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BEFORE THE KANSAS CORPORATION COMMISSION  
OF THE STATE OF KANSAS

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by  
State Corporation Commission  
of Kansas

**Application for Revised Rates, Tariffs, and Rate Design Changes**

**of**

**Mid-Kansas Electric Company, LLC**

**Docket No. 12-MKEE-380-RTS**

**May 9, 2012**

**PREFILED REBUTTAL TESTIMONY  
STEPHEN J. EPPERSON  
CHIEF EXECUTIVE OFFICER  
SOUTHERN PIONEER ELECTRIC COMPANY**

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

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

2 A. My name is Stephen J. Epperson. My business address is 1850 W. Oklahoma, PO Box  
3 430, Ulysses Kansas 67880-0430.

4 **Q. Are you the same Stephen J. Epperson who prepared and caused to be prefiled**  
5 **Direct Testimony in the instant case?**

6 A. Yes.

7 **Q. Various Kansas Corporation Commission (“KCC” or “Commission”) Staff and**  
8 **intervener witnesses prefiled Direct Testimony relating to the rates proposed by Mid-**  
9 **Kansas Electric Company, LLC (“Mid-Kansas”) for the Southern Pioneer Electric**  
10 **Company (“Southern Pioneer” or “Company”) division. Do you have any response**  
11 **to that testimony?**

12 A. Yes. I will be responding to the testimony of KCC Staff and intervenors regarding  
13 modifying or disallowing the proposed Debt Service Coverage (DSC) Ratemaking Plan  
14 and its associated benefits.

15 **Q. In prefiled Direct Testimony, various witnesses for the Commission, Kansas Electric**  
16 **Power Cooperative, Inc. (“KEPCo”) and Citizens’ Utility Ratepayer Board (CURB)**  
17 **have recommended that the Commission reject Southern Pioneer’s DSC Ratemaking**  
18 **Plan and use traditional ratemaking or if the Commission is inclined to approve,**  
19 **modify the proposal. Do you agree with these recommendations to reject or modify?**

20 A. No, I do not.

21 **Q. Please explain why you do not agree.**

22 A. I will address each party’s objections individually, beginning with the Commission Staff.

23

1 **Q. Please go on.**

2 A. Ms. Bowman in her prefiled Direct Testimony (*id.*, p. 15, l. 5 – p.18, l. 14) advises that  
3 Southern Pioneer, unlike the Michigan utility, is not in financial distress and therefore  
4 does not need an immediate increase in revenues on an annual basis as provided for in the  
5 DSC Ratemaking Plan. Ms. Bowman goes onto state that because of Southern Pioneer's  
6 business structure choice, i.e. a C-corporation as opposed to a cooperative, it should not be  
7 allowed special treatment through a formula rate plan as it would lessen regulatory  
8 oversight, diminish incentives to control costs and diminish the desire to roll Southern  
9 Pioneer into Pioneer.

10 **Q. Do you agree with Ms. Bowman's characterization of the Michigan Public Service**  
11 **Commission's decision only applying to financially distressed cooperatives?**

12 A. No, and that issue has been addressed in detail in the rebuttal testimony of Mid-Kansas  
13 witness, Mr. Rich Macke.

14 **Q. Do you agree that Southern Pioneer is not in financial distress?**

15 A. No I do not. Ms. Bowman's characterization of financial distress or dire need at best  
16 chooses to ignore the financial performance of Southern Pioneer under the existing rates.  
17 Mr. Macke in his exhibits, Direct and Rebuttal Testimony, has clearly demonstrated that  
18 after five years of being in operation, and striving to provide "safe and reliable service" or  
19 the level of service the Mid-Kansas Southern Pioneer Division customers deserve, it has  
20 near zero equity. I believe in most industries this would qualify as financially constrained  
21 when it comes to sound business operations and in the eyes of most lenders loaning  
22 money. This view is emphasized in Mr. Adam Gatewood's prefiled Direct Testimony (*id.*  
23 p. 4, l. 4-9) where he states, "From a policy perspective, Staff believes it is important

1 cooperatives not be financed by debt, even though cooperatives generally have access to  
2 reasonably priced loans. Equity in their capital structure lessens the cooperative's reliance  
3 on lenders and reduces volatility in the financial performance." I believe a reasonable  
4 person would interpret Mr. Gatewood's statement as saying, having negative or minimal  
5 equity increases financial volatility, which directly affects the ability to access reasonably  
6 priced funding, etc. While Ms. Bowman claims that little or no equity after five years  
7 does not constitute financial distress, it would appear her position is not consistent with  
8 Staff policy, provided Mr. Gatewood's testimony is representative of this policy.

9 **Q. Are you aware if Southern Pioneer's negative or minimal equity has been considered**  
10 **when accessing loans?**

11 A. Yes, this negative component is evidenced by both Rural Utilities Service ("RUS") and  
12 CoBank requiring loan repayment guarantees from Pioneer as part of their loan  
13 agreements, as discussed in our prefiled Direct Testimony.

14 **Q. Ms. Bowman believes the DSC Ratemaking Plan diminishes the incentives to control**  
15 **costs. Is this a legitimate concern?**

16 A. It is not a legitimate concern. It is speculation on Ms. Bowman's part, as nowhere in the  
17 record, or anywhere to my knowledge, has Southern Pioneer been accused of or found to  
18 have been irresponsible by misusing ratepayer money. As stated in my prefiled Direct  
19 Testimony, and evidenced by our record so far, Southern Pioneer's management has been  
20 accountable to the customers it serves regarding how it spends their money to balance the  
21 goals of (1) providing safe and reliable power, (2) achieving financial stability and (3)  
22 charging fair and reasonable rates. To do otherwise circumvents our stated goals.

1 **Q. Ms. Bowman goes on to cite other reasons as to why the DSC Ratemaking Plan**  
2 **should be rejected. One is Southern Pioneer's business structure choice. She**  
3 **indicates that, if the DSC Ratemaking Plan is approved, it would mitigate the**  
4 **companies' desire to combine Pioneer with Southern Pioneer.**

5 A. No, on the contrary. I believe that the DSC Ratemaking Plan will result in a stronger  
6 financial position for Southern Pioneer, which will give management *more* flexibility in  
7 evaluating the options available for the entity.

8 **Q. Do you believe Staff's position is punitive to Southern Pioneer because of its business**  
9 **choice?**

10 A. Yes. Staff recommends against allowing Southern Pioneer to engage in a five-year plan  
11 that will address its unique financial situation on the basis that the Company should not be  
12 given such consideration in light of the manner in which it chose to structure its  
13 operations. I believe Staff is indirectly attempting to do what it cannot legally directly  
14 accomplish, which is to force the Companies to adopt a particular form of business  
15 operation.

16 **Q. Does Staff's position on the DSC Ratemaking Plan skirt Pioneer's and Southern**  
17 **Pioneer's agreement in KCC Docket MKEE-524-ACQ ("524 Docket") to evaluate**  
18 **combining the two companies sometime in the future?**

19 A. I believe it does. The Settlement and Commission Order in the 524 Docket did not require  
20 Southern Pioneer to combine with Pioneer or be subject to punitive ratemaking action in  
21 future rate cases. It required the Companies to continue to study the option and evaluate  
22 its feasibility. Southern Pioneer and Pioneer have done that, and have filed their report  
23 explaining the basis for the decision not to proceed with combination at this time. Mr.

1 Magnison will address in his Rebuttal testimony the decision and efforts made to-date  
2 regarding the combination of the two companies and he will discuss the proceedings held  
3 in the 524 Docket.

4 **Q. Ms. Bowman alleges that the DSC Ratemaking Plan lessens regulatory oversight. Do**  
5 **you agree?**

6 A. No, I do not agree. As requested in the instant application, the Commission has the  
7 authority to determine the appropriate structure for the DSC Plan. Provided it agrees that  
8 there are benefits to allowing an expedited annual ratemaking process for the Southern  
9 Pioneer Division, then the ultimate plan adopted will be established and approved by the  
10 Commission. Mr. Macke will address this in greater detail in his Rebuttal testimony.

11 **Q. Will this regulatory oversight continue beyond this filing?**

12 A. Yes, as I understand it. When each annual compliance filing is made, the Staff has a full  
13 opportunity to review it to make sure the rules adopted by the Commission have been  
14 followed by Southern Pioneer. If Staff believes the filing fails to comply with the  
15 Commission's rules, and Southern Pioneer does not correct it, Staff can bring the matter  
16 before the Commission. Ultimately, if the issue is not resolved, the Commission can set  
17 the matter for hearing.

18 **Q. Are there other circumstances that could bring the annual adjustment before the**  
19 **Commission?**

20 A. Yes, as outlined by Mr. Macke in the prefiled Direct Testimony, should an annual rate  
21 adjustment in any given year exceed 10%, it will trigger a full rate case review by all  
22 interested parties.

1 **Q. KEPCo witness Stephen Daniel in his testimony (*id.* p. 32, l. 20-23) says that, while**  
2 **he objects to the DSC Ratemaking Plan, should the Commission approve the plan,**  
3 **certain modifications should be considered. One such modification is that the DSC**  
4 **Ratemaking Plan should not be an evergreen, but be limited to a set number of**  
5 **years, i.e. no more than four. In its proposal, did Mid-Kansas establish a definitive**  
6 **time period?**

7 A. Yes, the initial plan is limited to five years. Of course, the Commission will ultimately  
8 determine how long the Plan will initially be in place, and the Commission always retains  
9 the power and authority to revisit a prior decision if it believes modification is necessary  
10 to protect the public interest.

11 **Q. In his direct testimony, Stephen Daniel states that "Notwithstanding the**  
12 **uncertainties associated with such changes over time, the vast majority of rural**  
13 **electric cooperatives remain RUS-financed borrowers. The uncertainty suggested by**  
14 **Mr. Scott has not resulted in a major trend by electric cooperatives to buy out of**  
15 **their RUS financing" (*id.* p 18, lines 5-9). Does the uncertainty and requirements**  
16 **imposed by the RUS program concern Southern Pioneer and has Southern Pioneer**  
17 **through its relationship with other entities have negative experiences in working with**  
18 **RUS?**

19 A. Anytime a lending entity, such as RUS, is reliant upon governmental approvals and  
20 congressional appropriations, it naturally creates anxiety for those of us that rely upon  
21 such entities in order to provide safe and reliable service. This is especially true for  
22 Southern Pioneer, who must access loan funds in a timely manner due to its near zero

1 equity, and know that the lender will respond quickly, as well as have the liquidity to meet  
2 our funding requirements.

3 Southern Pioneer and Pioneer have personally experienced the repercussions of RUS'  
4 poor relationship with other utilities. Specifically, Pioneer sought a lien accommodation  
5 to build a transmission line to lease to Sunflower Electric Power Corporation  
6 ("Sunflower") to serve Pioneer's increasing irrigation load. However, due to past dealings  
7 between Sunflower and RUS, prior to approving or even considering the request, RUS  
8 demanded to know if the proposed line would serve the Holcomb Station Coal Plant and  
9 Sunflower Electric. Further, as a member of the Sunflower Board of Directors, I can attest  
10 firsthand to the negative impact the lack of cooperation, poor relationship and burdensome  
11 approval process has had on Sunflower's ability to provide reliable service to its Member  
12 Systems. An example, but not limited to, Sunflower has submitted numerous documents  
13 such as Construction Work Plans and various lien accommodations to borrow money from  
14 Cooperative Finance Corporation and these request either go unanswered or remain  
15 pending for extended period of time.

16 **Q. Does Mr. Daniel cite other concerns with or modifications to the DSC Ratemaking**  
17 **Plan?**

18 A. Yes he does. Mr. Macke has adequately addressed those in his rebuttal.

19 **Q. CURB witness Ms. Crane states in her testimony (*id.*, p. 12, l. 1- p. 16, l. 17) that the**  
20 **proposed DSC Ratemaking Plan would result in higher costs for ratepayers, does not**  
21 **benefit ratepayers, and is not currently being used in Kansas. Do you agree with her**  
22 **assessment?**

1 A. No, I do not. Let me first address Ms. Crane's assertion that the proposed DSC  
2 Ratemaking Plan will lead to higher costs and that it does not benefit ratepayers. Ms.  
3 Crane's assertion that the DSC Plan results in higher costs for ratepayers is purely  
4 speculative. As outlined in my prefiled testimony, using the DSC Ratemaking approach  
5 results in a smaller increase than would otherwise be necessary absent the DSC  
6 Ratemaking Plan. This is demonstrated in Mr. Macke's testimony showing that the DSC  
7 Ratemaking Plan results in about \$1,879,574, or about a 25 percent reduction in the  
8 increase that would be required without the Plan.

9 **Q. Are you saying that the benefit to the ratepayer with this approach is a smaller, more**  
10 **easily budgeted increase?**

11 A. Yes, that is correct. This will directly and immediately benefit the ratepayers by  
12 systematically reducing the degree of change, whether it is an increase or decrease.

13 **Q. Ms. Crane contends (*id.* p. 15, l. 1-12) that you are incorrect in comparing the DSC**  
14 **Ratemaking Plan as a variation of the requirement that the Mid-Kansas Members**  
15 **must provide refunds if their Times Interest Earned Ratio (TIER) exceeds 2.2<sup>1</sup>. Do**  
16 **you agree?**

17 A. I do not agree. I referenced this refund requirement in prefiled Direct Testimony simply  
18 as an example that a variation of using a financial ratio as the trigger to adjust rates has  
19 been approved by the Commission and therefore was not foreign to the Commission or  
20 Kansas. The DSC Ratemaking Plan proposal simply uses a different ratio and has a target  
21 and floor in addition to a ceiling.

22 **Q. Are there other benefits to the DSC Ratemaking Plan that Ms. Crane has failed to**  
23 **recognize or take into account when evaluating the benefits?**

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<sup>1</sup> KCC Docket MKEE-524-ACQ ("524 Docket")

1 A. Yes. One of the goals of DSC ratemaking is to remove the regulatory lag and additional  
2 costs to all parties of frequent regulatory proceedings; costs which are ultimately paid by  
3 the ratepayers. One such benefit is cost savings through the DSC Ratemaking process  
4 versus the traditional methodology. This is clearly demonstrated in Mr. Macke's  
5 testimony.

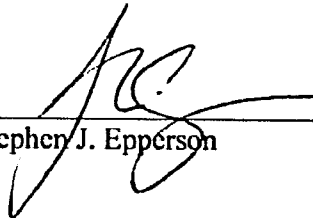
6 **Q. Does this conclude your testimony?**

7 A. Yes.

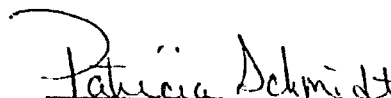
**VERIFICATION**

STATE OF KANSAS        )  
                                  ) ss  
COUNTY OF GRANT     )

The undersigned, Stephen J. Epperson, 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.

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

Subscribed and sworn to before me this 9 day of May, 2012.

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

My appointment expires: 10-27-2015

