

In the Matter of the Joint Application of )  
Sunflower Electric Power Corporation and ) Docket No.  
Mid-Kansas Electric Company, Inc. for an ) 19-SEPE-054-MER  
Order Approving the Merger of Mid-Kansas )  
Electric Company, Inc. into Sunflower Electric )  
Power Corporation )

**TESTIMONY IN SUPPORT OF  
UNANIMOUS SETTLEMENT AGREEMENT**

**PREPARED BY**

**ADAM H. GATEWOOD**

**UTILITIES DIVISION**

**KANSAS CORPORATION COMMISSION**

**March 8, 2019**

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

2    A.     Adam H. Gatewood, 1500 SW Arrowhead Road, Topeka, Kansas.

3    **Q.     In what capacity are you employed by the Commission?**

4    A.     I am employed by the Kansas Corporation Commission as a Senior Managing  
5           Financial Analyst.

6    **Q.     Are you the same Adam Gatewood who previously filed Direct Testimony on**  
7           **January 4, 2019, and Cross-Answering Testimony on January 25, 2019, in this**  
8           **Docket?**

9    A.     Yes, I am.

10   **Q.     What is the purpose of your testimony?**

11   A.     I am testifying on behalf of Commission Staff in support of a settlement that  
12           resolves all of the issues in this Docket that are jurisdictional to the Commission.  
13           My testimony will answer the fundamental question as to why approving the  
14           Settlement Agreement is in the public interest.

15           The terms of the settlement are outlined in the Unanimous Settlement Agreement  
16           (Settlement Agreement) filed in this Docket on March 5, 2019. The parties to the  
17           Settlement Agreement are Staff, Sunflower Electric Power Corporation (Sunflower),  
18           Mid-Kansas Electric Company, LLC (Mid-Kansas) (Mid-Kansas and Sunflower are  
19           collectively referred to as the Joint Applicants), Kansas Electric Power Cooperative,

1 Inc. (KEPCo), and Kansas Power Pool (KPP) (referred to collectively as the  
2 “Parties”). The Kansas Municipal Energy Agency (KEMA), ITC Great Plains, LLC,  
3 and the City of Garden City are intervenors in the Docket, but are not signatories to  
4 the Settlement; they do not oppose the Settlement Agreement.

5 **Terms of the Settlement Agreement**

6 **Q. What are the key provisions to the Settlement Agreement?**

7 A. Paragraphs 17 through 21 of the Settlement Agreement contain the key negotiated  
8 conditions.

9 ➤ Sunflower as the surviving company assumes all tariffs, contracts, and obligations  
10 of Mid-Kansas as fully explained in paragraphs 17 and 17(a).

11 ➤ The Joint Applicants, in conjunction with merging the Sunflower and Mid-Kansas  
12 transmission zones into a single zone, will conduct a transmission system loss  
13 study for the new single zone as described in paragraph 17(b).

14 ➤ The Joint Applicants will maintain the records necessary to support its  
15 transmission formula rates as required by law and as is necessary for the Annual  
16 True-Up Adjustment Transition Method detailed in 17(c), 17(d), and Exhibit SA-  
17 1.

18 ➤ Paragraph 17(d) and its related subparts provide the details and responsibilities  
19 associated with the Joint Applicants’ Section 205 filing with the Federal Energy  
20 Regulatory Commission (FERC) where the Joint Applicants will seek to combine  
21 the Sunflower and Mid-Kansas transmission zones. The new, single transmission

1 zone will result in a single transmission formula rate. The Joint Applicants have  
2 committed to file at FERC a Transition Method that is detailed in Exhibit SA-1 to  
3 mitigate cost shifting that results from combining the two transmission zones. The  
4 Transition Method will be necessary for just two years after combining the two  
5 zones to true-up the legacy Sunflower and legacy Mid-Kansas transmission zones'  
6 revenue requirements from forecasted financial data to actual incurred costs,  
7 revenues, and investments for the particular rate years.

8 **The Commission's Standard of Review for Settlement Agreements**

9 **Q. Has the Commission previously addressed the standards it uses to review**  
10 **settlement agreements?**

11 A. Yes. The Commission's Order in Docket No. 08-ATMG-280-RTS discusses these  
12 five factors, or standards, and multiple agreements have been reviewed by the  
13 Commission using the five factors since that Order.<sup>1</sup> However, more recently, the  
14 Commission has affirmed that parties supporting a unanimous settlement  
15 agreement only need to provide support that the agreement meets three standards  
16 to support approval.<sup>2</sup>

17 These three standards are as follows:

18 1. Whether the Stipulation and Agreement is supported by substantial

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<sup>1</sup> Order Approving Contested Settlement Agreement, p. 5, Docket No. 08-ATMG-280-RTS (May 12, 2008).

<sup>2</sup> Order on KCP&L's Application for Rate Change, Docket No. 15-KCPE-116-RTS, ¶ 16, p. 6 (Sept. 10, 2015).

1 competent evidence in the record as a whole.

2 2. Whether the Stipulation and Agreement results in just and reasonable  
3 rates; and

4 3. Whether the results of the Stipulation and Agreement are in the public  
5 interest, including the interest of customers presented by the parties not  
6 consenting to the Agreement.

7 **Q. Please address whether the Settlement Agreement is supported by substantial**  
8 **competent evidence in the record as a whole.**

9 A. The Settlement Agreement is supported by substantial competent evidence in the  
10 record as a whole, which includes the Joint Applicants' Application filed August  
11 8, 2018; Direct Testimony filed by KEPCo, KPP, and Staff on January 4, 2019; as  
12 well as Staff and KEPCo's Cross-Answering Responses filed January 25, 2019.  
13 Parties engaged in a lengthy discovery process to further evaluate the Joint  
14 Applicant's proposed merger and this discovery formed the basis of their  
15 respective positions. As such, this record of evidence includes testimony and  
16 detailed analysis prepared by corporate officers, engineers, financial analysts, and  
17 economists. Five of those witnesses have more than 20 years of experience in the  
18 public utility sector. Each of the Parties is represented by counsel who actively  
19 guided the negotiation process and represented their client's interests; several  
20 attorneys also possess more than 20 years of experience in energy and public utility  
21 law.

1     **Q.     Does Staff believe the Settlement Agreement will result in just and reasonable**  
2           **rates?**

3     A.     The primary issue in this Docket, the merger of MKEC into Sunflower, does not  
4           directly alter the rates charged by the Joint Applicants. However, the transaction is  
5           expected to result in cost reductions and those cost reductions and the eventual  
6           combination of the Joint Applicants' transmission zones will affect rates in the  
7           future. As I pointed out in my Direct Testimony and Cross-Answering Testimony,  
8           the Commission does not have authority to set most of the rates charged by the Joint  
9           Applicants because the Joint Applicants' are either self-regulated pursuant to  
10          K.S.A. 66-104d or are subject to FERC's oversight.<sup>3</sup> One exception, however, is  
11          sales for resale transactions between the Joint Applicants and a customer that is not  
12          also an owner of either of the Joint Applicants. The Settlement Agreement does  
13          not ask the Commission to set rates for the Joint Applicants. The provision in  
14          paragraph 17 of the Settlement Agreement sets out a transition method the Joint  
15          Applicants agree to file at FERC. This mechanism, if approved by FERC, is  
16          envisioned to be listed in Attachment H to the Southwest Power Pool's (SPP) Open  
17          Access Transmission Tariff (OATT). However, the transition method will not be  
18          administered as part of the SPP administered OATT. Rather the Joint Applicants  
19          will administer the true-up calculation. There are parties affected by this  
20          calculation that are not participants in this Docket, however, the transition method  
21          discussed in paragraph 17 of the Settlement Agreement will not go into effect unless

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<sup>3</sup> Direct Testimony of Adam H. Gatewood; Docket 19-SEPE-054-MER; filed January 4, 2019; p. 4.

1 and until approved by FERC. All affected parties will have the opportunity to  
2 intervene and comment when the Joint Applicants make their Section 205 filing at  
3 FERC.

4 **Q. Does Staff believe the results of the Settlement Agreement are in the Public**  
5 **Interest?**

6 A. Yes, for several reasons. First, the Parties to this Docket represent varied and  
7 conflicting interests. The fact that these varied interests were able to collaborate  
8 and create a resolution to their disputes, is one indication that the public interest  
9 standard has been met. In settlement negotiations, each of the Parties represented  
10 their respective interests by putting time, thought, and analysis into deriving a  
11 settlement position that they each find reasonable. The collaborative product is the  
12 result of compromise by each of the Parties.

13 Second, the Settlement Agreement relies on and is wholly consistent with the  
14 merger standards formulated by the Commission over the past 25 years. The Joint  
15 Applicants' Application for Approval of Merger and the Direct Testimony of Stuart  
16 Lowry and H. Davis Rooney, Staff's Direct Testimony, and KEPCo's Direct  
17 Testimony of David Dismukes and Mark Doljac each addressed some, if not all, of  
18 the Commission's merger standards. Initially, the Parties did not agree that the  
19 merger, as proposed, conformed to the Commission's Merger Standards. The  
20 negotiations resulted in conditions that resolved that disagreement. With the  
21 conditions discussed in the Settlement Agreement and Attachments to the

1 Settlement Agreement, the Parties agree that the proposed merger meets  
2 Commission's merger standards.

3 Third, as I discuss in my Direct Testimony, the proposed merger conforms to the  
4 public interest standard espoused by the courts.<sup>4</sup> The proposed merger with the  
5 conditions added by the Settlement Agreement will also conform to those  
6 standards.

7 Fourth, if this Settlement Agreement is approved, the Parties would avoid the costly  
8 and time-consuming process of a fully-litigated hearing before the Commission. It  
9 also provides the Joint Applicants a less contentious and less costly path forward at  
10 FERC to combine the Sunflower and Mid-Kansas transmission zones. Staff  
11 believes it is in the public interest to avoid these costs if possible and this Settlement  
12 Agreement accomplishes that.

13 **Q. Should the Commission accept the Settlement Agreement as a reasonable**  
14 **resolution of the issues in this Docket?**

15 A. Yes, the Settlement Agreement represents a reasonable resolution of the issues in  
16 this Docket, is in the public interest, and is supported by substantial competent  
17 evidence in the record.

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

19 A. Yes, it does.

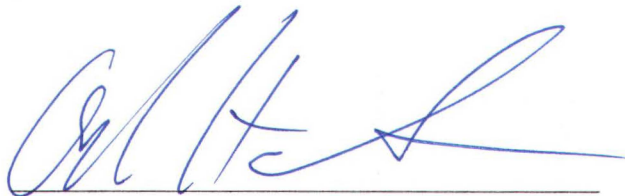
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<sup>4</sup>Direct Testimony of Adam H. Gatewood; Docket 19-SEPE-054-MER; filed January 4, 2019; pp. 6-8.

STATE OF KANSAS                     )  
  ) ss.  
COUNTY OF SHAWNEE             )

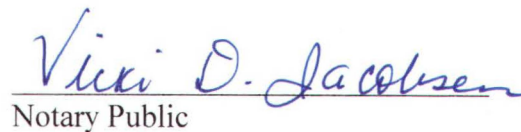
**VERIFICATION**

Adam H. Gatewood, being duly sworn upon his oath deposes and states that he is a Managing Financial Analyst for the Utilities Division of the Kansas Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Testimony in Support of Unanimous Settlement Agreement*, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Adam H. Gatewood  
Managing Financial Analyst  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 6<sup>th</sup> day of March, 2019.



Notary Public

My Appointment Expires: 6-30-22

## **CERTIFICATE OF SERVICE**

19-SEPE-054-MER

I, the undersigned, certify that a true and correct copy of the above and foregoing Testimony of Adam H. Gatewood in Support of Unanimous Settlement Agreement on Behalf of the Kansas Corporation Commission was served via electronic service this 7th day of March, 2019, to the following:

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