirement, are the results of Ms. Larson's cost**
18 **of service study similar to the cost of service study you filed?**

19 A. Yes. As evidenced in the prefiled direct testimony of Staff witness Mr. Glass, Table 1 on
20 page 7, the distribution of the revenue requirement is nearly identical.

21 **Q. Do you have any other comments on the cost of service study filed by Ms. Larson at**
22 **this time?**

23 A. Ms. Larson will need to update the cost of service study to incorporate the impact of any
24 corrections made by Staff with regards to establishing appropriate revenue requirement.

1 **RATE DESIGN**

2 **Q. Have you reviewed the testimony and exhibits of Staff witness Mr. Glass concerning**
3 **Staff's retail rate design recommendation for the Southern Pioneer division?**

4 A. Yes.

5 **Q. Please comment.**

6 A. Staff witness Mr. Glass has designed retail rates that would implement Staff's
7 recommended \$2,879,566 retail rate increase. He has allocated the increase to the various
8 rate classes using Staff's cost of service study moderated to avoid potential rate shock.

9 **Q. Do you agree with Mr. Glass' rate design recommendation?**

10 A. With that caveat that I do not agree with Staff's overall rate increase recommendation, I
11 believe Mr. Glass' allocation of the increase to the rate classes is reasonable. I also find
12 that his recommendation concerning Customer Charges, Energy Charges and Demand
13 Charges is reasonable given the cost of service study results and Staff's revenue
14 requirement.

15 **Q. Do you have any other comment concerning the testimony of Mr. Glass?**

16 A. On pages 11-14, Mr. Glass discusses the balancing test set forth by the Kansas Supreme
17 Court for determining whether rates are "just and reasonable." On page 13, line 1 of his
18 prefiled direct testimony he discusses the Present Ratepayers vs. Future Ratepayers
19 balancing test. In this regard, Mr. Glass describes this test, which is also known as an
20 intergeneration conflict as pertaining to, "one set of ratepayers is stuck paying for costs
21 that do not adequately represent the service received by the ratepayers." Mr. Glass then
22 testifies that he is not aware of any intergenerational issues in the instant docket.

23 **Q. Do you agree with Mr. Glass' representation that there are not any intergeneration**
24 **issues in this docket?**

1 A. No, I do not. The recommendation of Staff witness Laura Bowman regarding income tax
2 treatment constitutes a classic intergenerational conflict. In Ms. Bowman's prefiled direct
3 testimony she recommends only including income taxes actually paid by Southern Pioneer
4 in the revenue requirement. During the test year this amount is zero due to tax accounting
5 benefits such as accelerated depreciation. As per the testimony of company witness James
6 Smith, the exclusion of income tax liability from rates paid by current rate payers and
7 instead treating income taxes as recommended by Staff presents an intergenerational
8 conflict. It would shift income tax burden from current ratepayers to future ratepayers.

9 Mr. Glass has not, nor has any Staff witness provided any rate mechanism to deal with
10 Staff's recommended treatment of income taxes to ensure that Staff's income tax
11 recommendation does not result in an intergenerational conflict. Staff should be required
12 to explain how the recovery of actual taxes paid would be achieved under its
13 recommendation and explain how its recommendation would not create an
14 intergenerational conflict.

15 **Q. Have you reviewed CURB witness Brian Kalcic's prefiled direct testimony in this**
16 **case?**

17 A. Yes.

18 **Q. Please explain your understanding of Mr. Kalcic's recommendation pertaining to an**
19 **inclining block rate structure.**

20 A. My understanding is that Mr. Kalcic is recommending that the Commission order
21 Southern Pioneer to track usage information needed to develop an inclining block rate
22 structure for purposes of a future rate proceeding.

23 **Q. Please comment on Mr. Kalcic's recommendation concerning the tracking of billing**
24 **information needed to implement an inclining block rate.**

1 A. Mr. Kalcic's recommendation on page 2 of his prefiled direct testimony is somewhat
2 vague because he doesn't specify what is needed to "implement an inclining block rate
3 structure." However, on page 7, lines 7-11 he clarifies that his recommendation is for
4 Southern Pioneer to begin tracking residential consumption above and below 800 kWh of
5 usage per month.

6 **Q. Do you have any concerns with Mr. Kalcic's recommendation that the Company be**
7 **required by the Commission to begin tracking consumption above and below 800**
8 **kWh of usage per month?**

9 A. I have two concerns. First, Mr. Kalcic has not discussed, evaluated or even considered
10 whether there might be any cost or administrative burdens of his recommendation. In my
11 experience the type of information Mr. Kalcic is requesting is easily acquired and
12 maintained within the utility's billing system. However, the potential cost and
13 administrative burden on the Company needs to be considered prior to the Commission
14 adopting his recommendation. Second, the act of tracking this information should not
15 infer agreement by the Commission or Company with Mr. Kalcic's preference for an
16 inclining block rate structure. The Commission, if it is inclined to accept the
17 recommendation should not obligate the Company to file an inclining block rate structure
18 in a future rate proceeding.

19 **Q. Is Mr. Kalcic recommending that the Commission order Mid-Kansas to file an**
20 **inclining block rate structure for the Southern Pioneer Division rates in its next rate**
21 **application?**

22 A. No. Mr. Kalcic is only requesting that the data needed to implement such a rate be
23 tracked. The Commission is not being asked by any party in this case to require the
24 Company to file an inclining block rate structure in its next rate proceeding.

1 It would not be appropriate to make such a requirement of the Company at this point
2 because the timing of the next rate case is unknown and the appropriateness of such a rate
3 design is yet to be determined. Many, if not all of Mr. Kalcic's claimed benefits of the
4 inclining block rate structure are unsupported. He has not provided any evidence to
5 support his position that an inclining block rate is a preferred or effective rate design. The
6 appropriateness of an inclining block rate structure is not an issue before the Commission
7 in this case. No parties have developed, proposed or defended this type of rate for
8 consideration. Therefore, the Commission should not in this case order the Company to
9 file an inclining block rate structure in its next rate proceeding.

10 **Q. Does this conclude your testimony at this time?**

11 A. Yes, it does.

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In the Matter of the Application of)
Mid-Kansas Electric Company, LLC for)
Approval to Make Certain Changes in its) Docket No. 12-MKEE-380-RTS
Charges for Electric Services in the)
Geographical Service Territory Served by)
Southern Pioneer Electric Company)

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the *Rebuttal Testimony of Mid-Kansas Electric Company, LLC* was electronically served, hand-delivered or mailed, postage prepaid, this 11th day of May, 2012 to:

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