BEFORE THE KANSAS CORPORATION COMMISSION

OF THE STATE OF KANSAS

In the Matter of the Annual Filing 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 Ratemaking Plan Approved in Docket No. 13-MKEE-452-MIS and 34.5kV Formula Based Ratemaking Plan Approved in Docket No. 16-MKEE-023-TAR.	)	Docket No. 18-SPEE-477-RTS

PREFILED DIRECT TESTIMONY OF

RICHARD J. MACKE
VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS PLANNING
POWER SYSTEM ENGINEERING, INC.

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

April 30, 2018

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PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE, Suite 201, Minneapolis, Minnesota 55449.

Q. What is your profession?

A. I am a Vice President and lead the Economics, Rates, and Business Planning Department at Power System Engineering, Inc. ("PSE"), which is headquartered at 1532 W. Broadway, Madison, Wisconsin 53713.

Q. Please describe the business activities of PSE.

A. PSE is a consulting firm serving electric utilities across the country, but primarily in the Midwest. Our headquarters is in Madison, Wisconsin with regional offices in Indianapolis, Indiana; Topeka, Kansas; Lexington, Kentucky; Minneapolis, Minnesota; Marietta, Ohio; and Sioux Falls, South Dakota. PSE is involved in: power supply, transmission and distribution system planning; distribution, substation and transmission design; construction contracting and supervision; retail and wholesale rate and cost of service ("COS") studies; economic feasibility studies; merger and acquisition feasibility analysis; load forecasting; financial and operating consultation; telecommunication and network design, mapping/GIS; and system automation including Supervisory Control and Data Acquisition ("SCADA"), Demand Side Management ("DSM"), metering, and outage management systems.

Q. Please describe your responsibilities with PSE.

A. I lead and direct staff in Indiana, Kansas, Kentucky, Minnesota, and Wisconsin who provide economic, financial, and rate-related consulting services to investor-owned, cooperative and municipal utilities as well as regulators and industry associations. These services include:

- Cost of Service Studies.
- Capital Credit Allocations.
- Demand Response.
- Distributed Generation Rates.
- Energy Efficiency.
- Financial Forecasting.
- Individual Customer Profitability.
- Large Power Contract Rates/Proposals.
- Line Extension Policies/Charges.
- Load Management Analysis.
- Load Forecasting.
- Market and Load Research.
- Merger Analysis.
- Pole Attachment Charges.
- Policy and Board Audits.
- Power Cost Adjustments.
- Rate Consolidation.
- Retail Rate Design and Analysis.
- Special Fees and Charges.
- Statistical Performance Measurement (Benchmarking).
- Value of Service.

Q. What is your educational background?

A. I graduated from Bethel University in St. Paul, Minnesota in 1996 with a Bachelor of Arts degree in Business, which included an emphasis in Finance and Marketing. In 2007, I received my Masters of Business Administration degree, with an emphasis in Finance and Strategic Management, from the University of Minnesota in Minneapolis, Minnesota. I have also attended numerous industry seminars/courses on cost of service, pricing, valuation, distributed generation, etc.

Q. What is your professional background?

A. From 1996 to 1998, I was employed by PSE in its Minneapolis, Minnesota office as a Financial Analyst in the Utility Planning and Rates Department. My work responsibilities primarily were focused on retail rate studies, including revenue requirements and bundled/unbundled COS studies. I also provided analyses used to support testimony, mergers and acquisitions analysis, and financial forecasting.

From 1998 to 1999, I was employed as a Senior Analyst by Energy & Resource Consulting Group, LLC in Denver, Colorado, a financial, engineering, and management consulting firm. I performed consulting services related to electric, gas, and water rate studies. As part of the Legend Consulting Advisor Team contracted to the City Council of the City of New Orleans, Louisiana, I assisted in various electric and gas utility matters. I also provided general financial, management, and public policy support to clients.

I rejoined PSE in 1999; and from 1999 to 2002, I held the position of Rate and Financial Analyst in the Rates and Financial Planning Department. From 2002 to March 2008, I held the position of Senior Rate and Financial Analyst in the Utility Planning and Rate Division. My responsibilities have included performing complex financial analyses, such as rate studies consisting of determination of revenue requirements, bundled and unbundled COS analysis, and rate design. Other responsibilities included performing analysis of special rates and programs, key account analyses, financial forecasting, merger and acquisition analysis, activity-based costing, policy development and evaluation, and other financial analyses for various PSE clients. Additional responsibilities included strategic planning, litigation support, regulatory compliance, capital expenditure and operational assessments, and advisement. From April 2008 to June 2010, I held the position of Leader, Rates and Financial Planning. In July 2010, my title changed to Vice President, Rates and Financial Planning. Since June 2011, I have held the position of Vice President, Economics, Rates, and Business Planning. In this capacity, I continue to provide, amongst other things: 1) rate, financial, and economic consulting services to clients, 2) management and leadership to the Economics, Rates, and Business Planning Department, and 3) management and leadership at the corporate level to PSE through participation on the Executive Committee and Board of Directors.

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

A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-RTS; Mid-Kansas Electric Company, LLC (“Mid-Kansas”) in Docket Nos. 09-MKEE-969-RTS, 11-MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, 13-MKEE-452-MIS, and 16-

MKEE-023-TAR; Southern Pioneer Electric Company ("Southern Pioneer") in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, 16-SPEE-501-TAR, and 17-SPEE-476-TAR; Prairie Land Electric Cooperative, Inc. in Docket No. 16-PLCE-490-TAR; Victory Electric Cooperative Association, Inc. in Docket No. 16-VICE-494-TAR; and Western Cooperative Electric Association in Docket No. 16-WSTE-496-TAR.

Q. Do you have any other relevant experience?

A. Yes. I have directed well over 100 rate and COS studies and numerous other rate and financial related projects. Many times these projects were conducted for self-regulated electric utilities. I have also performed such analysis which was filed in regulated rate cases on behalf of cooperatives in Iowa, Kansas, Michigan, Minnesota, New Hampshire, and Texas.

I have also conducted seminars and made presentations to utilities, consumers, and industry groups on a variety of topics including: COS, rate design, rate change communications, line extension policies, mergers and acquisitions, DSM pilot programs, conservation and energy efficiency, distributed generation rates, and industry trends.

PART II - SUMMARY OF DIRECT TESTIMONY

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

A. The purpose of my testimony is to support the Application of Southern Pioneer for the approval of the Debt Service Coverage ("DSC") Formula Based Rate ("FBR") annual ratemaking mechanism for the distribution system ("DSC-FBR Plan") and 34.5kV FBR annual ratemaking mechanism for the sub-transmission system ("34.5kV FBR Plan") for the 2017 Test Year in the instant Docket.

Q. Please explain how your testimony is organized.

A. Part III below is bifurcated into Sections A and B. Section A, Sub-sections 1-4, describes the results of the DSC-FBR Plan calculation for the Test Year; and Section B, Sub-sections 1-4, discusses the results of the 34.5kV FBR Plan calculation for the Test Year.

Q. Are there particular Exhibits to Southern Pioneer's Application that you will be describing and explaining?

A. Yes. My testimony concerns, and is supported by, the following Exhibits to the Application in the instant Docket:

Exhibit 3-A - DSC-FBR Calculation for Test Year
Exhibit 3-B - 34.kV FBR Calculation for Test Year
Exhibit 11 - Proposed Tariffs Reflecting Combined DSC-FBR and 34.5kV FBR Rate Adjustment

Q. Have the exhibits been prepared by you or under your supervision?

A. Yes.

PART III - FBR CALCULATIONS

SECTION A - DSC-FBR PLAN

1. SUMMARY OF THE DSC-FBR PLAN RESULTS

Q. Please briefly recap the DSC-FBR Plan.

A. The DSC-FBR Plan, as approved by the Commission in Docket No. 13-MKEE-452-MIS ("13-452 Docket"), provides a method for periodic adjustments to rates, as might be necessary, to achieve a DSC ratio of 1.75. If the result is a DSC that is less than 1.75, then a rate increase would be implemented, so long as such an increase does not exceed 10 percent calculated on an annual system-wide basis and the equity ratio does not exceed 15 percent.[1] If the DSC is above 1.75, then a rate decrease would be implemented. If the resultant DSC equals 1.75, there would be no change in rates. The details of the calculations for the DSC and any corresponding rate adjustments are outlined in Section E of the DSC-FBR Protocols, which are attached to Southern Pioneer's Application as Attachment A.

Q. What data formed the basis for the 2018 DSC-FBR Plan calculation?

A. Consistent with the Protocols, the calculation was based upon a 2017 Historical Test Year. As such, it utilizes historical figures from Southern Pioneer's December 2017 Financial and Statistical Report ("Form 7"), Trial Balance, and Payroll Journal.[2]

Q. Please summarize the results of the 2018 DSC-FBR Plan calculation.

A. Completing 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. This 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. In accordance with Section I of the DSC-FBR Plan Protocols, the increase is to be spread amongst the retail rate schedules of Southern Pioneer based upon the Test Year base revenue (i.e., gross revenue less purchased power expense). The DSC-FBR Plan calculation for the Test Year is contained in Exhibit 3-A. Table 1-A on the following page summarizes the revenue adjustment in total and the allocation to each of the retail rate schedules.

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[1] Unless such an increase was necessary for Southern Pioneer to avoid violating its debt covenants with its lender, DSC-FBR Plan Protocols, Page 5, Section H.

[2] Included in Southern Pioneer's Application as part of Exhibits 2 (Form 7), 4 (Trial Balance), and 10a (Payroll Journal).

Table 1-A

SOUTHERN PIONEER ELECTRIC COMPANY
Allocation of DSC-FBR Rate Adjustment to Retail Rate Schedules

Line No.	Rate Schedule	Rate Schedule Revenue	DSC-FBR Adjustment	Change as Percent
		($)	($)	(%)
1	Residential Service (17-RS)			
2	General Use	15,586,648	505,048	3.2%
3	Space Heating	782,704	24,659	3.2%
4	General Service Small (17-GSS)	1,815,474	63,620	3.5%
5	General Service Large (17-GSL)	17,173,635	486,400	2.8%
6	General Service Space Heating	560,089	14,445	2.6%
7	Industrial Service (17-IS)	3,498,567	90,940	2.6%
8	Industrial Service-Primary Discount	-	-	N.A.
9	Real -Time Pricing (13-RTP)	33,528	-	N.A.
10	Transmission Level Service (17-STR)	26,223,947	40,727	0.2%
11	Municipal Power Service (17-M-I)	195,260	5,981	3.1%
12	Water Pumping Service (17-WP)	637,115	17,740	2.8%
13	Irrigation Service (17-IP-I)	352,506	10,559	3.0%
14	Temporary Service (17-CS)	11,969	458	3.8%
15	Lighting	1,081,690	51,351	4.7%
16	**Total Retail Rates**	67,953,133	1,311,929	1.9%

2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the DSC-FBR PLAN

Q. You stated that 2017 actual results formed the basis for the DSC-FBR Plan calculation. The DSC-FBR Plan Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer's actual 2017 financial results in completing the DSC-FBR Plan template?

A. Consistent with Section E.1 of the DSC-FBR Plan Protocols, adjustments were made to the following categories of revenues and/or costs:

- Operating Revenue and Patronage Capital
- Tax Expense - Other
- Interest on Long-Term Debt
- Interest Expense - Other

- Debt Service Payments

Further, per Section G(f) of the DSC-FBR Plan Protocols and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), the following expense categories were adjusted to remove certain amounts associated with the dues, donations, charitable contributions, promotional advertising, penalties and fines, and entertainment expenses incurred during the Test Year:[3]

- Distribution Expense - Operation
- Customer Accounts Expense
- Customer Service and Informational Expense
- Sales Expense
- Administrative and General ("A&G") Expense
- Other Deductions

The position and reasoning in support of inclusion or exclusion of these items is provided in the testimony of Mr. Randall D. Magnison, filed on behalf of Southern Pioneer in the instant Docket. Additionally, Section E.3 of the DSC-FBR Plan Protocols mandates that certain revenue and expense categories be further allocated to remove the costs associated with Southern Pioneer's 34.5kV sub-transmission facilities.

Q. Please describe the adjustments made to the 2017 Test Year Operating Revenue and Patronage Capital.

A. The amount of $317,065 was adjusted out to (a) recognize a rate decrease approved by the Commission on July 25, 2017 in Southern Pioneer's fourth annual DSC-FBR Plan update filed

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[3] K.S.A. 66-101f (a) allows adoption of a policy of " disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate."

in the 17-SPEE-476-TAR Docket, and (b) acknowledge the revenues being collected for the 2017 Annual Cost Adjustment ("ACA") under-recovery.[4] The entire adjustment is further detailed in Exhibit 3-A, Page 4, Lines 2-11. Accordingly, actual Operating Revenue and Patronage Capital of $69,746,389, reported on Southern Pioneer's December 2017 Form 7, was decreased by $317,065, resulting in an adjusted Operating Revenue and Patronage Capital of $69,429,324.

Q. Please describe the adjustments made to the 2017 Test Year Tax Expense - Other.

A. Section E.1.b of the DSC-FBR Plan Protocols calls for an adjustment to reflect only cash tax expense. In 2017, Southern Pioneer's cash tax transactions reflected a refund in the amount of $51,878 (i.e. cash transaction was a credit, or a negative amount), as evidenced in Work Paper 3-A attached to Exhibit 3-A. Therefore, an adjustment of $1,229,939 was applied to remove all non-cash tax expense from the Test Year. The adjustment is detailed in Exhibit 3-A, Page 5, Lines 41-45.

Q. Please describe the adjustments made to the 2017 Test Year Interest on Long-Term Debt.

A. The historical amount of Interest on Long-Term Debt for the 2017 Test Year was $5,517,278 as reported on Southern Pioneer's Form 7. The DSC-FBR Plan Protocols, in Section E.1.c., specify that the actual amount be adjusted to reflect Southern Pioneer's budgeted amount for 2018. Southern Pioneer's budgeted long-term interest expense is $5,625,332, and so an adjustment of $108,054 was included. The details of this adjustment are shown in Exhibit 3-A, Page 5, Lines 47-51.

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[4] The ACA under-recovery amount represents a correction of a 2017 ACA and is being included per KCC Staff recommendation. See Prefiled Direct Testimony of Randall Magnison for further detail on the $141,653 in ACA revenues included in this year's DSC-FBR Annual Update.

Q. Please describe the adjustments made to the 2017 Test Year Interest Expense - Other.

A. The historical amount of Other Interest Expense for the 2017 Test Year was $113,020 as reported on Southern Pioneer's Form 7. Consistent with Section E.1.d of the DSC-FBR Plan Protocols, the amount has been adjusted to reflect Southern Pioneer's 2018 Budget for short-term interest expense of $112,149. To accomplish this, a reduction in the amount of $871 was included. The details of the adjustment can be found in Exhibit 3-A, Page 5, Lines 53-57.

Q. Please describe the adjustments made to the 2017 Test Year Debt Service Payments.

A. Debt Service Payments are comprised of interest and principal payments on debt outstanding. Since I previously discussed the adjustments to interest expense, I will here focus on the adjustment to principal payments. The historical amount of Principal Payments for the 2017 Test Year was $2,329,355 (as reported on Southern Pioneer's Form 7). The DSC-FBR Plan Protocols, in Section E.1.e, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted amount for 2018. Southern Pioneer's budget for 2018 principal payments is $2,473,881, so an adjustment in the amount of $144,526 was included. This adjustment is detailed in Exhibit 3-A, Page 5, Lines 59-63.

Q. Please describe the adjustments made to the 2017 Test Year Operating Expenses in conjunction with Section G(f) of the Protocols and the Commission's policy per K.S.A. 66-101f (a).

A. The historical amounts of the following operating expenses were adjusted as shown:

- 2017 Distribution - Operation Expense of $4,203,913 was reduced by $8,820, resulting in the $4,195,093 adjusted amount.
- Customer Accounts Expense of $1,211,640 was reduced by $537, resulting in the $1,211,103 adjusted amount.
- Customer Service and Informational Expense of $234,008 was reduced by $21,751, resulting in the $212,257 adjusted amount.

- Sales Expense of $23,324 was reduced by $16,675, resulting in the $6,649 adjusted amount.
- A&G Expense of $2,121,868 was reduced by $35,792, resulting in the $2,086,076 adjusted amount.
- Other Deductions Expense of $895,163 was reduced by $34,144, resulting in the $861,019 adjusted amount.

Overall, $117,719 was removed. The details are shown in Exhibit 3-A, Page 4, Lines 29-39.

Q. Please describe the allocations made to remove the costs associated with the 34.5kV system.

A. Section E.3 of the DSC-FBR Plan Protocols specifies the methodology for removal of costs associated with Southern Pioneer's 34.5kV sub-transmission facilities. Following is an explanation of the allocations.

Per Section E.3.a of the DSC-FBR Plan Protocols, 34.5kV system-related revenues are to be direct-assigned using 34.5kV system rates effective during the Test Year. An amount of $4,600,464 was removed to account for the 34.5kV system direct-assigned revenues. This includes $4,129,400 in base rate revenues obtained by multiplying the total 34.5kV system billing demand by the Local Access Delivery Service ("LADS") rate effective during the Test Year.[5] In addition, it includes $471,064 in 2017 Property Tax Surcharge ("PTS") rider revenues to reflect the portion attributable to the 34.5kV system. The latter amount was determined by multiplying the total 34.5kV system billing demand by the PTS rate effective during the Test Year.[6] The entire adjustment is further detailed in Exhibit 3-A, Page 4, Lines

[5] As noted on Page 4 of Exhibit 3-A, the $4.19/kW LADS rate effective during the Test Year changed to $4.88/kW in August per Commission Order issued in 17-SPEE-476-TAR docket.

[6] Per 17-SPEE-263-TAR.

13-27. After the removal of the direct-assigned 34.5kV system revenues, the resultant DSC-FBR Plan Operating Revenue and Patronage Capital is $64,828,860, as evident on Page 1, Line 2, Column “DSC-FBR” of Exhibit 3-A.

For Depreciation and Amortization Expense, as per Section E.3.c of the DSC-FBR Plan Protocols, $912,215 was deducted from the historical Form 7 amount of $3,283,133 to produce a remainder of $2,370,918 to be included in the DSC-FBR Plan.

For A&G, Property and Gross Receipts Tax, Interest on Long-Term Debt, Other Interest, Other Capital Credits, Principal Payments, and other applicable items per Sections E.3.b, E.3.d, and E.3.f of the DSC-FBR Plan Protocols, the following two allocation ratios are calculated: Transmission Labor Ratio (“LAB”) and Net Transmission Plant Ratio (“NP”). Subtracting their values from 1 (where “1” is representative of 100 percent, or the total system) to determine a remainder produces the corresponding Distribution Allocation factors used to define the amounts to be included in the DSC-FBR Plan.[7] These allocation factors, as well as the corresponding resultant expense amounts, are listed on Exhibit 3-A, Pages 1-2, “Distribution Allocation Factor” and “DSC-FBR” Columns, Lines 2-45. The calculation is detailed in Work Paper 1-A attached to Exhibit 3-A.

Tax Expense - Other (cash portion) was allocated to the DSC-FBR Plan based on Operating Margins per Section E.3.e of the DSC-FBR Plan Protocols. The resulting allocation factor was calculated at 0.7450, as evidenced in Exhibit 3-A, Page 1, “Distribution Allocation Factor” Column, Line 16. Accordingly, the amount assigned to the DSC-FBR Plan was ($38,651), as reflected in the “DSC-FBR” Columns, Line 16.[8]

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[7] Meaning the remaining portion is attributable to the 34.5kV system portion.

[8] This amount is negative since it reflects a refund received by Southern Pioneer, as described on page 9 above.

3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT

Q. Using the DSC-FBR Plan template, what is Southern Pioneer's DSC ratio for the 2017 Test Year after performing all of the adjustments detailed above?

A. The DSC-FBR Plan template with the adjustments and allocations prescribed by the Protocols produces a DSC ratio of 1.53 for the 2017 Test Year. This is calculated by dividing the Total Adjusted Debt Service Margins of $9,120,966 by the Total Adjusted Debt Service Payments of $5,963,314 as detailed in Exhibit 3-A, Page 2, DSC-FBR Column, Line 48. This resultant ratio is below the 1.75 target DSC. Consistent with the provisions of Section G of the DSC-FBR Plan Protocols, an increase is being requested.

Q. Please identify and explain how the revenue adjustment was determined within the DSC-FBR Plan template for the 2017 Test Year.

A. Section G of the DSC-FBR Plan Protocols directs that the revenue adjustment is to be determined by comparing the Test Year DSC to a 1.75 DSC Ratio. Subsection G.c addresses the scenario when the Test Year DSC is lower than the target DSC, instructing that an increase in rates will be necessary to bring the Test Year DSC up to 1.75. The first step then is to subtract the Test Year DSC from the target DSC, which would be 1.75 minus 1.53, for a variance of 0.22. Multiplying this variance by the Test Year debt service payments yields a $1,311,929 increase. When compared to the DSC-FBR Plan revenue of $64,828,860, this represents around 2 percent increase in revenue.[9]

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[9] Or 1.9 percent increase if compared to 2017 historical total retail rate schedule revenues of $67,953,133.

4. ALLOCATION OF THE DSC-FBR PLAN REVENUE ADJUSTMENT TO RATE SCHEDULES

Q. Please describe how you allocated the $1,311,929 revenue increase to the individual rate schedules.

A. Section I of the DSC-FBR Plan Protocols details that any rate adjustment resulting from the DSC-FBR Plan is to be allocated to the retail rate classes on the Test Year base revenues by rate schedule unless Southern Pioneer files a COS study supporting something different and the Commission approves such a request for variance. For purposes of this 2017 Test Year DSC-FBR Plan adjustment, Southern Pioneer is not submitting a COS study and has apportioned the rate adjustment to retail rate classes using the Test Year base revenues, as initially approved in the 13-452 Docket.

Consistent with the Protocols, the 2017 Test Year DSC-FBR Plan Retail Rate Adjustment was apportioned accordingly:

1. First, all power costs recovered in rates were removed from the historical revenues recorded for each schedule to arrive at the base revenues by rate schedule.
2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base revenues was determined.
3. The base revenue ratios were then applied to the DSC-FBR determined revenue adjustment to establish each rate schedule's apportioned revenue adjustment.[10]

Table 2-A on the following page summarizes the results of this process. Exhibit 3-A, Page 6 provides further detail.

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[10] As per the DSC-FBR Plan Protocols, Section J, the FBR adjustment for the STR class was determined first and system-wide without the impact of additional debt service for investments in distribution plant in the Budget Year. This resulting revenue adjustment was then allocated to the STR class based upon its base revenue. This STR class revenue adjustment was then subtracted from the total to be allocated to the remaining retail rate classes, as detailed in Exhibit 3-A, Page 6 and corresponding work papers containing the electronic format of Exhibit 3-A.

Table 2-A

SOUTHERN PIONEER ELECTRIC COMPANY **Allocation of DSC-FBR Rate Adjustment to Retail Rate Schedules**				
Line No.	**Rate Schedule**	**Rate Schedule Revenue**	**DSC-FBR Adjustment**	**Change as Percent**
		($)	($)	(%)
1	Residential Service (17-RS)			
2	General Use	15,586,648	505,048	3.2%
3	Space Heating	782,704	24,659	3.2%
4	General Service Small (17-GSS)	1,815,474	63,620	3.5%
5	General Service Large (17-GSL)	17,173,635	486,400	2.8%
6	General Service Space Heating	560,089	14,445	2.6%
7	Industrial Service (17-IS)	3,498,567	90,940	2.6%
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9	Real -Time Pricing (13-RTP)	33,528	-	N.A.
10	Transmission Level Service (17-STR)	26,223,947	40,727	0.2%
11	Municipal Power Service (17-M-I)	195,260	5,981	3.1%
12	Water Pumping Service (17-WP)	637,115	17,740	2.8%
13	Irrigation Service (17-IP-I)	352,506	10,559	3.0%
14	Temporary Service (17-CS)	11,969	458	3.8%
15	Lighting	1,081,690	51,351	4.7%
16	**Total Retail Rates**	67,953,133	1,311,929	1.9%

Q. What is your recommendation concerning how the resulting increases by rate schedule are to be implemented?

A. The DSC-FBR Plan Protocols do not specify how the rate schedule components (i.e., Customer Charge, Energy Charge, Demand Charge, etc.) should be revised to implement rate adjustments. I recommend that the increases by rate schedule be implemented as an increase to each rate schedule's energy charges only. This is easily determined by dividing the revenue adjustment for each schedule by the historical energy sales. The result is the amount that the current energy charges need to be increased by class and is shown in Column (k) of Exhibit 3-A, Page 6.

The one exception required is for lighting. Since the lighting rate schedules do not have an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have an estimated energy use for the various sizes/types of lights, and so the energy adjustment can still be applied so as to affect the monthly charge in a way that is proportionate to usage. This approach then provides consistency between all the retail rates being adjusted.

Q. Why do you recommend that the revenue increase be implemented by increasing the current energy charges?

A. Handling this type of adjustment as an energy adjustment is simple, common, reasonably accurate, and particularly appropriate given the relatively minor magnitude of the adjustment. Energy adjustments are an industry-accepted approach for flowing through cost changes that occur between full or "traditional" rate cases. For example, Southern Pioneer's current Energy Cost Adjustment ("ECA") is an energy-based charge established to flow through not only energy costs, but also demand cost changes from the amount embedded in rates during the last full rate case. Similarly, Southern Pioneer's PTS rider is an energy adjustment established to pass through changes in property tax expense increases since the last full rate case. The DSC-FBR Plan is not a full rate case with its own COS study. Therefore, it is reasonable to treat any resulting rate adjustments similar to how the ECA and PTS are treated; i.e., as a per kWh adjustment.

Further, similar methodology was accepted by the Commission in Southern Pioneer's earlier DSC-FBR and 34.5kV FBR Plan Annual Update filings submitted and approved in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, and 17-SPEE-476-TAR. I would also point out that, especially given the results (i.e., increase of approximately two percent), the additional effort required to attempt a sort of proportionate change for each rate component is neither economical nor a good use of resources and defeats the intent to minimize consulting and regulatory cost. However, it is possible that this adjustment methodology could change in future years of the DSC-FBR Plan; but given the minor change being made, the benefits of an energy-based adjustment outweigh doing something more detailed, expensive, potentially controversial, and time consuming.

Q. Have the proposed tariffs as required in the DSC-FBR Plan Protocols in Section J.11 been provided?

A. Yes, they are included as Exhibit 11 of the Application in the instant Docket. Please note that since Southern Pioneer was directed to file its Application for both DSC-FBR Plan and 34.5kV Plan FBR in a single docket, the proposed tariffs reflect the net adjustment resulting from combining both of the FBR plans. Table 3, Page 31, Part IV summarizes the combined net adjustment.

SECTION B - 34.5KV FBR PLAN

1. SUMMARY OF THE 34.5kV FBR PLAN RESULTS

Q. Please briefly recap Southern Pioneer's 34.5kV FBR.

A. The 34.5KV FBR Plan, as approved for Southern Pioneer by the Commission in Docket No. 16-MKEE-023-TAR ("16-023 Docket"), is a three-year ratemaking plan that provides for the annual recovery of the costs associated with owning, operating, and maintaining Southern Pioneer's 34.5 kV sub-transmission system. In essence, the 34.5kV FBR Plan serves as a method for periodic adjustments to the following rates: (1) a demand rate for the wholesale LADS over Southern Pioneer's 34.5kV sub-transmission facilities, as well as (2) the resulting retail rates for those Southern Pioneer retail customers taking service over its 34.5kV sub-transmission facilities. The details of the calculations for the corresponding rate adjustments are outlined in Section D of the Commission-approved Southern Pioneer's 34.5kV FBR Plan Protocols, attached as Exhibit A to the March 10, 2016 Commission Order Approving

Settlement and April 26, 2016 Order Granting Petition for Clarification in the 16-023 Docket.[11] The purpose of this formulaic ratemaking mechanism is to allow for timely adjustments to the aforementioned rates without incurring the substantial expense and/or experiencing regulatory lag typically associated with the preparation of a full rate case.

Q. What data formed the basis for Southern Pioneer's 2018 34.5KV FBR Plan calculation?

A. Consistent with the 34.5kV FBR Plan Protocols, the calculation was based upon a 2017 Historical Test Year. As such, it utilizes historical figures from Southern Pioneer's December 2017 Form 7, Trial Balance, Payroll Journal.[12]

Q. Please summarize the results of Southern Pioneer's 2018 34.5KV Plan FBR calculation.

A. 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 Annual Update of the 34.5kV FBR Plan, Section E, Annual True-Up of the Protocols is applicable in this year's filing.[13] 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.[14] 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

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[11] Included as Attachment B with the Application in the instant Docket.

[12] Included in Southern Pioneer's Application as part of Exhibits 2 (Form 7 for test year and 2 prior years), 4 (Trial Balances for test year and 2 prior years), and 10a (Payroll Journals for test year and 2 prior years).

[13] Per E.3 of the 34.5kV FBR Protocols, the initial True-Up became applicable with the second Annual Update filing.

[14] The billing demand for the Historical Test Year, shown on page 7 of Exhibit 3-B, is provided by Mid-Kansas, Southern Pioneer's G&T provider.

$4.88/kW, last approved in Docket No. 17-SPEE-476-TAR. Translated into total dollars, the this constitutes a $110,656 overall increase.[15] Using the Load Ratio Share ("LRS"), around $46,386, or 42 percent, of the increase is applicable to Southern Pioneer's wholesale LADS customers; and the remaining $64,270, or about 58 percent, is applicable to Southern Pioneer's retail customers. In accordance with Section D.5 of the 34.5kV FBR Plan Protocols, the increase is to be spread amongst the retail rate schedules of Southern Pioneer based upon the Test Year base revenue (i.e., gross revenue less purchased power expense). The detailed 34.5KV Plan FBR calculation for the Test Year is contained in Exhibit 3-B attached to the Application filed in the instant Docket. Table 1-B below summarizes the revenue adjustment in total and the allocation to each of the applicable retail rate schedules.

TABLE 1-B

SOUTHERN PIONEER ELECTRIC COMPANY
Allocation of 34.5kV FBR Retail Rate Adjustment to Rate Classes

Rate Schedule	Test Year Rate Schedule Revenue	34.5kV FBR Adjustment	Change As Percent
	($)	($)	($)
Residential Service (17-RS)			
General Use	15,586,648	25,534	0.2%
Space Heating	782,704	1,247	0.2%
General Service Small (17-GSS)	1,815,474	3,217	0.2%
General Service Large (17-GSL)	17,173,635	24,592	0.1%
General Service Space Heating	560,089	730	0.1%
Industrial Service (17-IS)	3,498,567	4,598	0.1%
Interruptible Industrial Service (17-INT)	-	-	0.0%
Real -Time Pricing (13-RTP)	33,528	-	0.0%
Sub-transmission Level Service (17-STR)	26,223,947	-	0.0%
Municipal Power Service (17-M-I)	195,260	302	0.2%
Water Pumping Service (17-WP)	637,115	897	0.1%
Irrigation Service (17-IP-I)	352,506	534	0.2%
Temporary Service (17-CS)	11,969	23	0.2%
Lighting	1,081,690	2,596	0.2%
Total Retail Rates	67,953,133	64,270	0.1%

[15] Applying LADS unit rate to the 34.5kV total billing demand for the Test Year.

2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the 34.5kV FBR PLAN

Q. You stated that 2017 actual results formed the basis for the 34.5KV FBR PLAN calculation. The 34.5kV FBR Plan Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer's actual 2017 financial results in completing the 34.5kV FBR Plan template?

A. Consistent with Section D.1 of the 34.5kV FBR Plan Protocols, adjustments to reflect the projected amounts for the 2017 Budget Year were made to the following:[16]

- Interest on Long-Term Debt
- Interest Expense - Other
- Debt Service Payments

In addition, Other Taxes were adjusted to reflect cash only portion for the Test Year.[17]

Further, per Sections D.1.b and D.1.g of the 34.5kV FBR Plan Protocols, and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), A&G expense and "Other Deductions" were adjusted to remove certain amounts associated with the dues, donations, charitable contributions, promotional advertising, penalties and fines, and entertainment expenses incurred during the Test Year.[18] The excluded amounts are noted on Page 8 of Exhibit 3-B. The supporting detail for the exclusions is provided by Southern Pioneer in Exhibit 9 attached to the Application in the instant Docket.

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[16] 34.5kV FBR Plan Protocols also direct to remove Acquisition Premium amortization. Given the approved Template, populated as Exhibit 3-B, only lists Transmission and General Plant Depreciation, the amortization of Acquisition Premium is excluded by default; and no further adjustment is necessary. Additionally, 34.5kV FBR Plan Protocols direct to make certain adjustments to Distribution Operation and Maintenance ("O&M") expenses if lower voltage distribution plant is used to provide LADS. Southern Pioneer notes it is not applicable at this time. Therefore, there were no adjustments shown to Distribution O&M.

[17] 34.5kV FBR Plan is assigned the remainder of what was allocated to the DSC-FBR Plan.

[18] K.S.A. 66-101f (a) allows adoption of a policy of "disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate."

Finally, Section D.2 of the 34.5kV FBR Plan Protocols mandates that certain revenue and expense categories be further allocated to remove the costs unassociated with Southern Pioneer's 34.5kV sub-transmission facilities.

Q. Please describe the adjustments made to the 2017 Test Year Interest on Long-Term Debt.

A. The historical amount of Interest on Long-Term Debt for the 2017 Test Year was $5,517,278 as reported on Southern Pioneer's Form 7. The 34.5kV FBR Plan Protocols, in Section D.1.e, specify that the actual amount be adjusted to reflect Southern Pioneer's budgeted amount for 2018. Southern Pioneer's budgeted long-term interest expense is $5,625,332, and so an adjustment of $108,054 was included. The details of this adjustment are shown in Exhibit 3-B, Page 4, Lines 18-21.

Q. Please describe the adjustments made to the 2017 Test Year Interest Expense - Other.

A. The historical amount of Other Interest Expense for the 2017 Test Year was $113,020 as reported on Southern Pioneer's Form 7. Consistent with Section D.1.f of the 34.5kV FBR Plan Protocols, the amount has been adjusted to reflect Southern Pioneer's 2018 Budget for short-term interest expense of $112,149. To accomplish this, a reduction in the amount of $871 was included. The details of the adjustment can be found in Exhibit 3-B, Page 4, Lines 28-31.

Q. Please describe the adjustments made to the 2017 Test Year Debt Service Payments.

A. Debt Service Payments are comprised of interest and principal payments on debt outstanding. Since I previously discussed the adjustments to interest expense, I will here focus on the adjustment to principal payments. The historical amount of Principal Payments for the 2017 Test Year was $2,329,355 (as reported on Southern Pioneer's Form 7). The Protocols, in Section D.1.h, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted amount for 2018 principal payments, which is $2,473,881; so an adjustment in the amount of $144,526 was included. This adjustment is detailed in Exhibit 3-B, Page 4, Lines 37-40.

Q. Please describe the adjustments made to the 2017 Other Taxes.

A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.

Per Section D. 1.d of the 34.5kV FBR Plan Protocols, Other Taxes should be adjusted to reflect the cash only portion for the Test Year. In 2017, Southern Pioneer received a cash refund on taxes paid in the amount of $51,878, as evidenced in the historical Test Year negative amount of the corresponding cash transactions reflected in the General Ledger ("GL") accounts of $236.71. Accordingly, an adjustment of $1,229,939 is applied to this expense category, as noted in Exhibit 3-B, Page 4, Lines 13-16.

Q. Please describe the adjustments made to the 2017 Test Year Operating Expenses in conjunction with the 34.5kV FBR Plan Protocols' Section D.1, parts b and g, and the Commission's policy per K.S.A. 66-101f (a).

A. The historical amounts of the following operating expenses, assignable to the 34.5kV FBR Plan, were adjusted as shown:

- A&G Expense of $2,121,868 was reduced by $35,792 resulting in the $2,086,076 adjusted amount.
- Other Deductions Expense of $895,163 was reduced by $34,144 resulting in the $861,019 adjusted amount.

Overall, $69,936 was removed from the 34.5kV FBR Plan per K.S.A. 66-101f(a). The summary is shown in Exhibit 3-B, page 8. The detailed listings of the aforementioned items by GL account and the corresponding adjustments performed can be found in Exhibit 9 attached to the Application in the instant Docket.

Q. You have explained how the historical overall system (i.e., transmission and distribution) costs were adjusted in accordance with the 34.5kV FBR Plan Protocols. Next, please describe how the adjusted system-wide financial results were allocated to the 34.5kV sub-transmission system to arrive at Southern Pioneer's 34.5kV FBR Plan Revenue

Requirement that includes only those costs which are associated with the Company's 34.5kV sub-transmission facilities.

A. Section D.2 of the 34.5kV FBR Plan Protocols specifies the methodology for allocating applicable total system-wide operating expenses and margin requirements to the 34.5kV system so as to arrive at the Revenue Requirement associated with Southern Pioneer's 34.5kV sub-transmission facilities used to provide LADS.[19] Following is an explanation of the allocations:

- Per Section D.2.a of the 34.5kV FBR Plan Protocols, the A&G expenses are to be allocated using a Labor ratio, or LAB, where the latter is calculated as a ratio of Transmission Labor to Total Non-A&G Labor. The corresponding labor dollar amounts are found in the Labor Amount Column of the December 31, 2017 Payroll Journal, included with Exhibit 10a attached to the Application filed in the instant Docket. Next, Exhibit 3-B, Page 5, Lines 7-20 show how the resultant LAB ratio of 0.049612 is calculated. Applying LAB to the $2,086,076 in Adjusted Historical Test Year A&G expense assigns $103,495 to the 34.5kV FBR, as shown in Exhibit 3-B, Page 1, Line 10, Column (i).
- Depreciation and Amortization Expense for Transmission plant is to be calculated directly (a.k.a. "direct-assignment") in accordance with Section D.2.b of the 34.5kV FBR Plan Protocols. Therefore, the entire 2017 historical amount of $677,892 in Transmission Depreciation Expense is assigned to the 34.5kV FBR Plan. The same Section D.2.b directs to allocate the historical amount of the General Plant Depreciation

[19] Again, to clarify, "system-wide," as used in this context, is intended to mean combined distribution and transmission.

Expense on the LAB ratio, ultimately assigning $16,084 to the 34.5kV FBR Plan, as evidenced on Page 1, Line 14, Column (i) of Exhibit 3-B.

- Tax Expense - Other is to be allocated based on the percentage of calculated margin using the actual cash taxes paid during the Test Year. The DSC-FBR Plan, as described in Section A above, allocated around 74.5 percent of the $51,878 cash refund (credit, or a negative amount) issued to Southern Pioneer during 2017 to the distribution system, leaving approximately 25.5 percent, or $13,227 (credit, or a negative amount), to be assigned to the 34.5kV FBR Plan, as reflected in Exhibit 3-B, Page 1, Line 16, Column (i).
- For allocating Other Deductions, Interest on Long-Term Debt, Other Interest, Principal Payments, and Offsets to Margin Requirements, the NP is calculated. The NP, as defined in Section D.2 of the 34.5kV FBR Plan Protocols, reflects the ratio of Transmission Net Plant to Total Net Plant for the Test Year.[20] The calculation of the NP allocation factor is detailed on Page 5, Lines 22-47 of Exhibit 3-B. The results of applying the calculated Budget Year NP of 0.273773 to the corresponding Adjusted Historical Test Year expenses are evidenced on Page 1, Lines 15-26, Column (i) of Exhibit 3-B.[21]
- The Transmission O&M Expense is a category that is directly related to the provision of the LADS. Therefore, $1,293,444 in Transmission O&M was assigned 100 percent (i.e., using allocator of 1.0) to the 34.5kV FBR Plan Revenue Requirement.

[20] NP includes a General Plant allocation based upon a LAB ratio.

3. 34.5kV FBR PLAN REVENUE REQUIREMENT AND RATE CALCULATION

Q. How was Southern Pioneer's 2018 34.5kV FBR Plan Net Revenue Requirement calculated after performing all of the adjustments and allocations detailed above?

A. Per Section D.4 of the 34.5kV FBR Plan Protocols, the Total 34.5kV FBR Plan Revenue Requirement is a sum of all the applicable operating expenses, margin requirements, and true-up. Specifically, after the 2017 actual operating expenses were adjusted to the budgeted levels, as allowed by the 34.5kV FBR Plan Protocols, and allocated to reflect the portion applicable to Southern Pioneer's sub-transmission facilities. the Total Cost of Service was quantified at $3,884,179, as evidenced on Page 1, Line 21, Column (i) of Exhibit 3-B. Next, the Net Margin Requirement was calculated using 1.75 OTIER and MDSC metrics, as per Section D.3 of the 34.5kV FBR Plan Protocols. Applying the $1,238,502 in Net Margin Requirement generates the 34.5kV FBR Plan Total Revenue Requirement of $5,122,681. Finally, per Section I of the 34.5kV FBR Plan Protocols, the True-Up, calculated to be a reduction of $12,945, is applied on Page 1 of Exhibit 3-B, Line 35.

Q. Please describe how the True-Up was calculated in this year's filing.

A. In accordance with Section I of the 34.5kV FBR Plan Protocols, the True-Up amount is the result of the comparison of "[t]he projected revenue requirement of the projected items from the previous Budget Year; and, [t]he actual revenue requirement calculation of those same items for the test year." The 2017 34.5kV FBR Plan Net Revenue Requirement, based on the 2016 Historical Test Year for all Cost of Service items other than debt service, which reflected 2017 Budgeted projections for Interest on Long-Term Debt, Interest-Other, and Principal Payments, was approved by the Commission at $5,172,011.[22] Substituting the 2017 actual

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[22] Docket 17-SPEE-476-TAR, Order Granting Application and Approving Adjustments, filed July 25, 2017. See also Notice of Filing of Staff's Report and Recommendation, filed June 26, 2017, Exhibit CCU-2(a), Page 1, Line 36.

values in place of the projections produces the Net Revenue Requirement of $5,159,065, which is $12,945 lower than amount approved in last year's 34.5kV FBR Plan Annual Update. Accordingly, the True-Up being included this year is a reduction of $12,945. The details of the True-Up calculations are contained on Pages 17-20 of Exhibit 3-B (Work Papers 12-B through 15-B).

Q. What is the resultant Net Revenue Requirement for Southern Pioneer's 2018 34.5kV FBR?

A. After applying the $12,945 in True-Up amount as an offset to the Total Revenue Requirement of $5,122,681, the resultant Net Revenue Requirement is $5,109,736.

Q. Please explain how the resultant wholesale demand rate for LADS was determined.

A. Section D.4 of the 34.5kV FBR Plan Protocols further directs that the 34.5kV FBR Plan Net Revenue Requirement is to be divided by the Total Billing Demand for the Test Year. The latter is comprised of both retail and wholesale billing determinants (as provided by Mid-Kansas -- a G&T company who serves as Southern Pioneer's wholesale power supplier, as well as metering and billing agent for Southern Pioneer's wholesale LADS service) and then factoring in the appropriate loss percentages, as specified in Southern Pioneer's Commission-approved wholesale LADS tariff. For the 2017 Test Year, the Total Billing Demand for Southern Pioneer's 34.5kV sub-transmission system was quantified at 922,136 kW, as reflected on Page 1, Line 37, Column (i) of Exhibit 3-B and further detailed on Page 7 of the same Exhibit. Dividing $5,109,736 in Revenue Requirement by 922,136 kW results in a $5.54/kW LADS rate. Next, subtracting $0.54/kW of PTS currently in effect from the 18-SPEE-270-TAR produces the final LADS rate of $5.00/kW, resulting in a $0.12/kW increase, or 2.5 percent, compared to the current effective LADS rate of $4.88/kW. Southern Pioneer's wholesale customers taking LADS service on its 34.5kV sub-transmission facilities will be charged this resultant demand rate directly. For the retail customers taking service on Southern

Pioneer's 34.5kV sub-transmission facilities, the resulting per kW increase is converted to the total dollar amount of $64,270 using the respective LRS allocation. Next, it is allocated to individual retail rate classes.

Q. Do you have any additional comments regarding the $0.12/kW increase in wholesale LADS rate?

A. Yes. It should be noted that the reduction in Southern Pioneer's total 34.5kV load, which is down 3.9 percent in 2017 as compared to 2016, played a role in this slight increase in the LADS rate.

4. ALLOCATION OF THE 34.5kV FBR PLAN REVENUE ADJUSTMENT TO RETAIL RATE SCHEDULES

Q. Please describe how you allocated the $64,270 in retail revenue increase to the individual rate schedules.

A. Section D.5 of the 34.5kV FBR Plan Protocols details that any rate adjustment resulting from the 34.5kV FBR Plan is to be allocated to the applicable retail rate classes on the Test Year base revenues by rate schedule (including ECA, less sum of power supply costs for the Test Year, determined by applying the average cost of power supply per kWh from the most recent Commission-approved COS).[23]

Consistent with the 34.5kV FBR Plan Protocols, the 2017 Test Year 34.5kV FBR Plan Retail Rate Adjustment was apportioned accordingly:

1. First, all power costs recovered in rates were removed from the historical revenues recorded for each schedule to arrive at the base revenues by rate schedule.

[23] The most recent class cost of service, or CCOS, for Southern Pioneer, was submitted in Docket No. 12-MKEE-380-RTS in Exhibit RJM-14 contained in the Rebuttal Testimony of Rich Macke filed on May 9, 2012.

2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base revenues was determined.
3. The base revenue ratios were then applied to the 34.5kV FBR Plan determined revenue adjustment to establish each rate schedule's apportioned revenue adjustment.

Table 2-B below summarizes the results of this process. Exhibit 3-B, Page 2 provides further detail.[24]

Table 2-B

SOUTHERN PIONEER ELECTRIC COMPANY Allocation of 34.5kV FBR Retail Rate Adjustment to Rate Classes			
Rate Schedule	**Test Year Rate Schedule Revenue**	**34.5kV FBR Adjustment**	**Change As Percent**
	($)	($)	($)
Residential Service (17-RS)			
General Use	15,586,648	25,534	0.2%
Space Heating	782,704	1,247	0.2%
General Service Small (17-GSS)	1,815,474	3,217	0.2%
General Service Large (17-GSL)	17,173,635	24,592	0.1%
General Service Space Heating	560,089	730	0.1%
Industrial Service (17-IS)	3,498,567	4,598	0.1%
Interruptible Industrial Service (17-INT)	-	-	0.0%
Real -Time Pricing (13-RTP)	33,528	-	0.0%
Sub-transmission Level Service (17-STR)	26,223,947	-	0.0%
Municipal Power Service (17-M-I)	195,260	302	0.2%
Water Pumping Service (17-WP)	637,115	897	0.1%
Irrigation Service (17-IP-I)	352,506	534	0.2%
Temporary Service (17-CS)	11,969	23	0.2%
Lighting	1,081,690	2,596	0.2%
Total Retail Rates	67,953,133	64,270	0.1%

Q. What is your recommendation as to how the resulting increases by retail rate schedule be implemented?

A. The 34.5kV FBR Plan Protocols do not specify how the retail rate schedule components (i.e. Customer Charge, Energy Charge, Demand Charge, etc.) should be revised to implement rate

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[24] Note that the customers taking service under Southern Pioneer's STR tariff will not share in the 34.5kV FBR Plan retail rate adjustment since these customers will: 1) either take service at a higher 115kV voltage; or 2) if they take service at 34.5kV, they will pay the share of the 34.5kV system costs in their demand rate.

adjustments. Similar to my recommendation noted in Section A previously for the DSC-FBR Plan, I recommend that the increases by rate schedule be implemented as a slight increase to each retail rate schedule's energy charges only. This is easily determined by dividing the revenue adjustment for each schedule by the historical energy sales. The result is the amount that the current energy charges need to be increased by class and is shown in Column (k) of Exhibit 3-B, Page 2.

The one exception required is for lighting. Since the lighting rate schedules do not have an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have an estimated energy use for the various sizes/types of lights, and so the energy adjustment can still be applied so as to affect the monthly charge in a way that is proportionate to usage. This approach then provides consistency between all the retail rates being adjusted.

Q. Why do you recommend that the 34.5kV FBR Plan retail revenue increase be implemented by increasing the current energy charges?

A. The reasoning is the same as already outlined in Section A previously; i.e., handling this type of adjustment as an energy adjustment is simple, common, reasonably accurate, and particularly appropriate given the relatively minor magnitude of the adjustment. Energy adjustments are an industry-accepted approach for flowing through cost changes that occur between full or "traditional" rate cases. For example, Southern Pioneer's current ECA is an energy-based charge established to flow through not only energy cost but also demand cost changes from the amount embedded in rates during the last full rate case. Similarly, Southern Pioneer's PTS rider is an energy adjustment established to pass through changes in property tax expense increases since the last full rate case. Further, similar methodology was accepted by the Commission in Southern Pioneer's DSC-FBR and 34.5kV FBR Plan Annual Update filing submitted and approved in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, 16-SPEE-501-TAR, and 17-SPEE-476-TAR. I would also point out that, especially given the results (i.e., slight increase of 0.09 percent), the additional effort required to attempt a sort of proportionate change for each rate component is neither economical nor a good use of resources and defeats the intent to minimize consulting and regulatory cost. However, it is possible that this adjustment methodology could change in future years of the 34.5kV FBR Plan; but given the minor change being made, the benefits of an energy-based adjustment outweigh doing something more detailed, expensive, potentially controversial, and time consuming.

Q. Have the proposed tariffs as required in the 34.5kV FBR Plan Protocols in Section E.13 been provided?

A. Yes, they are included as Exhibit 11 of the Application filed in the instant Docket. As noted in the DSC-FBR Plan Section A of my testimony, the proposed retail tariffs reflect the net adjustment from combining the results of both FBR plans. The following Table 3 in Part IV summarizes the ensuing combined net adjustment.

PART IV - CONCLUSION

Q. Please recap the results of the 2018 DSC-FBR Plan and the 34.5kV FBR Plan for Southern Pioneer.

A. Southern Pioneer's DSC-FBR Plan, updated for 2017 Test Year, results in a DSC ratio of 1.53, requiring a $1,311,929 revenue increase applicable to Southern Pioneer's retail customers. This represents about 1.9 percent increase when compared to the 2017 historical retail rate schedule revenues. Southern Pioneer's 34.5kV FBR Plan, updated for 2017 Test Year, results in a wholesale LADS of $5.00/kW. 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.

Accordingly, 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. The allocation of the net change to retail rate schedules is summarized in Table 3 below.

Table 3

SOUTHERN PIONEER ELECTRIC COMPANY
Allocation of DSC-FBR and 34.5kV FBR Rate Adjustment to Rate Schedules

Line No.	Rate Schedule	Rate Schedule Revenue	DSC-FBR Adjustment	34.5kV FBR Adjustment	Net Change	Change as Percent
		($)	($)			(%)
1	Residential Service (17-RS)					
2	General Use	15,586,648	505,048	25,534	530,582	3.4%
3	Space Heating	782,704	24,659	1,247	25,906	3.3%
4	General Service Small (17-GSS)	1,815,474	63,620	3,217	66,837	3.7%
5	General Service Large (17-GSL)	17,173,635	486,400	24,592	510,991	3.0%
6	General Service Space Heating	560,089	14,445	730	15,176	2.7%
7	Industrial Service (17-IS)	3,498,567	90,940	4,598	95,538	2.7%
8	Industrial Service-Primary Discount	-	-	-	-	-
9	Real -Time Pricing (13-RTP)	33,528	-	-	-	-
10	Transmission Level Service (17-STR)	26,223,947	40,727	-	40,727	0.2%
11	Municipal Power Service (17-M-I)	195,260	5,981	302	6,284	3.2%
12	Water Pumping Service (17-WP)	637,115	17,740	897	18,636	2.9%
13	Irrigation Service (17-IP-I)	352,506	10,559	534	11,093	3.1%
14	Temporary Service (17-CS)	11,969	458	23	481	4.0%
15	Lighting	1,081,690	51,351	2,596	53,948	5.0%
16	**Total Retail Rates**	67,953,133	1,311,929	64,270	1,376,199	2.0%

Q. What is your final recommendation to the Commission?

A. My recommendation is to approve Southern Pioneer's Application in the instant Docket and the resultant rates which were determined in accordance to the Commission-approved DSC-FBR Plan and 34.5kV FBR Plan Protocols, and therefore are just and reasonable and in the public interest.

Q. Does this conclude your prefiled Direct Testimony?

A. Yes, it does.

VERIFICATION

STATE OF MINNESOTA)
) ss
COUNTY OF ANOKA)

The undersigned, Richard J. Macke, upon oath first duly sworn, states that he is an employee of Power System Engineering, Inc., and that the foregoing testimony was prepared by him or under his supervision, 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.

Richard J. Macke

Richard J. Macke

Subscribed and sworn to before me this 30th day of April, 2018.

Marilyn M. Cuellar

Notary Public

My appointment expires: 1/31/20

MARILYN M. CUELLAR
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2020