

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

JAN 08 2013

by
State Corporation Commission
of Kansas

In the Matter of the Application of Mid-Kansas)
Electric Company, LLC for Approval of a Debt)
Service Coverage Formula Based Ratemaking) Docket No. 13-MKEE- 452- MIS
Pilot Plan for the Geographic Territory Served by)
its Member-Owner Southern Pioneer Electric)
Company.)

APPLICATION

Mid-Kansas Electric Company, LLC ("Mid-Kansas"), hereby files its Application for approval of a Debt Service Coverage ("DSC") Formula Based Ratemaking ("FBR") Pilot Plan ("DSC-FBR Plan") to be effective for the geographic territory served by its member-owner, Southern Pioneer Electric Company ("Southern Pioneer").

I. Introduction & Background

1. Mid-Kansas is a Kansas Limited Liability Company operated on a not-for-profit basis with its principal place of business located in Hays, Kansas. Mid-Kansas is a coalition of five Kansas consumer-owned cooperatives and one corporation wholly owned by a sixth Kansas consumer-owned cooperative, who collectively organized Mid-Kansas for the purpose of acquiring Aquila, Inc., d/b/a Aquila Networks- WPK' s ("WPK") Kansas electric utility assets.¹ Mid-Kansas is an electric public utility regulated by the Commission.

2. Mid-Kansas has previously filed with the Commission certified copies of the Articles of Incorporation under which it was organized.

3. Mid-Kansas' Southern Pioneer division is a wholly owned subsidiary of Pioneer Electric Cooperative, Inc. ("Pioneer"). It is structured as a C-corporation, and operates as a not-

¹ The six electric utilities, collectively referred to as "Mid-Kansas Members," and their headquarters are as follows: Lane-Scott Electric Cooperative, Inc., Dighton; Southern Pioneer Electric Company, Ulysses; Prairie Land Electric Cooperative, Inc., Norton; Victory Electric Cooperative Association, Inc., Dodge City; Western Cooperative Electric Association, Inc., Wakeeney; Wheatland Electric Cooperative, Inc., Scott City.

for-profit entity². The purchase by Mid-Kansas from WPK of the Southern Pioneer assets was financed with 100% debt. Southern Pioneer, as a separate entity, presently has a capital structure of almost 100% debt and 0% equity. Pioneer, as the parent company of Southern Pioneer, was required to guarantee the debt for the purchase of the Southern Pioneer assets from WPK.

4. On November 22, 2011, Mid-Kansas filed with the State Corporation Commission of the State of Kansas (“Commission”) an application seeking approval to make certain changes to its rate schedules for the geographic service territory served by Southern Pioneer in Docket No. 12-MKKEE-380-RTS (“380 Docket”). As part of the application in the 380 Docket, Mid-Kansas sought approval of an alternative revenue recovery mechanism, termed the DSC Ratemaking Plan, which would have enabled Southern Pioneer to make annual rate adjustments, as necessary, to keep revenue at a level to achieve a pre-established DSC target ratio. The plan was offered as an alternative to the traditional rate-making process, with the overriding goals of growing necessary equity for Southern Pioneer, allowing Southern Pioneer to more effectively and efficiently meet the infrastructure demands of its existing and future customers, and reducing costs to ratepayers resulting from frequent rate case filings.

5. Other parties to the 380 Docket opposed the DSC Ratemaking Plan for various reasons. Ultimately, the parties reached settlement on a revenue requirement in the 380 Docket and Mid-Kansas abandoned its request for the DSC Ratemaking Plan as part of that rate proceeding. Mid-Kansas now brings the matter before the Commission in a revenue neutral setting in order to establish an open dialog concerning this potential alternative to the traditional rate-making process. Because Southern Pioneer is uniquely situated (organized as a corporation,

² Southern Pioneer agreed in the Aquila acquisition docket, Docket No. 06-MKKEE-524-ACQ (“524 Docket”) that it “will not remit dividends to Pioneer Electric Cooperative, Inc. (“Pioneer”), absent Commission and lender approval.” *See Stipulation and Agreement*, filed January 10, 2007, p. 14, ¶ 26. This condition is also contained in the July 7, 2006, Services Agreement between Southern Pioneer and Pioneer, (p. 4, section 3.)

but wholly owned by a cooperative and operating as a not-for-profit), and a more streamlined regulatory process reduces regulatory lag and regulatory costs, Mid-Kansas believes the ideal opportunity exists to implement a rate-making methodology that is more beneficial to the customers of Southern Pioneer than that provided for under the traditional general rate case method. The proposal in this Application provides such benefits, yet still allows for adequate Commission oversight to ensure just and reasonable rates as required by K.S.A. 66-101b.

II. Overview of the DSC-FBR Plan

6. Mid-Kansas is proposing for the Southern Pioneer Division a DSC-FBR Plan that allows for the annual adjustment of retail rates based upon the establishment of a DSC-based formula with a DSC target over the course of a five year period. The Program also anticipates the implementation of an annual review process to allow for continued Commission oversight.

7. The DSC-based formula is conceptually similar to other non-traditional revenue recovery mechanisms already employed by the Commission, such as the Transmission Formula Rate ("TFR"), Transmission Delivery Charge ("TDC") and Energy Cost Adjustment ("ECA"). Like those rate-setting methods, the DSC-based formula bases rates upon the utility company's cost of service while allowing for a more stream-lined regulatory process. The DSC itself measures the ability of a company to cover its debt and is similar to the Times Interest Earned Ratio ("TIER") utilized by the Commission for determining cost-based revenue requirements for cooperatives. The DSC-based formula established for the DSC-FBR Plan will be utilized to recover prudently incurred costs and allow Southern Pioneer to grow much needed equity while timely responding to its customers' demands for service and facilities.

8. Under the proposed DSC-FBR Plan, a DSC range will be established that sets forth a DSC ratio floor and ceiling. The range will be used as the benchmark for the annual DSC

review. Provided the annual adjusted DSC falls between the pre-established floor and ceiling, there will be no revenue adjustment for the upcoming year. However, in the event the annual adjusted DSC is greater than the ceiling, then after-tax revenues will be decreased to bring the DSC ratio back toward the target DSC. Similarly, if the annual adjusted DSC is less than the floor, the after-tax revenues will be increased to meet the DSC target. At no time will an annual revenue increase request for the Company exceed 10% without the filing of a general rate proceeding with the Commission.

9. As proposed, the DSC target ratio is 1.6 in the first year (the 2014 filing based on the 2013 test year) and 1.8 each year thereafter. There is a floor of 1.6 and a ceiling of 2.0. The first annual DSC-FBR Plan filing would occur in approximately May of 2014, with the final filing occurring in May of 2018. For purposes of each DSC-FBR Plan filing, Southern Pioneer's Adjusted DSC shall be based on its Statement of Operations, as set forth on its December Financial and Statistical Report (Form 7), or equivalent report utilizing the FERC Uniform System or Accounts. For more detailed information regarding reporting requirements, please see the direct testimony of Southern Pioneer witness, Mr. Rich Macke, filed concurrently with this Application.

10. Because the DSC Program extends over five years, it will allow Mid-Kansas – and its lender - some reasonable certainty that the revenues for the Southern Pioneer Division will remain predictable for the next few years, allowing Southern Pioneer to meet its DSC loan agreement covenants while remaining responsive to the service and facility demands of customers. Under the DSC-FBR Plan, Mid-Kansas, its lenders and customers can anticipate that the Southern Pioneer Division rates will allow Southern Pioneer to gradually increase the level of equity in its capital structure to meet the goals identified at this time for achieving financial

independence from Pioneer. The uncertainty inherent in the traditional regulatory model will be alleviated, allowing for lower up-front increases in rates which benefits consumers. Overall regulatory costs are lowered and time dedicated to regulatory rate case activity is decreased - a benefit to consumers, the company, the Commission and its Staff.

11. Because the DSC Program includes an annual review process, the element of consumer protection afforded in a general rate proceeding is still present. Through the use of bill inserts, Southern Pioneer customers will be notified of the review filing each year. The notice will include the date of the filing and the Commission docket number assigned, the amount of revenue adjustment presented, the impact on each rate class, a statement explaining that the filing is being made in accordance with the previously approved DSC-FBR Plan, and a contact name and phone number for customer questions.

12. The annual review will allow Commission Staff the opportunity to audit the results of the previous twelve months to ensure compliance with the DSC-FBR Plan. Such review will allow the Commission the ability to meet its obligation of ensuring just and reasonable rates for the customers of Southern Pioneer. Additionally, interested parties will have the opportunity to intervene in the proceeding. Under the procedural schedule proposed by Mid-Kansas, it is anticipated that the elapsed time for the Staff review and Commission order will be no longer than ninety (90) days. Within forty-five (45) days of the date of the filing, Staff will file its report to the Commission. If deficiencies are alleged, the Company will file a response and the Commission can then issue an order either approving the application or further suspending the proceeding under K.S.A. 66-117. In this situation the Commission would set a pre-hearing conference to establish a procedural schedule for the presentation of the testimony

and exhibits supporting the respective parties' position. More detailed information regarding the filing review and approval process is contained in the direct testimony of Mr. Macke.

III. Direct Testimony in Support of the Application

13. Following are the names of the witnesses filing testimony in support of this Application and the subject matter of each witness' testimony:

Steve Epperson:

- Historical information on the formation of Mid-Kansas and Southern Pioneer and background about why Southern Pioneer is unique from other regulated utilities.
- The operating challenges and regulatory frustrations facing Southern Pioneer.
- Support for the DSC-FBR Plan and its benefits to consumers, regulators, the lender and the companies.

Donald Gulley:

- Overview of Mid-Kansas' organization and governance.
- Discussion on formula based rates as they pertain to Kansas.
- Impacts of oil field developments on the infrastructure requirements of Mid-Kansas and Mid-Kansas Members.

Rich Macke:

- Explanation of the DSC-FBR Plan and the process for annual filings.
- Background on formula-based ratesetting in Kansas and other jurisdictions.
 - Rate design for adjustments under the DSC-FBR Plan.

14. In addition to the undersigned, copies of pleadings, documents, and all correspondence in this docket should be sent to:

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Senior Manager, Regulatory Relations and Billing
Mid-Kansas Electric Company, LLC
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Southern Pioneer Electric Company
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15. Concurrent with the filing of this Application, Mid-Kansas is also filing a Motion For Procedural Schedule with a proposed procedural schedule set forth therein for the Commission's consideration. The proposed schedule includes a step that allows parties to file Briefs and Reply Briefs on any legal issues that may be of concern related to the DSC-FBR Plan proposed in this Application.

IV. Request For Waiver of Regulations and Other Requirements

16. To the extent necessary to allow approval of the DSC-FBR Plan proposed herein, Mid-Kansas requests the Commission waive the filing requirements of K.A.R. 82-1-231 for all annual filings made pursuant to the DSC-FBR Plan. If there are any additional regulations for which a waiver may be necessary in order to approve this Application, Mid-Kansas respectfully requests such waiver(s) be granted.

17. In addition, approval of the DSC-FBR Plan will result in the termination of certain requirements now in effect under the 524 Docket. Specifically, it would no longer be necessary for Southern Pioneer to file a report by March 31st of each year supporting its TIER and DSC calculations for the preceding year's operations because this would be accomplished

via the DSC-FBR annual filing.³ In addition, the Revenue Refund Plan in the 524 Docket would no longer be necessary since it would be replaced by the DSC-FBR Plan.⁴

V. Notice of Potential Substitution of Named Party

17. On January 7, 2013, Mid-Kansas filed an application with the Commission requesting approval to transfer its certificates to the Mid-Kansas Members.⁵ Upon approval from the Commission for Mid-Kansas to transfer its certificate to Southern Pioneer, notice will be filed in this docket substituting Southern Pioneer as the Applicant in place of Mid-Kansas. The substitution of Southern Pioneer for Mid-Kansas as the Applicant herein will not impact this proceeding otherwise.

WHEREFORE, Mid-Kansas hereby requests the Commission adopt for Southern Pioneer the DSC Formula Based Ratemaking Pilot Plan proposed in this Application, and for any other such relief the Commission deems just and proper.

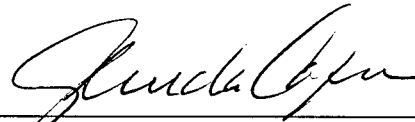
Respectfully submitted,

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³ 524 S&A, ¶ 29.

⁴ 524 S&A, ¶ 30.

⁵ See Docket No. 13-MKKEE-447-MIS.



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