

BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of The)
Victory Electric Cooperative Association,)
Inc. Seeking Commission Approval to)
Update Its Local Access Delivery Service) Docket No. 18-VICE-479-TAR
Tariff Pursuant to the 34.5kV Formula)
Based Rate Plan Approved in Docket No.)
16-MKEE-023-TAR.)

PREFILED DIRECT TESTIMONY OF

SHANE LAWS
CHIEF EXECUTIVE OFFICER
THE VICTORY ELECTRIC COOPERATIVE ASSOCIATION, INC.

ON BEHALF OF

THE VICTORY ELECTRIC COOPERATIVE ASSOCIATION, INC.

May 1, 2018

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PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Shane Laws. My business address is 3230 North 14th Avenue, Dodge City, Kansas.

Q. What is your profession?

A. I am Chief Executive Officer (“CEO”) of The Victory Electric Cooperative Association, Inc. (“Victory” or “Cooperative”). As Victory’s CEO, I am also a member of the Board of Directors for Mid-Kansas Electric Company, Inc. (“Mid-Kansas”), Sunflower Electric Power Corporation, Inc. (“Sunflower”), and Kansas Electric Power Cooperative, Inc. (“KEPCo”).

Q. What is your educational background?

A. I graduated from The University of Texas at Arlington in May 1997 with a Bachelor of Business Administration degree with an emphasis in Management. I completed the Robert I. Kabat Management Internship Program at The University of Nebraska, Lincoln in May 2000. In December 2006, I earned a Master of Business Administration degree from Texas Woman’s University located in Denton, Texas.

Q. What is your professional background?

A. Prior to becoming the Chief Executive Officer of Victory in 2013, I was the Director, Retail Programs for CoServ Electric in Corinth, Texas. I was directly responsible for a project engineering department that designed and contracted large-scale residential and commercial developments as well as an energy management department that provided residential/commercial audit services and administered a residential/commercial rebate program. In addition, I provided oversight for the Cooperative’s rates and cost of service (“COS”) studies and tariffs. I have served in various capacities with three electric cooperatives spanning 22 years.

1 **Q. Have you previously presented testimony before the Kansas Corporation Commission**
2 **(“KCC” or “Commission”)?**

3 A. Yes. I have provided testimony in Docket Nos. 16-MKEE-023-TAR (“16-023 Docket”), 16-
4 VICE-494-TAR, and 17-VICE-481-TAR (“17-481 Docket”).

5
6 **PART II - SUMMARY OF DIRECT TESTIMONY**

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. The purpose of my testimony is to provide an overview of and support for Victory’s
9 Application for an increase to its wholesale demand rate for the Local Access Delivery
10 Service (“LADS”) over Victory’s 34.5kV sub-transmission system (Mid-Kansas division).

11 By way of overview, the Commission approved a Settlement Agreement (“Settlement”)
12 in the 16-023 Docket that allows Victory, and certain other Mid-Kansas members, to make
13 annual adjustments to their respective LADS rates.¹ As part of that Settlement, the
14 Commission approved prescriptive Protocols setting forth the content and procedure
15 governing the 34.5kV Formula Based Rate (“FBR”) annual filings. Victory’s Protocols are
16 set forth in Exhibit C to the Settlement.² The Application filed contemporaneously with this
17 testimony is the third such annual filing made on behalf of Victory.

18 With regard to my support of the Application, I support the request for an increase of
19 the LADS to \$3.78/kW, which is a \$0.62/kW increase from the currently effective rate of
20 \$3.16/kW that was approved by the Commission in the 17-481 Docket. Specifically, my
21 testimony will:

22
23
24 ¹ *Order Approving Settlement*, issued March 10, 2016. See also *Order Granting Petition for Clarification*,
issued April 26, 2016.

25 ² *Order Granting Petition for Clarification*, issued April 26, 2016.

- 1 1. Affirm Victory's support for the calculation of the wholesale demand rate for the
- 2 LADS over Victory's 34.5kV sub-transmission system (Mid-Kansas division), as
- 3 contained in Ms. Elena Larson's Direct Prefiled Testimony submitted with the
- 4 Application filed in the instant Docket.
- 5 2. Confirm that Victory will notify its customers as required in the Customer
- 6 Notification section on Page 3 of the Commission-approved 34.5kV FBR Protocols.
- 7 3. Attest to the Equity Test requirement noted in Section H on Pages 9 and 10 of the
- 8 Protocols.
- 9 4. Provide insight as to the information required by Item No. 11 listed in the Filing
- 10 Exhibits, Section F on Pages 8 and 9 of the Protocols.

11 **Q. What is Victory's opinion concerning the proposed 2018 34.5kV FBR rate of \$3.78/kW?**

12 A. Victory's Staff has provided the data necessary for the calculations as contained in the

13 populated 34.5kV FBR template attached to the Application filed in the instant Docket as

14 Exhibit 5. Cooperative Staff has reviewed the exhibit and the supporting work papers and is

15 in agreement that the resultant rate was calculated in accordance to Victory's 34.5kV FBR

16 Protocols as approved by the Commission. Accordingly, Victory believes this rate, as

17 detailed in Ms. Larson's Prefiled Direct Testimony and included in the proposed LADS

18 tariff, is just and reasonable, as it is based on the COS and follows the Commission-

19 prescribed methodology.

20 **Q. Please elaborate on how the Customer Notification requirement, detailed in Section C**

21 **on Page 3 in Victory's 34.5kV FBR Protocols, will be fulfilled.**

22 A. Upon filing of the Application and all of the exhibits in the instant Docket (and once the

23 actual Docket Number is known to the Cooperative), all customers taking wholesale LADS

24 from Victory, as well as any entities granted intervention in the 16-023 Docket who are also

25 customers or customer representatives of Victory, will receive notice of the filing when it is

1 made with the Commission. Such notice may be made via electronic mail or bill insert and
2 will contain the following information:

- 3 1. The date the filing was made with the Commission and the docket number assigned.
- 4 2. The amount of the revenue adjustment sought.
- 5 3. The resulting rate impact.
- 6 4. A statement explaining that the rate adjustment is being made pursuant to the 34.5kV
7 FBR, with a cite to Docket No. 16-MKEE-023-TAR and the date of the
8 Commission's March 10, 2016 Order approving the initial application for Victory's
9 34.5kV FBR.
- 10 5. A Victory contact person and phone number for questions.

11 **Q. Please address the Equity Test requirement as noted in Section H of the 34.5kV FBR**
12 **Protocols.**

13 A. Per Section H of the Protocols, Pages 9 and 10, Victory must notify the Commission when its
14 distribution equity ratio (for the Mid-Kansas division) reaches 36.31 percent, which would
15 signal the re-evaluation of the currently-approved Operating Times Interest Earned
16 ("OTIER") and Modified Debt Service Coverage ("MDSC") metrics as used in the 34.5kV
17 FBR.

18 **Q. Has Victory (Mid-Kansas division) calculated its Distribution Equity Ratio for the 2017**
19 **Test Year?**

20 A. Yes. The following Table 1 evidences that for 2017, Victory's Distribution Equity Ratio (for
21 the Mid-Kansas division), calculated to be at about 17 percent, was below the prescribed
22 36.31 percent threshold. Per the 34.5kV FBR Protocols, this ratio is to be calculated
23 exclusive of equity in or from associated organizations. Note that the majority of such
24 excludable equity, as evidenced in Table 2, also on the following page, is represented by
25 Victory's investment in Mid-Kansas, its Generation and Transmission ("G&T") provider.

Table 1. Victory (Mid-Kansas Division) 2017 Distribution Equity Ratio				
Excluding investment in Associated Organizations				
2017				
Bal. Sheet				
<u>Ln. No.</u>				
29	Total Assets & Other Debts	\$		95,848,706
36	Total Margins & Equities	\$		29,482,219
8	Investment in Associated Organizations - Patronage Capital	\$		15,742,983
9	Investment in Associated Organizations - Other - General Funds	\$		-
10	Investment in Associated Organizations - Other - Nongeneral Funds	\$		-
	Total Investment in Associated Organizations	\$		15,742,983
Distribution Equity Ratio				
		Ln 36 - (Ln 8 + Ln 9 + Ln 10)		
		Ln 29 - (Ln 8 + Ln 9 + Ln 10)		
		=		17.15%

Table 2. Victory Electric (Mid-Kansas Division) 2017 Investment in Associated Organizations			
2017			
Bal. Sheet			
<u>Ln. No.</u>	<u>Description</u>	<u>Amount</u>	
	Cooperative Response Center - Equity Investment	\$	-
	Federated Insurance Capital Credits	\$	-
	Kansas Electric Cooperatives - Capital Credits	\$	-
	Farmway Co-op - Capital Credits	\$	-
	NRUCFC - Capital Credits	\$	191,863
	Rural Telephone Capital Credits	\$	-
C8	Mid-Kansas Electric Company - Capital Credits	\$	1,623,623
	CoBank - Capital Credits	\$	-
	National Information Solutions Cooperative - Capital Credits	\$	-
	National Rural Telecommunications Cooperative	\$	-
		\$	1,815,486
	Mid-Kansas Electric Company - Margins Allocation	\$	13,927,497
Total Investment in Associated Organizations		\$	15,742,983

Q. Now please discuss the information required for Item No. 11 on the list of required filing exhibits as contained in the Filing Exhibits Section F of the Protocols.

A. The aforementioned Item requires the Cooperative to provide a summary explanation of any material increases from the previous year (where “material” is quantified to be over 10 percent) in a COS item for the 34.5kV FBR. Comparing line items in Column (i) FBR Revenue Requirement on Exhibit 5, Page 1, submitted in the instant Docket against the same categories as filed last year in the 17-481 Docket, identifies the following 2017 COS items that show over a 10 percent increase as compared to the 2016 calendar year: Transmission Operations & Maintenance (“O&M”), Administrative & General (“A&G”), Depreciation and Amortization on General Plant, Interest-Other, Other Deductions, and Principal Payments. See the following summary in Table 3.³

Table 3. Victory (Mid-Kansas Division) COS Item Comparison					
<u>Adjusted Historical Test Year - After Allocation to the 34.5kV FBR</u>					
COS Item Description	2017 FBR Filed Revenue Requirement	2018 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 384,399	\$ 437,940	\$ 53,542	14%	
Administrative & General	\$ 1,039	\$ 24,638	\$ 23,598	2271%	
Depreciation and Amortization					
Transmission	\$ 590,011	\$ 639,781	\$ 49,770	8%	
General Plant	\$ 91	\$ 1,893	\$ 1,802	1987%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 872,935	\$ 927,987	\$ 55,052	6%	
Interest Charged to Construction - Credit	\$ -	\$ -			
Interest-Other	\$ 2,134	\$ 3,492	\$ 1,358	64%	
Other Deductions	\$ 8,128	\$ 10,401	\$ 2,273	28%	
<u>Margin Requirement Components</u>					
Principal Payments	\$ 750,516	\$ 832,663	\$ 82,147	11%	
L.T. Interest	\$ 872,935	\$ 927,987	\$ 55,052	6%	

³ Values displayed are rounded to the nearest dollar/percent.

Note, however, that comparing the same COS items before allocation to the 34.5kV FBR (looking at Column (f) Adjusted Historical Test Year of Exhibit 5, Page 1) produces the following, as depicted in Table 4 below:

Table 4. Victory (Mid-Kansas Division) COS Item Comparison					
<u>Adjusted Historical Test Year - Before Allocation to the 34.5kV FBR</u>					
COS Item Description	2017 FBR Filed Revenue Requirement	2018 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 384,399	\$ 437,940	\$ 53,542	14%	
Administrative & General	\$ 2,215,805	\$ 2,350,751	\$ 134,946	6%	
Depreciation and Amortization					
Transmission	\$ 590,011	\$ 639,781	\$ 49,770	8%	
General Plant	\$ 193,392	\$ 180,619	\$ (12,773)	-7%	
Property Tax	\$ -	\$ -	\$ -		
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 2,323,348	\$ 2,282,161	\$ (41,188)	-2%	
Interest Charged to Construction - Credit	\$ -	\$ -	\$ -		
Interest-Other	\$ 5,680	\$ 8,589	\$ 2,909	51%	
Other Deductions	\$ 21,634	\$ 25,579	\$ 3,946	18%	
<u>Margin Requirement Components</u>					
Principal Payments	\$ 1,997,528	\$ 2,047,735	\$ 50,208	3%	
L.T. Interest	\$ 2,323,348	\$ 2,282,161	\$ (41,188)	-2%	

Before proceeding to explain the reasons for the increases, I would like to point out that, since percentage values can often be misleading, sometimes overstating or understating the true impact, it is important to keep in mind the total dollars involved. Therefore, in my explanations, I will focus on the dollar amount differences. Please note I will be using the dollar differences as evidenced in Table 3 (i.e. reflecting only the portions of expenses allocated to the FBR), yet seeing the total amounts prior to allocation to the 34.5kV FBR as contained in Table 4 proves helpful in explaining some of the resulting changes.

Q. Please explain the drivers behind the \$53,542 change in Transmission O&M.

A. Transmission O&M increase reflects around \$30,000 increase in Property Taxes, and

1 approximately \$22,000 in changes due to payroll and benefits. The increase in Property
2 Taxes is more/less a “relative” increase: the 2016 Test Year expenses reflected a negotiated
3 refund for 2015 property taxes (booked in 2016) which resulted from the settlement between
4 the Kansas Electric Cooperatives (“KEC”) and Board of Tax Appeals (“BOTA”); whereas
5 there was no tax appeal made by KEC to BOTA for the 2016 property taxes, and so there
6 were no refunds to help offset the 2017 level of expense. It should also be noted that the
7 property tax is a pass thru expense that is assessed on the Cooperative by the local and state
8 authorities.

9 As for the \$22,000 in transmission payroll, this was due to more labor dollars now being
10 correctly allocated to transmission in 2017. See Lines 12-17 below for further detail.

11 **Q. Please explain the drivers behind the \$23,598 change in A&G.**

12 A. Comparing Table 3 with Table 4 makes it apparent that the increases in A&G expense
13 assigned to the 34.5kV is primarily due to the increase in a ratio used to allocate a portion of
14 the total expense to the FBR. The total adjusted historical A&G expense increased only 6
15 percent, but since the Transmission Labor Ratio (“LAB”, the ratio of the Transmission Labor
16 to total non-A&G Labor), used to multiply the total adjusted historical amount, is much
17 higher this year, the resultant allocated A&G amount is also higher.

18 **Q. Please explain why the LAB ratio is higher this year.**

19 A. It became apparent that prior to 2017, none of the engineers' time was being coded to
20 transmission. However, after interviews, it was determined they were indeed designing
21 transmission builds. In addition, lineman crews were also doing repair work on Victory's
22 34.5kV system. So in essence, it is not the case of this year's LAB ratio being too high,
23 but rather, the LAB ratio in prior years being too low, as not all applicable Labor dollars
24 were being coded to the Transmission category in the previous years. This is also
25 consistent with Ms. Larson's observation as noted on pages 12-13 of her Direct Prefiled

1 Testimony (footnote 13). However, as Ms. Larson comments, despite the increase in
2 Victory's LAB ratio resulting from this correction of practices, it remains one of the
3 lowest when compared to the other Mid-Kansas member-cooperatives that use the 34.5kV
4 FBR mechanism. It should also be noted that this is not at all the case where only the
5 wholesale customers will now be responsible for a greater allocation of certain expense
6 categories that use LAB to assign to the 34.5kV FBR, as the Revenue Requirement set by
7 the 34.5kV FBR is appropriately shared by both wholesale and retail loads based on their
8 Load Ratio Share ("LRS").

9 **Q. Please explain the drivers behind the \$1,802 change in Depreciation and Amortization**
10 **on General Plant.**

11 A. The underlying reason for the increase in Depreciation and Amortization on Transmission
12 Plant expense is similar to that discussed above in case of A&G expense increase. The total
13 adjusted historical amount has actually decreased, but, as discussed above, the higher LAB
14 allocator is now assigning a greater portion of the total expense to transmission. It should
15 also be noted that, ultimately, the depreciation expense did not play a major role in the
16 determination of the Revenue Requirement this year; i.e., under the MDSC ratio used to
17 determine margin requirement, the depreciation expense is subtracted as a margin offset
18 during the calculation.

19 **Q. Please explain the drivers behind the \$1,358 change in the Interest-Other Expense.**

20 A. The small increase in the Interest-Other expense assigned to the \$34.5kV FBR is due to the
21 increase in the total amount of expense and the higher Transmission Net Plant ("NP") ratio
22 used to allocate it to the FBR. The total amount of Interest-Other expense increase is
23 attributable to the increase in interest on customer deposits and an additional balance on the
24 Line of Credit financing drawn on in July of 2017.

25 **Q. Please explain the drivers behind the \$2,273 change in the Other Deductions Expense.**

1 A. The difference is a result of an increase in the total expense and the higher NP ratio used to
2 allocate it to the 34.5kV FBR. The increase in the total Other Deductions Expense is due to
3 increase in donations in 2017, mainly related to the Salvation Army capital campaign.
4 However, as detailed in Exhibit 10 attached to the Application submitted in the instant
5 Docket, Victory is making a customary adjustment to remove 50 percent of the associated
6 donations, partially disallowed by the Commission consistent with the policy adopted per
7 K.S.A. 66-101f (a).

8 **Q. Please explain the drivers behind the \$82,147 change in the Principal Payments.**

9 A. As evident from Table 4, the total amount of principal payments increased only about 3
10 percent. However, the NP ratio used to assign a portion of the total Principal Payments to the
11 34.5kV FBR, has increased from 37.57 percent as used in 2017 FBR to 40.66 percent as
12 calculated in the current year's Annual Update, thus assigning a greater portion of all
13 corresponding expenses to the 34.5kV FBR.

14 **Q. Can you please explain why Victory's NP ratio is higher this year?**

15 A. In her Direct Prefiled Testimony filed in the instant docket (Page 14, footnote 15), Ms.
16 Larson observed that "...[t]he increase in the 2018 NP allocator, as compared to the NP ratio
17 used in Victory's 2017 FBR, is mainly a product of using the Protocols-mandated 12-month
18 average for the projected plant balances rather than reflecting plant projected to be in service
19 at the end of the Budget Year". She further notes:

20 *Although last year, Victory had already reflected a projected major addition of over \$4M in*
21 *new transmission plant [including \$2.9 new Blue Jay 115/34.5kV sub], because the addition*
22 *was not planned until the last quarter of the 2017, this increase in transmission plant was*
23 *only partially reflected in the last year's FBR (i.e. for 4 months out of 12). This year,*
24 *however, the 12-month average for the projected plant balance finally reflects this major*
25 *addition as being in for a full calendar year (as the beginning plant balances for 2018 reflect*

1 *the end of year plant balances for 2017), thus causing the 2018 Net Transmission Plant*
2 *allocator (40.66%) to be higher in comparison to the NP ratio used in last year's filing*
3 *(37.57%).*

4 **Q. Do you have any other comments regarding the steps Victory took to lessen the impact**
5 **of the cost increases noted above on its customers?**

6 A. I would like to close by noting that increases in costs due to operational changes affect
7 Victory's wholesale and retail customers alike. Decisions made with regards to debt
8 financing and the overall operations of Victory are always made with the customers' best
9 interest in mind. Every effort is taken to find cost saving measures whenever possible in
10 order to lessen the impact on our customers.

11 **Q. What is your final recommendation to the Commission?**

12 A. I support Ms. Larson's recommendation to approve Victory's Application in the instant
13 Docket, as the resultant rate is reflective of the COS, was calculated in accordance to the
14 Commission-approved 34.5kV FBR Protocols, and therefore is just and reasonable and is
15 in the public interest.

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

17 A: Yes, it does.
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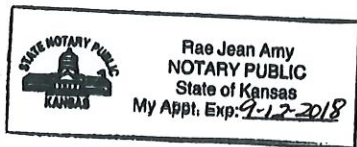
VERIFICATION OF SHANE LAWS

STATE OF KANSAS)
) ss
COUNTY OF FORD)

The undersigned, Shane Laws, upon oath first duly sworn, states that he is the Chief Executive Officer of The Victory Electric Cooperative, Inc., and that he has prepared the foregoing testimony, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.


Shane Laws

Subscribed and sworn to before me this 30 day of April, 2018.




Notary Public

My appointment expires: 9-12-2018