

In the Matter of the Application of Midwest Energy, Inc )  
for Approval to Make Certain Changes in its Charges ) Docket No. 09-MDWE-792-RTS  
for Electric Service Pursuant to K.A.R. 82-1-231(b)(3). )

STATE CORPORATION COMMISSION

JUN 30 2009

 Docket  
Room

DIRECT

STAFF TESTIMONY & EXHIBITS

PREPARED BY

GEORGE ROHRER

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

1 **Q. Would you please state your name and business address?**

2 A. My name is George D. Rohrer. My business address is the Kansas Corporation  
3 Commission, 1500 S.W. Arrowhead Road, Topeka, Kansas, 66604-4027.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Kansas Corporation Commission as a Senior Managing Auditor.

6 **Q. What is your educational background and professional experience?**

7 A. I received a Bachelor of Business Administration degree from Washburn University with  
8 a major in Accounting. I joined the Kansas Corporation Commission (KCC or  
9 Commission) in March of 1986. In April 2002, I was promoted to my present position. I  
10 am a Certified Public Accountant.

11 **Q. Have you testified previously before the Commission?**

12 A. Yes. I have testified before the Commission

13 **Q. What were your responsibilities in Staff's review of Midwest Energy, Inc., Electric  
14 Division (Midwest or Midwest Energy) abbreviated rate case Application filed in  
15 Docket No. 09-MDWE-792-RTS (09-792) on April 9, 2009?**

16 A. My responsibilities as the Auditor-in-charge were to analyze, audit, and provide  
17 recommendations regarding Midwest's abbreviated rate case. Additionally, I will support  
18 Staff's position on rate design in this filing. These responsibilities were carried out under  
19 the direction of the Chief of Accounting and Financial Analysis, Jeff McClanahan.

20 **Q. Please summarize Midwest's and Staff's positions in this docket.**

21 A. In its Application, Midwest is requesting a revenue increase of \$1,862,608 to its current  
22 electric rates. Staff is recommending a revenue increase of \$1,605,852 based on its  
23 analysis, including adjustments as shown on Exhibit GDR-1.

1 **Q. What do you mean by abbreviated rate case?**

2 A. An abbreviated rate case is limited in scope based upon findings in the utility company's  
3 previous rate case. This will be further expanded upon in my testimony below.

4 **Q. Which Commission rule allows for an abbreviated rate filing?**

5 A. K.A.R. 82-1-231(b)(3) states, "Any utility which proposes a change in rates within 12  
6 months after a commission order following a general rate proceeding and investigation  
7 may submit schedules which eliminate data that duplicates information provided in the  
8 original schedules if: (A) the utility is willing to adopt all the regulatory procedures,  
9 principles and rate of return established by the commission in that order, and (B) the  
10 utility receives prior approval from the commission."

11 **Q. Why was Midwest allowed to file an abbreviated rate case?**

12 A. Per the Commission's August 5, 2008 order approving the Stipulation and Agreement  
13 (S&A) in Midwest Energy's last electric rate case, Docket No. 08-MDWE-594-RTS (594  
14 Docket), Midwest was authorized to file an abbreviated rate case related to the Goodman  
15 Energy Center (GMEC) and substantial rebuild work related to FEMA designated storms.

16       Regarding GMEC, only six of the nine total gas fired generation units were in  
17 service (June 2008) at the time that the S&A was agreed to by the parties. The remaining  
18 three generating units were not scheduled to come on-line until September 2008. The  
19 FEMA work relates to several severe storms that struck Midwest's service territory  
20 causing significant damage to the electric infrastructure serving its customers. The S&A  
21 supported Midwest's request to file an abbreviated rate case pursuant to K.A.R. 82-1-  
22 231(b)(3) to true-up to actual the remaining estimated plant costs related to GMEC and

1 FEMA through the remainder of the year (Para. 29, Order, 594 Docket). The  
2 Commission's order on August 5, 2008 accepted the S&A filed in the 594 Docket and  
3 authorized Midwest's filing of an abbreviated rate case.

4 **Q. What were the agreed upon terms for Midwest's abbreviated rate case filing?**

5 A. The parties to the S&A agreed that the abbreviated rate case would update Midwest's  
6 plant related to GMEC and FEMA projects, including associated retirements. The parties  
7 also agreed to update GMEC non-fuel operations and maintenance (O&M) expenses with  
8 the most recent information available. The rate of return for the abbreviated filing was  
9 set in the S&A at 7.24%. The abbreviated rate case is also limited to determining the  
10 incremental revenue requirement associated with the FEMA projects and GMEC, and  
11 corrections to the original application. Paragraph 14 of the Commission's order in the  
12 594 Docket states the overall rate of return, depreciation rates, corrections, etc., to be  
13 used in the abbreviated rate case.

14 **Q. What test year did Midwest use in its abbreviated Application before the**  
15 **Commission?**

16 A. Midwest used a test year ended December 31, 2008 for plant in service additions to  
17 Goodman Energy Center (GMEC) and FEMA construction projects related to severe  
18 storm damages.

19 **Q. What type of utility is Midwest Energy, Inc.?**

20 A. Midwest Energy is an electric and gas distribution cooperative owned by the members it  
21 serves. This abbreviated rate case pertains to Midwest's electric division.

22 **Q. Approximately how many retail electric customers are served by Midwest Energy?**

1 A. Midwest provides retail electric service to approximately 47,000 customers in the state of  
2 Kansas.

3 **Q. What is the purpose of your testimony in these proceedings?**

4 A. The purpose of my testimony is to sponsor adjustments based on Staff's review of  
5 Midwest's abbreviated Application. I will also sponsor rate design as it pertains to this  
6 case. My testimony will be presented in the following manner:

- 7 • Rate Base Adjustments, and
- 8 • Rate Design

9 **Q. Please summarize the adjustments Staff is proposing in this docket.**

10 A. The following table lists the three adjustments Staff is proposing in this docket. These  
11 adjustments are shown on Exhibit GDR-1.

12

Adj. No.	Witness	Description	Amount
RB-1	George Rohrer	Plant in Service	\$ 875,201
RB-2	George Rohrer	Accumulated Depreciation	4,823,287
RB-3	George Rohrer	Working Capital	(105,938)

13

14 **Q. Were the adjustments you are sponsoring prepared by you or under your**  
15 **supervision based upon your examination of Midwest's books and records?**

16 A. Yes, they were.

17 **Q. Did Staff allocate its adjustments before inclusion in Staff's schedules?**

1 A. Yes. Staff's adjustments were first calculated on a total company basis, then allocated to  
2 the respective department (if applicable) based on the appropriate allocation percentage.

3 **Q. Did Staff perform an on-site review of Midwest's records as it relates to the**  
4 **abbreviated rate case filing?**

5 A. Yes. Staff performed an on-site audit of Midwest Energy's abbreviated filing on April  
6 28, 2009 to verify the plant changes related to GMEC and FEMA, associated FEMA  
7 retirements, and updated GMEC non-fuel O&M expenses contained in the filing. Staff's  
8 review of Midwest's filing and on-site audit revealed two areas of concern.

9 **Q. Please address these areas of concern.**

10 A. First, Midwest included budgeted amounts for GMEC O&M expenses in its abbreviated  
11 filing. The budgeted amounts were provided by North American Energy Services  
12 (NAES) which operates GMEC for Midwest. However, NAES bills Midwest its actual  
13 costs, not the budgeted amounts. A major problem with the actual GMEC non-fuel O&M  
14 costs provided to Staff is that the first 6 units started generating in June 2008, with the  
15 three remaining units coming on-line in September 2008. Thus a full year of operational  
16 data is not available. Additionally, the first year of operations for a generating plant is  
17 not reflective of normal operating conditions. Staff was provided with actual GMEC  
18 non-fuel O&M expenses for the months of Sept. 2008 through April 2009. Staff  
19 annualized the O&M expenses based on the latest six months (Nov. 2008 – April 2009)  
20 of actual expenses and found the amount to be less than the amount included by Midwest  
21 in its filing. However, Midwest had capitalized some non-fuel O&M (oil) prior to  
22 startup, which under ordinary operating circumstances would be expensed. In addition to  
23 expense items such as property insurance, routine maintenance of the engines (oil and air

1 filters, parts), etc., this increased Midwest's overall O&M to approximately the same  
2 amount as included in its filing.

3 Second, during the review process, it was discovered that some transmission plant  
4 was inadvertently included in the FEMA projects included in this abbreviated rate case.  
5 Because Midwest has a transmission formula rate (TFR) rider included on its monthly  
6 customer billing, all transmission plant should be included in the TFR and not in the  
7 abbreviated rate case, otherwise some transmission plant would be double counted for  
8 purposes of setting rates. The result is a decrease to net plant in service of \$3,948,086  
9 and is described in the Staff adjustment section below.

10 **Q. Above you made the statement that the first year of operations for a generating**  
11 **plant is not reflective of normal operating conditions. Please expand on this**  
12 **statement.**

13 A. Because these generating units are new, after initial engine break-in and testing which  
14 should work out any problems, these units would normally need minimal (other than  
15 normal) maintenance or have few mechanical breakdowns for the first few years of their  
16 operating life. However, this will be dependent on the usage of the units. As usage of  
17 the generating units increase, increased maintenance (from oil changes to replacing  
18 bearings or rewinding the rotors) will be required, and the possibility of breakdowns will  
19 also increase. Furthermore, just like a vehicle engine, these units require normal  
20 maintenance, oil and filter changes, etc. on a regular basis to continue operating properly.  
21 Additionally, these units consume a small amount of oil per kWh generated during the

1 generating process, thus monitoring the oil level is crucial. These areas make it difficult  
2 to gauge the operating expenses of generating units based upon its first year of operation.

3  
4 **I. Rate Base Adjustments**

5  
6 **Q. Please explain Staff's first and second adjustments to rate base.**

7 A. Staff's first and second adjustments to rate base are intertwined as described above.  
8 Staff's first adjustment increases plant in service by \$875,201. The second adjustment  
9 increases accumulated depreciation by \$4,823,287. The result of these two adjustments  
10 is a decrease to net plant in service of \$3,948,086. Both of these adjustments are related  
11 to the inclusion of transmission in the FEMA projects contained in Midwest's  
12 application. Midwest Energy agrees with these two adjustments.

13 **Q. Please describe Staff's third adjustment to rate base.**

14 A. Staff's third adjustment decreases the working capital component of rate base by  
15 \$105,938. Staff adjusted the GMEC gas inventory balance to reflect the current actual  
16 13-month average balance. Midwest, in its application, used the average monthly  
17 balance through the end of calendar year 2008, which comprises 9 months of gas in  
18 storage. However, since GMEC was not in operation for a full year, this average balance  
19 is not reflective of normal on-going operations. Staff updated the gas storage inventory  
20 balance through the end of April 2009 thus reflecting an actual 13-month average  
21 balance.



1 **Q. What is the net result of Staff's rate base adjustments on Midwest's requested**  
2 **revenue increase?**

3 A. The net result of Staff's adjustments is a reduction of \$256,756 to Midwest's requested  
4 revenue requirement increase. In its filing, Midwest had requested an increase of  
5 \$1,862,608 to its current electric rates, while Staff is recommending a rate increase of  
6 \$1,605,852 based on its adjustments described above.

7

8

## **II. Rate Design**

9

10 **Q. Please discuss the rate design agreed to for Midwest's abbreviated rate case filing.**

11 A. As stated in paragraph 27 of the S&A in the 594 Docket, any incremental increase in  
12 revenue resulting from the abbreviated rate case will be recovered proportionally across  
13 rate classes through an increase in energy charges. The fixed (customer and demand)  
14 charges will not be changed.

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

16 A. Yes it does.

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

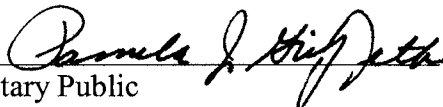
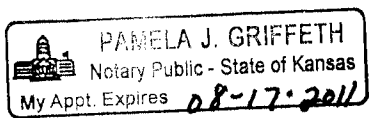
**VERIFICATION**

George Rohrer, being duly sworn upon his oath deposes and says that he is the Senior Managing Auditor for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Testimony*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



George Rohrer  
Senior Managing Auditor  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 30<sup>th</sup> day of June, 2009.

  
Notary Public

My Appointment Expires:

August 17, 2011

STAFF INCREMENTAL REVENUE REQUIREMENT - INCREASE/(DECREASE)

Line No.	Description	Function	PRO FORMA AT		
			Updated	Present Rates	Incremental
<b><u>RATE BASE</u></b>					
1	Utility Plant		\$375,203,428	374,607,750	\$595,678
2	Staff Adjustment to Plant in Service		875,201	0	875,201
3	Staff Adjusted Plant in Service		376,078,629	374,607,750	1,470,879
4	Accumulated Depreciation		(128,308,810)	(146,698,374)	18,389,564
5	Staff Adjustment to Accumulated Depreciation		(4,823,287)	0	(4,823,287)
6	Staff Adjusted Accumulated Depreciation		(133,132,097)	(146,698,374)	13,566,277
7	Staff Adjusted Net Plant in Service		242,946,532	227,909,376	15,037,156
8	Working Capital		6,593,799	6,025,979	567,820
9	Staff Adjustment to Working Capital		(105,938)	0	(105,938)
10	Staff Adjusted Working Capital		6,487,861	6,025,979	461,882
11	Investment in NRUCFC		7,191,959	7,191,312	647
12	Customer Advances for Construction		(243,782)	(243,782)	0
13	Net Total Rate Base		<u>\$256,382,570</u>	<u>\$240,882,885</u>	<u>\$15,499,685</u>
<b><u>OPERATING REVENUES AND EXPENSES</u></b>					
14	Operating Revenues		\$97,828,457	\$97,828,457	\$0
15	Operating Expenses		(90,055,834)	(89,572,159)	(483,675)
16	NET OPERATING MARGINS		<u>\$7,772,623</u>	<u>\$8,256,298</u>	<u>(\$483,675)</u>
<b><u>REVENUE INCREASE REQUIRED</u></b>					
17	Rate of Return per Order in Docket No. 08-MDWE-594-RTS				<u>7.2400%</u>
18	Change in Operating Income	(L 13 * L 17) - L 16			<u>\$1,605,852</u>

**CERTIFICATE OF SERVICE**

09-MDWE-792-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Staff Testimony & Exhibits were served by email on this 30th day of June, 2009, to the following:

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