

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. 17-VICE- 481 _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, 2017

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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, LLC (“Mid-Kansas”), Sunflower Electric Power Corporation (“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”) and
4 16-VICE-494-TAR (“16-494 Docket”).

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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 Service
10 (“LADS”) over Victory’s 34.5kV sub-transmission system (Mid-Kansas division).

11 By way of overview, the Commission approved a Settlement Agreement (“Settlement”) in
12 the 16-023 Docket that allows Victory, and certain other Mid-Kansas members, to make annual
13 adjustments to their respective LADS rates.¹ As part of that Settlement, the Commission
14 approved prescriptive Protocols setting forth the content and procedure governing the 34.5kV
15 Formula Based Rate (“FBR”) annual filings. Victory’s Protocols are set forth in Exhibit C to
16 the Settlement.² The Application filed contemporaneously with this testimony is the second
17 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 \$3.16/kW, which is a \$0.17/kW increase from the currently effective rate of
20 \$2.99/kW that was approved by the Commission in the 16-494 Docket. Specifically, my
21 testimony will:

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

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 LADS
2 over Victory's 34.5kV sub-transmission system (Mid-Kansas division), as contained in
3 Ms. Elena Larson's Direct Prefiled Testimony submitted with the Application filed in
4 the instant Docket.
- 5 2. Confirm that Victory will notify its customers as required in the Customer Notification
6 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 2017 34.5kV FBR rate of \$3.16/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 detailed
17 in Ms. Larson's Prefiled Direct Testimony and included in the proposed LADS tariff, is just
18 and reasonable, as it is based on the COS and follows the Commission-prescribed
19 methodology.

20 **Q. Please elaborate on how the Customer Notification requirement, detailed in Section C on**
21 **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 actual
23 Docket Number is known to the Cooperative), all customers taking wholesale LADS from
24 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 Commission's
8 March 10, 2016 Order approving the initial application for Victory's 34.5kV FBR.
- 9 5. A Victory contact person and phone number for questions.

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

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

16 **Q. Has Victory (Mid-Kansas division) calculated its Distribution Equity Ratio for the 2016**
17 **Test Year?**

18 A. Yes. The following Table 1 evidences that for 2016, Victory's Distribution Equity Ratio (for
19 the Mid-Kansas division), calculated to be at about 13 percent, was below the prescribed 36.31
20 percent threshold. Per the 34.5kV FBR Protocols, this ratio is to be calculated exclusive of
21 equity in or from associated organizations. Note that the majority of such excludable equity,
22 as evidenced in Table 2, also on the following page, is represented by Victory's investment in
23 Mid-Kansas, its Generation and Transmission ("G&T") provider.

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Table 1. Victory (Mid-Kansas Division) 2016 Distribution Equity Ratio				
Excluding investment in Associated Organizations				
2016				
Bal. Sheet				
<u>Ln. No.</u>				
29	Total Assets & Other Debts	\$	92,852,011	
36	Total Margins & Equities	\$	24,573,918	
8	Investment in Associated Organizations - Patronage Capital	\$	14,238,676	
9	Investment in Associated Organizations - Other - General Funds	\$	-	
10	Investment in Associated Organizations - Other - Nongeneral Funds	\$	-	
	Total Investment in Associated Organizations	\$	14,238,676	
Distribution Equity Ratio				
		Ln 36 - (Ln 8 + Ln 9 + Ln 10)		
		Ln 29 - (Ln 8 + Ln 9 + Ln 10)		
		=		13.15%

Table 2. Victory Electric (Mid-Kansas Division) 2016 Investment in Associated Organizations				
2016				
Bal. Sheet				
Ln. No.	Description	Amount		
	Cooperative Response Center - Equity Investment	\$	-	
	Federated Insurance Capital Credits	\$	-	
	Kansas Electric Cooperatives - Capital Credits	\$	-	
	Farmway Co-op - Capital Credits	\$	-	
	NRUCFC - Capital Credits	\$	191,687	
C8	Rural Telephone Capital Credits	\$	-	
	CoBank - Capital Credits	\$	-	
	National Information Solutions Cooperative - Capital Credits	\$	-	
	National Rural Telecommunications Cooperative	\$	-	
		\$	191,687	
	Mid-Kansas Electric Company - Margins Allocation	\$	14,046,989	
Total Investment in Associated Organizations		\$	14,238,676	

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 16-494 Docket, identifies the following 2016 COS items that show over a 10 percent increase as compared to the 2015 calendar year: Depreciation and Amortization on Transmission Plant, Other Deductions, and Principal Payments. See the following summary in Table 3.

Table 3. Victory (Mid-Kansas Division) COS Item Comparison					
COS Item Description	2016 FBR Filed Revenue Requirement	2017 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 398,369	\$ 384,399	\$ (13,971)	-4%	
Administration & General	\$ 6,615	\$ 1,039	\$ (5,575)	-84%	
Depreciation and Amortization	\$ -				
Transmission	\$ 523,575	\$ 590,011	\$ 66,436	13%	
General Plant	\$ 711	\$ 91	\$ (621)	-87%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 850,469	\$ 872,935	\$ 22,466	3%	
Interest Charged to Construction - Credit	\$ -	\$ -			
Interest-Other	\$ 4,793	\$ 2,134	\$ (2,659)	-55%	
Other Deductions	\$ 6,074	\$ 8,128	\$ 2,054	34%	
<u>Margin Requirement Components</u>					
Principal Payments	\$ 645,608	\$ 750,516	\$ 104,908	16%	
L.T. Interest	\$ 850,469	\$ 872,935	\$ 22,466	3%	

Q. Please explain the drivers behind the change in Depreciation and Amortization on Transmission Plant and discuss the steps the Cooperative took to lessen the impact of the cost increases.

A. The reason for the increase in Depreciation and Amortization on Transmission Plant expense is primarily due to an increase in projected transmission plant, as well as the corresponding increase in a Transmission Net Plant allocator as compared to last year. It should also be noted that, ultimately, the depreciation expense did not play a major role in the determination of the

Revenue Requirement this year; i.e., under the MDSC ratio used to determine margin requirement, the depreciation expense is subtracted as a margin offset during the calculation.

Q. Please explain the drivers behind the change in the Other Deductions Expense.

A. Although the percent increase in Other Deductions assigned to Victory's 34.5kV FBR compared to prior year is at 34 percent, the actual difference is only \$2,054. The difference is a result of a slight increase in donations related to one-time projects, which received contributions in 2016. The latter included local quality of life and community improvement activities, such as donations for a grant writing workshop and YMCA platforms for a swim team at a new aquatic center location. However, as detailed in Exhibit 10 attached to the Application submitted in the instant Docket, Victory is making a customary adjustment to remove 50 percent of the associated donations, partially disallowed by the Commission consistent with the policy adopted per K.S.A. 66-101f (a).

Q. Please explain the drivers behind the change in the Principal Payments and discuss the steps the Cooperative took to lessen the impact of the cost increases.

A. The Principal Payments increased from prior year mainly due to the fact that the amortization schedules on the long-term debt are at the stage where a greater portion of the payments will be going towards paying down the principal. Additionally, Victory projected for a new loan, at competitive low interest rate, to be drawn to help finance necessary plant additions, some of which were due to storm damage.³ Finally, the Transmission Net Plant Allocator has also increased as compared to last year as already explained on Page 6.

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

³ The details of the projected long-term debt are evidenced in filing Exhibit 9 on Page 7, as well as in the narrative contained within filing Exhibit 12. Projected plant additions/retirements are listed in Exhibit 9, Page 1.

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

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

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

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

12 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 24th day of April, 2017.




Notary Public

My appointment expires: 9-12-2018