BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

# DIRECT TESTIMONY
# OF
# THOMAS K. HESTERMANN

DOCKET NO. 09-MKEE-____-RTS

**Q. Please state your name.**

A. My name is Thomas K. Hestermann.

**Q. By whom are you employed?**

A. I am employed by Sunflower Electric Power Corporation ("Sunflower"). My business address is 301 W. 13th Street, Hays, Kansas.

**Q. What is your present position at Sunflower?**

A. My present position is Manager, Regulatory Relations.

**Q. Mr. Hestermann, please summarize your educational and work experience for the Commission.**

A. I graduated in 1978, with a Bachelor of Science degree in mathematics from Fort Hays State University and a Master of Business Administration degree from Regis University in 2003. I began my career as a cartographer for the Defense Mapping Agency in the fall of 1978 and worked there until I accepted a position with Sunflower in March 1980. I have held various positions with Sunflower and have been extensively involved with matters before the Commission for more than 25 years.

**Q. Mr. Hestermann, have you testified previously before the Kansas Corporation Commission?**

A. I have previously filed testimony in Docket No. 04-SEPE-1091-RTS .

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of Mid-Kansas Electric Company, LLC ("Mid-Kansas").

**Q. Why is Mid-Kansas making this filing before the Commission?**

A. As detailed in the testimony of Earl Watkins, Mid-Kansas is seeking, among other things, to establish a wholesale rate for use with sales to its Member divisions and to establish retail rates for each of the Mid-Kansas Member divisions.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to support the schedules related to the wholesale portion of the Application contained within Sections 3 though 11, 14, 15, 17, and 18 of the filing. Section 12 is not applicable to this filing and Section 13 consists of the Mid-Kansas 2008 Annual Report and accompanying 2008 Audited Financial Statements. The audited financial statements of Mid-Kansas required by Section 16 are contained within the Mid-Kansas 2008 Annual Report.

**Q. With the exception of Section 13, were the schedules included in this Application prepared by you or under your direct supervision?**

A. Yes, they were.

**Q. What is the Test Year that Mid-Kansas is proposing to use for purposes of this Application?**

A. Mid-Kansas used a Test Year based on the 12 months ending May 31, 2008, adjusted for known and measurable changes.

**Q. Has Sunflower made any adjustments to rate base or operations?**

A. Yes. Mid-Kansas has adjusted the amounts recorded for fixed, known, and measurable changes typically as of December 31, 2008.

**Q. Would you please explain Section 3 of the Application?**

A. Section 3 of the Application consists of eight schedules including Summary of Rate Base; Operating Revenues and Expenses; Rate Base, Summary of Adjustments to Rate Base; Construction Work in Progress and Completed Construction Not Classified in Rate Base; Test Year and Pro Forma Income Statements; Summary of Adjustments to Operations; Explanation of Adjustments to Rate Base; and Explanation of Adjustments to Operations.

**Q. Please explain Schedule 1 of Section 3.**

A. Displayed on Schedule 1 of Section 3 is rate base and net operating margins generated under a pro forma test year and proposed rates. As indicated on Schedule 1, net operating margins for the test year were $15,791,560. After adjustments to test year operating revenues and expenses, the pro forma test year net operating margin is $2,778,145. After adjustments the pro forma rate base under present and proposed rates is $102,193,869. The resultant return on the pro forma test year rate base is 2.7185%. An operating 1.5 times interest earned ratio (TIER) was used to develop the required return requirements of $12,809,764 and equates to a 12.5348% rate of return on rate base. The difference between the pro forma net operating margins and the return requirements utilizing a 1.5 operating TIER yields a revenue deficiency of $10,031,619.

**Q. Why was an operating TIER of 1.5 used to calculate the return requirements?**

A. A 1.5 operating TIER was used for reasons enumerated in the testimony of Mr. Watkins.

**Q. Please explain Schedules 2 and 3 of Section 3.**

A. Schedule 2 of Section 3 portrays the rate base as recorded at May 31, 2009 and adjusted for known and measurable changes. The rate base recorded is $111,090,864, while the rate base as adjusted is $102,193,869. There are a total of fourteen adjustments made to the rate base as summarized on Schedule 3 of Section 3.

**Q. Please continue by explaining Schedule 4 of Section 3.**

A. Schedule 4 is a summary of generation and transmission related construction work in progress (CWIP) and completed construction not classified (CCNC) projects that were included in rate base.

**Q. Why were these CWIP and CCNC projects included in rate base?**

A. With the exceptions noted below, all of the projects listed in Schedule 4 were placed in service prior to December 31, 2008, and some before the end of the test year. The only projects that were not placed in service prior to December, 31, 2008 were the projects listed on lines 5 and 6 of page 1, Schedule 4 and line 3 of page 2, Schedule 4. The Fort Dodge Station Deep Injection Well (page 1, line 5) is essentially complete and has a scheduled in-service date of September, 2009. The Fort Dodge Station New Drainage Ditch (line 6, page 1) was placed in service in May 2009. The interconnection meter project (line 3, page 2) is an on-going project with some meters placed in service with the project in its entirety to be completed by year-end 2009. It is worthwhile to note that the Fort Dodge Station projects listed on page 1 of Schedule 3 were mandated by the Kansas Department of Health and Environment.

**Q. Please explain Schedule 5 and 6 of Section 3.**

A. Schedule 5 displays the test year and pro forma income statement. This statement has been adjusted for fixed, known, and measurable changes. Schedule 6 is a summary of adjustments to operations.

**Q. Please explain Schedules 7 and 8 of Section 3.**

A. Schedule 8 provides brief explanations of the adjustments to rate base and Schedule 9 provides brief explanations of the adjustments to operations.

**Q. Would you further explain the adjustments to rate base in Schedule 7?**

A. Yes. There were a total of 14 adjustments to rate base. A brief explanation of each adjustment is shown below:

- Adjustment No.1 reduces plant in service by $9,408,137 by removing acquisition costs found in plant account 399. This amount represents the internal costs incurred by Mid-Kansas during the acquisition of the Aquila Kansas electric properties and have not been included in rate base. These costs are being amortized over a 30 year period.
- Adjustment No. 2 reduces plant in service by $8,015,387 by removing distribution related transmission plant from rate base that was transferred to the Mid-Kansas Members in 2008.
- Adjustment No. 3 reduces plant in service by $365,356 for distribution related plant that was transferred to the Mid-Kansas Members in 2008.

- Adjustment No. 4 removes from accumulated depreciation the amount ($3,451,861) associated with the plant transferred to the Mid-Kansas Members in Adjustment No. 2 and 3.
- Adjustment No. 5 removes the accumulated amortization expense related to the acquisition costs and intangible plant ($384,734).
- Adjustment No. 6 increases the prepayment balance in rate base by $1,207,329 per the 13 month average calculation in Schedule 6.
- Adjustment No. 7 decreases the fuel stock balance by $107 per Schedule 6.
- Adjustment No. 8 increases the materials and supplies balance by $31,899 per the 13 month average calculation contained in Schedule 6.
- Adjustment No. 9 removes the CWIP balance as of 5/31/2008 from rate base.
- Adjustment No. 10 decreases the cash working capital allowance by $374,660 per the 45 day or 1/8 method calculation in Schedule 6.
- Adjustment No. 11 adjusts the transmission plant in service to the 12/31/2008 balance.
- Adjustment No.12 adjusts the general plant in service balance to the 12/31/2008 balance.
- Adjustment No. 13 reclassifies CWIP and CCNC production related plant to plant in service.

- Adjustment No. 14 reclassifies CWIP and CCNC transmission related plant to plant in service.

**Q. Please explain the adjustments to operations contained in Schedule 8.**

A. There were a total of 18 adjustments to operations as detailed below.

- Adjustment No. 1 increases Member revenue by $152,374 and increases other electric revenue by $314,477. The adjustment to Member revenue is due to adjustments billed in September and October 2007 that affected revenue outside the test year. The adjustment to other revenue is for credits issued to Wheatland and Pioneer in June 2007 for May 2007 billing corrections with respect to the cities of Attica, Kingman and Ashland.
- Adjustment No. 2 decreases Member revenue by $7,144,636 by removing local access charges included in the test year revenues. Other electric revenue is decreased by $2,404,870 by removing the local access charge for these revenues. Local access charges are associated with power and energy deliveries on the 34.5 kV system. The Mid-Kansas Members own these facilities and the revenue requirements for the local access charges are part of the Mid-Kansas divisional rate structure.

- Adjustment No. 3 remover from revenue requirements and from Member Revenue amounts associated with the distribution facilities transferred to the Mid-Kansas Members in December 2007. The total revenue requirement associated with these distribution facilities was $4,047,186 and consisted of depreciation expense of $3,866,349, acquisition premium amortization of $858,299, internal TIER requirement of $554,928, estimated property insurance expense of $154,930 and $(1,387,320) of margin on lease payments from the Mid-Kansas Members.
- Adjustment No. 4 – Removes from other revenues the $6,936,596 lease payment revenue associated with the distribution facilities transferred to the Mid-Kansas Members in December 2007.
- Adjustment No. 5 reclassifies the revenue associated with electric sales to National Helium and Air Products for other electric revenue to member electric revenue. Until December 2007, National Helium and Air Products was served at retail by Mid-Kansas. After December 2007, these customers were served at retail by Mid-Kansas Member, Southern Pioneer. The reclassification was needed to properly develop the revenue requirements for the wholesale rate.
- Adjustment No. 6 removes from test year expenses the estimated property insurance and acquisition premium amortization associated with the facilities transferred to the Mid-Kansas Members in December 2007.

- Adjustment No. 7 decreases the test year depreciation expense by $3,384,890 to the annualized amount of depreciation expense found in Section 10 of the Application.
- Adjustment No. 8 removes the expenses associated with the 34.5 kV facilities transferred to the Mid-Kansas from the test year expense. Total 34.5 expense removed was $2,876,441. The specific operating account amounts are found in Schedule 8.
- Adjustment No. 9 adjusts pension and benefit expense as found in Section 9, Schedule 7. The calculation was based on the average increase from 2008 to 2009 budgeted costs by Sunflower. The average increase of 5.50% was then applied to the pension and benefit expense allocated to Mid-Kansas which resulted in the $179,117.
- Adjustment No. 10 increases payroll expense by $479,634 and related FICA and Medicare expense by $27,987, as found in Section 9, Schedules 5 and 6. The basis for the payroll expense and related payroll taxes was an average 5.58% payroll increase implemented in 2008.

- Adjustment No. 11 reclassifies $6,349,004 from account 447, other electric sales, to account 501, fuel expense. The reason for the reclassification was that the amount represented costs transferred to Sunflower per the cost allocation model used in the Mid-Kansas ECA. This transfer of cost is recorded in account 447 in accordance with GAAP and external auditor review but, in reality, is an adjustment to Mid-Kansas fuel cost rather than an actual sale to Sunflower.
- Adjustment No. 12 removes $2,306,044 from account 447. This amount was part of an adjustment recorded by Mid-Kansas in December 2007 to reclassify sales from Mid-Kansas to Sunflower from a fuel and purchase power account to a sales account. $2,306,044 of this adjustment relates to April and May, 2007 which is outside of the test year.
- Adjustment No. 13 removes test year revenue and fuel expense associated with sales to the City of Greensburg, City of Attica, and City of Kingman. These cities have joined the Kansas Power Pool ("KPP") and obtain their power and energy supply needs directly from KPP.

- Adjustment No.14 normalizes the revenue obtained from KMEA by decreasing account 447 revenues by $1,619,522. The cities of Ashland, Beloit, Hoisington, Lincoln, Osborn, Pratt, Russell, Stockton, Washington have terminated their respective contracts with Mid-Kansas and have joined the Kansas Municipal Energy Agency ("KMEA") which is responsible for providing and coordinating the power supply needs of these cities. KMEA has executed a 30 MW baseload contract with Mid-Kansas which in part replaces the revenues from the cities now served by KMEA.
- Adjustment No. 15 removes out of test year expense and revenue associated with transmission and revenue reimbursements from SPP in the amount of $644,646.
- Adjustment No.16 normalizes the 3-2-1 credits of Pioneer and Western and increases Member revenue by $350,140.
- Adjustment No.17 removes revenue associated with metering installation charges for KMEA in the amount of $35,080.
- Adjustment No.18 is a normalizing adjustment to Mid-Kansas Member revenue by removing ACA credits billed from February through May 2008. The ACA credits (or charges) are associated with reconciling retail ECA revenue with ECA related expense for the prior year. This type of credit or charge will not be applicable to wholesale sales to the Members.

**Q. Mr. Hestermann, turning to Section 4, would you please describe the schedules contained therein?**

A. Section 4, in total, displays the detail of the Mid-Kansas electric plant in service. This section comprises three schedules. Schedule 1 is a summary of electric plant in service as recorded and adjusted as of May 31, 2008, utilizing the adjustment to plant in service adjustments detailed in Schedule 3. Schedule 2 is a summary of electric plant in service as adjusted for the year ended May 2008 by plant account. Schedule 3 is a summary of electric plant in service by plant account for the 13-month period from May 2007 to May 2008.

**Q. Please explain what is contained in Section 5.**

A. Section 5 consists of three schedules. Schedule 1 is a summary of the accumulated reserves for depreciation as recorded and adjusted as of May 31, 2008. Schedule 2 displays accumulated reserves for depreciation as adjusted for the year ended May 31, 2008 by sub-account. Schedule 3 displays the unadjusted accumulated reserves for depreciation for the 13 months beginning in May 2007 to May 2008.

**Q. Would you please continue by explaining Section 6?**

A. Section 6 consists of schedules that support the working capital components of the Mid-Kansas rate base. The components consist of fuel stocks, materials and supplies, prepayments, and cash working capital.

Schedule 1 of Section 6 is a summary of the working capital components of the Mid-Kansas rate base.

Schedule 2 of Section 6 displays the monthly balances of the fuel stock account for a 13-month period. As indicated, the balance at May 31, 2008, was $1,391. Included in the Mid-Kansas rate base for ratemaking purposes is the 13-month average of fuel stock which is $1284.

Schedule 3 of Section 6 displays the monthly balances of Account 154, materials and supplies for a 13-month period. The balance of this account as of December 31, 2003, was $7,012,178. Included in Mid-Kansas' rate base for ratemaking purposes was the 13-month average of $6,867,886.

Schedule 4 of Section 6 displays the monthly balances of Account 165, prepayments, for the 13-month period ending May 31, 2008. As indicated the balance as of May 31, 2008, was $23,518,824. For ratemaking purposes, the 13-month average of $24,798,153 was included in Mid-Kansas' rate base.

Schedule 5 of Section 6 provides the calculation of the $2,974,466 cash working capital component of rate base. The calculation is based on the traditional one-eighth rule that essentially allows 45 days of operating expenses as a cash working capital requirement.

**Q. Mr. Hestermann, would you please continue with an explanation of Section 7?**

A. Section 7 contains information with respect to Mid-Kansas' capital and cost of money. Schedule 1 is a summary of the Mid-Kansas long-term debt as of May 31, 2008. Mid-Kansas' long term debt is held entirely by the National Cooperative Services Corporation ("NCSC"), a subsidiary of the National Rural Utilities Cooperative Finance Corporation ("CFC"). Schedule 2 displays the details of the Mid-Kansas long-term debt with NCSC. Finally, Schedule 3 provides the calculation of Mid-Kansas TIER and DSC ratios for the test year, pro forma test year and the pro forma test year with proposed rates.

**Q. Why is the pro forma test year with proposed rates TIER greater than the 1.5 TIER used to calculate the revenue requirement in Section 3?**

A. The TIER requirement used in Section 3 was a TIER that utilized net operating margins whereas the TIER depicted in Schedule 3 reflects a TIER utilizes the net margins which include below-the-line items such as interest income, non-operating income, and other extraordinary items which are not usually include in the development of the revenue requirement. These below-the-line items can vary from year to year and are inappropriate to include as part of the overall revenue requirement.

**Q. Would you please continue with an explanation of Section 8?**

A. Section 8 comprises seven schedules that detail the financial and statistical operation of Mid-Kansas for the test year ending May 31, 2008.

- Schedule 1 of Section 8 is a detailed balance sheet of Mid-Kansas for the test year.
- Schedule 2 is a statement of margins for the test.
- Schedule 3 is an operating income statement for test year.
- Schedule 4 is the detail of the operating expenses for Mid-Kansas by primary account for the test year.
- Schedule 5 of Section 8 shows average Mid-Kansas revenue per kWh for the test year.
- Schedule 6 is a show the average maintenance cost per kilowatt hour for Mid-Kansas for the test year.

- Schedule 7 of Section 8 is the total distribution of Mid-Kansas salaries and wages for the test year.

**Q. Mr. Hestermann, would you continue with your discussion with an explanation of Section 9?**

A. Section 9 consists of seven schedules. Schedule 1 provides an income statement under the following three conditions: Year ending 5/31/2008 as recorded, pro forma test year under present rates and pro forma test year under proposed rates.

Schedules 2 through 7 supports the 18 adjustments to operations discussed previously.

**Q. Please continue with a brief description of Schedules 2 through 7**

- Schedule 2 of Section 9 shows the adjustments to revenue as a result of billing adjustments made during the test year.
- Schedule 3 provides information relating to the revenue adjustments discussed in Section 3.
- Schedule 4 provides information relating to other adjustments to operations discussed in Section 3.
- Schedule 5 provides detail for the salary and wage adjustment discussed in Section 3.
- Schedule 6 provides detail for the payroll tax adjustment discussed in Section 3.

- Schedule 7 provides detail for the benefits and pension expense adjustment discussed in Section 3.

**Q. Mr. Hestermann, would you now please explain Section 10?**

A. Section 10 consists of one schedule that provides a summary of the depreciation rates and expenses as adjusted for the test year.

**Q. Please continue with an explanation of Section 11?**

A. Section 11 consists of 2 schedules. Schedule 1 provides a summary of income taxes paid by Mid-Kansas. Schedule 2 of Section 11 provides the amount of property taxes and sales/use taxes charged during the test year.

**Q. Is Mid-Kansas submitting any information with respect to allocation ratios in Section 12?**

A. No. This section does not apply since the Mid-Kansas electric operations are entirely jurisdictional to the KCC and Mid-Kansas Members constitute a single rate class. Allocation factors used to functionalize and classify Sunflower's revenue requirements are detailed in Section 15.

**Q. Mr. Hestermann, please explain the schedules contained in Section 14?**

A. Section 14 consists of Schedule 1 that provides the calculation of the Mid-Kansas average annual ECA energy rate for the test year on a wholesale basis.

**Q. Please continue with an explanation of Section 15.**

A. Section 15 is the cost of service analysis consisting of 12 schedules. These schedules are listed as follows:

- Schedule 1 provides a classification of plant-in-service.
- Schedule 2 provides the classification of accumulated reserves for depreciation and amortization.
- Schedule 3 provides a classification of rate base.
- Schedule 4 provides a classification of revenue requirements.
- Schedule 5 provides a classification of payroll expense.
- Schedule 6 provides a summary of the cost to provide transmission service.
- Schedule 7 provides a cost of service analysis for the ancillary service - Scheduling, System Control and Load Dispatch.
- Schedule 8 provides a cost of service for the ancillary service - Reactive Supply and Voltage Control Service.
- Schedule 9 provides a cost of service for the ancillary service - Regulation and Frequency Response Service.

- Schedule 10 provides a cost of service analysis for the ancillary service - Spinning Reserve Service.
- Schedule 11 provides a cost of service for the ancillary service - Supplemental Reserves Service.
- Schedule 12 provides a cost of service for the ancillary service - Control Area Service.

**Q. Please discuss the cost of service analysis in Section 15 in more detail.**

A. The cost of service analysis essentially mirrors the cost of service analysis used by Sunflower in previous rate proceedings. Mid-Kansas, in this filing, has adopted this cost of service methodology that was previously accepted by the Commission.

Schedule 1 provides the classification of plant-in-service into the following three categories: 1) Production - Capacity; 2) Production - Energy; and 3) Transmission. Allocation factors used in Schedule 1 are the same as those applied at previous rate proceedings and adopted by the Commission Staff.

Schedule 2 provides the classification of the accumulated reserves for depreciation. Since depreciation reserves are associated with plant investment, the classification of depreciation reserves generally is the same as plant classification in Schedule 1. However, the accumulated reserves for depreciation were not recorded by primary account and it was necessary to allocate the total depreciation reserves for each general category to the corresponding primary plant accounts before classifying the accounts.

Schedule 3 provides the classification of the various components of rate base. For the most part, the classifications in this schedule were driven by the classifications in other schedules in Section 15.

Schedule 4 provides the classification of pro forma test year revenue requirements. Production operation and maintenance ("O&M") expense was classified in accordance with the methodology generally followed by the Federal Energy Regulatory Commission ("FERC"). This methodology assigns each primary non-fuel production O&M account to either production capacity or production energy based on FERC's perception of the general cost drivers for each account.

Purchased power expense for the test year was primarily related to energy transactions and was assigned to the production energy component. However, the non-energy related charges from the Mid-Kansas Jeffrey Energy Center purchase power agreement were assigned directly to the production capacity component. The system control and dispatch function is operated by Sunflower and costs are assigned to Mid-Kansas. Mid-Kansas system control and dispatch expense was classified as 40% production energy and 60% transmission, consistent with how Sunflower has treated these costs in prior rate proceedings.

Transmission O&M expense was classified in accordance with plant-in-service.

Customer accounting, customer service and information and sales expenses were assigned to the production energy component.

Administration and general expense was allocated to the production capacity, production energy and transmission categories based on either labor or net plant allocators.

A breakdown of depreciation expense by function (i.e., production, transmission, and general plant) was obtained from accounting records. The functionalized expense was classified as the same manner as plant-in-service.

Property and payroll taxes are assigned directly to the appropriate primary accounts. The other tax category, representing Kansas Use Taxes and annual filing fees, was classified on the basis of a labor allocator.

Revenue credits derived from sales for resale were assigned based on the type of revenue. Demand related revenue from sales for resale was assigned to production capacity with the balance assigned to production energy.

Revenue credits associated with non-transmission related other electric revenue was assigned to the production capacity and energy components based on the average and excess allocator. Revenue credits for the transmission component consisted of the point-to-point revenue and Mid-Kansas network integrated transmission service revenue from SPP.

Schedule 5 provides for the classification of payroll expense. Payroll expense was classified in the same manner as the corresponding O&M expense.

Section 6 provides the calculation of the average transmission cost using information from Schedule 4.

Section 7 through 12 provides cost of service calculations for ancillary services associated with the Sunflower Open Access Transmission Tariff ("OATT"). These schedules mirror the cost of service calculations for ancillary services developed by Commission Staff in prior dockets and adopted by Mid-Kansas for this filing.

**Q. Please continue by explaining what is contained in Section 17.**

A. Section 17 consists of four schedules. Schedule A provides a summary of the wholesale revenues actually billed in the test year for the Mid-Kansas Members.

Schedule B provides a calculation of the revenues that would be generated on a pro forma test year basis.

Schedule C provides a calculation of the revenue that would be generated under the proposed rates.

Schedule D provides a comparison of current and proposed revenues for network integrated transmission (NITS) customers and comparison of current proposed revenues for the KEPCo transmission contract for point-to-point and local access charges. Proposed local access charge rates and billing determinants were obtained from the exhibits from the testimony of Dennis Eicher. It was necessary to include local access charges in the comparison because the current rate is a bundled transmission/local access rate.

**Q. Mr. Hestermann, what is contained within Section 18?**

A. Section 18 consists of the rate schedules proposed by Mid-Kansas. These rate schedules are the wholesale rate schedule (MKEC-WHM) and wholesale ECA (MKEC-WHM-ECA) applicable to Member wholesale sales; MKEC-WEC-ECA which is applicable to retail sales of the Wheatland Electric division of Mid-Kansas; KEPCo Transmission Service Tariff; and the Mid-Kansas Open Access Transmission Tariff ("OATT"), as well as a redline version of the Mid-Kansas OATT.

**Q. How were the rates contained in the wholesale rate schedule, MKEC-WHM developed?**

A. The rates contained in this rates schedule were developed from the information contained within the revenue requirements portion of Section 15. The wholesale rate consists of a demand rate, energy rate, ECA rate, and transmission rate. The demand rate of $6.07 is the same as the average base cost rate contained in the cost of service. The energy rate was developed by subtracting test year calculated ECA revenues from production energy net revenue requirement, then adding Member revenue credits and then dividing the sum by the test year kWh, resulting in an energy rate of $.011203 per kWh. The ECA rate will be the same as generated by the monthly wholesale ECA calculation. Transmission charges will be based on each members' monthly load ratio share of 1/12 of the transmission revenue contained in the COS.

**Q. Please discuss the wholesale ECA tariff, MKEC-WHM-ECA.**

A. The ECA tariff is essentially the same as that used currently by Mid-Kansas except that it utilizes wholesale sales instead of estimated retail sales to calculate the ECA rate. Because the new ECA tariff is applied to only wholesale sales, the ACA calculation will no longer be needed.

**Q. What is the difference between the MKEC-WHM-ECA and the MKEC-WEC-ECA?**

A. The MKEC-WEC-ECA is intended for use with Wheatland Electric division retail sales. This tariff is essentially the same as the one currently in use but is applicable only to Wheatland division retail sales.

**Q. Please discuss the KEPCo Transmission rate schedule.**

A. The KEPCo rate schedule is intend to replace the schedule contained in the KEPCo contract dated May 16, 1988. KEPCo was given notice in April, 2009 that Mid-Kansas was going to seek modification of the terms of the transmission rate. The current KEPCo rate is a bundled local access rate/transmission rate. Mid-Kansas is seeking to modify the rate schedule to bill for transmission service only, with the respective Mid-Kansas Members billing for local access charges.

**Q. What are the rates contained within the proposed rate schedule?**

A. The rate schedule basically consists of a demand and energy rate. The demand rate of $2.96 per kW-month is applied to the monthly KEPCo transmission demand at the time of the Mid-Kansas monthly transmission peak. The rate is based on the monthly point-to-point transmission rate found in the OATT. The energy rate of $.00344 per kWh is based on the average cost of service energy rate times a loss factor of 6.94%.

**Q. Please discuss the Mid-Kansas OATT?**

A. Mid-Kansas is filing with the Commission an OATT with rates developed in and consistent with the cost of service analysis contained within Section 15.

**Q. What customers will be affected by the change in rates to the OATT?**

A. Affected customers will be those taking NITS service, which include the Mid-Kansas Members, all requirements cities, KMEA, KPP and KEPCo (South) along with KEPCo (North) that currently uses point-to-point service.

**Q. Has Mid-Kansas assessed the rate impact on these customers?**

A. Yes, Schedule D within Section 17 assesses the rate impact to those customers other than the Mid-Kansas Members. The transmission charges to Mid-Kansas Members are included in the analysis in Schedule C of Section 17.

**Q. Can you summarize the proposed OATT charges?**

A. Yes. The attached Schedule TKH-1 is a summary of the proposed OATT rates.

**Q. Mr. Hestermann, please summarize the Mid-Kansas request to the Commission with respect to rates?**

A. Mid-Kansas is requesting that the Commission approve the Mid-Kansas Member wholesale rate, MKEC-WHM; the Mid-Kansas wholesale ECA, MKEC-WHM-ECA; the ECA applicable to the Mid-Kansa Wheatland Electric retail sales, MKEC-WEC-ECA; and the Mid-Kansas OATT and rates contained therein.

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

A. Yes, it does.

## VERIFICATION OF THOMAS K. HESTERMANN

STATE OF KANSAS )
)ss:
COUNTY OF ELLIS )

Thomas K. Hestermann., being first duly sworn, deposes and says that he is Thomas K. Hestermann referred to in the foregoing document entitled "Direct Testimony of Thomas K. Hestermann" 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.

Thomas K. Hestermann

**SUBSCRIBED AND SWORN** to before me this 12th day of June, 2009.

Nicole A. Iman
Notary Public

My Appointment Expires: 11/05/12

NOTARY PUBLIC STATE OF KANSAS
NICOLE A. IMAN
NOTARY PUBLIC
STATE OF KANSAS
My Appt. Exp. 11/05/12

# Mid-Kansas Proposed Transmission Rates

| Description | Schedule (if applicable) | Annual Revenue Requirement ($) | Annual ($/kW-yr) | Monthly ($/kW-mo) | Weekly ($/kW-week) | Daily ($/kW-day) |
|---|---|---|---|---|---|---|
| Network Transmission Service | Attachment H | 17,309,387 | | (1) | | |
| Scheduling, System Control & Dispatch Service | 1 | $523,082 | 1.0733 | 0.0939 | 0.0206 | 0.0029 |
| Reactive Supply & Voltage Control from Generation Sources Service | 2 | 97,323 | 0.1997 | 0.0166 | 0.0038 | 0.0005 |
| Regulation & Frequency Response Service | 3 | 862,819 | 1.7704 | 0.1475 | 0.0340 | 0.0049 |
| Operating Reserve - Spinning Reserve Service | 5 | 469,034 | 0.9624 | 0.0802 | 0.0185 | 0.0026 |
| Operating Reserve - Supplemental Reserve Service | 6 | 469,131 | 0.9626 | 0.0185 | 0.0185 | 0.0026 |
| Point-to-Point Transmission Service | 7 & 8 | 17,309,387 | 35.5167 | 2.9597 | 0.6830 | 0.0973 |
| Loss Compensation Service - Capacity Loss Rate | 10 | | | 6.0714 | | |
| Control Area Service | 11 | 2,421,390 | 4.9684 | 0.4140 | 0.0955 | 0.0136 |

| | | |
|---|---|---|
| Energy Loss Compensation Rate associated with Network Service | $ 49.595 | / MWh |
| Transmission Demand and Energy Loss Factor (Current) | 6.94% | |