

**BEFORE THE KANSAS CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Annual Filing of )  
Southern Pioneer Electric Company for )  
Approval to Make Certain Changes to its ) Docket No. 15-SPEE-\_\_\_\_\_-RTS  
Charges for Electric Services, Pursuant to )  
the Debt Service Coverage Formula Based )  
Ratemaking Plan Approved in Docket )  
No.13-MKEE-452-MIS. )

**PREFILED DIRECT TESTIMONY OF**

**RANDALL D. MAGNISON  
EXECUTIVE VICE PRESIDENT – ASSISTANT CHIEF EXECUTIVE OFFICER  
SOUTHERN PIONEER ELECTRIC COMPANY**

**ON BEHALF OF**

**SOUTHERN PIONEER ELECTRIC COMPANY**

May 1, 2015

1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Randall D. Magnison. My business address for legal service is 1850 W.  
4 Oklahoma, Ulysses Kansas 67880 and for mail receipt, PO Box 430, Ulysses Kansas  
5 67880-0430.

6 **Q. What is your profession?**

7 A. I am the Executive Vice President and Assistant Chief Executive Officer (“Assistant  
8 CEO”) of Southern Pioneer Electric Company (“Southern Pioneer”), a wholly owned  
9 subsidiary of Pioneer Electric Cooperative, Inc. (“Pioneer”), pursuant to the Services  
10 Agreement entered into between Pioneer and Southern Pioneer on July 7, 2006. Our  
11 corporate office is located in Ulysses, Kansas, and our distribution-customer service  
12 offices are located in Liberal and Medicine Lodge, Kansas.

13 **Q. Please describe your responsibilities with Southern Pioneer.**

14 A. As the Executive Vice President and Assistant CEO of both companies, I provide  
15 assistance to the Chief Executive Officer (“CEO”) in the day-to-day management of both  
16 Pioneer and Southern Pioneer. Additionally, I oversee all of the Human Resource  
17 functions, personnel, compensation planning, benefits administration and  
18 regulatory/compliance activities, including ratemaking and regulatory filings. Further, as  
19 the Assistant CEO, I work directly for the CEO and with the Board of Directors in  
20 establishing policy and rates, implementing strategic programs, and conducting the overall  
21 operation of both Pioneer and Southern Pioneer to ensure reliable service at a competitive  
22 cost, using generally acceptable industry business practices.

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

2 A. The purpose of my testimony is to support the compliance filing in Southern Pioneer's  
3 Debt Service Coverage ("DSC") Formula Based Ratemaking ("FBR") Pilot Program  
4 (referred to hereafter as the "DSC-FBR Plan", "DSC Plan" or "Plan"), which results in a  
5 slight rate increase of \$899,288, or overall rate increase of 1.3% for retail ratepayers.  
6 Specifically, my testimony will (1) provide historical information on Southern Pioneer; (2)  
7 summarize and convey the comments of the Southern Pioneer Consumer Advisory  
8 Council ("Council") as it relates to the DSC Plan and any rate adjustment therefrom; and  
9 (3) explain, as part of calculating the revenue requirement, Southern Pioneer's adjustments  
10 to incorporate the Commission's policy and practice to remove 100% of certain  
11 promotional or corporate advertising expenses and limiting to 50% the amount of certain  
12 dues, donations and charitable contribution expenses.

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

14 A. I graduated from Friends University in 1991 with a Bachelor of Science Degree in Human  
15 Resource Management. In 2005, I successfully completed the National Rural Electric  
16 Cooperatives' Management Internship Program through the University of Wisconsin.

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

18 A. I was employed in July 2000 as the Assistant to the CEO at Pioneer Electric. In  
19 September 2005, I served a dual role as the Assistant to the CEO and Southern Pioneer's  
20 Executive Vice President-Chief Operating Officer ("COO"). As the COO of Southern  
21 Pioneer, I was instrumental in the formation of Southern Pioneer and coordinated the  
22 acquisition and transition of Southern Pioneer's portion of the acquired Aquila, Inc., d/b/a  
23 Aquila Networks-WPK ("Aquila") assets from an investor-owned utility to that of a for-

1 profit C-Corporation, owned by a cooperative and agreeing to operate as a taxable, not-  
2 for-profit entity. In May 2011, I was appointed the Executive Vice President and  
3 Assistant CEO of both Pioneer and Southern Pioneer, the position I continue to hold  
4 today. Prior to July of 2000, I served as Manager of Benefits for Sunflower Electric  
5 Power Corporation (“Sunflower”) in Hays, Kansas, where I managed all Statutory and  
6 Welfare Benefit Programs, and provided support to all Sunflower Member Systems and  
7 the 500 plus system employees. Prior to Sunflower, I served seven years as the  
8 Administrator at a regional accounting firm where I managed the daily activities of the  
9 firm, as well as provided compensation and benefit consulting to clients.

10 **Q. Have you previously presented testimony before the Commission?**

11 A. Yes. I have filed both direct and rebuttal testimony as well as compliance reports in  
12 Docket No. 06-MKEE-524-ACQ (the “06-524 Docket”). Additionally, I have filed  
13 rebuttal testimony in Docket Nos. 12-MKEE-380-RTS (the “12-380 Docket”) and 13-  
14 MKEE-452-MIS (the “13-452 Docket”). I have also prepared direct testimony in Docket  
15 No. 14-SPEE-507-RTS (the “14-507 Docket”), the first compliance filing for the DSC-  
16 FBR Program. In addition to preparing testimony or testifying before the Commission, I  
17 have filed applications for the purpose of adopting an *ad valorem* tax surcharge in Docket  
18 Nos. 13-MKEE-695-TAR and 14-SPEE-297-TAR. Most recently, I filed direct and  
19 rebuttal testimony in Docket 15-SPEE-161-RTS.

20 **Q. In addition to your testimony, is Southern Pioneer offering other testimony in**  
21 **support of this Application?**

22 A. Yes. Utilizing the prescribed Protocols adopted in the 452 Docket, Mr. Richard J. Macke,  
23 rate consultant with Power System Engineering (“PSE”), has calculated Southern

1 Pioneer's adjusted DSC ratio for the test year as compared to the Commission-approved  
2 target. Additionally, Mr. Macke has prepared proposed tariffs to achieve the slightly  
3 increased revenue requirement to meet the target in this annual filing. All of the exhibits,  
4 as outlined in the Protocols, are attached to the Application rather than attached to  
5 individual testimony. One item to note is that **Exhibit 5**, as discussed in the Protocols  
6 under Section J., is to identify any material changes, if any, in a cost of service item from  
7 the previous year. Southern Pioneer experienced no such material changes in the portion  
8 related to distribution, therefore, **Exhibit 5** merely references my testimony. The fact that  
9 there were no material changes can be verified by reviewing the comparative trial balance  
10 documents contained in **Exhibit 10**.

## 11 **II. SOUTHERN PIONEER**

### 12 **Q. Please provide some historical information on the origination of and describe the** 13 **business activities of Southern Pioneer.**

14 A. Southern Pioneer was formed in 2005 in response to Aquila's announcement of its  
15 intention to sell its Kansas electric assets. Five member-owner cooperatives of Sunflower  
16 Electric Power Corporation ("Sunflower") and Southern Pioneer, a wholly owned  
17 subsidiary of Pioneer, joined to form Mid-Kansas Electric Company, LLC ("Mid-  
18 Kansas"), a not-for-profit limited liability company, to acquire and serve the former  
19 Aquila service territory. Mid-Kansas and Aquila executed an Asset Purchase Agreement  
20 dated September 21, 2005 ("the Acquisition"), and submitted the agreement to the State  
21 Corporation Commission of the State of Kansas ("Commission" or "KCC") for approval  
22 in the 06-524 Docket. On February 23, 2007, the Commission approved the Acquisition,  
23 and pursuant to Commission order, on April 1, 2007, Southern Pioneer began to serve and

1 independently operate a designated geographic portion of the Mid-Kansas certificated  
2 territory formerly serviced by Aquila. At that time, Mid-Kansas held the Certificate of  
3 Convenience and Necessity for the former Aquila area and Southern Pioneer was serving a  
4 portion of the area via a Commission-approved Electric Customer Service Agreement.

5 **Q. Please continue.**

6 A. As a Mid-Kansas member-owner, and pursuant to a Commission-approved Electric  
7 Customer Service Agreement, Southern Pioneer contractually provided retail service to  
8 approximately 17,300 Mid-Kansas consumers in 34 communities in the Mid-Kansas  
9 “Southern Pioneer Division.” Southern Pioneer also provided sub-transmission service to  
10 34.5 kV wholesale sub-transmission users. The Commission approved this arrangement until  
11 such time that the Mid-Kansas certificated territory and customers were transferred to the  
12 member-owners on November 21, 2013, when the Commission issued its order in Docket  
13 No. 13-MKEE-447-MIS (the “13-447 Docket”), approving the long awaited Mid-Kansas  
14 spin-down, which provided for, among other things, the transfer of the individual certificated  
15 territories, consumers, KCC-approved rules and regulations, and tariffs to each of the Mid-  
16 Kansas Members, including Southern Pioneer. As part of the 13-447 Docket, the  
17 Commission granted to Southern Pioneer public utility status and the Mid-Kansas customers  
18 being served by Southern Pioneer by virtue of the Electric Customer Service Agreement  
19 noted above, officially became Southern Pioneer Customers.

20 **III. Southern Pioneer Consumer Advisory Council**

21 **Q. As part of the Protocols set forth in the DSC-FBR Plan, Southern Pioneer agreed to**  
22 **consult with its Consumer Advisory Council (“Council”) regarding the ratepayer**  
23 **impact of the annual filings and include with the Application the comments received**

1       **from the Council.<sup>1</sup> Additionally, Southern Pioneer agreed to submit the minutes**  
2       **from quarterly Council Meetings that occurred during the test year,<sup>2</sup> which in this**  
3       **case is calendar year 2014. Are the Council minutes from the test year attached to**  
4       **the filing?**

5       A. Yes. Included with the filing, as **Exhibit 13**, are the minutes from the quarterly Council  
6       meetings for the 2014 calendar year.

7       **Q. What are the Council's comments with regard to the annual filing impact to**  
8       **ratepayers?**

9       A. On April 29, 2015, at a special Council meeting conducted via conference call, Southern  
10       Pioneer shared with the Council the calculation for the 2015 DSC-FBR Plan filing and the  
11       overall impact to ratepayers. In summary, Chief Executive Officer Stephen J. Epperson  
12       and I advised the Council that the second DSC Plan filing was due on or before May 1,  
13       2015. Mr. Epperson and I explained to the Council that in following the Protocols  
14       adopted in the 13-452 Docket, PSE calculated that Southern Pioneer achieved a DSC ratio  
15       of 1.58, which is under the allowed 1.75 target, which requires a rate increase of \$899,288  
16       to reach the target. This shortfall results in an overall rate increase of 1.3% for retail  
17       ratepayers.

18       **Q. And how did the Council react to this announced adjustment?**

19       A. Because Southern Pioneer retail ratepayers enjoyed just under a one percent (0.78%)  
20       decrease in 2014 and the Council had been previously advised that a moderate retail rate  
21       increase would likely occur in the 2015 DSC-FBR Plan filing, the Council was pleased to  
22       learn that the results of the 2015 DSC calculation resulted in such a slight overall increase

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<sup>1</sup> 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 2, Section 2

<sup>2</sup> 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 7, Section J(13)

1 in rates. The Council requested that Southern Pioneer seek approval of and implement the  
2 final rate adjustment within the 90-day schedule as outlined in the DSC Plan.

3 **IV. Corporate Advertising, Dues, Donations, and Charitable Contributions**

4 **Q. In previous filings, Southern Pioneer, like some utilities, has historically included and**  
5 **sought recovery of 100% of expenses associated with corporate advertising and dues,**  
6 **donations and charitable contributions made by Southern Pioneer. Subsequently,**  
7 **the KCC Staff and interveners recommended adjustments by disallowing 100% of**  
8 **corporate advertising and 50% of dues, donations and contributions. In this filing, is**  
9 **Southern Pioneer including and seeking full recovery of these categorical expenses?**

10 A. No, it is not.

11 **Q. And why is that?**

12 A. Southern Pioneer has elected to seek recovery of these costs consistent with the  
13 Commission's Order in the 14-507 Docket and Southern Pioneer's filing in the 15-161  
14 Docket, as evident in the DSC-FBR analysis performed by Mr. Macke, and as depicted in  
15 Filing **Exhibit 9**.

16 **Q. Can you explain why Southern Pioneer has decided to alter its traditional filing to**  
17 **recover these costs?**

18 A. Absolutely. First though, Southern Pioneer would like to reiterate, as it has in previous  
19 testimony, that it does not agree with Staff's analysis and the Commission's Order in the  
20 14-507 Docket, in which certain adjustments were made to exclude or reduce expenditures  
21 associated with corporate advertising and dues, donations, and contributions. As a not-  
22 for-profit company, Southern Pioneer has no means to recover these expenditures other  
23 than through its operating margins.



1 **Q. Continue please.**

2 A. However, Southern Pioneer respects the Commission's determination as to the treatment  
3 of these expenditures in the 14-507 and 15-161 Dockets, and for the purposes of this filing  
4 has incorporated the Commission's current policy and practice pursuant to K.S.A. 66-  
5 101f(a)<sup>3</sup> and applied this same adjustment methodology in the current annual DSC-FBR  
6 Plan compliance filing.

7 **Q. Does this mean or imply that sometime in the future, Southern Pioneer will not seek**  
8 **to include these excluded costs as part of its rate filings?**

9 A. No, this should not be construed as Southern Pioneer's acquiescence on this issue.  
10 Southern Pioneer instead remains optimistic that the Commission and its Staff will  
11 reconsider their position on this issue in the future with a more comprehensive  
12 understanding of the impacts these disallowances have on a not-for-profit utility like  
13 Southern Pioneer.

14 **Q. In applying the Commission's current policy and practice of disallowing 100% of**  
15 **corporate advertising and 50% of dues, donations and contributions, can you**  
16 **summarize Southern Pioneer's process in complying with this practice?**

17 A. Certainly. Using the list of dues, donations, charitable contributions, promotional  
18 advertising, penalties, fines and entertainment expenses compiled in **Exhibit 9**, Southern  
19 Pioneer reviewed each item listed to identify its purpose, categorically classified, and then  
20 applied the appropriate level of inclusion or exclusion. For example, penalties and  
21 advertising were 100% excluded, but dues and donations were 50% excluded.

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<sup>3</sup> K.S.A. 66-101f (a) allows adoption of a policy of " disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate."

1 **Q. And in using this methodology, what was the outcome?**

2 A. In total, **Exhibit 9** represents just over \$226,855 in expenditures related to dues,  
3 donations, charitable contributions, promotional advertising, penalties, fines and  
4 entertainment expenses. Of this total amount, only \$121,367 was included in the annual  
5 revenue requirement after applying the criteria discussed above.

6 **Q. Based on this analysis and in your opinion, are the amounts included by Southern  
7 Pioneer reasonable and appropriate.**

8 A. Yes, that is correct. As previously noted, Southern Pioneer analyzed the items in **Exhibit  
9 9** based on past dockets and made the appropriate adjustments.

10 **V. CONCLUSION**

11 **Q. In closing, is there anything else you would like to say?**

12 A. Yes. In the 13-452 Docket, one of the many reasons cited for support of a DSC-FBR Plan  
13 was that it could minimize future overall rate increases to consumers,<sup>4</sup> and I believe  
14 Southern Pioneer achieved that objective yet again by submitting its second filing that  
15 provides for a slight overall increase in the second year of the Plan. I believe the second  
16 year results are not only commendable, but they also lend credibility to the DSC-FBR  
17 ratemaking process by stabilizing retail rates to ratepayers and bringing regulatory  
18 certainty to Southern Pioneer and its lender. While it is impossible to predict what will  
19 occur in the remaining three years of the DSC-FBR Plan, the ability to react to the current  
20 financial conditions being experienced by Southern Pioneer using a formula-based  
21 approach than is experienced with traditional rate case filings provides significant benefits

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<sup>4</sup> 452 Docket, Epperson Prefiled Testimony, Page 17, lines 15-20

1 to Southern Pioneer and its consumers, which is exactly what we intended when seeking  
2 to implement the DSC-FBR Plan.


3 **Q. Does this conclude your Direct Testimony?**

4 A. Yes, it does.

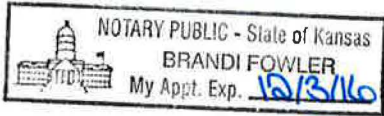
**VERIFICATION**

STATE OF KANSAS            )  
  ) ss  
COUNTY OF GRANT        )

The undersigned, Randall D. Magnison, 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.

  
Randall D. Magnison

Subscribed and sworn to before me this 1<sup>st</sup> day of May, 2015.



  
Notary Public

My appointment expires: 12/3/16