

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

In the Matter of the Annual Filing of)
Southern Pioneer Electric Company for)
Approval to Make Certain Changes to Its) Docket No. 14-SPEE- 507 -RTS
Charges for Electric Services, Pursuant to)
the Debt Service Coverage Formula Based)
Ratemaking Plan Approved in Docket)
No.13-MKEE-452-MIS.)

PREFILED DIRECT TESTIMONY OF

**STEPHEN J. EPPERSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
SOUTHERN PIONEER ELECTRIC COMPANY**

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

May 1, 2014

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Please state your name and business address.**

3 A. My name is Stephen J. Epperson. My business address for legal service is 1850 W.
4 Oklahoma, Ulysses Kansas 67880 and for mail receipt, PO Box 430, Ulysses Kansas
5 67880-0430.

6 **Q. What is your profession?**

7 A. I am the President and Chief Executive Officer of Southern Pioneer Electric Company
8 (“Southern Pioneer”), pursuant to the Services Agreement entered into between Pioneer
9 Electric Cooperative, Inc. (“Pioneer”) and Southern Pioneer on July 7, 2006. Our
10 corporate office is located in Ulysses, Kansas, and our distribution-customer service
11 offices are located in Liberal and Medicine Lodge, Kansas.

12 **Q. Please describe your responsibilities with Southern Pioneer.**

13 A. The President and CEO (“CEO”), along with other executive officers and vice presidents,
14 are appointed by the Board of Directors. As the CEO, I work directly for the Board of
15 Directors, serve as the liaison between the Southern Pioneer Consumer Advisory Council
16 and Southern Pioneer, and am responsible for assisting with establishing policy and rates,
17 implementing strategic programs, and overseeing the overall operation of Southern
18 Pioneer to ensure reliable service at a competitive cost, all while using generally
19 acceptable industry business practices.

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

21 A. The purpose of my testimony is to support the compliance filing in Southern Pioneer’s
22 Debt Service Coverage (“DSC”) Formula Based Ratemaking (“FBR”) Pilot Program
23 (referred to hereafter as the “DSC-FBR Plan”, “DSC Plan” or “Plan”). Specifically, my

1 testimony will (1) provide historical information on Southern Pioneer; (2) summarize and
2 convey the comments of the Southern Pioneer Consumer Advisory Council (“Council”) as
3 it relates to the DSC Plan and any rate adjustment therefrom; and (3) summarize Southern
4 Pioneer’s level of dues, donations, and charitable contributions during the 2013 test year.

5 **Q. What is your educational background?**

6 A. In 1991, I graduated from Ozark Christian College, a cooperative program with Missouri
7 Southern State University, with a bachelor’s degree, in both Bible and Psychology. In
8 2002, I successfully completed the National Rural Electric Cooperatives’ Management
9 Internship Program through the University of Nebraska at Lincoln, Nebraska. In 2010, I
10 received my Master of Business Administration from Bradley University.

11 **Q. What is your professional background?**

12 A. I was appointed Southern Pioneer’s CEO effective January 1, 2011. Prior to that date, I
13 served as the President and CEO of McDonough Power Cooperative, located in Macomb,
14 Illinois, from July 2006 to December 31, 2010. From August 2001 to July 2006, I served
15 as the Senior Vice President of Northeast Rural Services, Inc., a subsidiary of Northeast
16 Oklahoma Electric Cooperative. I have also served in other capacities, in both the utilities
17 and the private not-for-profit sectors as a business supervisor, consultant, business
18 development director and counselor, etc.

19 **Q. Have you previously presented testimony before the Commission?**

20 A. Yes. I provided prefiled direct and rebuttal testimony in Docket No. 12-MKEE-380-RTS
21 and Docket No. 13-MKEE-452-MIS (the “452 Docket”), as well as live testimony in the
22 evidentiary hearing for those dockets. I also provided prefiled direct testimony in Docket

1 No. 13-MKEE-447-MIS (the “447 Docket,” commonly referred to as “spin-down”) and
2 Docket No. 13-MKEE-699-RTS.

3 **Q. In addition to your testimony, is Southern Pioneer offering other testimony in**
4 **support of this Application?**

5 A. Yes. Utilizing the prescribed Protocols adopted in the 452 Docket, Mr. Richard J. Macke,
6 rate consultant with Power Systems Engineering (“PSE”), has calculated Southern
7 Pioneer’s adjusted DSC ratio for the test year as compared to the Commission-approved
8 target. Additionally, Mr. Macke has prepared proposed tariffs to achieve the reduced
9 revenue requirement to meet the target in this annual filing. All of the exhibits, as
10 outlined in the Protocols, are attached to the Application rather than attached to individual
11 testimony. One item to note is that Exhibit 5, as discussed in the Protocols under Section
12 J., is to identify any material changes, if any, in a cost of service item from the previous
13 year. Southern Pioneer experienced no such material changes in the portion related to
14 distribution, therefore, Exhibit 5 merely references my testimony. The fact that there were
15 no material changes can be verified by reviewing the comparative trial balance documents
16 contained in Exhibit 10.

17 **II. SOUTHERN PIONEER**

18 **Q. Please provide some historical information on the origination of and describe the**
19 **business activities of Southern Pioneer.**

20 A. Southern Pioneer was formed in 2005 in response to Aquila, Inc., d/b/a/ Aquila Networks-
21 WPK’s (“Aquila”) announcement of its intention to sell its Kansas electric assets. Five
22 member-owner cooperatives of Sunflower Electric Power Corporation (“Sunflower”) and
23 Southern Pioneer, a wholly owned subsidiary of Pioneer, joined to form Mid-Kansas

1 Electric Company, LLC (“Mid-Kansas”), a not-for-profit limited liability company, to
2 acquire and serve the former Aquila service territory. Mid-Kansas and Aquila executed an
3 Asset Purchase Agreement dated September 21, 2005 (“the Acquisition”), and submitted
4 the agreement to the State Corporation Commission of the State of Kansas (“Commission”
5 or “KCC”) for approval in Docket No. 06-MKEE-524-ACQ (the “524 Docket”). On
6 February 23, 2007, the Commission approved the Acquisition, and pursuant to
7 Commission order, on April 1, 2007, Southern Pioneer began to serve and independently
8 operate a designated geographic portion of the Mid-Kansas certificated territory formerly
9 serviced by Aquila. At that time, Mid-Kansas held the Certificate of Convenience and
10 Necessity for the former Aquila area and Southern Pioneer was serving a portion of the
11 area via a Commission-approved Electric Customer Service Agreement.

12 **Q. Please continue.**

13 A. As a Mid-Kansas member-owner, and pursuant to a Commission-approved Electric
14 Customer Service Agreement, Southern Pioneer contractually provided retail service to
15 approximately 17,300 Mid-Kansas consumers in 34 communities in the Mid-Kansas
16 “Southern Pioneer Division.” Southern Pioneer also provided sub-transmission service to
17 34.5 kV sub-transmission users. The Commission approved this arrangement until such time
18 that the Mid-Kansas certificated territory and customers were transferred to the member-
19 owners.

20 **Q. You mention “until such time that the Mid-Kansas certificated territory and customers
21 were transferred.” Has that transfer since taken place?**

22 A. Yes. On November 21, 2013, the Commission issued its order in the 447 Docket, approving
23 the long awaited Mid-Kansas spin-down, which provided for, among other things, the

1 transfer of the individual certificated territories, consumers, KCC-approved rules and
2 regulations, and tariffs to each of the Mid-Kansas Members, including Southern Pioneer. As
3 part of the 447 Docket, the Commission granted to Southern Pioneer public utility status.
4 Therefore, with the transfer, the Mid-Kansas customers being served by Southern Pioneer by
5 virtue of the Electric Customer Service Agreement noted above, officially became Southern
6 Pioneer Customers.

7 **Q. In the past, Mid-Kansas, as the certificate holder, filed regulatory proceedings on**
8 **behalf of the Mid-Kansas members and was in fact, the Applicant in the 452 Docket.**
9 **Does that mean that Mid-Kansas must continue to make the DSC-FBR Plan filings on**
10 **behalf of Southern Pioneer?**

11 **A.** No. As was explained in the 452 Docket, it was anticipated that upon spin-down, Southern
12 Pioneer would begin making filings in its own name.

13 **III. Southern Pioneer Consumer Advisory Council**

14 **Q. As part of the Protocols set forth for the DSC-FBR Plan, Southern Pioneer agreed to**
15 **consult with its Consumer Advisory Council (“Council”) regarding the ratepayer**
16 **impact of the annual filings and include with the Application the comments received**
17 **from the Council.¹ Additionally, Southern Pioneer agreed to submit the minutes**
18 **from quarterly Council Meetings that occurred during the test year,² which in this**
19 **case is calendar year 2013. Are the Council minutes from the test year attached to**
20 **the filing?**

21 **A.** Yes. Included with the filing as **Exhibit 13**, which has been marked as Confidential, are
22 the minutes from the quarterly Council meetings for the 2013 calendar year.

¹ 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 2, Section 2

² 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 7, Section J(13)

1 **Q. What are the Council's comments with regard to the annual filing impact to**
2 **ratepayers?**

3 A. On March 31, 2014, as part of the first 2014 quarterly Council meeting, Southern Pioneer
4 shared with the Council the "preliminary" calculations for the DSC-FBR Plan filing and
5 the overall impact to ratepayers. In summary, Executive Vice President-Assistant CEO
6 Randall D. Magnison and I advised the Council that the first DSC Plan filing was due on
7 or before May 1, 2014. Mr. Magnison and I explained to the Council that in following the
8 Protocols adopted in the 452 Docket, PSE calculated that Southern Pioneer achieved a
9 DSC ratio in excess of the allowed target. This excess resulted in an overall rate decrease
10 of just less than one percent for retail ratepayers. Because at the time of filing for
11 Commission approval of the DSC-FBR Plan Southern Pioneer anticipated a retail rate
12 increase for the first year of the DSC-FBR Plan based on regulatory lag and financial
13 forecasts, and the Council had been advised in December 2013 of an anticipated increase,
14 the Council was pleased to learn in March 2014 that the results of the DSC calculation
15 indicated a reduction in rates. The Council requested that Southern Pioneer work to seek
16 approval and implement the final rate adjustment within the 90-day schedule as outlined in
17 the DSC Plan.

18 **Q. As part of the planned DSC filing, did you discuss other information with the**
19 **Council at this March meeting?**

20 A. Yes, I did, which brings me to the final portion of my testimony - Dues, Donations, and
21 Charitable Contributions.

1 **IV. Dues, Donations, and Charitable Contributions**

2 **Q. You implied that in March 2014 you discussed with the Council the donations, and**
3 **charitable contributions made by Southern Pioneer. Will you please elaborate on**
4 **this discussion?**

5 A. Yes. Beginning with the March 2014 Council Meeting, and as a standard practice to keep
6 the Council informed, Southern Pioneer provided for review a list of Southern Pioneer's
7 donations and charitable contributions for the prior calendar quarter. At the March 2014
8 meeting, Southern Pioneer reviewed with the Council the 2013 test year donations and
9 charitable contributions that would be included in the DSC compliance filing, as well as
10 the donations for the first quarter 2014.

11 **Q. In addition to keeping the Council informed, what other reasons exist for Southern**
12 **Pioneer conducting this review of donations and charitable contributions?**

13 A. In previous dockets, Southern Pioneer has testified to the merits of including in rates all
14 expenses associated with promotional advertising, dues, donations and charitable
15 contributions to consumers, communities and civic organizations.³ Southern Pioneer,
16 Staff, and intervenors have debated the value of these associated expenses in providing
17 reliable service and the Commission's practice in disallowing from regulated utility rates
18 promotional advertising, and 50% of dues, donations, and charitable contributions,
19 pursuant to K.S.A. 66-101f. In fact, as part of the 452 Docket, there was fairly extensive
20 testimony at hearing with regard to the disallowance of these expenses and the resulting
21 impact to cooperatives and their member and customers,⁴ and Staff indicated that it would

³ Docket 452, Epperson Rebuttal, Page 5, lines 15-22 and Page 6, lines 1-18

⁴ Transcript, pp. 37-44; 49-53; 55-56; 92-94; 141-142; and 149 (July 18, 2013).

1 probably be fair to take a fresh look at how these items are treated by Staff and the
2 Commission.⁵

3 It has been, and continues to be, Southern Pioneer's position that unlike Investor Owned
4 Utilities ("IOUs") that have shareholders to bear the costs of disallowed expenses,
5 cooperatives and not-for-profit utilities such as Southern Pioneer (that do not have
6 shareholders) are harmed by the Commission's one-size-fits-all disallowance of up to 50%
7 of these type of expenses.

8 Because Southern Pioneer is a not-for-profit utility, and does not have private shareholders
9 to absorb these disallowed amounts without customer service or reliability being affected,
10 Southern Pioneer reviewed its donations and charitable giving with the Council to (1)
11 receive their input, and (2) ensure that the Council supported the cooperative principle of
12 "Support for Community" by funding these different causes, etc.

13 **Q. And in your opinion, does the Council support Southern Pioneer's practice and level**
14 **of charitable contributions and donations?**

15 A. Yes, it does.

16 **Q. And how did the Council affirm Southern Pioneer's practice?**

17 A. As previously stated, at the March 31, 2014 Council Meeting, I distributed a list of
18 charitable contributions and donations to the Council for review. The list is reflected and
19 itemized in **Exhibit 9**. After reviewing and discussing the various donations and
20 charitable contributions, the Council took action to approve the donations and charitable
21 contributions identified in **Exhibit 9**. An excerpt of the March 31, 2014 Minutes
22 containing the discussion is attached to my testimony as **Exhibit SJE-1**.

⁵ Transcript, p. 93.

1 **Q. Now that the Council voted to support the current level of donations and charitable**
2 **contributions, is the total amount identified in Exhibit 9 included in the Protocols**
3 **and resulting calculation?**

4 A. Yes, the categorical total, as reflected in the table immediately below and extracted from
5 Filing Exhibit 9, is included in the calculation.

6 **Categorical Total – Filing Exhibit #9**

Category	Amount
Advertising	\$36,416.78
Donations	\$73,023.46
Dues	\$59,370.41
Promotional Items	\$20,821.58
Labor - Donations	\$20,253.85
Unassigned Activity	\$20.14
Total	\$209,906.22

7 **Q. Why does Southern Pioneer believe the amounts above should be included in its**
8 **revenue requirement?**

9 A. As stated earlier in my prefiled testimony, and as testified in previous dockets, Southern
10 Pioneer, as a not-for-profit utility, is uniquely positioned in that it cannot resort to
11 shareholders to absorb these disallowed amounts. In addition, the Council, through its
12 affirmation, believes Southern Pioneer's involvement in and giving back to the 34
13 communities and ratepayers it serves, is not only an acceptable business expense but

1 important to maintaining viable communities and the quality of life for its consumers
2 located in southwest and south central Kansas.

3 **Q. Previously you noted K.S.A. 66-101f as the statute that allows the Commission to**
4 **disallow up to 50% of dues, donations, and charitable contributions. To your**
5 **knowledge does the statute require the Commission to disallow these expenses?**

6 A. No, I do not believe that it does. While I am not an attorney, the language seems clear that
7 the statute merely provides the Commission the option of adopting such a policy. While it
8 may make sense for the Commission to adopt such a policy for IOUs because the investor-
9 shareholder can share with the ratepayer the burden of these types of expenses that benefit
10 the shareholder and ratepayer equally, the situation with cooperatives and not-for-profit
11 utilities such as Southern Pioneer is not analogous due to the absence of shareholders.
12 Therefore, applying an across-the-board, one-size-fits-all policy to similarly situated IOUs
13 may be fair. However, applying the same across-the-board, one-size-fits-all policy to non-
14 IOU cooperatives or not-for-profit utilities that are differently situated than IOUs, for the
15 sake of policy alone, is not fair.

16 **Q. Your discussion so far has been limited to donations and charitable contributions.**
17 **Does the same school of thought apply to dues paid by Southern Pioneer to**
18 **cooperative associations such as Kansas Electric Cooperatives, Inc. (“KEC”)?**

19 A. Yes, it does. The majority of Kansas cooperatives are relatively small as compared to
20 IOUs, and because of that fact, do not have the resources to tackle things like policy-
21 related matters that affect all cooperative members on a state and federal level. Therefore,
22 cooperatives pool their resources, so-to-speak, by paying dues to association organizations
23 such as KEC, so that the organization can then address the issues on behalf of the

1 cooperatives. The issues would otherwise go unaddressed because the cooperatives are
2 financially unable to address certain issues on their own or the cost would be solely borne
3 by the individual cooperative. Thus, it benefits our members and consumers and protects
4 their interests by being involved with organizations such as KEC. The Commission
5 should not discourage this involvement by disallowing these expenses in rates. In
6 addition, by disallowing dues to these types of organizations, the Commission is
7 ultimately affecting the customer/member because, again, there are no shareholders to
8 absorb these costs.

9 **Q. But Southern Pioneer is not a cooperative. How is it that Southern Pioneer pays**
10 **dues to a cooperative organization?**

11 A. Southern Pioneer is able to pay dues and be a member of KEC because Southern Pioneer
12 is owned by Pioneer, which is a cooperative. KEC allows Southern Pioneer membership
13 per se under the umbrella of the Pioneer membership. By allowing this, in effect, KEC
14 offers a reduced membership to both Pioneer and Southern Pioneer as they jointly pay one
15 base fee to where other KEC members pay the full amount, which benefits both entities
16 and their respective members and consumers. To be more specific and eliminate any
17 concerns regarding subsidization, the KEC annual base fee, which is the same amount for
18 all KEC members regardless of size, and any KEC assessed fees in excess of the base fee
19 based on connected retail meters, are allocated internally between Pioneer and Southern
20 on a “retail meter ratio”.

1 **V. CONCLUSION**

2 **Q. In closing, is there anything else you'd like to say?**

3 A. Yes. In the 452 Docket, one of the many reasons cited for support of a DSC FBR Plan
4 was that it could minimize future rate increases to consumers,⁶ and I believe Southern
5 Pioneer achieved that objective by submitting a filing that provides for a slight decrease in
6 the first year of the Plan. I believe the first year results are not only commendable but
7 they also bring credibility to the DSC FBR ratemaking process by returning money, i.e.
8 reducing rates, to ratepayers in a timely manner when certain financial targets are
9 exceeded. While it is impossible to know what will occur in the remaining years of the
10 plan, the ability to react to the current financial conditions being experienced by Southern
11 Pioneer in a more fluid manner than is experienced with traditional rate case filings
12 provides benefits to Southern Pioneer and its consumers, which is exactly what we'd
13 hoped for in implementing this plan.

14 **Q. Does this conclude your Direct Testimony?**

15 A. Yes, it does.

⁶ 452 Docket, Epperson Prefiled Testimony, Page 17, lines 15-20

Exhibit SJE-1

The contents of this exhibit contain confidentially-designated, sensitive business information and have been redacted from this filing.

VERIFICATION

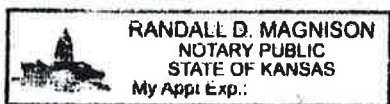
STATE OF KANSAS)
) ss
COUNTY OF GRANT)

The undersigned, Stephen J. Epperson, upon oath first duly sworn, states that he is an officer of Southern Pioneer Electric Company, and that he has prepared or oversaw the preparation of 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.



Stephen J. Epperson

Subscribed and sworn to before me this 1st day of May, 2014.



Notary Public

My appointment expires: 11-24-2016