

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

In the Matter of the Application of Mid-Kansas)
Electric Company, Inc. for Approval of the City)
of Montezuma Firm Energy, Capacity, and Load) Docket No. 18-MKEE-329-CON
Following Agreement .)

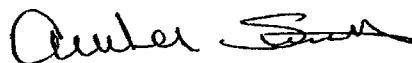
NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and for its Notice of Filing of Staff Report and Recommendation states as follows:

1. Staff hereby files the attached Report and Recommendation dated March 28, 2018, recommending that the Commission approve the proposed contract between Mid-Kansas Electric Company, Inc. and City of Montezuma, titled City of Montezuma Firm Energy, Capacity, and Load Following Agreement.

WHEREFORE, Staff requests the Commission consider its Report and Recommendation, and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,



Amber Smith, S. Ct. #23911
Chief Litigation Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, Kansas 66604
(785) 271-3301 (Telephone)
E-mail: a.smith@kcc.ks.gov
For Commission Staff

STATE OF KANSAS

CORPORATION COMMISSION
UTILITIES DIVISION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027



PHONE: 785-271-3220
FAX: 785-271-3357
<http://kcc.ks.gov/>

GOVERNOR JEFF COLYER, M.D.
SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | PAT APPLE, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION [PUBLIC VERSION]

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

FROM: Ryan Cates, Research Economist
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: March 28, 2018

SUBJECT: Docket No. 18-MKEE-329-CON: In the Matter of the Application of Mid-Kansas Electric Company, Inc. for Approval of the City of Montezuma Firm Energy, Capacity, and Load Following Agreement

EXECUTIVE SUMMARY:

On February 1, 2018, in Docket No. 18-MKEE-329-CON (Docket 329), Mid-Kansas Electric Company (MKEC) submitted an Application with the Kansas Corporation Commission (Commission) to obtain approval of the Montezuma Firm Energy, Capacity, and Load Following Agreement (Agreement or Contract) by and between MKEC and the City of Montezuma (Montezuma 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 Montezuma with MKEC's costs to serve the City. Montezuma will continue to receive a reliable power supply and costs will increase slowly allowing the City to gradually absorb the price increase over the course of the Contract. Montezuma will then pay the same rates as MKEC's members even though it is not a member.

Because the Agreement is mutually beneficial to both parties, Staff recommends Commission approval of the Contract between MKEC and Montezuma.

BACKGROUND:

On September 13, 1993, WestPlains Energy-Kansas, a division of UtiliCorp United, Inc.¹ (WPK), entered into a Full Requirements Contract (FRC) with Montezuma.² Under the FRC, WPK would sell, and Montezuma would purchase, the Firm Capacity and Associated Energy needed to meet Montezuma's demand. The FRC was a 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 March 29, 2007, MKEC filed an Application with the Commission seeking approval of Amendment 2 to the FRC between MKEC and Montezuma 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 Montezuma 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 Montezuma. 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 begin to fully recover its costs.⁷

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-WPK (WPK). See also 02-AQLE-749-MER.

² In 1993, 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, pp. 7-14 (Feb. 23, 2007).

⁵ Docket No. 07-MKEC-1043-CON (07-1043), Supplement Information for Amendment 2 to the Full Requirements Contract between Mid-Kansas Electric Company, Inc. and the City of Montezuma, Kansas, March 29, 2007, p. 1. The FCA modifications replaced the estimate and true-up approach with a real-time approach to the calculation (07-1043, Amendment 2 to the Full Requirements Contract, March 19, 2007). Note to the reader: The Supplement Information for Amendment 2 begins on the third page of the .PDF transmittal received in the 07-1043 Docket on March 29, 2007.

⁶ 07-1043, 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 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 Montezuma. Montezuma 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 Previous Commission Orders approving MKEC 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 (MKEC), including its members and other customers, and the municipal entity (Montezuma).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 Montezuma 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 Montezuma, Staff investigated whether the Agreement provides a benefit to the City.

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. 17-MKEE-497-CON and 17-MKEE-498-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 the instant proceeding, Staff believes the Commission should consider the impact on both contracting entities to ensure the requested contract rate is just and reasonable and promotes the public interest of the state of Kansas. This is especially significant when one contracting entity (i.e. customer) is a Kansas municipality.

Mutual Benefit Analysis

Mid-Kansas Benefits

Under the current Contract, Montezuma 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 shows the percentage discount that MKEC is proposing by year.



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

Table 2					
	Total Capacity (MW)	System Peak (MW)	Excess Capacity (MW)	Montezuma Peak (MW)	Montezuma Contribution (MW)
2017	643	443.8	199.2	2.672	0.60207%

Montezuma

For Montezuma, 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 Montezuma has a two-year termination notice requirement. In February of 2016, at Montezuma's city council meeting, MKEC presented to the

council a new proposal to provide power to the City.¹¹ MKEC planned to submit the required two-year termination notice of the existing Contract, if a proposal was not accepted.¹²

On May 1, 2017, Montezuma's city council discussed contract proposals from both MKEC and Kansas Power Pool (KPP).¹³ After discussing the costs and benefits of each contract, Montezuma decided to terminate the current contract and enter-into a new contract with MKEC.¹⁴

Under the Contract, Montezuma 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 such that Montezuma will then pay the same rates as MKEC's members, even though it is not a member.

Conclusion

As discussed above, the proposed Contract will mutually benefit MKEC and Montezuma. Under the Contract, MKEC will gradually increase Montezuma's rates up to the WHM rate, allowing MKEC to recover its expenses associated with supplying Montezuma firm energy. Additionally, MKEC has sufficient capacity to continue supplying firm energy to meet the City's peak requirements without purchasing additional capacity.

For Montezuma, the City will continue to receive a reliable power supply over the course of the Contract. Also, 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, Montezuma, 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 Montezuma. Therefore, Staff recommends the Commission approve the Contract.

¹¹ Montezuma City Council Meeting, February 6, 2017 (February 6 Meeting).

¹² KCC Data Request No. 6.

¹³ Montezuma City Council Meeting, May 1, 2017 (May 1 Meeting).

¹⁴ May 1 Meeting.

CERTIFICATE OF SERVICE

18-MKEE-329-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation (Public Version) was served via electronic this 3rd day of April, 2018, to the following:

ATTN: CITY CLERK
CITY OF MONTEZUMA
CITY HALL 300 W GERONIMO
PO BOX 378
MONTEZUMA, KS 67867

AMBER SMITH, CHIEF LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3167
a.smith@kcc.ks.gov

ROBERT VINCENT, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604-4027
Fax: 785-271-3354
r.vincent@kcc.ks.gov

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

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

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

/s/ Vicki Jacobsen

Vicki Jacobsen