THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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

In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval of the City of Glen Elder Firm Energy, Capacity, and Load Following Agreement	))))	Docket No. 17-MKEE-497-CON

ORDER APPROVING WHOLESALE ELECTRIC CONTRACT (REDACTED)

NOW, 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:

1. On May 11, 2017, Mid-Kansas Electric Company, LLC (MKEC) filed an Application with the Commission seeking approval of a wholesale electric contract between itself and The City of Glen Elder (Glen Elder). The wholesale electric contract was attached to the Application as Exhibit A, and titled *Firm Energy, Capacity, and Load Following Agreement* (the Agreement or Contract).

2. The Commission has jurisdiction over the Agreement pursuant to its power retained under K.S.A. 66-104d(f). MKEC, as a cooperative defined under K.S.A. 66-104d(a), elected to be deregulated from most of its electric operations pursuant to K.S.A. 66-104d(b) in Docket No. 14-MKEE-254-DRC. K.S.A. 66-104d(f), however, retains Commission jurisdiction with respect to, among other things, sales of power for resale when such sales are not between a cooperative and one of its owners. Glen Elder is not an owner of MKEC, therefore, the Agreement involves a jurisdictional sale of power for resale.

3. Pursuant to K.S.A. 66-101b, the rates and terms contained in the Agreement must be just and reasonable.

4. Commission Staff (Staff) submitted a Report and Recommendation (R&R) regarding the Agreement between MKEC and Glen Elder on December 14, 2017, attached hereto and made a part hereof by reference.

5. As explained in its R&R, Staff reviewed the Agreement to determine whether the rates and terms of the Agreement were just and reasonable. Consistent with past Commission Orders approving interim and restated wholesale power agreements, Staff conducted a "mutually beneficial analysis" to determine whether the Agreement would benefit MKEC without negatively impacting its existing service obligations, and whether the Agreement would benefit Glen Elder.

6. Staff noted that under MKEC and Glen Elder's current contract, Glen Elder is receiving discounts on its energy and demand components compared to MKEC's WHM rate, which is MKEC's rate that it charges its members. As such, the current contract does not allow MKEC to fully recover its costs. The Agreement, however, gradually decreases these discounts over a ten (10) year time period such that in the final year, Glen Elder will be paying the WHM rate. Additionally, Staff analyzed MKEC's total capacity, system peak, and excess capacity to determine whether MKEC would be able to serve Glen Elder without purchasing additional capacity. Staff confirmed this to be the case.

7. Staff, while noting that it began with the assumption that the Agreement provided benefits to Glen Elder because it was freely entered into, also analyzed the Agreement for benefits to Glen Elder. Staff concluded that Glen Elder would continue to receive a reliable power supply over the course of the contract and Glen Elder would not have to incur the costs of replacing transformers and equipment at the sub-station necessary to switch to another supplier. Staff

concluded that the gradual reduction in discounts applied to the demand and energy charges for ten years would allow Glen Elder to gradually absorb the price increases. Finally, Staff concluded that Glen Elder would pay the same rates as MKEC's members at the end of ten years, even though it is not a member.

8. Staff recommended that the Commission approve the Agreement.

9. The Commission finds Staff's findings and recommendation to be reasonable and hereby adopts the same.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The Agreement between MKEC and Glen Elder submitted May 11, 2017, is hereby approved.

B. The parties have fifteen (15) days, plus three (3) days if service of this order is by mail, from the date this order was served in which to petition the Commission for reconsideration of any issue or issues decided herein. K.S.A. § 66-118b; K.S.A. § 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of issuing such further order, or orders, as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Apple, Chairman; Albrecht, Commissioner; Emler, Commissioner

Dated: DEC 21 2017

Lynn M. Retz
Secretary to the Commission

MRN

EMAILED

DEC 21 2017

Utilities Division
1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

Phone: 785-271-3220
Fax: 785-271-3357
http://kcc.ks.gov/

REPORT AND RECOMMENDATION
UTILITIES DIVISION
[PUBLIC VERSION]

TO: Chairman Pat Apple
Commissioner Shari Feist Albrecht
Commissioner Jay Scott Emler

FROM: Darren Prince, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: December 14, 2017

SUBJECT: Docket No. 17-MKEE-497-CON: In the Matter of the Application of Mid-Kansas Electric Company, LLC for Approval of the City of Glen Elder Firm Energy, Capacity, and Load Following Agreement

EXECUTIVE SUMMARY:

On May 11, 2017, in Docket No. 17-MKEE-497-CON (Docket 497), Mid-Kansas Electric Company (MKEC) submitted an Application with the Kansas Corporation Commission (Commission) to obtain approval of the Glen Elder Firm Energy, Capacity, and Load Following Agreement (Agreement or Contract) by and between MKEC and the City of Glen Elder (Glen Elder or City). Staff performed an analysis to determine if the proposed Contract is mutually beneficial to both parties.

For MKEC, the Agreement will establish wholesale rates, which after ten years, align the revenue MKEC receives from Glen Elder with MKEC's costs to serve the City. Glen Elder will continue to receive a reliable power supply. Over the course of the Contract, costs increase slowly allowing the City to gradually absorb the price increase. In addition, Glen Elder will then pay the same rates as MKEC's members even though it is not a member.

Based upon these findings, Staff recommends Commission approval of the Contract between MKEC and Glen Elder.

BACKGROUND:

On September 12, 1989, Centel Corporation[1] (WPK) entered into a Full Requirements Contract[2] (FRC) with Glen Elder. Under the FRC, WPK provided Western Area Power Administration (WAPA) Capacity and Associated Energy transmission service. In addition, WPK would sell, and Glen Elder would purchase, the Firm Capacity and Associated Energy needed to meet Glen Elder's demand not met by WAPA. The FRC was a ten-year contract that neither party could terminate before September 30, 1999.

Prior to September 30, 1999, on December 2, 1996, and January 24, 1997, in the Federal Energy Regulatory Commission (FERC) Docket No. ER 97-667-000, WPK filed amendments to the FRC rate schedule. The amendments were necessary to comply with functional unbundling requirements of FERC Order No. 888.[3] In addition, the duration of the FRC was extended and neither Party could terminate the FRC before May 31, 2003.

On November 16, 2005, in Docket No. 06-MKEE-524-ACQ, WPK and MKEC filed a Joint Application with the Commission requesting approval of the transfer of WPK's Certificates of Convenience and Kansas assets to MKEC. Subsequently, on February 23, 2007, the Commission approved the Stipulation and Agreement transferring all WPK's Certificates of Convenience and franchises relating to its Kansas assets to MKEC.[4]

On April 5, 2007, MKEC filed an Application with the Commission seeking approval of Amendment 2 to the FRC between MKEC and Glen Elder in order to: 1) document the transfer of the FRC to Mid-Kansas; 2) document the change from FERC to KCC jurisdiction; and 3) modify the fuel cost adjustment (FCA) provisions in all of the Service Schedules subject to the FRC.[5] The Commission approved Amendment 2 to the FRC between MKEC and Glen Elder on June 14, 2007.[6]

In the current Docket, MKEC is applying for Commission approval of the Agreement, which will replace the existing FRC between MKEC and Glen Elder. According to MKEC, the FRC is outdated and does not allow MKEC to recover its costs to serve the City's load. However, the new Agreement, based on MKEC's Member rate (WHM) under tariff MKEC-WHM-16, will allow MKEC to fully recover its costs.[7]

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[1] Centel was engaged in the generation, transmission, distribution and sale of electricity in certain areas of Kansas. In 1991, Centel sold its Kansas utility holdings to UtiliCorp (a.k.a. West Plains Energy, Aquila). Subsequently, in 2001, UtiliCorp spun off Aquila and then bought it back in 2002 and renamed the entire corporation Aquila Inc, d/b/a Aquila Networks-WPL (WPK).

[2] In 1989, the FRC was under the jurisdiction of the Federal Energy Regulatory Commission (FERC).

[3] FERC Docket No. ER97-667-000, Amendments to the Rate Schedule changes filed on December 2, 1996, and January 24, 1997.

[4] Docket No. 06-MKEE-524-ACQ, Order Adopting Stipulation and Agreement, p. 7 ¶ 13.

[5] Docket No. 07-MKEC-1086-CON (07-1086), Supplement Information for Amendment 2 to the Full Requirements Contract between Mid-Kansas Electric Company, Inc. and the City of Glen Elder, Kansas April 4, 2007. p. 1. The FCA modifications replaced the estimate and true-up approach with a real-time approach to the calculation (07-1086, Amendment 2 to the Full Requirements Contract, March 19, 2007).

[6] 07-1086, Order Approving Contracts (June 14, 2007).

[7] MKEC's response to KCC Data Request 1 (KCC DR 1).

ANALYSIS:

Jurisdiction

K.S.A. 66-101 provides the Commission full power, authority and jurisdiction to supervise and control the electric public utilities doing business in Kansas. Electric public utilities are required to file contracts and tariffs with the Commission pursuant to K.S.A. 66-101c, and change rates in accordance with K.S.A. 66-117. MKEC is an electric public utility as defined under K.S.A. 66-101a. MKEC is also a cooperative as defined by K.S.A. 66-104d(a).

MKEC, as a cooperative, elected to be exempt from the jurisdiction, regulation, supervision and control of the Commission pursuant to K.S.A. 66-104d(b), except to the extent jurisdiction was retained under K.S.A. 66-104d(f). K.S.A. 66-104d(f), among other things, reserved Commission jurisdiction with respect to sales of power for resale, other than sales between a cooperative that does not provide retail electric service and an owner of such cooperative.

MKEC's Application in this matter pertains to a Contract involving the sale of power for resale between MKEC and Glen Elder. Glen Elder is not a member owner of MKEC, therefore, jurisdiction over the rates and terms of the Contract is retained by the Commission.

Standard of Review

Pursuant to K.S.A. 66-101b, every electric public utility is required to furnish reasonably efficient and sufficient service at just and reasonable rates. Staff examines a variety of factors, depending on the type of contract, to analyze whether a contract rate is just and reasonable.[8] Past Commission Orders approving interim and restated wholesale power agreements have relied on a mutually beneficial analysis.[9] Staff believes this type of analysis is appropriate in this proceeding, as it allows the Commission to judge the Agreement's impact on both the Commission-jurisdictional entity (Mid-Kansas), including its members and other customers, and the municipal entity.[10] This ensures the Agreement results in just and reasonable rates and promotes the public interest of the state of Kansas. Accordingly, Staff analyzed the Glen Elder Agreement using a mutually beneficial test.

For Mid-Kansas, Staff examined the Contract's financial impact on the Company to determine if the Agreement would benefit Mid-Kansas without negatively impacting its existing service obligations. For Glen Elder, Staff investigated whether the Agreement provides a benefit to the City.

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[8] See, e.g., Docket Nos. 13-KG&E-451-CON, 13-SUBW-744-CON, 12-KG&E-718-CON, 13-BHCG-170-CON, 17-KG&E-352-CON.

[9] See, e.g., Docket Nos. 08-SEPE-245-CON, 09-SEPE-1013-CON, 14-KEPE-171-CON.

[10] In at least one prior docket, Staff only analyzed the impact on the Commission-jurisdictional entity. (See Docket No. 06-SEPE-1203-CON, Order, March 16, 2012 (Staff R&R attached).) In this proceeding, Staff believes the impact on both entities should be considered to ensure the approved rate is just and reasonable and promotes the public interest of the state of Kansas. This seems especially significant when the customer is a Kansas municipality.

Mutual Benefit Analysis

Mid-Kansas Benefits

Under the current Contract, Glen Elder is receiving discounts on its energy and demand components compared to MKEC's WHM rate, which does not allow MKEC to recover its full costs to serve the City's load. Therefore, MKEC is proposing to gradually decrease the energy and demand discounts so that by year 10, the City is paying the full WHM rate. Table 1 illustrates the percentage discount that MKEC is proposing by year.

[redacted]

Additionally, Staff analyzed MKEC's total capacity, system peak, and excess capacity. The analysis confirms that MKEC has enough system capacity to continue serving Glen Elder at its system peak without purchasing additional capacity. Table 2 illustrates, in more detail, MKEC's capability of supplying firm energy to Glen Elder at system peak.

Table 2

	Total Capacity (MW)	System Peak (MW)	Excess Capacity (MW)	GE Peak (MW)	GE Contribution (MW)
2016	655.2	473	182.2	1.121	0.23700%

Glen Elder

For Glen Elder, we start with a presumption that the Contract provides a benefit given that it was freely entered-into and we presume the City is acting in the best interests of its residents. Therefore, in the absence of evidence to the contrary, Staff will not second-guess the City's decision-making. However, we can note a number of benefits to the City.

The current Agreement between MKEC and Glen Elder has a two-year termination notice requirement. In March of 2016, at Glen Elder's city council meeting, MKEC presented the council with two proposals for power provided to the City.[11] At that time, MKEC informed the council members the proposals were only good until the end of June 2016.[12] MKEC planned to submit the required two-year termination notice of the existing Contract, if a proposal was not accepted by the end of June.[13]

On June 13, 2016, Glen Elder's city council discussed contract proposals from both MKEC and Kansas Power Pool (KPP).[14] Glen Elder examined the cost of each contract and noted the contract with KPP would cost the City an additional $100,000 to replace transformers and other equipment needed at the sub-station to transmit power received from KPP.[15] At this city council meeting, Glen Elder decided to terminate the current contract and enter-into a new contract with MKEC.[16]

Under the Contract, Glen Elder will continue to receive a reliable power supply over the course of the Contract. Discounts applied to the demand and energy charges over the first ten years will allow the City to gradually absorb the price increases. The remainder of the Contract is set at MKEC's WHM rates. Glen Elder will then pay the same rates as MKEC's members, even though it is not a member.

Conclusion

Under the Contract, MKEC will gradually increase Glen Elder's rates up to the WHM rate, allowing MKEC to recover the expenses associated with supplying Glen Elder firm energy. Additionally, MKEC has sufficient capacity to continue supplying firm energy to meet the City's peak requirements without purchasing additional capacity.

For Glen Elder, the City will continue to receive a reliable power supply over the course of the Contract. Second, Glen Elder will not have to incur the costs of replacing transformers and equipment at the sub-station to switch to another supplier. Third, the gradual reduction in discounts applied to demand and energy charges the first ten years will allow the City to gradually absorb the price increases. Finally, Glen Elder at the end of ten years will pay the same rates as MKEC's members even though it is not a member.

RECOMMENDATION:

Staff's analysis shows the proposed Contract will mutually benefit MKEC and Glen Elder. Therefore, Staff recommends the Commission approve the Contract.

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[11] Glen Elder City Council Meeting, March 7, 2016 (March 7 Meeting).
[12] March 7 Meeting.
[13] KCC Data Request No. 6.
[14] Glen Elder City Council Meeting, June 13, 2016 Special (June 13 Meeting).
[15] June 13 Meeting.
[16] June 13 Meeting.

CERTIFICATE OF SERVICE

17-MKEE-497-CON

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

Electronic Service on DEC 2 1 2017.

RENEE K. BRAUN, CORPORATE PARALEGAL, AND CONTRACTS SUPERVISOR
MID-KANSAS ELECTRIC COMPANY, LLC
301 W 13TH ST
PO BOX 980
HAYS, KS 67601
Fax: 785-623-3395
rbraun@sunflower.net

JAMES BRUNGARDT, MANAGER, REGULATORY RELATIONS
MID-KANSAS ELECTRIC COMPANY, LLC
301 W 13TH ST
PO BOX 980
HAYS, KS 67601
Fax: 785-623-3395
jbrungardt@sunflower.net

MARK D. CALCARA, ATTORNEY
WATKINS CALCARA CHTD.
1321 MAIN ST STE 300
PO DRAWER 1110
GREAT BEND, KS 67530
Fax: 620-792-2775
mcalcara@wcrf.com

TAYLOR P. CALCARA, ATTORNEY
WATKINS CALCARA CHTD.
1321 MAIN ST STE 300
PO DRAWER 1110
GREAT BEND, KS 67530
Fax: 620-792-2775
tcalcara@wcrf.com

MICHAEL NEELEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
m.neeley@kcc.ks.gov

JERI SENGER, CITY CLERK
CITY OF GLEN ELDER
PO BOX 55
GLEN ELDER, KS 67446
glcity@nckcn.com

ERICA VILLARREAL, MANAGER, POWER CONTRACTS
MID-KANSAS ELECTRIC COMPANY, LLC
2075 W ST. JOHN STREET
GARDEN CITY, KS 67846
Fax: 785-623-3395
evillarreal@sunflower.net

/S/ DeeAnn Shupe

DeeAnn Shupe

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