

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

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

**PREFILED DIRECT TESTIMONY OF**  
**DARRIN LYNCH**  
**GENERAL MANAGER**  
**WESTERN ELECTRIC COOPERATIVE, INC.**

**ON BEHALF OF**  
**WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.**

May 1, 2016

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**PART I - QUALIFICATIONS**

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

A. My name is Darrin Lynch. My business address is 635 S. 13<sup>th</sup> St., WaKeeney, Kansas.

**Q. What is your profession?**

A. I am the General Manager of Western Cooperative Electric Association, Inc. (“Western” or “Cooperative”).

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

A. I graduated from Fort Hays State University in December, 1996 with a degree in Business Administration. I later received my Certified Public Accountant (“CPA”) Certification in December, 1997. I have since continued to complete CPA training and other continuing professional education coursework.

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

A. My professional career began as a CPA in 1997, working for Kennedy and Coe, LLC. My duties performed at Kennedy and Coe included mostly auditing and income tax work. Five years later, I transitioned from public accounting to the accounting department at Sunflower Electric Power Corporation (“Sunflower”), where I worked for the next 11 years until April 26, 2013. While employed by Sunflower, I worked on both routine and special projects, including the acquisition of the Aquila-WPK system by Mid-Kansas Electric Company, LLC (“Mid-Kansas”). In 2013, I was named General Manager of Western, the position that I still hold today.

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

A. Yes. I have provided testimony in Docket Nos. 13-MKEE-447-MIS and 16-MKEE-023-TAR (“16-023 Docket”).

**PART II - SUMMARY OF DIRECT TESTIMONY**

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

A. The purpose of my testimony is as follows:

1. Affirm Western's support for the calculation of the wholesale demand rate for the Local Access Delivery Service ("LADS") service over Victory's 34.5kV sub-transmission system (Mid-Kansas division) as contained in Mr. Richard Macke's Direct Prefiled Testimony.
2. Confirm that Western has notified its customers as required in Section C of the Commission-approved 34.5kV FBR Protocols (included as Exhibit D with the Commission March 10 and April 26, 2016 Orders in the 16-023 Docket).
3. Attest to the Equity Test requirement noted in Section H of the Protocols.
4. Provide insight as to the information required by Item No. 11 listed in Section F of the Protocols.

**Q. What is Western's opinion concerning the proposed 2016 34.5kV FBR rate of \$1.56/kW?**

A. Western Staff has provided the data necessary for the calculations as contained in the populated 34.5kV FBR template attached to the Application filed in the instant Docket as Exhibit 5. Cooperative Staff has reviewed the exhibit and the supporting work papers and is in agreement that the resultant rate was arrived in accordance to Western's 34.5kV FBR Protocols as approved by the Commission. Accordingly, Western believes this rate, as detailed in Mr. Macke's Prefiled Direct Testimony and included in the proposed LADS tariff, is just and reasonable, as it is based on the cost of service ("COS" ) and follows the Commission-prescribed methodology.

**Q. Please elaborate on how the Customer Notification requirement, detailed in Section C of the Protocols, will be fulfilled.**

1 A. Upon filing of the Application and all of the exhibits in the instant Docket (and once the  
2 actual Docket Number is known to the Cooperative), all customers taking wholesale LADS  
3 from Western will receive notice of the filing when it was made with the Commission. Such  
4 notice may be made via electronic mail or bill insert and will contain the following  
5 information:

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

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

15 A. Per Section H of the Protocols, Western (Mid-Kansas division) must notify the Commission  
16 when its distribution equity ratio (calculated exclusive of equity in or from associated  
17 organizations) reaches 36.31 percent, which would signal the re-evaluation of the currently-  
18 approved Operating Times Interest Earned ("OTIER") and Modified Debt Service  
19 Coverage ("MDSC") ratios as used in the 34.5kV FBR.

20 **Q. Has Western (Mid-Kansas division) calculated its Distribution Equity Ratio for the**  
21 **2015 Test Year?**

22 A. Yes. Table 1 on the following page evidences that for 2015, Western's Distribution Equity  
23 Ratio (for the Mid-Kansas division), calculated to be at a negative 3.6 percent, was below  
24 the prescribed 36.31 percent threshold. Note that one of the major items excluded as equity  
25

in Associated Organizations is represented by Western's equity in the Mid-Kansas, its Generation and Transmission provider.

<b>Table 1. Western 2015 Distribution Equity Ratio (MKEC divison only)</b>				
Excluding Investment in Associated Organizations				
2015				
Bal. Sheet				
Ln. No				
57	Total Margins & Equity		\$	2,312,760.68
35	Equity in Assoc. Org Pat Cap		\$	(3,352,682.72)
			\$	(1,039,922.04)
50	Total Assets & Other Debits		\$	32,214,168.57
35	Equity in Assoc. Org Pat Cap		\$	(3,352,682.72)
			\$	28,861,485.85
	<b>Distribution Equity %</b>	<b>(\$1,039,922.04)</b>	=	<b>-3.60%</b>
		<b>\$28,861,485.85</b>		
	<b>Detail of Equity in Assoc. Org Pat Cap</b>			
	United Ag Service, Inc.		\$	1,748.45
	MKEC		\$	3,352,682.72
			\$	3,354,431.17

**Q. Now please discuss the information required for Item No. 11 on the list of required filing exhibits as contained in 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) for the expense categories used in a 34.5kV FBR COS. This is Western's first Annual Update filing of its 34.5kV FBR, and there is not yet an established COS approved by the Commission that was applicable for the 2014 historical Test Year. However, examining the Comparative Operating Statements and/or Trial Balances for Western (Mid-Kansas division, attached as Exhibit 4) for 2015 and 2014 for the costs categories that are allocated to the 34.5kV FBR identifies the following 2015 expenses that show over a 10 percent increase as compared to the 2014 calendar year: Transmission Expense,

Transmission Depreciation Expense, Interest on Long-Term Debt, Principal Payments, and Other Deductions. Please see Table 2 and the discussion below for more detail.

Table 2. Western (MKEC) 2014-2015 Cost Analysis				
ITEM	12/31/2014	12/31/2015	\$ Change	% Change
TRANSMISSION EXPENSE	\$ 228,163.00	\$ 255,384.00	\$ 27,221.00	11.93%
ADMINISTRATIVE & GENERAL EXPENSES	\$ 1,052,955.00	\$ 1,022,456.00	\$ (30,499.00)	-2.90%
TRANSMISSION DEPRECIATION	\$ 216,182.13	\$ 240,856.78	\$ 24,674.65	11.41%
GENERAL PLANT DEPRECIATION	\$ 104,420.21	\$ 103,484.89	\$ (935.32)	-0.90%
PROPERTY TAX	n/a - spread	n/a - spread	\$ -	n/a - spread
OTHER TAXES	\$ -	\$ -	\$ -	N/A
INTEREST ON LONG TERM DEBT	\$ 594,116.00	\$ 781,589.00	\$ 187,473.00	31.55%
INTEREST CHARGED TO CONSTRUCTION	\$ -	\$ -	\$ -	n/a
INTEREST - OTHER	\$ -	\$ -	\$ -	n/a
OTHER DEDUCTIONS	\$ 5,830.00	\$ -	\$ (5,830.00)	-100.00%
PRINCIPAL PAYMENTS	\$ 552,512.21	\$ 697,508.42	\$ 144,996.21	26.24%

**Q. Please explain the drivers behind the change in Transmission Expense.**

A. The reason for the \$27,221 increase in Transmission expense is primarily due to increase in labor costs and the corresponding overheads (transportation, benefits, and payroll taxes) charged to transmission expense accounts as compared to 2014 levels. The increase in labor was due to general line maintenance needs, specifically in the Plainville service territory.

**Q. Please explain the drivers behind the change in Transmission Depreciation Expense.**

A. The reason for the \$24,675 increase in Transmission Depreciation expense is primarily due to the fact that large transmission projects for Kansas Electric Power Cooperative, Inc. (one of the Cooperative's wholesale customers on Western's 34.5kV sub-transmission system) were unitized in the month of March 2015. The increase in transmission depreciation expense is related to the additional depreciation now being recorded on these transmission assets.

**Q. Please explain the drivers behind the change in the Interest on Long Term Debt Expense.**

A. The reason for the \$187,473 increase in the Interest on Long Term Debt expense is attributable to new debt that began in 2015. In August of 2015, a draw was made on a Rural

1 Utilities Service (“RUS”) Federal Financing Bank (“FFB”) loan for \$5,037,120 to  
2 reimburse already completed construction projects, and payments began in September 2015.  
3 In addition, the Board also voted to begin recording interest expense on the long-term  
4 payable /receivable between native Sunflower and acquired Mid-Kansas divisions. This  
5 debt has been carried by the Cooperative’s native Sunflower division since the acquisition  
6 of the Aquila-WPK assets, but interest expense for the borrowing was not being charged to  
7 the acquired Mid-Kansas division until January 2015. The current rate of interest being  
8 charged on the outstanding monthly payable balance is 3 percent. The interest expense  
9 amounts paid are being booked to the General Ledger account 427.3 for the Mid-Kansas  
10 division.

11 **Q. Please explain the drivers behind the change in the Principal Payments.**

12 A. The reason for the \$144,996 increase in the Principal Payments is primarily due payments  
13 that began on a new RUS FFB loan (H30) in September 2015. In addition, a prior RUS FFB  
14 note (H25), drawn on in 2013, had only two quarterly payments due in 2014 compared to  
15 four quarterly payments that were made in 2015.

16 **Q. Please discuss the steps the Cooperative took to lessen the impact of the cost increases**  
17 **noted above on its customers.**

18 A. Western makes every effort to control labor and maintenance costs but does feel it is  
19 necessary to maintain an acceptable level of reliability. Transmission line in our Plainville  
20 territory needed additional maintenance in 2015 in order to ensure the continued safe and  
21 reliable delivery of service to our customers. Western makes every effort to capitalize  
22 appropriate investments in our system in order to allow for the cost of the project to be  
23 spread over the entire useful life of the investment, effectively sharing the cost with future  
24 customers that will also benefit from the investment. While we do at times pay for the  
25 investments out of operations, when it is necessary, we borrow funds as appropriate. This



1       also allows Western to spread cost sharing to the future customers of the Cooperative, who  
2       will continue to benefit from the required system upgrades.

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

4       A. I support Mr. Macke's recommendation to approve Western's Application in the instant  
5       Docket, as the resultant rate is reflective of the COS, was calculated in accordance to the  
6       Commission-approved 34.5kV FBR Protocols, and therefore is just and reasonable and is  
7       in the public interest.

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

9       A: Yes, it does.

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**VERIFICATION OF DARRIN LYNCH**

STATE OF KANSAS )

) ss:

COUNTY OF TREGO )

Darrin Lynch, being first duly sworn, deposes and says that he is the Darrin Lynch referred to in the foregoing document entitled "Direct Testimony of Darrin Lynch" before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.

*Darrin Lynch*

Darrin Lynch

**SUBSCRIBED AND SWORN** to before me this 29<sup>th</sup> day of April, 2016.

*Christina Lowry*

Notary

Public

My Appointment Expires: 4-25-2017

