

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

In the Matter of the Joint Application of)
Mid-Kansas Electric Company, LLC,)
Prairie Land Electric Cooperative, Inc.,)
Southern Pioneer Electric Company,) Docket No. 16-MKEE-_____
The Victory Electric Cooperative Association, Inc., and)
Western Cooperative Electric Association, Inc., for)
Approval of Individual 34.5kV Formula-Based Rates.)

PREFILED DIRECT TESTIMONY OF

DARRIN LYNCH

ON BEHALF OF

WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.

July 15, 2015

1 **Q: Please state your name.**

2 A: My name is Darrin Lynch.

3 **Q: By whom are you employed and what is your business address?**

4 A: I am employed by Western Cooperative Electric Association, Inc.
5 ("Western"). My business address is 635 South 13th Street, WaKeeney,
6 Kansas. As the General Manager of Western, I also serve on the Board of
7 Directors of both Mid-Kansas Electric Company, LLC ("Mid-Kansas") and
8 Sunflower Electric Power Corporation ("Sunflower").

9 **Q: Would you summarize your educational background?**

10 A: I received a bachelor's degree in Business Administration from Fort Hays
11 State University in December 1996. I later received my Certified Public
12 Accountant ("CPA") Certification in December 1997. I have since
13 continued to complete CPA training and other continuing professional
14 education coursework.

15 **Q: Please summarize your work experience.**

16 A: My professional career began as a CPA in 1997, working for Kennedy and
17 Coe, LLC. Duties performed at Kennedy and Coe included mostly
18 auditing and income tax work. Five years later, I transitioned from public
19 accounting to the accounting department at Sunflower, where I worked for
20 the next 11 years until April 2013. While employed by Sunflower, I worked
21 on both routine and special projects, including the acquisition of the
22 Aquila-WPK system by Mid-Kansas. In 2013, I was named General
23 Manager of Western, the position that I still hold today.

1 **Q: Have you previously presented testimony before the Commission?**

2 A: Yes, I have provided testimony in Docket No. 13-MKEE-447-MIS.

3 **Q: What is the purpose of your testimony today?**

4 A: The purpose of my testimony is to provide a background of Western and
5 confirm Western's support for this filing.

6 **Q: Please provide a brief overview of Western.**

7 A: Western is an electric cooperative formed in 1945 under the Kansas
8 Electric Cooperative Act K.S.A. 17-4601 et seq. for the purpose of
9 supplying electric energy to eight counties in Northwest Kansas: Ellis,
10 Gove, Graham, Ness, Rooks, Rush, Trego, and Sheridan. With the Mid-
11 Kansas purchase of Aquila, Inc., d/b/a Aquila Networks - WPK in April
12 2007, Western has expanded its service into five more counties: Osborne,
13 Russell, Barton, Lincoln, and Ellsworth. Today, Western collectively
14 serves 12,180 meters, maintains 3,942 miles of line, and employs 57 full-
15 time employees in its native Sunflower and acquired Mid-Kansas service
16 areas combined. Western, therefore, has been providing electric retail
17 service in the northwest Kansas for over 65 years.

18 **Q: What is Western's opinion concerning the proposed 34.5kV FBR?**

19 A: Western supports the proposed 34.5kV FBR as detailed in the Joint
20 Application and Prefiled Direct Testimony of Richard J. Macke submitted
21 in support of this Joint Application.

1 **Q: What are the reasons for Western’s request to implement the**
2 **proposed 34.5kV FBR?**

3 A: In Western’s opinion, the FBR approach reduces the costs and regulatory
4 lag of a traditional rate case while ensuring the Commission and
5 interested parties are afforded a comprehensive and systematic review of
6 the resultant rates (which, by the inherent design of the proposed 34.5kV
7 FBR, remain cost-based). Prefiled Direct Testimony of Richard J. Macke
8 further highlights the advantages that a formula-based rate approach
9 offers to the Commission, affected utilities, and customers as compared to
10 a traditional rate application.

11 **Q: Has Western previously instituted a formula-based rate for any of its**
12 **facilities?**

13 A: No. However, Western’s power suppliers, Mid-Kansas and Sunflower
14 (where, as mentioned previously, I serve as a Board Member), currently
15 have Commission-approved formula-based rates in place for their
16 transmission facilities.

17 **Q: Have Sunflower and Mid-Kansas experienced the advantages that**
18 **proponents of formula-based rates suggest will occur?**

19 A: Yes. By implementing formula-based rates, Sunflower and Mid-Kansas
20 have the ability to recover appropriate costs each year while eliminating
21 the regulatory lag and financial burdens of a rate case.

1 **Q: What is the basic approach utilized in Western’s proposed 34.5kV**
2 **FBR?**

3 A: Western’s proposed 34.5kV FBR calculates the annual revenue
4 requirement based upon pertinent operating expenses and margin
5 requirements.

6 **Q: What type and level of margin requirement is Western requesting be**
7 **used as the basis for the return requirement incorporated into its**
8 **34.5kV FBR?**

9 A: Western requests that a greater of a 1.8 Operating Times Interest Earned
10 Ratio (“OTIER”) or a 1.8 Modified Debt Service Coverage Ratio (“MDSC”) be used as the margin requirement for determining the return requirement.

12 **Q: Why are those appropriate levels and types of financial ratios for**
13 **determination of Western’s margin requirement?**

14 A: A 1.8 OTIER/MDSC would allow for a sufficient level of positive operating
15 margins to facilitate the improvement of capital structure to ensure safe
16 and reliable service, as well as help deal with unexpected contingencies.
17 Finally, the “greater of” approach—with a secondary 1.8 MDSC metric—
18 allows flexibility in choosing the most appropriate driver or the margin
19 requirement driver as debt matures.

20 **Q: Do you support the Prefiled Direct Testimony of Richard J. Macke**
21 **with respect to all aspects of the margin requirements and levels**

1 **thereof that are used to determine the revenue requirement in**
2 **Western's 34.5kV FBR?**

3 A: Yes, I support his analysis and the margin requirements he explains,
4 which are the exact margin requirements I previously mentioned.

5 **Q: Are you comfortable with having Mid-Kansas act as the billing agent**
6 **for purposes of the formula-based rate sought in this proceeding?**

7 A: Yes, I am. Mid-Kansas is already serving in that capacity for purposes of
8 the Members' LAC. This is consistent with the outcome of the prior
9 Commission dockets (09-MKEE-969-RTS and 11-GIME-597-GIE), where
10 Mid-Kansas was designated to act as an agent for purposes of
11 administering the local delivery service over the Mid-Kansas Members'
12 34.5kV facilities. For a more detailed history on Mid-Kansas's role as a
13 billing agent for the Members' LAC, see the Prefiled Direct Testimony of
14 H. Davis Rooney.

15 **Q: Does this conclude your testimony?**

16 A: Yes, it does.

Direct Testimony of Darrin Lynch
16-MKEE-_____

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 15 day of July, 2015.

Melissa Sherfick
Notary Public

My Appointment Expires: 3-14-16

