

**BEFORE THE KANSAS CORPORATION COMMISSION**

**OF THE STATE OF KANSAS**

In the Matter of the Application of Western )  
Cooperative Electric Association, Inc. )  
Seeking Commission Approval to Update ) Docket No. 18-WSTE- 473 - TAR  
Its Local Access Delivery Service Tariff )  
Pursuant to the 34.5kV Formula Based )  
Rate Plan Approved in Docket No. 16- )  
MKEE-023-TAR.

**PREFILED DIRECT TESTIMONY OF**

**DENNIS DEINES  
CO-INTERIM GENERAL MANAGER  
WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.**

**ON BEHALF OF**

**WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.**

April 27, 2018

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**PART I – QUALIFICATIONS**

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

A. My name is Dennis Deines. My business address is 635 S. 13<sup>th</sup> St., WaKeeney, Kansas.

**Q. What is your profession?**

A. I am the Co-Interim General Manager of Western Cooperative Electric Association, Inc. (“Western” or “Cooperative”). As the Co-Interim General Manager of Western, I also serve on the Board of Directors of both Mid-Kansas Electric Company, LLC (“Mid-Kansas”) and Sunflower Electric Power Corporation (“Sunflower”).

**Q. What is your educational background?**

A. I graduated from Fort Hays State University in 1984 with a Bachelor of Science degree.

**Q. What is your professional background?**

A. I began my career working at Western as an Apprentice Lineman and moved on to be a Work Order Clerk as well as the Purchasing Manager. In 1990, I became the Manager of Member Services. Currently, I am serving as the Co-Interim General Manager for Western.<sup>1</sup>

**Q. Have you previously presented testimony before the Kansas Corporation Commission (“KCC” or “Commission”)?**

A. Yes. I have provided testimony in Docket No. 18-MKEE-160-TFR.

**PART II - SUMMARY OF DIRECT TESTIMONY**

**Q. What is the purpose of your testimony in this proceeding?**

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<sup>1</sup> The Cooperative’s Board of Trustees selected the new General Manager (“GM”), Tom Ruth, to replace Darrin Lynch, who left last year to take a position with the NRUCFC. However, Mr. Ruth will not be assuming his responsibilities until April 30, 2018, which does not allow him adequate time to familiarize himself with the contents and the background of this filing. Accordingly, I am sponsoring this Direct Pre-filed Testimony.

1 A. The purpose of my testimony is as follows:

- 2 1. Affirm Western's support for the calculation of the wholesale demand rate for the Local  
3 Access Delivery Service ("LADS") over Western's 34.5kV sub-transmission system (Mid-  
4 Kansas division) as contained in Ms. Elena Larson's Direct Prefiled Testimony.
- 5 2. Confirm that Western will notify its customers as required in Section C of the Commission-  
6 approved 34.5kV FBR Protocols ("Protocols").<sup>2</sup>
- 7 3. Attest to the Equity Test requirement noted in Section H of the Protocols.
- 8 4. Provide insight as to the information required by Item No. 11 listed in Section F of the  
9 Protocols.

10 **Q. What is Western's opinion concerning the proposed 2018 34.5kV FBR rate of \$1.73/kW?**

11 A. Western Staff has provided the data necessary for the calculations as contained in the populated  
12 34.5kV FBR template attached to the Application filed in the instant Docket as Exhibit 5.  
13 Cooperative Staff has reviewed the exhibit and the supporting work papers and is in agreement  
14 that the resultant rate was calculated in accordance to Western's 34.5kV FBR Protocols as  
15 approved by the Commission. Accordingly, Western believes this rate, as detailed in Ms.  
16 Larson's Prefiled Direct Testimony and included in the proposed LADS tariff, is just and  
17 reasonable, as it is based on the cost of service ("COS") and follows the Commission-  
18 prescribed methodology.

19 **Q. Please elaborate on how the Customer Notification requirement, detailed in Section C of**  
20 **the Protocols, will be fulfilled.**

21 A. Upon filing of the Application and all of the exhibits in the instant Docket (and once the actual  
22 Docket Number is known to the Cooperative), all customers taking wholesale LADS from  
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25 <sup>2</sup> Included as Exhibit D with the Commission March 10 and April 26, 2016 Orders in the Docket No. 16-  
MKEE-023-TAR ("16-023 Docket").

1 Western will receive notice of the filing when it is made with the Commission. Such notice  
2 may be made via electronic mail or bill insert and will contain the following information:

- 3 1. The date the filing was made with the Commission and the docket number assigned.
- 4 2. The amount of the revenue adjustment sought.
- 5 3. The resulting rate impact.
- 6 4. A statement explaining that the rate adjustment is being made pursuant to the 34.5kV  
7 FBR, with a cite to Docket No. 16-MKEE-023-TAR and the date of the Commission's  
8 March 10, 2016 Order approving the initial application for Western's 34.5kV FBR.
- 9 5. A Western contact person and phone number for questions.

10 **Q. Please address the Equity Test requirement as noted in Section H of the 34.5kV FBR**  
11 **Protocols.**

12 A. Per Section H of the Protocols, Western (Mid-Kansas division) must notify the Commission  
13 when its distribution equity ratio (calculated exclusive of equity in or from associated  
14 organizations) reaches 36.31 percent, which would signal the re-evaluation of the currently-  
15 approved Operating Times Interest Earned ("OTIER") and Modified Debt Service Coverage  
16 ("MDSC") ratios as used in the 34.5kV FBR.

17 **Q. Has Western (Mid-Kansas division) calculated its Distribution Equity Ratio for the 2017**  
18 **Test Year?**

19 A. Yes. Table 1 on the following page evidences that for 2017, Western's Distribution Equity  
20 Ratio (for the Mid-Kansas division), calculated to be at a negative 0.35 percent, was well below  
21 the prescribed 36.31 percent threshold. Note that one of the major items excluded as equity in  
22 Associated Organizations is represented by Western's equity in Mid-Kansas, its Generation  
23 and Transmission ("G&T") provider.

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<b>Table 1. Western 2017 Distribution Equity Ratio (MKEC division only)</b>		
Excluding Investment in Associated Organizations		
Total Margins & Equity		\$ 4,745,395.51
Equity in Assoc. Org Pat Cap		\$ 4,853,781.18
		<u>\$ (108,385.67)</u>
Total Assets & Other Debits		\$ 35,771,990.94
Equity in Assoc. Org Pat Cap		\$ 4,853,781.18
		<u>\$ 30,918,209.76</u>
<b>Distribution Equity Ratio</b>	$\frac{\$ (108,385.67)}{\$30,918,209.76} =$	<b>-0.35%</b>
<b>Detail of Equity in Assoc. Org Pat Cap</b>		
United Ag Service, Inc.		\$ 1,777.15
MKEC		\$ 4,852,004.03
		<u>\$ 4,853,781.18</u>

**Q. Now please discuss the information required for Item No. 11 on the list of required filing exhibits as contained in Section F of the Protocols.**

A. The aforementioned Item requires the Cooperative to provide a summary explanation of any material increases from the previous year (where “material” is quantified to be over 10 percent) in a COS item for the 34.5kV FBR. Comparing line items in Column (i) FBR Revenue Requirement on Exhibit 5, Page 1 submitted in the instant Docket against the same categories as filed last year in the Docket No 17-WSTE-477-TAR, in which the Commission approved Western’s 34.5kV FBR second Annual Update Application, identifies Transmission Operation and Maintenance (“O&M”), Administration and General (“A&G”), and Depreciation and Amortization on General Plant as the expense categories from the 2017 COS that show over a 10 percent increase as compared to the 2016 calendar year. See the following summary in Table 2.

<b>Table 2. Western (East/Mid-Kansas Division) COS Item Comparison</b>					
<b>COS Item Description</b>	<b>2017 FBR Filed Revenue Requirement</b>	<b>2018 FBR Filed Revenue Requirement</b>	<b>DIFF \$</b>	<b>DIFF %</b>	
<b><u>Operating Expenses</u></b>					
Transmission O&M	\$ 226,589	\$ 271,261	\$ 44,672	20%	
Administration & General	\$ 14,321	\$ 31,487	\$ 17,166	120%	
Depreciation and Amortization	\$ -				
Transmission	\$ 261,736	\$ 258,210	\$ (3,525)	-1%	
General Plant	\$ 1,796	\$ 4,148	\$ 2,352	131%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 238,956	\$ 209,303	\$ (29,653)	-12%	
Interest Charged to Construction - Credit	\$ -	\$ -			
Interest-Other	\$ -	\$ -	\$ -		
Other Deductions	\$ -	\$ -	\$ -		
<b><u>Margin Requirement Components</u></b>					
Principal Payments	\$ 318,722	\$ 284,682	\$ (34,040)	-11%	
L.T. Interest	\$ 238,956	\$ 209,303	\$ (29,653)	-12%	

**Q. Please explain the drivers behind the change in the Transmission O&M and discuss the steps the Cooperative took to lessen the impact of the cost increases.**

A. The reason for the \$44,672 increase in Transmission O&M allocated to Western’s 34.5kV FBR is due to increase in the following areas: (a) property tax expense (around \$17,000, see more detail below); (b) payroll (around \$20,000 including overheads, see more detail below); (c) transportation costs (around \$5,000, reflecting repairs for the truck fleet); and (d) insurance premium (around \$2,000).

It should be noted that the property tax is a pass thru expense for Western, where the Cooperative is assessed by the local and state authorities. In 2015, Kansas Electric Cooperatives, Inc. (KEC) recommended and successfully carried out an appeal of property taxes assessed on some of the Kansas cooperatives, including Western, to the Board of Tax Appeals (BOTA). Accordingly, Western’s 2016 property tax expense reflected refund amounts issued for 2015. In 2016, KEC did not feel there was enough grounds for another appeal;

1 therefore, there was no refund for 2016 to offset 2017 tax assessments.

2 The increase in transmission payroll was due to some needed maintenance and repairs on  
3 our sub-transmission system, including installing snake guard fencing in a substation, re-tying  
4 conductors, and retightening down “guy-wires” (tension cables) on the line between Natoma  
5 and Waldo; plus repairs and replacements of the 34.5kV panel parts after damages identified  
6 during an outage. While we do try to minimize the costs, to ensure the continued safe and  
7 reliable delivery of service to our customers, it is necessary to make timely repairs on the  
8 system.

9 **Q. Please explain the drivers behind the change in the A&G expense and discuss the steps**  
10 **the Cooperative took to lessen the impact of the cost increases.**

11 A. The reason for the \$17,166 increase in A&G expense allocated to Western’s 34.5kV FBR is  
12 due to increase in the total A&G expense, where the latter was driven by the credit / debit card  
13 fees, as well as payroll and associated overheads.

14 Western's bill pay app and a new online web portal were launched at the end of 2016. As  
15 a result, we have experienced over a 50 percent increase in credit and debit card transactions  
16 in 2017, which correspondingly increased our associated fees for these payment types.

17 Payroll and the related overheads for the A&G increased in the last quarter of 2017 due to  
18 Western's GM turnover, as other staff members assumed GM duties in the interim, which  
19 caused more of their hours to be charged to A&G. It should be noted that overall, only a small  
20 portion (less than 3 percent) of the overall A&G expense is allocated to the 34.5kV FBR. The  
21 allocation is based on the Transmission Labor Allocator, as prescribed by the Protocols. For  
22 further detail, please see filing Exhibit 5, page 4.

23 **Q. Please explain the drivers behind the change in the Depreciation and Amortization on**  
24 **the General Plant and discuss the steps the Cooperative took to lessen the impact of the**  
25 **cost increases.**



1 A. The reason for the \$2,352 increase in Depreciation and Amortization on General Plant  
2 allocated to Western's 34.5kV FBR is driven by the increase in the total Depreciation and  
3 Amortization on the General Plant, where the latter was due to various investments in the  
4 general plant during 2017, including a new transformer storage pad, software server,  
5 electronic staking software, as well as deployment of automated external defibrillators  
6 ("AED") in all Western facilities and trucks. It should be noted that overall, only a small  
7 portion (less than 3 percent) of the overall Depreciation and Amortization on the General  
8 Plant expense is allocated to the 34.5kV FBR. The allocation is based on the Transmission  
9 Labor Allocator, as prescribed by the Protocols. For further detail, please see filing Exhibit  
10 5, page 4. It should also be noted that, ultimately, the depreciation expense did not play into  
11 the determination of the Revenue Requirement this year; i.e., under the MDSC ratio used to  
12 calculate margin requirement, the depreciation expense is subtracted as a margin offset  
13 during the calculation.

14 **Q. Do you have any other comments regarding the steps Western took to lessen the impact**  
15 **of the cost increase noted above on its customers?**

16 A. I would like to close by noting that increases in costs due to operational changes affect  
17 Western's wholesale and retail customers alike. Decisions made with regards to the overall  
18 operations of Western are always made with the customers' best interest in mind. Every effort  
19 is taken to find cost saving measures whenever possible in order to lessen the impact on our  
20 customers, including negotiating competitive low rates with our lenders.

21 **Q. What is your final recommendation to the Commission?**

22 A. I support Ms. Larson's recommendation to approve Western's Application in the instant  
23 Docket, as the resultant rate is reflective of the COS, was calculated in accordance with the  
24 Commission-approved 34.5kV FBR Protocols, and therefore is just and reasonable and is in  
25 the public interest.

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

2 A: Yes, it does.

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