

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

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

PREFILED DIRECT TESTIMONY OF

STEPHEN J. EPPERSON

PRESIDENT AND CHIEF EXECUTIVE OFFICER

SOUTHERN PIONEER ELECTRIC COMPANY

ON BEHALF OF

SUNFLOWER ELECTRIC POWER CORPORATION

and

MID-KANSAS ELECTRIC COMPANY, INC.

AUGUST 3, 2018

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

2 A. My name is Stephen J. Epperson. My business address for legal service is 1850
3 W. Oklahoma, Ulysses, Kansas 67880 and for mail receipt is PO Box 430,
4 Ulysses, Kansas 67880-0430.

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

6 A. I also am the President and CEO of Southern Pioneer Electric Company
7 ("Southern Pioneer") pursuant to a certain Services Agreement by and between
8 Pioneer Electric Cooperative, Inc. ("Pioneer") and Southern Pioneer, dated July
9 7, 2006.

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

11 A. As the President and CEO, I work directly for the Board of Directors of Southern
12 Pioneer and am responsible for assisting in establishing policy, implementing
13 strategic programs, establishing rates, and overseeing the overall operation of
14 Southern Pioneer to ensure reliable service at a competitive cost using generally
15 acceptable industry business practices. I also serve on the Board of Directors of
16 Mid-Kansas Electric Company, Inc. ("Mid-Kansas"), the nonprofit wholesale
17 generation and transmission supplier for Southern Pioneer.

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

19 A. I graduated in 1991 from Ozark Christian College, a cooperative program with
20 Missouri Southern State University, with a Bachelor's Degree, which included
21 double majors in Bible and Psychology. In 2002, I successfully completed the
22 National Rural Electric Cooperatives Association's Management Internship

1 Program through the University of Nebraska at Lincoln, Nebraska. In 2010, I
2 received my Masters of Business Administration from Bradley University.

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

4 A. I was appointed President and CEO of Southern Pioneer effective January 1,
5 2011. Prior to that date, I served as the President and CEO at McDonough
6 Power Cooperative, located in Macomb, Illinois, from July 2006 to December 31,
7 2010. From August 2001 to July 2006, I served as the Senior Vice President of
8 Northeast Rural Services, Inc., a subsidiary of Northeast Oklahoma Electric
9 Cooperative. I have also served in other capacities in both utilities and the private
10 not-for-profit sectors: as a business supervisor, consultant, business
11 development director, and counselor.

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

14 A. Yes. I have provided testimony in Docket Nos. 12-MKEE-380-RTS, 13-MKEE-
15 447-MIS, 13-MKEE-452-MIS, 13-MKEE-699-RTS, 14-SPEE-507-RTS, 16-
16 MKEE-023-TAR, 17-KPPE-092-COM, and 18-MKEE-160-TAR.

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

18 A. The purpose of my testimony is to provide a background of Southern Pioneer
19 and to support the approval of the merger of Sunflower Electric Power
20 Corporation (“Sunflower”) and Mid-Kansas.

21 **Q. Please provide a brief overview of Southern Pioneer.**

22 A. Southern Pioneer is a not-for-profit, taxable Kansas corporation with its principal
23 place of business located in Ulysses, Kansas, with distribution and customer

1 service offices in Liberal and Medicine Lodge, Kansas. Southern Pioneer serves
2 approximately 16,820 total retail customers in ten southcentral and southwest
3 Kansas counties. Southern Pioneer owns and operates approximately 302 miles
4 of 34.5 kV sub-transmission line and substation facilities and approximately 818
5 miles of distribution line and substation facilities. Southern Pioneer is a
6 certificated electric public utility and is a wholly-owned subsidiary of Pioneer.
7 Southern Pioneer was granted public utility status on November 21, 2013, when
8 the Commission approved the transfer of the retail certificated territory,
9 customers, Rules and Regulations, and tariffs from Mid-Kansas to Southern
10 Pioneer in Docket No. 13-MKEE-447-MIS.

11 **Q. Is Southern Pioneer regulated by the Commission?**

12 A. Yes. Southern Pioneer does not qualify as an entity that is eligible for self-
13 regulation under K.S.A. § 66-104d and therefore its wholesale and retail rates are
14 fully regulated by the Commission.

15 **Q. Does Southern Pioneer support the merger of Sunflower and Mid-Kansas
16 with Sunflower becoming the surviving corporation?**

17 A. Yes. Our Board of Directors approved the Agreement and Plan of Merger which
18 included the new bylaws for the surviving corporation.

19 **Q. Why does Southern Pioneer support the merger of the two companies?**

20 A. Southern Pioneer was organized as a subsidiary of Pioneer in December 2005 to
21 acquire the electric assets of Aquila, Inc. ("Aquila-WPK"). Southern Pioneer
22 joined with the other Members of Sunflower in forming Mid-Kansas for the
23 acquisition. The acquisition was approved in 2007 and in 2013 the distribution

1 assets and functions were transferred to the Mid-Kansas Members. The intent at
2 the time of Mid-Kansas' formation was to merge Mid-Kansas with Sunflower to
3 create an organization that would be stronger and more efficient than either
4 Sunflower or Mid-Kansas alone. The merged company would have a stronger
5 balance sheet and equity, allowing the organization to achieve greater
6 economies of scale to reduce borrowing costs and streamline operations. Our
7 Board, and the Boards of Sunflower and Mid-Kansas, have been analyzing
8 relevant information for some time now to ensure that decision made over ten
9 years ago is the correct decision, and we believe that it is. The merged company
10 will continue to provide reliable service but with lower costs and more rate
11 stability.

12 **Q. Why is rate stability a key factor in Southern Pioneer's decision to approve**
13 **the merger?**

14 A. Rate stability allows retail customers to plan, as significant rate fluctuation results
15 in disruption of budgeting, product pricing, operational scheduling and other
16 activities. The merged organization will be approximately twice the size of either
17 organization alone and therefore will be able to better absorb the impact of load
18 losses or any other event that may affect revenue requirements by spreading the
19 impact over the larger system, resulting in greater rate stability. Sunflower
20 management has tried to operate Sunflower and Mid-Kansas as a single
21 company to the extent it can; therefore, our Board does not anticipate much in
22 the way of operational efficiency savings from the merger. Most savings have
23 been captured over time, but there are duplication of services and functions that

1 can be eliminated by combining the two companies which will uncomplicate and
2 further streamline the operations. All of this will result in savings in expense and
3 manhours. All things considered, combining the two companies will provide the
4 synergies and operational efficiency contemplated at the time of acquisition.

5 **Q. Are there other benefits from merging the two companies?**

6 A. Yes. While Sunflower management has operated the two companies as closely
7 to one as feasible since the acquisition, there are some service and function
8 duplications that can be eliminated through merging. This will result in lowered
9 expenses and human capital costs, but the ability to use existing resources of
10 both organizations to create one having a resource-balanced generation portfolio
11 at a lower cost than either organization can achieve on its own is likely where the
12 big savings will arise. Mid-Kansas currently has coal generation via contract that
13 is expiring early in 2019. The merged organization will use Sunflower's Holcomb
14 plant to serve as a hedge against rising gas prices without extending the current
15 contract or purchasing additional contracts for coal generation. The Sunflower
16 side will benefit from the greater gas generation and a solar power purchase
17 agreement Mid-Kansas owns. Additionally, the combined company will have a
18 stronger balance sheet and financial metrics that could facilitate a credit rating,
19 and as a result, a lower cost of debt. This savings is not insignificant and would
20 not be possible unless the two companies merge.

1 **Q. Who are your current electric wholesale providers?**

2 A. Southern Pioneer is an all requirements customer of Mid-Kansas. After the
3 merger Southern Pioneer will be an all requirements customer of the surviving
4 company, Sunflower.

5 **Q. Will the merger affect the local access delivery services (“LADS”) provided**
6 **to wholesale customers taking service on Southern Pioneer’s 34.5 kV**
7 **system or the local access charge (“LAC”)?**

8 A. The merger of Sunflower and Mid-Kansas will have no impact on the LADS or
9 the LAC. Mid-Kansas and Sunflower currently serve as administrator of the Mid-
10 Kansas Open Access Transmission Tariff under which Southern Pioneer
11 provides and supports the local access services. The 34.5 kV facilities are owned
12 by Southern Pioneer and the services are provided by Southern Pioneer. The
13 LAC is a Southern Pioneer rate established in Southern Pioneer’s Commission-
14 approved formula rate that is based solely upon Southern Pioneer’s cost of
15 service to the wholesale sub-transmission customers. The merger of Sunflower
16 and Mid-Kansas will have no impact on the Southern Pioneer LADS or LAC other
17 than the merger will result in a single tariff administrator, Sunflower, rather than
18 two as there are currently. Furthermore, to the extent the merger would have any
19 impact, any such impact would be necessarily addressed at the Southern
20 Pioneer level and not at Sunflower or Mid-Kansas. The LADS and LAC are not
21 impacted by the merger of Sunflower and Mid-Kansas. If there were required
22 changes, the changes to the LADS or LAC would be addressed in a Southern
23 Pioneer docket before the Commission.

1 **Q. Does Southern Pioneer believe the merger of the two companies is in the**
2 **public interest?**

3 A. Our Board has always felt that merging the two companies is in the best interest
4 of our member owners and western Kansas. After thorough review and
5 consideration, our Board still holds to that belief and approves of the merger.

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

7 A. Yes.

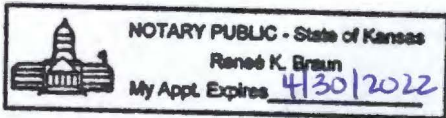
VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF Ellis)

Stephen J. Epperson, being first duly sworn, deposes and says that he is the Stephen J. Epperson referred to in the foregoing document entitled "PREFILED DIRECT TESTIMONY OF STEPHEN J. EPPERSON" before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

~~Stephen J. Epperson~~

SUBSCRIBED AND SWORN to before me this 3rd day of ^{August}~~July~~, 2018.



My Appointment Expires: _____

Notary Public