

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

Before Commissioners: Shari Feist Albrecht, Chair
 Jay Scott Emler
 Pat Apple

In the Matter of the Application of Sunflower)
Electric Power Corporation for an Order)
Approving (i) Continued Use of the Target)
Financial Metric Ratio Levels Used in, and (ii)) Docket No. 17-SEPE-415-TAR
Amendments to, its Commission-Approved)
Formula-Based Rate for Recovery of)
Transmission Costs.)

ORDER APPROVING SUPPLEMENTAL APPLICATION

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed its files and records, and being duly advised in the premises, the Commission makes the following findings and conclusions:

I. BACKGROUND

1. On March 16, 2017, Sunflower Electric Power Corporation (Sunflower) filed an Application requesting approval of: (1) continued use of the current levels of target financial metric ratios (Debt Service Coverage (DSC) and Times Interest Earned Ratio (TIER)) used in Sunflower's formula-based rate for recovery of transmission costs, and (2) amendments to its Transmission Formula Rate (TFR) to allow adjustments for competitively bid transmission projects in the Southwest Power Pool (SPP).¹ Sunflower also filed the Direct Testimony of James Brungardt in support of Sunflower's Application.²

¹ See Application for Sunflower Electric Power Corporation, p. 1 (Mar. 16, 2017) (Application).

² Direct Testimony of James Brungardt on Behalf of Sunflower Electric Power Corporation (Mar. 16, 2017).

2. Due to the length of time the Parties spent discussing Sunflower's request, the Parties jointly requested an extension of the Commission's suspension period.³ By agreement of the Parties and Commission, the suspension period of this proceeding was extended from November 13, 2017, to March 13, 2018.⁴

3. On November 22, 2017, Sunflower submitted its Supplemental Application and the Direct Testimony of James Brungardt in support of the Supplemental Application.⁵

4. On February 19, 2018, Commission Staff (Staff) filed its Report and Recommendation (R&R) on Sunflower's Supplemental Application.⁶ Staff recommended the Commission approve Sunflower's continued use of its current target financial metric ratio levels and Sunflower's request to amend its TFR to allow for the use of competitive adjustments as proposed in Sunflower's Supplemental Application.⁷

II. DISCUSSION

5. As noted by Staff, multiple conferences were held between Staff and Sunflower throughout Staff's review of Sunflower's proposal.⁸ The requests contained within Sunflower's Supplemental Application may be broken into two categories: (1) financial metrics and (2) TFR modifications. The Commission will address each of these categories individually.

³ See note 4, *infra*.

⁴ See Order Extending Suspension Period (Oct. 24, 2017); See also Sunflower Electric Power Corporation and Staff Joint Motion for Extension of Suspension Order (Oct. 19, 2017).

⁵ See Supplemental Application (Nov. 22, 2017) (Supplemental Application); See also Direct Testimony of James Brungardt on Behalf of Sunflower Electric Power Corporation (Nov. 22, 2017) (Brungardt Direct).

⁶ See Notice of Filing of Staff's Report and Recommendation (Feb. 19, 2018) (Staff's R&R). Note to the reader: All references to page numbers contained within Staff's R&R are to the numbered pages in the R&R and not a particular page as may be displayed by a PDF reader.

⁷ See Staff R&R, p. 1.

⁸ See *id.* at p. 2.

A. Financial Metrics

6. In Sunflower's Initial Application, Sunflower requested Commission approval to continue to use its current calculation mechanism for developing its target financial metric ratio levels in its TFR.⁹ Sunflower's current target financial metrics include a base DSC of 1.3345 and a TIER of 1.6979 plus an incentive Return on Equity (ROE) adder of 50 basis points for membership in an Regional Transmission Organization approved by the Federal Energy Regulatory Commission.¹⁰ In reviewing Sunflower's target financial metric ratio level request, Staff issued discovery regarding Sunflower's loan covenants, financial models, projected financial statements and conducted a comparison analysis of target financial ratios of other generation and transmission cooperatives.¹¹ DSC and TIER target ratios are a function of outstanding debt.¹² As Sunflower refinances debt or uses cash to pay down its Residual Value Notes, Sunflower's total transmission return (as calculated in Sunflower's TFR) has declined.¹³ Sunflower immediately passed the benefits of these transactions to its transmission customers without adjusting its target financial metric ratio levels.¹⁴ Staff expands on the impact debt refinancing will have on total TFR returns in its R&R.¹⁵

7. Staff's R&R recommended the Commission approve Sunflower's request to continue use of its current Commission approved target financial metric ratio levels and calculation mechanism contained within Sunflower's TFR.¹⁶ Staff evaluated Sunflower's financial metrics

⁹ See Application, p. 7.

¹⁰ See Staff R&R at p. 2. ("While Sunflower's annual return component varies year-to-year due to the proxy return on equity adder for being a member of a Regional Transmission Organization (RTO), Sunflower has a TIER and DSC ratio in the range of 1.75 and 1.35 respectively.")

¹¹ See Staff R&R, p. 3.

¹² See *id.*

¹³ See *id.*

¹⁴ See *id.* at pp. 3-4

¹⁵ See *id.* at p. 4.

¹⁶ See *id.* at p. 5.

request and resulting impacts to Sunflower's credit profile.¹⁷ Noting Sunflower's decreased total transmission return, Staff detailed how Sunflower would have to use outside capital or cash from other sources to fund transmission capital expenditures.¹⁸ Staff noted Sunflower's target financial metric ratio levels help support Sunflower's credit profile and allow Sunflower to borrow at a reasonable rate while offsetting negative elements of Sunflower's credit profile.¹⁹ Staff provided further analysis on Sunflower's load profile and its influence on Sunflower's credit profile.²⁰

8. Finally, Staff evaluated Sunflower's target financial metrics request by comparing other similarly situated generation and transmission cooperatives and Commission approved coverage ratios.²¹ Staff asserted the debt coverage ratios Sunflower requested continued usage of are comparable to other Commission approved coverage ratios in TFRs and lower than existing formula based rates when compared to other similarly situated utilities.²²

9. Ultimately, regarding Sunflower's request to continue use of Sunflower's current target financial metric ratio levels, Staff stated each of the factors reviewed supported finding Sunflower's request to maintain its current target financial metric ratio levels will result in just and reasonable transmission rates that are in the public interest.²³

10. The Commission has reviewed Sunflower's Supplemental Application, supporting testimony, and Staff's R&R regarding Sunflower's request for continued use of its current target financial metric ratio levels. Upon reviewing the record as a whole, the Commission finds substantial competent evidence exists to approve this request. The Commission finds Sunflower's declining total transmission returns, credit profile and comparison to other generation and

¹⁷ See Staff R&R at p. 4.

¹⁸ See *id.*

¹⁹ See *id.*

²⁰ See *id.*

²¹ See *id.*

²² See Staff R&R at pp. 4-5.

²³ See *id.* at p. 5.

transmission cooperatives compelling reasons for the continued use of Sunflower's current target financial metric ratio levels. Continued use of these ratios and metrics will enable Sunflower to continue to provide its transmission customers sufficient and efficient service. Given Sunflower's history of flowing back savings to its transmission customers and competitive financial metrics when compared to other generation and transmission cooperatives, the Commission finds maintaining Sunflower's current target financial metric ratio levels will result in just and reasonable rates. Accordingly, the Commission finds Sunflower's request to maintain its current target financial metric ratio levels to be just and reasonable and should be approved. Therefore, the Commission finds and concludes Sunflower shall be permitted to maintain its current target financial metric ratio levels.

B. TFR Modifications

11. Sunflower is requesting to modify its TFR template to include competitive adjustments for certain competitively bid transmission projects.²⁴ Sunflower detailed how the SPP bid process seeks to identify the incremental cost of a new project.²⁵ To facilitate Sunflower's participation in this bidding process, Sunflower requested amendments to its TFR template to recover the incremental cost associated with fixed, capped or discounted average cost projects submitted by Sunflower in SPP's competitive bidding process.²⁶

12. Sunflower's Initial Application sought approval of two types of competitive adjustments: transmission and non-transmission.²⁷ Staff reviewed Sunflower's Initial Application and requested Sunflower present test cases so Staff could better understand Sunflower's intended

²⁴ See Staff R&R, p. 5.

²⁵ See Supplemental Application, p. 4.

²⁶ See *id.*

²⁷ See Staff R&R at p. 6.

use of its competitive adjustment mechanism.²⁸ Further analysis of Sunflower's proposal led Staff to conclude Sunflower's competitive adjustment mechanism should be limited to incremental costs that could be easily assigned to competitively bid projects and tracked across a project's useful life.²⁹

13. The complexities surrounding Sunflower's competitive adjustment mechanism resulted in Sunflower submitting a Supplemental Application. Following Staff's recommendation, Sunflower agreed to limit competitive adjustments to non-transmission unrecoverable expenses.³⁰ Sunflower's Supplemental Application modifies its competitive adjustment request to further define and narrow the scope of Sunflower's proposal.³¹ Accordingly, the Commission will consider Sunflower's TFR Modification proposal as contained within Sunflower's Supplemental Application and not its Initial Application.

14. Staff reviewed documents from Sunflower detailing the SPP competitive bidding process, as well as Sunflower's competitive bid from the Walkemeyer transmission project.³² The SPP competitive bidding process is designed to lower the costs of construction for large transmission projects.³³ After a defined review process, the SPP Board of Directors selects which organization is awarded the competitive project.³⁴ This process is designed to evaluate each bidder's submitted revenue requirement based on incremental project-specific costs.³⁵ However, Sunflower's TFR (like most others) calculates an individual project's revenue requirement on a system-wide average cost basis.³⁶ To properly account for a project's incremental costs, Sunflower

²⁸ See Staff R&R at p. 7.

²⁹ See *id.*

³⁰ See *id.*

³¹ See *id.* at p. 5.

³² See *id.*

³³ See *id.*

³⁴ See *id.*

³⁵ See *id.* at p. 6.

³⁶ See *id.*

is proposing to include a competitive adjustment mechanism to adjust the revenue requirement for competitive projects in to its TFR.³⁷

15. Staff and Sunflower worked to simplify the competitive adjustment mechanism and incorporate a competitive adjustment tab into Sunflower's TFR template.³⁸ As part of developing Sunflower's revised TFR template, Sunflower agreed to remove all columns in the TFR template regarding transmission related competitive adjustments.³⁹ Therefore, Sunflower's competitive adjustment mechanism is limited to non-transmission unrecoverable expenses which are (if utilized) deducted from Sunflower's total transmission revenue requirement.⁴⁰ Non-transmission adjustments are defined as any cost Sunflower reduces from its competitive bid that cannot be recovered through transmission rates.⁴¹ Examples of these adjustments include caps or cost guarantees Sunflower failed to achieve.⁴²

16. Sunflower argues its competitive adjustment mechanism is necessary to compete on level terms with other prospective bidders and reflects the revenue requirement present in winning bids.⁴³ Other public utilities have created separate subsidiaries to participate in the bidding process.⁴⁴ These separate subsidiaries have TFRs designed to capture incremental project-specific costs when calculating their total revenue requirement.⁴⁵ Sunflower, however, faces unique limitations on its ability to create transmission-specific subsidiaries. As a result, Sunflower determined creating transmission-specific subsidiaries was not a viable option at this time.⁴⁶

³⁷ See Staff R&R at p. 6.

³⁸ See *id.* at p. 7.

³⁹ See *id.* at p. 8.

⁴⁰ See *id.* at p. 7.

⁴¹ See *id.* at p. 6.

⁴² See *id.*

⁴³ See *id.*

⁴⁴ See *id.*

⁴⁵ See *id.*

⁴⁶ See *id.*

17. Staff attempted to add further transparency by including a separate calculation tab within Sunflower's TFR template that would show the calculation methodology between an average system-wide cost revenue requirement (calculated by the template) and a project-specific incremental cost revenue requirement (included in the bid).⁴⁷

18. Finally, Staff recommended Sunflower's competitive adjustment mechanism be limited to competitive transmission projects within Sunflower's transmission zone in SPP.⁴⁸ Staff argued this restriction protects zonal transmission customers by allowing Sunflower to compete for transmission projects within Sunflower's transmission zone.⁴⁹ However, Staff also argued that, should Sunflower pursue competitive projects outside of its pricing zone Sunflower should rely on methods other than competitive adjustments contained within its TFR.⁵⁰

19. Sunflower's Supplemental Application and supporting testimony incorporate Staff's recommendations.⁵¹ Sunflower's revised TFR template calculates Sunflower's total Annual Transmission Revenue Requirement (ATRR) for each competitively bid project.⁵² The ATRR calculation compares the difference between the traditional ATRR, the ATRR with bid commitments, and the incremental costs and/or bid commitments of the new project.⁵³ As can be seen in Tables 1 and 2 of Sunflower Witness Brungardt's November 22, 2017, Direct Testimony, non-transmission related adjustments offset and reduce a project's ATRR in the event the project's ATRR exceeds what was contained within the committed ATRR.⁵⁴

⁴⁷ See Staff R&R at p. 7.

⁴⁸ See *id.*

⁴⁹ See *id.*

⁵⁰ See *id.*

⁵¹ See Staff R&R at p. 8.

⁵² See *id.*

⁵³ See *id.*

⁵⁴ See Brungardt Direct, pp. 9-10.

20. The proposal utilizes non-transmission related competitive adjustments and the corresponding adjustment columns in the TFR template.⁵⁵ As discussed earlier, non-transmission related adjustments will remove expenses from the revenue requirement calculation and will not be recoverable in transmission rates. In Mr. Brungardt's November 2017 testimony, Sunflower provided a list of non-transmission related adjustments (*i.e.* committable items) in Footnote E in tab A-13 of Sunflower's proposed TFR template.⁵⁶ As Sunflower noted, if no costs for a particular project are being capped, fixed or discounted from an average cost bid, the costs for the project are treated as normal on tab A-7 and the calculations on tab A-13 are not needed.⁵⁷ Interested parties may review each adjustment each year in Sunflower's annual TFR update filing.⁵⁸ For ease of reference, these committable items include financing costs, target TIER, depreciation expense, and other cash taxes. Sunflower's proposal also incorporates Staff's recommendation to limit the use of the competitive adjustment mechanism to competitive transmission projects within Sunflower's SPP zone.⁵⁹

21. Ultimately, Staff summarized its recommendation as follows:

Staff recommends the Commission approve Sunflower's request to modify its TFR to include the competitive adjustments mechanism contained in Sunflower's Supplemental Application. The competitive adjustment mechanism will permit Sunflower to correctly capture the incremental project-specific revenue requirement contained in Sunflower's competitive bids and will allow Sunflower to compete with other competitive transmission organizations on level terms. Staff believes Sunflower's request to modify its TFR to permit competitive adjustments is in the public interest and will help prevent Sunflower's retail and zonal transmission customers in rural Kansas from experiencing higher cost for competitively bid transmission projects.⁶⁰

⁵⁵ See Staff R&R at p. 8.

⁵⁶ See *id.*

⁵⁷ See Supplemental Application, p. 3.

⁵⁸ See *id.*

⁵⁹ See Staff R&R at p. 8.

⁶⁰ Staff R&R at p. 8.

22. With Staff recommending the following:
- a. Sunflower's continued use of the current calculation mechanism for developing its DSC and TIER target financial metrics; and
 - b. Sunflower's request to amend Sunflower's TFR to allow for the use of competitive adjustments as proposed in Sunflower's Supplemental Application for competitively bid transmission projects within Sunflower's zone in SPP.⁶¹

III. FINDINGS AND CONCLUSIONS

23. The Commission finds the recommendations and conclusions contained within Staff's R&R dated February 15, 2018, and filed in this docket on February 19, 2018, to be just and reasonable and therefore adopts the same. The Commission hereby incorporates Staff's R&R dated February 15, 2018, by reference into this Order and adopts the recommendations contained therein as its own.

24. Sunflower is a non-profit, member-owned corporation operated as a cooperative.⁶² It is owned directly by six consumer-owned electric distribution cooperatives that also own (directly or indirectly) Mid-Kansas Electric Company, LLC.⁶³ Sunflower's bundled wholesale rates to its members are not, pursuant to Sunflower's Deregulation Notice, dated July 27, 2009, filed pursuant to K.S.A. 66-104d, and approved by the Commission in a September 28, 2009 Order Affirming Sunflower's Election to Deregulate, Docket No. 10-SEPE-072-DRC, subject to Commission oversight.⁶⁴ However, pursuant to 16 U.S.C. § 824(f) and as required by K.S.A. 66-104d(f), Sunflower's charges, fees or tariffs for transmission services to others remains subject to Commission regulation.

⁶¹ *Id.*

⁶² *See* Application at pp. 2-3.

⁶³ *See id.*

⁶⁴ *See id.* at p. 3.

25. The Commission finds Sunflower is an electric public utility doing business in the State of Kansas for which the Commission exercises jurisdiction over charges, fees or tariffs for transmission services. Accordingly, the Commission finds and concludes jurisdiction exists for the Commission to rule on Sunflower's request.

26. Sunflower's request to maintain its current target financial metric ratio levels is supported by substantial competent evidence. As detailed extensively in Staff's R&R and further expanded on in the Direct Testimony provided by Sunflower witness Brungardt, maintaining Sunflower's current target financial metric ratio levels achieves an appropriate balance between Sunflower and competing interests. Maintaining Sunflower's current target financial metrics will allow Sunflower to retain a positive credit profile and is comparable to financial metrics of other generation and transmission cooperatives. Moreover, the record clearly indicates Sunflower passes savings on to its customers expeditiously with its current financial metrics. Sunflower's request to maintain its current target financial ratios is supported by the testimony and evidence provided by Sunflower and Staff. Accordingly, the Commission finds Sunflower's request to maintain its current financial target ratios is just and reasonable. Therefore, the Commission concludes Sunflower shall be permitted to retain its current target financial metric ratio levels contained within its TFR. Specifically, Sunflower shall be permitted to retain a DSC of 1.3345 and a TIER of 1.6979.

27. Sunflower's request to amend its TFR template to include a competitive adjustment mechanism for non-transmission competitive adjustments is supported by substantial competent evidence. The record indicates Sunflower, as a cooperative, faces unique challenges other transmission bidding entities do not face. For example, Sunflower's corporate structure and loan covenants present barriers to Sunflower creating transmission or project-specific subsidiaries.

This impacts Sunflower's ability to adequately bid a project's incremental cost. By way of illustration, Sunflower's (current) TFR calculates a system-wide average cost which would be used in a competitively bid transmission project submission. Utilizing a system-wide average cost may result in submitting a bid that, in fact, exceeds the project's identified incremental cost once bid commitments are taken into account.

28. Sunflower's proposed competitive adjustment mechanism contained within its Supplemental Application (and recommended for approval by Staff) works to resolve this. In the event Sunflower submits a bid for a proposed transmission project with certain commitments, Sunflower will be able to account for the commitments via a reduction in its total ATRR. This, in theory, allows Sunflower to adequately bid on specific transmission projects and incorporate any respective cost guarantees or other commitments in its TFR template. By limiting these commitments to non-transmission related adjustments, Sunflower shields its other transmission customers from absorbing the cost of the commitments. While at the same time, Sunflower retains the ability to submit bids on specific SPP projects with cost containments if it so chooses.

29. The competitive field of electric transmission planning and development taking shape since FERC Order 1000 is designed to promote the cost effective buildout of needed transmission facilities. Ensuring Kansas utilities and customers can adequately participate in this process is of utmost concern to the Commission. Allowing Sunflower to modify its TFR template to incorporate competitive adjustments does not guarantee Sunflower will successfully bid on and be awarded projects from the competitive bid process. However, Sunflower's proposed modifications enable it to more thoroughly and thoughtfully submit bids on specific projects it feels well suited to handle. From the record present, it is apparent Sunflower and Staff have spent considerable time and effort refining the proposal contained within Sunflower's Supplemental

Application. Accordingly, and as detailed above, the Commission finds there is ample evidentiary support contained within the record to grant Sunflower's request to incorporate a competitive adjustment mechanism into its TFR template as requested in Sunflower's Supplemental Application and as detailed in Staff's R&R.

30. Therefore, the Commission finds and concludes approval of Sunflower's Supplemental Application will result in the approval of modifications to Sunflower's TFR that provide just and reasonable mechanisms for Sunflower to bid on certain competitive transmission projects. The Commission finds and concludes Sunflower's request contained in its Supplemental Application, and as detailed in Staff's R&R shall be approved.

THEREFORE, THE COMMISSION ORDERS:

A. Sunflower shall be permitted to retain its current base DSC of 1.3345 and a TIER of 1.6979 plus its current incentive ROE adder of 50 basis points for membership in SPP.

B. Sunflower's request to amend its TFR to incorporate the competitive adjustment mechanism requested in Sunflower's Supplemental Application is approved.

C. Parties have 15 days, plus three days if service is by mail, from the date of service of this Order to petition the Commission for reconsideration or request a hearing, as provided in K.S.A. 77-542.⁶⁵

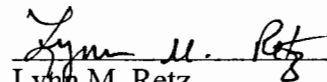
D. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders, as necessary.

⁶⁵See also K.S.A. 77-537(b); K.S.A. 66-118b; K.S.A. 77-529(a)(1).

BY THE COMMISSION IT IS SO ORDERED.

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner

Dated: MAR 06 2018



Lynn M. Retz
Secretary to the Commission

REV

Order Mailed Date
MAR 07 2018

CERTIFICATE OF SERVICE

17-SEPE-415-TAR

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

first class mail/hand delivered on MAR 06 2018.

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