

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY
OF
L. EARL WATKINS, JR.

STATE CORPORATION COMMISSION

DEC 14 2010



DOCKET NO. 10-MKEE- 439 -RTS

1 **Q. Please state your name.**

2 A. My name is L. Earl Watkins, Jr.

3

4 **Q. Are you an officer of Mid-Kansas Electric Company, LLC (“Mid-Kansas”)?**

5 A. Yes. I am the President and Chief Executive Officer of Mid-Kansas and have
6 been since its inception in July 2005.

7

8 **Q. By who are you employed and what is your business address?**

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

11

12 **Q. What is your present position at Sunflower, and how long have you held the
13 position and other positions at Sunflower?**

14 A. I am the President and Chief Executive Officer. I assumed this position on June
15 1, 2004. I was Sunflower’s Executive Vice President and General Counsel from
16 November 2001 until June 2004. Before November 2001, I was in private law
17 practice and was Sunflower’s general counsel for over 20 years.

1 **Q. What is Sunflower’s relationship with Mid-Kansas?**

2 A. Sunflower provides contract services to Mid-Kansas for all of the generation and
3 transmission activities of Mid-Kansas.

4
5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to provide: (1) background information on Mid-
7 Kansas; (2) background and summary information of the Application, including
8 the general rate impacts of establishing a divisional rate of Mid-Kansas for the
9 geographical area of the Mid-Kansas certificated territory serviced by Wheatland
10 Electric Cooperative, Inc., (“Wheatland”), a member of Mid-Kansas.

11

12 BACKGROUND INFORMATION ON MID-KANSAS

13 **Q. Please provide an overview of the business of Mid-Kansas.**

14 A. Mid-Kansas is a Kansas limited liability company with its principal place of
15 business located in Hays, Kansas. Mid-Kansas is owned by five Kansas
16 consumer-owned cooperatives and one subsidiary of a consumer-owned
17 cooperative who organized Mid-Kansas for the purpose of acquiring and
18 operating the former Aquila-WPK electric utility business and operations. The
19 five Kansas cooperatives and subsidiary company, collectively referred to as Mid-
20 Kansas Members, and their headquarters are as follows: Lane-Scott Electric
21 Cooperative, Inc., Dighton; Prairie Land Electric Cooperative, Inc., Norton;
22 Victory Electric Cooperative Association, Inc., Dodge City; Western Cooperative
23 Electric Association, Inc., WaKeeney; Wheatland Electric Cooperative, Inc., Scott

1 City, and Southern Pioneer Electric Company, a subsidiary of Pioneer Electric
2 Cooperative, Inc., Ulysses. Mid-Kansas was organized in 2005. The five
3 cooperative Members of Mid-Kansas and Pioneer Electric also own Sunflower
4 Electric Power Corporation.

5
6 **Q. When did Mid-Kansas acquire the Aquila-WPK electric assets?**

7 A. Mid-Kansas was notified that it was the successful bidder for the Aquila-WPK
8 electric assets in September 2005. On November, 15, 2005, Aquila and Mid-
9 Kansas made a joint filing before the Commission to transfer the Kansas electric
10 assets to Mid-Kansas. On February 23, 2007, the Commission issued an order
11 approving the sale and transfer of the Aquila-WPK electric assets to Mid-Kansas.
12 Mid-Kansas subsequently began operation of those assets on April 1, 2007.

13
14 **Q. Please describe the current rate structure of Mid-Kansas.**

15 A. Prior to Mid-Kansas's last rate case in Docket No. 09-MKKEE-969-RTS (969
16 Docket), Mid-Kansas had adopted the rate structure of Aquila that existed at the
17 time of the acquisition. In the 969 Docket, Mid-Kansas established a rate structure
18 to facilitate its transition to a typical cooperative model structure. The cooperative
19 model consists of a generation and transmission cooperative ("G&T") serving its
20 distribution cooperative members who also own the G&T. To facilitate this
21 model, wholesale rates were established for the G&T segment of Mid-Kansas,
22 and Mid-Kansas divisional rates were established for five of the six geographical
23 areas served by the Mid-Kansas members pursuant to the Electric Customer

1 Service Agreements (Service Agreements). In the prior case, Mid-Kansas retained
2 the Aquila rates as its divisional rates for the geographic area served by
3 Wheatland. In a future docket, Mid-Kansas will request transfer of the certificated
4 territory to the Members and the Members will serve their customers initially
5 under the respective divisional rates established by Mid-Kansas. In this way, the
6 divisional rates facilitate the transition to the cooperative structure.

7

8 **Q. Mr. Watkins, please describe the generation and transmission assets**
9 **acquired by Mid-Kansas that are used to provide wholesale electric service to**
10 **the Mid-Kansas Members.**

11 A. Mid-Kansas owns approximately 1,083 miles of transmission line facilities and
12 associated substation facilities, which consists of 932 miles of 115 kV, 76 miles
13 of 138 kV and 171 miles of 230 kV transmission line, and 40 substations. Mid-
14 Kansas owns 389 MW of gas-fired generation, which consists of 145 MW at Fort
15 Dodge Station, 99 MW at Great Bend Station, 68 MW at Clifton Station; and 77
16 MW at Cimarron River Station. Additionally, Mid-Kansas has a purchase power
17 agreement for 175 MW of coal-fired capacity from Jeffrey Energy Center and 75
18 MW of wind generation, which consists of 50 MW from the Gray County Wind
19 facility and 25 MW from the Smoky Hills Wind Farm facility.

20

21 **Q. You previously said that five of the six Members of Mid-Kansas are**
22 **consumer-owned cooperatives. What does that mean?**

23 A. Five of the Members of Mid-Kansas are non-profit cooperative corporations

1 owned by their customers. All of the electric customers of these Members become
2 owners of the cooperative when they purchase utility service from the
3 cooperative. That is, all year-end revenues in excess of the cooperatives' actual
4 cost of service are allocated to capital accounts for the benefit of the customers,
5 and may be periodically refunded to the customer. In addition, members
6 participate in management oversight of the cooperative by electing its directors. In
7 a cooperative utility, the ratepayers and the owners of the utility are one and the
8 same. There are no competing interests between stockholders who want higher
9 returns and customers who want lower rates and better service.

10

11 **Q. Does this mean that rates are not an issue?**

12 A. No. Rates are an issue because cooperative members want low rates like anyone
13 else. However, in a cooperative business model, there are not competing interests
14 between the ratepayer and the owner of the utility as there are in an investor-
15 owned utility. In a cooperative, only the customer is benefited if rates exceed the
16 cost of service, so there is no incentive for the cooperative to charge rates in
17 excess of the true cost of service.

18

19 **Q. Is Mid-Kansas and the operations provided by the Members of Mid-Kansas**
20 **regulated by the Kansas Corporation Commission (“Commission”)?**

21 A. Yes. Mid-Kansas and the operations of the service territory by the Mid-Kansas
22 Members are currently fully regulated by the Commission and will continue to be
23 regulated unless Mid-Kansas or any eligible Mid-Kansas Member seeks to

1 remove Commission regulation over their rates, pursuant to the provisions found
2 in K.S.A. 66-104d. It is important to note that that the certified service territory of
3 Mid-Kansas must be transferred to its Members prior to them seeking to de-
4 regulate, and that Southern Pioneer is not eligible to de-regulate.

5
6 OVERVIEW OF THE APPLICATION

7 **Q. Please provide a brief summary of the Application?**

8 A. Basically, Mid-Kansas is requesting implementation of a divisional rate for that
9 geographic area served by Wheatland similar to the divisional rates implemented
10 for the other five Mid-Kansas Members in 969 Docket.

11
12 **Q. What do you mean by divisional rates?**

13 A. Currently, the Mid-Kansas customers are served through Commission-approved
14 divisional rates that are based on specific cost of service of the customers served
15 by the individual Mid-Kansas Member. In this Application, Mid-Kansas is
16 requesting that the Commission approve divisional rates for the geographical area
17 of the Mid-Kansas certificated territory, which rates are based upon the specific
18 cost of service rendered to Mid-Kansas by Wheatland for service of the Mid-
19 Kansas customers in that geographic service area.

20
21 **Q. Will this rate change affect other Mid-Kansas customers served through the
22 Mid-Kansas Members?**

23 A. No. The application does not seek the implementation of any changes in the rates

1 established in the 969 Docket for any other divisional retail or wholesale rates of
2 Mid-Kansas.

3

4 **Q. Why is there a need for divisional rates?**

5 A. The customers served by the Mid-Kansas Members are Mid-Kansas customers,
6 although their primary contact and relationship is with the servicing Mid-Kansas
7 Member. The services provided to Mid-Kansas pursuant to the Service
8 Agreements with each Member results in differing cost of service for the
9 customers served by each Mid-Kansas Member, thereby resulting in the need for
10 a Mid-Kansas rate specifically applicable to the customers within the specific
11 geographical area served by the individual Mid-Kansas Member. Therefore, until
12 the certified service territory and associated customers are transferred to Mid-
13 Kansas Members, divisional rates are necessary to ensure rates to the customers
14 are just and reasonable. In the 969 Docket, Mid-Kansas chose to develop
15 divisional retail rates for five of its Members that reflected their unique cost of
16 service, while Mid-Kansas rates for the geographical area served by Wheatland
17 continued at the rates adopted at the time of the acquisition of the Aquila Kansas
18 electric property. In this application, Mid-Kansas is now requesting the
19 Commission approve a division rate that reflects Mid-Kansas's cost of service
20 based on the costs to Mid-Kansas for the costs of the services rendered by
21 Wheatland for those customers within the geographical area served by Wheatland.

22

23 **Q. What is the rate impact to the customers served by Wheatland?**

1 A. The proposed retail rates will generate approximately \$4,264,081 in additional
2 revenue. The increase is to be phased in over two years. Phase I increase of
3 \$2,384,968 will be effective upon approval, resulting in a 10.87% increase. Phase
4 II increase of \$1,879,113 will be effective one year from the effective date of the
5 Phase I increase and result in a 7.72% incremental increase over the Phase I. Of
6 the additional revenue, \$52,043 is attributable to an increase in the local access
7 charge for third-party users of the 34.5 kV line owned by Wheatland. The
8 increase for the local access charges will be part of Phase I, with no increase of
9 the local access charge in Phase II.

10
11 **Q. In summary, what are the actions Mid-Kansas is requesting of the**
12 **Commission?**

- 13 A. As stated in the Application, Mid-Kansas is requesting approval of the following:
- 14 • Divisional retail rates for Mid-Kansas retail customers that reflect the
15 appropriate allocation of the cost of service of providing retail electric
16 service to the Mid-Kansas customers served by Wheatland, to be phased in
17 as set forth above.
 - 18 • Local access charge and line loss that reflects the appropriate allocation of
19 the cost of service of providing electric service to the third-party use of the
20 34.5 kV system owned by Wheatland.
 - 21 • The deferral and reservation by the Commission of the classification of the
22 34.5 kV and appropriate lower voltage facilities as provided for at
23 paragraphs 10 and 11 of the Stipulation and Agreement approved by the

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Commission in the 969 Docket.

- A waiver of the filing requirements that pertains to data for the three calendar years immediately preceding the test year and a waiver of filing requirements as was provided for in the 816 Order directing Mid-Kansas to file a rate application as prescribed in the 816 Order.

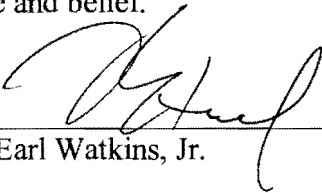
Q. Does this conclude your testimony?

A. Yes.

VERIFICATION OF L. EARL WATKINS, JR.

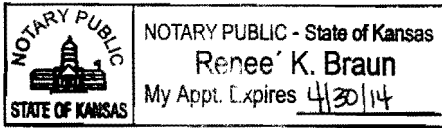
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COUNTY OF ELLIS)

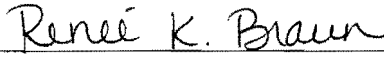
L. Earl Watkins, Jr., being first duly sworn, deposes and says that he is L. Earl Watkins, Jr. referred to in the foregoing document entitled "Direct Testimony of L. Earl Watkins, Jr." before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.



L. Earl Watkins, Jr.

SUBSCRIBED AND SWORN to before me this 10th day of December, 2010.





Notary Public

My Appointment Expires: April 30, 2014