

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. 19-VICE- 448 -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, 2019

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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 23 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, 17-VICE-481-TAR, and 18-VICE-479-TAR (“18-479 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 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 fourth
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 \$3.89/kW, which is a \$0.11/kW increase from the currently effective rate of
20 \$3.78/kW that was approved by the Commission in the 18-479 Docket. Specifically, my
21 testimony will:

22
23
24

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 2019 34.5kV FBR rate of \$3.89/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 name 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 2018**
17 **Test Year?**

18 A. Yes. The following Table 1 evidences that for 2018, Victory's Distribution Equity Ratio (for
19 the Mid-Kansas division), calculated to be at 22.7 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.

Table 1. Victory (Mid-Kansas Division) 2018 Distribution Equity Ratio				
Excluding investment in Associated Organizations				
2018				
Bal. Sheet				
<u>Ln. No.</u>				
29	Total Assets & Other Debts	\$		99,148,718
36	Total Margins & Equities	\$		36,083,613
8	Investment in Associated Organizations - Patronage Capital	\$		17,565,856
9	Investment in Associated Organizations - Other - General Funds	\$		-
10	Investment in Associated Organizations - Other - Nongeneral Funds	\$		-
	Total Investment in Associated Organizations	\$		17,565,856
Distribution Equity Ratio	$\frac{\text{Ln 36} - (\text{Ln 8} + \text{Ln 9} + \text{Ln 10})}{\text{Ln 29} - (\text{Ln 8} + \text{Ln 9} + \text{Ln 10})}$		=	22.70%

Table 2. Victory Electric (Mid-Kansas Division) 2018 Investment in Associated Organizations			
2018			
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	\$	192,076
	Rural Telephone Capital Credits	\$	-
C8	Mid-Kansas Electric Company - Capital Credits	\$	3,843,977
	CoBank - Capital Credits	\$	-
	National Information Solutions Cooperative - Capital Credits	\$	-
	National Rural Telecommunications Cooperative	\$	-
		\$	4,036,053
	Mid-Kansas Electric Company - Margins Allocation	\$	13,529,803
Total Investment in Associated Organizations		\$	17,565,856

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 18-479 Docket, identifies the following 2018 COS items that show over a 10 percent increase as compared to the 2017 calendar year: Transmission Operations & Maintenance (“O&M”), Administrative & General (“A&G”), Depreciation and Amortization on General Plant, and Interest-Other. 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	2018 FBR Filed Revenue Requirement	2019 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 437,940	\$ 584,187	\$ 146,247	33%	
Administrative & General	\$ 24,638	\$ 41,803	\$ 17,165	70%	
Depreciation and Amortization					
Transmission	\$ 639,781	\$ 634,627	\$ (5,154)	-1%	
General Plant	\$ 1,893	\$ 3,185	\$ 1,292	68%	
Property Tax	\$ -	\$ -	\$ -		
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 927,987	\$ 863,254	\$ (64,733)	-7%	
Interest Charged to Construction - Credit	\$ -	\$ -	\$ -		
Interest-Other	\$ 3,492	\$ 4,825	\$ 1,332	38%	
Other Deductions	\$ 10,401	\$ 8,358	\$ (2,043)	-20%	
<u>Margin Requirement Components</u>					
Principal Payments	\$ 832,663	\$ 847,798	\$ 15,135	2%	
L.T. Interest	\$ 927,987	\$ 863,254	\$ (64,733)	-7%	

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	2018 FBR Filed Revenue Requirement	2019 FBR Filed Revenue Requirement	DIFF \$	DIFF %	
<u>Operating Expenses</u>					
Transmission O&M	\$ 437,940	\$ 584,187	\$ 146,247	33%	
Administrative & General	\$ 2,350,751	\$ 2,498,106	\$ 147,355	6%	
Depreciation and Amortization					
Transmission	\$ 639,781	\$ 634,627	\$ (5,154)	-1%	
General Plant	\$ 180,619	\$ 190,361	\$ 9,742	5%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 2,282,161	\$ 2,147,009	\$ (135,152)	-6%	
Interest Charged to Construction - Credit	\$ -	\$ -			
Interest-Other	\$ 8,589	\$ 12,000	\$ 3,411	40%	
Other Deductions	\$ 25,579	\$ 20,787	\$ (4,792)	-19%	
<u>Margin Requirement Components</u>					
Principal Payments	\$ 2,047,735	\$ 2,108,569	\$ 60,834	3%	
L.T. Interest	\$ 2,282,161	\$ 2,147,009	\$ (135,152)	-6%	

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 \$146,247 change in Transmission O&M.

A. Increase in Transmission O&M is attributed primarily to the increase in Property Taxes. The

1 overall level of property tax in 2018 was 20 percent higher than in 2017. Additionally,
2 allocation of the overall property tax to transmission increased: Rural Utility Services (“RUS”)
3 guidelines require the allocation of the property tax to other expense categories by plant
4 balances, and Victory’s transmission plant increased after the addition of BlueJay substation.⁴
5 Accordingly, in 2018, there was an additional \$111,384 in property tax allocated to
6 Transmission O&M Expense compared to 2017. It should also be noted that the property tax
7 is a pass thru expense that is assessed on the Cooperative by the local and state authorities.

8 The remainder of the increase in Transmission O&M expense is attributed to (1) the changes
9 in payroll and benefits, where Transmission payroll saw an increase of about \$10,996
10 compared to 2017 (see Page 9, Lines 2-4 below for further detail); and (2) the purchase of
11 bushings for a transformer.

12 **Q. Please explain the drivers behind the \$17,165 change in A&G.**

13 A. Comparing Table 3 with Table 4 makes it apparent that the increases in A&G expense assigned
14 to the 34.5kV is primarily due to the increase in a ratio used to allocate a portion of the total
15 A&G expense to the FBR. The total adjusted historical A&G expense increased only 6
16 percent.⁵ However, since the Transmission Labor Ratio (“LAB”, the ratio of the Transmission
17 Labor to total non-A&G Labor), used to multiply the total adjusted historical A&G amount, is
18 higher this year (1.67% LAB in 2018 compared to 1.05% LAB in 2017), the resultant allocated
19 A&G amount is also higher.

21
22 ⁴ Property tax expense assessment and recovery is “lagging” by a year – i.e. for any given calendar year, the
23 assessed property tax is allocated on the year-end plant balances for the previous calendar year. So, even
though BlueJay substation was added in 2017, the property tax associated with this plant was recovered in
the 2018.

24 ⁵ The increase in the total A&G is explained by the addition of new positions: partially through 2017,
25 Victory added 2 positions (Accounting & Business Analyst in March and IT Analyst in June), whose
salary and now benefits reflected a full year’ amounts in 2018; and in 2018, Cooperative added 2 more
positions (Business Intelligence Analyst in April and HR Coordinator in July).

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

2 A. As already explained in my testimony filed in the 18-479 Docket last year, mid-year 2017,
3 Victory implemented a correction to accurately reflect engineers' time spent on
4 transmission projects.⁶ So similar to last year, it is not the case of this year's LAB ratio
5 being too high, but rather, the LAB ratio in years prior to 2017 being too low, as not all
6 applicable Labor dollars were being coded to the Transmission category in those previous
7 years.⁷ This is also consistent with Ms. Larson's observation as noted on page 13 of her
8 Direct Prefiled Testimony (footnote 12). However, as Ms. Larson comments, despite the
9 increase in Victory's LAB ratio resulting from this correction of practices, it remains one
10 of the lowest when compared to the other Mid-Kansas member-cooperatives that use the
11 34.5kV FBR mechanism. As was true last year, it is not at all the case where only the
12 wholesale customers will be responsible for a greater allocation of certain expense
13 categories that use LAB to assign to the 34.5kV FBR, as the Revenue Requirement set by
14 the 34.5kV FBR is appropriately shared by both wholesale and retail loads based on their
15 Load Ratio Share ("LRS"). Finally, Staff's analysis in the 18-479 Docket noted no anomaly
16 with the 2017 mid-year correction to allocation of time, and the Commission approved
17 Victory's 34.5kV FBR, as filed, based on Staff's recommendation.

18 **Q. Please explain the drivers behind the \$1,292 change in Depreciation and Amortization on**
19 **General Plant.**

20 A. The underlying reason for the increase in Depreciation and Amortization on Transmission
21 Plant expense is similar to that discussed above in case of A&G expense increase. The total
22

23 ⁶ Page 8, Lines 19-24 (Prefiled Direct Testimony of Shane Laws, filed May 1, 2018).

24 ⁷ Since the correction was made mid-year 2017, LAB ratio for 2017 reflected only a partial year with the
25 correction to allocation of time spent on transmission projects; whereas LAB for 2018 now reflects a full
calendar year with the correct time recorded to transmission projects.

1 adjusted historical amount of Depreciation and Amortization on General Plant increased only
2 5 percent; but, as discussed above, the higher LAB allocator is now assigning a greater portion
3 of the total expense to transmission. It should also be noted that, ultimately, the depreciation
4 expense did not play a major role in the determination of the Revenue Requirement this year;
5 i.e., under the Modified Debt Service Coverage ("MDSC") ratio used to determine margin
6 requirement, the depreciation expense is subtracted as a margin offset during the calculation.

7 **Q. Please explain the drivers behind the \$1,332 change in the Interest-Other Expense.**

8 A. The small increase in the Interest-Other expense assigned to the 34.5kV FBR is due to the
9 increase in the total amount of expense. The total amount of Interest-Other expense increase is
10 attributable to the increase in interest on customer deposits.

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

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

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

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

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

24 A: Yes, it does.
25


VERIFICATION OF SHANE LAWS

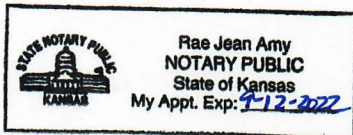
STATE OF KANSAS)
) ss
COUNTY OF FORD)

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 knowledge and belief.


Shane Laws

Subscribed and sworn to before me this 30th day of April 2019.


Notary Public



My appointment expires: 9-12-2022