

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

Before Commissioners:                      Shari Feist Albrecht, Chair  
                                                         Jay Scott Emler  
                                                         Dwight D. Keen

In the Matter of the Application of Southern                      )  
Pioneer Electric Company for Approval to                      )  
Make Certain Changes to its Charges for                      )  
Electric Services, Pursuant to the Debt                      )  
Service Coverage Formula Based                      )                      Docket No. 18-SPEE-477-RTS  
Ratemaking Plan Approved in 13-MKEE-                      )  
452-MIS and 34.5kV Formula Based                      )  
Ratemaking Plan Approved in Docket No.                      )  
16-MKEE-023-TAR.                      )

**ORDER GRANTING APPLICATION**

This matter comes before the State Corporation Commission of the State of Kansas (Commission). Having reviewed its files and records, and being fully advised in the premises, the Commission makes the following findings and conclusions:

**I. Background**

1. On April 30, 2018, Southern Pioneer Electric Company (Southern Pioneer) filed with the Commission an Application requesting approval to make certain changes to its charges for electric services. Southern Pioneer filed its Application pursuant to the Debt Service Coverage Formula Based Ratemaking (DSC-FBR) Plan approved in 13-MKEE-452-MIS and the 34.5kV Formula Based Ratemaking (34.5kV FBR) Plan approved in Docket No. 16-MKEE-023-TAR.<sup>1</sup>

2. The Application noted that, “[p]ursuant to the Commission Orders approving Southern Pioneer’s previous annual updates to its DSC-FBR Plan and 34.5kV FBR Plan . . . Southern Pioneer is filing its annual updates to both plans under one docket, but following the

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<sup>1</sup> Application of Southern Pioneer Electric Company, p. 1 (Apr. 30, 2018).

Protocols of each plan.”<sup>2</sup> The Application stated that “to achieve the agreed target of 1.75 DSC for the distribution only portion of Southern Pioneer’s utility system using DSC-FBR Protocols, an overall revenue increase of \$1,311,929, or just under 2.0% . . . is required by Southern Pioneer.”<sup>3</sup>

3. Regarding the 34.5kV facilities portion of Southern Pioneer’s utility system, the Application stated that “an overall revenue increase of approximately \$110,656, is required by Southern Pioneer.”<sup>4</sup> Of the proposed \$110,656 increase, approximately \$46,386 (about 42%) will be applied to Southern Pioneer’s wholesale LADS customers and approximately \$64,270 (about 58%) will be applied to Southern Pioneer’s retail 34.5kV sub-transmission customers.<sup>5</sup>

4. Testimony and exhibits were filed in support of the Application in accordance with the Commission’s Orders in Docket Nos. 13-MKEE-452-MIS (13-452 Docket) and 16-MKEE-023-TAR (16-023 Docket).<sup>6</sup>

5. Richard J. Macke, testifying on behalf of Southern Pioneer, stated that, “[c]ompleting the DSC-FBR Plan template calculation consistent with the DSC-FBR Plan Protocols approved by the Commission in the 13-452 Docket results in the need for a revenue increase of \$1,311,929.”<sup>7</sup> Mr. Macke further stated that “[t]his reflects a Test Year DSC of approximately 1.53 compared to a Commission-authorized target DSC of 1.75, thereby requiring a revenue increase to raise the DSC to the target level.”<sup>8</sup>

6. Regarding the 34.5kV FBR Plan, Mr. Macke testified:

Completing the 34.5kV FBR Plan template calculation consistent with the Protocols approved by the Commission in the 16-023 Docket results in the Total Revenue Requirement of \$5,122,681. Considering this is the third

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<sup>2</sup> Application, pp. 1-2. *See* Exhibit A, Mid-Kansas: Southern Pioneer Division DSC-FBR Plan Protocols and Southern Pioneer Electric Company 34.5kV FBR Protocols (Apr. 30, 2018).

<sup>3</sup> Application, ¶ 12.

<sup>4</sup> Application, ¶ 13.

<sup>5</sup> Application, ¶ 13.

<sup>6</sup> Application, p. 1.

<sup>7</sup> Direct Testimony of Richard J. Macke, p. 6 (Apr. 30, 2018) (Macke Direct).

<sup>8</sup> Macke Direct, p. 6.

Annual Update of the 34.5kV FBR Plan, Section E, Annual True-Up of the Protocols is applicable in this year's filing. Applying the (\$12,945) amount of True-Up (over-recovery from the prior period) to the 34.5kV FBR Plan Total Revenue Requirement resulted in a Net 34.5kV FBR Revenue Requirement of \$5,109,736. In accordance with Section D.4 of the 34.5kV FBR Plan Protocols, the resultant Net Revenue Requirement amount was divided by the total billing demand for the Historical Test Year to arrive at the unadjusted wholesale LADS rate of \$5.54/kW. Next, the \$0.54/kW Property Tax Surcharge applicable to the 34.5kV system was subtracted to arrive at the final LADS rate of \$5.00/kW, a \$0.12/kW increase from Southern Pioneer's current rate for LADS of \$4.88/kW, last approved in Docket No. 17-SPEE-476-TAR. Translated into total dollars, the [sic] this constitutes a \$110,656 overall increase.<sup>9</sup>

7. Mr. Macke summarized: "The resultant overall 34.5kV FBR Plan revenue increase of \$110,656 is split approximately 42/58 percent or \$46,386/\$64,270, between Southern Pioneer's wholesale and retail customers, respectively. The retail portion of the 34.5kV FBR Plan revenue increase of \$64,270 represents a change around one tenth of one percent."<sup>10</sup> Mr. Macke concluded that "the net retail revenue adjustment from both the DSC-FBR Plan and 34.5kV FBR Plan is an increase of \$1,376,199, or around 2 percent."<sup>11</sup>

8. Randall D. Magnison, testifying on behalf of Southern Pioneer, stated that "following the Protocols adopted in the Southern Pioneer DSC-FBR Plan, it resulted in a retail rate increase of approximately \$1,376,199, or overall rate increase of just under 2.0% for retail ratepayers; and . . . following the Protocols adopted in the Southern Pioneer 34.5kV FBR Plan, it resulted in a rate increase of approximately \$110,656," with "[t]he resultant proposed wholesale LADS rate [of] \$5.00/kW."<sup>12</sup>

9. Mr. Magnison stated that, while Southern Pioneer disagrees with the Commission's current policy and practice of excluding from cost recovery 100% of corporate advertising and

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<sup>9</sup> Macke Direct, pp. 18-19.

<sup>10</sup> Macke Direct, p. 30.

<sup>11</sup> Macke Direct, p. 31.

<sup>12</sup> Pre-filed Direct Testimony of Randall D. Magnison, pp. 8-9 (Apr. 30, 2018) (Magnison Direct).

50% of dues, donations and contributions,<sup>13</sup> “Southern Pioneer respects the Commission’s determination as to the treatment of these expenditures . . . and for the purposes of this Annual Update filing, has continued to incorporate the Commission’s current policy and practice.”<sup>14</sup> Mr. Magnison expressed his belief that Southern Pioneer’s consolidated Annual Update filings provide “for a slight overall [rate] increase to retail customers.”<sup>15</sup>

10. On May 2, 2018, the Citizens’ Utility Ratepayer Board (CURB) filed a Petition to Intervene. On May 10, 2018, the Commission granted intervention.

11. On July 6, 2018, Tim Rehagen filed direct testimony on behalf of Commission Utilities Staff (Staff). Regarding the DSC-FBR Plan revenue requirement, Mr. Rehagen testified that “Southern Pioneer’s DSC-FBR is designed to achieve a target DSC ratio of 1.75. Using the DSC-FBR template, Southern Pioneer calculated a DSC ratio of 1.53 for the 2017 test year. Southern Pioneer then subtracted the 1.53 ratio from the targeted DSC ratio of 1.75 resulting in a variance of 0.22. Multiplying this variance by Southern Pioneer’s debt service payments yielded a revenue requirement increase of \$1,311,929, which represents a revenue increase of 2% when compared to the Company’s 2017 Operating Revenue and Patronage Capital.”<sup>16</sup>

12. Regarding the 34.5kV-FBR Plan revenue requirement, Mr. Rehagen testified:

Southern Pioneer’s 34.5kV-FBR calculation uses the same target DSC ratio of 1.75 as used in the DSC-FBR calculation. After entering Southern Pioneer’s historical financial results for the 2017 test year into the 34.5kV-FBR template and applying the adjustments included in the protocols, Southern Pioneer calculated a revenue requirement of \$5,122,681. Southern Pioneer’s calculated true-up adjustment from the comparison of actual expenses versus budgeted expenses for the 2017 test year amounted to a \$12,945 decrease, resulting in a total revenue requirement of \$5,109,736. The total revenue requirement was divided by the total billing demand of 922,136 kW for 2017 resulting in an unadjusted wholesale LAC rate of

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<sup>13</sup> See Magnison Direct, pp. 10-11.

<sup>14</sup> Magnison Direct, p. 11.

<sup>15</sup> Magnison Direct, p. 15.

<sup>16</sup> Pre-filed Direct Testimony of Tim Rehagen, p. 7 (July 6, 2018) (Rehagen Direct).

\$5.54/kW. After removing the Property Tax Surcharge applicable to the 34.5 kV sub-transmission system of \$0.54/kW, the adjusted LAC rate totaled \$5.00/kW, an increase of \$0.12/kW or 2.5% from the current wholesale LAC rate. Using retail load of 58%, the total revenue adjustment applicable to retail customers amounted to \$64,270, which was allocated among Southern Pioneer's retail rate schedule based upon the test year base revenue.<sup>17</sup>

13. Regarding the reasonableness of Pioneer and Southern Pioneer's highest salaries and overall salary-setting procedure, Mr. Rehagen testified that the Company "has provided adequate information" for Staff to conclude that such salaries are just and reasonable.<sup>18</sup>

14. Thus, based on his analysis, audit and review of Southern Pioneer's Application, Mr. Rehagen proposed no adjustments to Southern Pioneer's DSC-FBR Plan, 34.5kV-FBR Plan, and payroll expense.<sup>19</sup> According to Mr. Rehagen, "wholesale customers who pay the LAC rate will experience an increase of \$0.12/kW or 2.5%," and "Southern Pioneer's DSC-FBR resulted in a revenue increase of \$1,311,929 or 2%, applicable to Southern Pioneer's retail customers."<sup>20</sup> Hence, "[t]he combined retail revenue adjustment from the DSC-FBR plan and 34.5kV-FBR plan results in a total revenue increase of \$1,376,199, or 2.1%."<sup>21</sup>

15. Mr. Rehagen stated that Staff's review of both the DSC-FBR and 34.5kV-FBR Plans led to the conclusion that Southern Pioneer's calculation adheres to the protocols and results in just and reasonable rates.<sup>22</sup> In addition, Staff "conclude[d] that the salaries of Pioneer and Southern Pioneer's three highest paid employees are just and reasonable."<sup>23</sup> Thus, Mr. Rehagen

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<sup>17</sup> Rehagen Direct, pp. 10-11.

<sup>18</sup> Rehagen Direct, p. 14.

<sup>19</sup> Rehagen Direct, pp. 2, 7, 11, 14.

<sup>20</sup> Rehagen Direct, p. 14.

<sup>21</sup> Rehagen Direct, p. 14.

<sup>22</sup> Rehagen Direct, pp. 7, 11.

<sup>23</sup> Rehagen Direct, p. 14.

recommended approval of Southern Pioneer's proposed DSC-FBR and 34.5kV-FBR retail rate adjustments and the proposed 34.5kV LAC charge.<sup>24</sup>

16. On July 6, 2018, Cary Catchpole filed direct testimony on behalf of CURB. Ms. Catchpole recommended the Commission "[d]isallow an amount of \$13,099 for additional advertising, donations, entertainment and other transactions not previously adjusted in the Company's Exhibit 9, and [a]llow corrections to the monthly demand of Kansas Electric Power Cooperative, Inc. ("KEPCo") that required updates to Southern Pioneer's filed application."<sup>25</sup> Ms. Catchpole summarized her adjustments as a \$212.50 disallowance in customer service energy credit awards, a \$9,806 disallowance in Southern Pioneer's entertainment expenses and \$3,080 in sponsorships or related expenditures.<sup>26</sup> Regarding KEPCo, Ms. Catchpole noted Southern Pioneer's acknowledgement of "errors in calculations in the 34.5kV FBR for the City of Meade generation and incorrect use of transformer loss compensation meters for KEPCo created variances in the Load Ratio Share (LSR) split between wholesale and retail customers."<sup>27</sup>

17. On July 6, 2018, Stacey Harden filed direct testimony on behalf of CURB. Ms. Harden recommended the Commission disallow from Southern Pioneer's cost of service \$3,463.63 in gym membership fees,<sup>28</sup> \$1,300.27 in meal reimbursements, snacks and refreshments,<sup>29</sup> and \$3,908.00 in miscellaneous general expenses.<sup>30</sup> Ms. Harden raised the issue of Southern Pioneer's under-recovery of \$141,653 due to an error in its 2017 Annual Cost Adjustment (ACA) filing.<sup>31</sup> However, because Southern Pioneer's Application ensures that it will not collect the under-

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<sup>24</sup> Rehagen Direct, p. 15.

<sup>25</sup> Pre-filed Direct Testimony of Cary Catchpole, p. 4 (July 6, 2018) (Catchpole Direct).

<sup>26</sup> Catchpole Direct, p. 18.

<sup>27</sup> Catchpole Direct, p. 20.

<sup>28</sup> Pre-filed Direct Testimony of Stacey Hardin, p. 6 (July 6, 2018) (Hardin Direct).

<sup>29</sup> Hardin Direct, pp. 6, 8.

<sup>30</sup> Hardin Direct, p. 8.

<sup>31</sup> Hardin Direct, p. 10.

recovered money through both its ACA and its DSC-FBR, Mr. Harden “recommended the adjustment to revenues be allowed as a one-time exception to the protocols that were established in the 452 Docket.”<sup>32</sup> Ms. Harden noted her concern that Southern Pioneer changed its ACA without Commission approval, but did not recommend the Commission place additional requirements on Southern Pioneer’s ACA.<sup>33</sup>

18. Ms. Harden also testified that approval of her and Ms. Catchpole’s adjustments would have “no impact on Southern Pioneer’s rate adjustment” in this docket because “CURB’s recommendations are simply not large enough to change the DSC calculated rate increase.”<sup>34</sup> However, she “recommend[ed] the Commission approve CURB’s adjustments because each adjustment represents a cost that should not be included in any utility’s cost of service.”<sup>35</sup>

19. On July 16, 2018, Mr. Magnison filed rebuttal testimony, supporting Staff’s recommendations and disagreeing with CURB’s recommendations.<sup>36</sup> Mr. Magnison offered no further testimony regarding Mr. Rehagen’s recommendation “other than to accept and implement.”<sup>37</sup> Mr. Magnison asked the Commission to reject CURB’s recommendations because they “will [have] no impact on Southern Pioneer’s filed rate adjustment.”<sup>38</sup>

20. Regarding Ms. Harden’s proposed adjustments, Mr. Magnison stated that, as a non-profit, Southern Pioneer can only fund incentives for maintaining a healthy lifestyle and meal reimbursements through its business expenses.<sup>39</sup> Moreover, Mr. Magnison stated his belief that Ms. Harden reviewed “accounts and categories not historically audited as part of the Commission-

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<sup>32</sup> Hardin Direct, p. 12.

<sup>33</sup> Hardin Direct, p. 12.

<sup>34</sup> Hardin Direct, p. 13.

<sup>35</sup> Hardin Direct, p. 13.

<sup>36</sup> Pre-filed Rebuttal Testimony of Randall D. Magnison, p. 1 (July 16, 2018) (Magnison Rebuttal).

<sup>37</sup> Magnison Rebuttal, p. 2.

<sup>38</sup> Magnison, Rebuttal, p. 3.

<sup>39</sup> Magnison Rebuttal, p. 4.

approved formula based ratemaking program,” and that “there is already a process in place” for addressing the ACA error issue.<sup>40</sup> Regarding Ms. Catchpole’s downward adjustments, Mr. Magnison reiterated his assertion that “Southern Pioneer . . . has no other means in which to pay for legitimate and reasonable excluded business expenses.”<sup>41</sup>

## **II. Discussion**

21. The Commission finds all parties agree that Southern Pioneer’s DSC-FBR Plan and 34.5kV-FBR Plan together entail a retail revenue increase of \$1,376,199.<sup>42</sup> The Commission finds that both Staff and CURB agree Southern Pioneer’s proposed DSC-FBR and 34.5kV-FBR retail rate adjustments and proposed 34.5kV LAC charge result in just and reasonable rates that are in the public interest.<sup>43</sup> The Commission agrees with Staff’s conclusion that no adjustments are necessary to Southern Pioneer’s DSC-FBR Plan and 34.5kV-FBR Plan. The Commission’s finding is bolstered by CURB’s acknowledgement that its recommended disallowances will not impact Southern Pioneer’s proposed rate adjustment. The Commission finds Southern Pioneer’s Application to be in compliance with the Commission-approved Protocols in Docket Nos. 13-452 and 16-023, and therefore, the Commission finds that the rates resulting from Southern Pioneer’s Application are just and reasonable. The Commission hereby approves Southern Pioneer’s Application, resulting in a combined retail revenue requirement increase from the DSC-FBR Plan and the 34.5kV-FBR Plan of \$1,376,199, and a 34.5kV LAC rate of \$5.00/kW.

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<sup>40</sup> Magnison Rebuttal, pp. 4-5.

<sup>41</sup> Magnison Rebuttal, p. 6.

<sup>42</sup> Rehagen Direct, p. 14; Harden Direct, p. 4; Magnison Rebuttal, p. 2.

<sup>43</sup> Rehagen Direct, p. 15. CURB provides no explicit testimony on the justness and reasonableness of the proposed rate adjustments and LAC charge, but does not recommend Commission disapproval of the proposed rate adjustments and LAC charge, CURB’s recommended adjustments notwithstanding.



**THEREFORE, THE COMMISSION ORDERS:**

- A. Southern Pioneer's Application is approved.
- B. Any party may file and serve a petition for reconsideration pursuant to the requirements and time limits established by K.S.A. 77-529(a)(1).<sup>44</sup>
- C. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it deems necessary.

**BY THE COMMISSION IT IS SO ORDERED.**

Albrecht, Chair; Emler, Commissioner; Keen, Commissioner

Dated: 07/31/2018



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Lynn M. Retz  
Secretary to the Commission

MJD

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<sup>44</sup> K.S.A. 66-118b; K.S.A. 77-503(c); K.S.A. 77-531(b).

## **CERTIFICATE OF SERVICE**

18-SPEE-477-RTS

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of electronic service on 08/01/2018.

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## CERTIFICATE OF SERVICE

18-SPEE-477-RTS

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/S/ DeeAnn Shupe

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