THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Sunflower Electric Power Corporation for an Order Approving (i) Continued Use of the Target Financial Metric Ratio Levels Used in, and (ii) Amendments to, its Commission-Approved Formula-Based Rate for Recovery of Transmission Costs	))))))	Docket No. 17-SEPE-415-TAR

APPLICATION

COMES NOW Sunflower Electric Power Corporation ("Sunflower") and respectfully requests the Kansas Corporation Commission of the State of Kansas ("Commission") approve (i) continued use of the current levels of Debt Service Coverage ("DSC") and Times Interest Earned Ratio ("TIER") target metrics in Sunflower's Formula-Based Rate for Recovery of Transmission Costs (the "TFR"), which was previously approved by the Commission in Docket No. 13-SEPE-701-TAR (the "13-701 Docket"), and (ii) amendments to the TFR to allow adjustments in the TFR for Southwest Power Pool, Inc. ("SPP") competitively bid transmission projects compelled by Federal Energy Regulatory Commission ("FERC") Order 1000.

In the 13-701 Docket, Sunflower agreed to refile the TFR after the closing of the transaction to pay off the Residual Value Note ("RVN") owed to The United States of America, acting through the Administrator of the Rural Utilities Service ("RUS"), in order to support continued use of, or revise, the financial ratio levels used in the TFR. Sunflower paid the full balance of the RVN to RUS on December 15, 2016, and therefore files this application requesting Commission approval of the aforementioned.

In support of its Application, Sunflower states as follows:

1. In addition to the undersigned, copies of pleadings, documents, and correspondence in this docket should be sent to:

James Brungardt
Manager, Regulatory Relations
Sunflower Electric Power Corporation
301 W. 13th Street
P.O. Box 1020
Hays, KS 67601
jbrungardt@sunflower.net

H. Davis Rooney
Vice President and Chief Financial Officer
Sunflower Electric Power Corporation
301 W. 13th Street
P.O. Box 1020
Hays, KS 67601
drooney@suflower.net

Reneé K. Braun
Corporate Paralegal and Contracts Supervisor
Sunflower Electric Power Corporation
301 W. 13th Street
P.O. Box 1020
Hays, KS 67601
(785) 623-6638
rbraun@sunflower.net

I. BACKGROUND

1. Sunflower is a non-profit, member-owned corporation operated as a cooperative. It is owned directly by six consumer-owned electric distribution cooperatives that also own (directly or indirectly) Mid-Kansas Electric Company, LLC ("Mid-Kansas"). The Members of Sunflower are as follows: Lane-Scott Electric Cooperative, Inc. ("Lane-Scott"); Pioneer Electric Cooperative, Inc. ("PEC"); Prairie Land Electric Cooperative, Inc.; ("PLEC"); The Victory Electric Cooperative Association,

Inc. (“VECA”); Western Cooperative Electric Association, Inc. (“WCEA”); and Wheatland Electric Cooperative, Inc. (“WEC”). Except for PEC, the same members own Mid-Kansas. PEC’s interest in Mid-Kansas is indirect, through its wholly-owned subsidiary, Southern Pioneer Electric Company (“SPEC”).

2. Sunflower’s bundled wholesale rates to its Members are no longer regulated by the Commission, pursuant to Sunflower’s Deregulation Notice, dated July 27, 2009, filed pursuant to K.S.A. 66-104d, and approved by the Commission in a September 28, 2009 *Order Affirming [Sunflower’s] Election to Deregulate*, Docket No. 10-SEPE-072-DRC. However, as required by K.S.A. 66-104d(f), Sunflower’s “charges, fees or tariffs for transmission services” to others remains subject to Commission regulation.

3. Sunflower’s transmission charges have been unbundled and are determined by its TFR as approved in the 13-701 Docket. Sunflower’s transmission charges are collected by SPP through the SPP Open Access Transmission Tariff (“OATT”). Sunflower’s TFR permits its annual transmission revenue requirement (“ATRR”) to adjust on an annual basis to reflect the actual costs of Sunflower’s transmission system. In the industry’s current state of frequent transmission build out, the TFR provides an important transparent, periodic means to adjust Sunflower’s regulated transmission rate.

4. Sunflower’s TFR, like other transmission formula rates for cooperative utilities, determines the utility’s ATRR by using target financial ratios. In other words, the ATRR is calculated to provide a return that allows Sunflower to maintain adequate

coverage ratios enabling Sunflower to fund ongoing capital needs and operation of its transmission facilities.

5. At the time of the 13-701 Docket, Sunflower had outstanding secured debt issued to RUS. Under the loan agreements governing the RUS debt, RUS had to approve any unsecured or secured borrowings by Sunflower. Because of the time constraints associated with obtaining the required RUS approvals, Sunflower had to fund capital additions with cash working capital or assign the responsibility of financing and building projects to others.

6. Because of the foregoing, the Commission approved Sunflower's use of a DSC of 1.3345 and a TIER of 1.6979 in Sunflower's TFR in the 13-701 Docket. The DSC and TIER were set at those levels in order to meet Sunflower's cash requirements during the period when it was unable to issue long-term debt to finance new capital items.[1] As such, the Commission required that Sunflower make a limited refiling of its TFR once Sunflower paid RUS the value of the RVN in order to support continued use of, or revise, the DSC and TIER levels. Sunflower now submits this Application to satisfy that requirement, as well as amend its TFR to address SPP's competitively bid transmission projects.

II. DSC AND TIER TARGET RATIOS

7. The current Commission-approved Sunflower TFR uses the greater of a DSC or TIER to determine which ratio will be used to calculate the return achieved through the TFR each year. The initial DSC of 1.3345 and TIER of 1.6979 have not been adjusted since the Commission's approval in the 13-701 Docket. As referenced

[1] Order Approving Unanimous Stipulation and Agreement, ¶13(c), Docket No. 13-SEPE-701-TAR (filed October 31, 2013).

above, Sunflower is required to make a limited refile of the TFR because Sunflower's ability to borrow funds is no longer restricted by the RUS approval process. Sunflower is requesting that the Commission approve Sunflower's continued use of its current DSC and TIER levels for the reasons enumerated below.

8. Under the current DSC and TIER levels, Sunflower is currently achieving a relatively small return. Both the DSC and TIER ratios are calculated using debt and interest. The higher a utility's debt and interest, the higher return the DSC and TIER will calculate. Sunflower has been unable to issue additional long-term debt for many years. Over that period, Sunflower's existing debt and interest have decreased as a result of paying down existing debt. In turn, Sunflower's annual return under its TFR has seen a corresponding decrease.

9. Sunflower expects the current trend of transmission build out to continue for the foreseeable future, and will thus require a return that is adequate to help fund those projects. Lowering Sunflower's current DSC and TIER levels would cut into an already low margin. Compared to other similarly situated generation and transmission cooperative utilities ("G&Ts"), Sunflower's current TIER ratio of 1.6979 is average.[2]

10. In addition to already achieving a low return, now that Sunflower has the ability to borrow, its credit rating becomes even more important to Sunflower. Sunflower's current load profile shows that it has a higher than average concentration of retail industrial load in its system. This presents a credit rating challenge because lenders view such a profile as higher risk as a large percentage of revenue comes from a small number of customers. Additionally, industrial customers have a higher potential

[2] See the Direct Testimony of Mr. James Brungardt for the specific analysis regarding this conclusion.

to leave, given their ability to shift load to other facilities, or even move the business to other states.

11. To help offset this credit risk, Sunflower desires to achieve an Investor Preferred Class A credit rating, which requires a DSC/TIER ratio of 1.2 to 1.4.[3] Such a credit rating would enable Sunflower to obtain debt financing at low interest rates. Lower interest rates on debt means less costs that have to be shouldered by Sunflower's members, and ultimately, their member-owners. While the benefits of achieving a higher credit rating must be weighed against the costs of keeping Sunflower's DSC and TIER levels the same in order to achieve it, as previously discussed, Sunflower is already achieving a low return from its transmission customers.

12. An additional consideration would be that Sunflower used a significant portion of its cash equity to fund the payment of the RVN to RUS.[4] That large equity outflow substantially reduced Sunflower's accumulated equity level. By using cash equity to fund a portion of the payment of the RVN, Sunflower reduced its overall amount of debt and interest, which drives a lower return, while simultaneously reducing its accumulated equity. The result is a lower return and less equity for Sunflower than existed prior to the RVN payment.

13. Supplemental to the aforementioned, the DSC and TIER are designed to regulate equity levels because they are driven by a utility's amount of debt and interest. Because Sunflower now has less debt and interest, the existing levels of the DSC and TIER essentially automatically reduce Sunflower's return. For the foregoing reasons,

[3] U.S. Electric Generation and Transmission Cooperative, produced by Moody's Investor Service, at p. 21 (published April 15, 2013).
[4] Sunflower refinanced the $125 million RVN with $40 million in cash on hand and $85 million in debt.

Sunflower respectfully submits that continued use of its current DSC and TIER levels is appropriate. For a more detailed discussion of Sunflower's analysis regarding its request to keep the current TFR DSC and TIER ratio levels, please refer to the Direct Testimony of James Brungardt ("Brungardt Testimony").

III. ADDITIONAL COMPETITIVE BID COLUMNS

14. As a result of FERC Order 1000, certain regionally funded transmission projects are required to be competitively bid to determine which organization is allowed to build and own the project. The bidding process is elaborate, and facilitated through SPP. Specifically, in SPP, an Independent Expert Panel ("IEP") reviews each of the bids and makes a recommendation to the SPP Board of Directors as to which entity should be awarded the project. The SPP Board of Directors is the ultimate decision maker as to which entity is awarded the project. To facilitate the bidding process, Sunflower is requesting an amendment to its TFR to enable Sunflower to accurately recover the costs of projects awarded to Sunflower in the competitive bid process.

15. Sunflower's current TFR is designed to calculate each transmission project's revenue requirement using the average cost of the entire transmission system. In contrast, SPP's bidding process uses incremental costs to calculate the revenue requirement for competitively bid projects. Taking that into consideration, if Sunflower is awarded a transmission project, it will only be able to recover the costs that were approved in the winning bid. If one or more of the components of the awarded bid use a cost that is less than the average cost of the entire transmission system, then Sunflower would over or under-recover the costs to which it agreed to in its bid. Sunflower desires

to add flexibility in its TFR to allow for proper recovery of transmission projects that are awarded pursuant to the SPP competitive bid process.

16. In order to achieve that flexibility, Sunflower requests the addition of several adjustments to the current formula. Generally, those adjustments fall into two categories: transmission related adjustments and non-transmission related adjustments. A transmission related adjustment is a specific adjustment for an item that can be recovered from Sunflower's transmission customers. For example, a debt interest rate for a specific project that differs from the average debt interest rate normally used in Sunflower's TFR. In essence, it is an adjustment to the TFR that allows Sunflower to recover a different amount for a specific project than would generally be recovered under the current TFR.

17. A non-transmission related adjustment is a specific adjustment for an item that cannot be recovered from Sunflower's transmission customers. For example, if Sunflower capped a portion of its winning bid at a level less than the average system-wide cost normally recovered under the TFR, the delta would be unrecoverable for that specific project under the TFR. Essentially, the specific modification disallows the recovery of certain adjustments made to a specific project from Sunflower's transmission ratepayers. Sunflower has added these adjustments in various places throughout the TFR formula templates. For a more detailed discussion regarding these adjustments and their locations, please refer to the Brungardt Testimony.

18. These adjustments will not affect the revenue requirement for projects that are not competitively bid and will provide transparency as to projects with specific adjustments necessary for SPP competitively bid transmission projects. To add to the

transparency, during each annual update filing, Sunflower will submit supportive documentation on each specific adjustment to be input into the TFR formula. There are no competitive bid adjustments required prior to the 2018 annual TFR update. Therefore, Sunflower requests that the competitive bid section in the TFR be implemented with the 2018 annual TFR update.

WHEREFORE, for the reasons set forth above, Sunflower Electric Power Corporation respectfully requests that the Commission approve (i) continued use of the current DSC of 1.3345 and TIER of 1.6979 in Sunflower's TFR, (ii) Sunflower's proposed amendments to the TFR to address competitively bid FERC Order 1000 projects, and (iii) such other relief as the Commission deems appropriate.

Respectfully submitted

Mark D. Calcara, #09957
Taylor P. Calcara, #25561
Watkins Calcara, Chtd.
1321 Main Street, Suite 300
P.O. Drawer 1110
Great Bend, KS 67530
mcalcara@sunflower.net
tcalcara@wcrf.com

COUNSEL FOR SUNFLOWER ELECTRIC POWER CORPORATION

VERIFICATION

STATE OF KANSAS)
COUNTY OF ELLIS) ss:

Taylor P. Calcara, of lawful age, being first duly sworn on oath, states:

That he is an attorney for Sunflower Electric Power Corporation; that he has read the above and foregoing Application and knows the contents thereof; and that the statements contained therein are true.

Taylor P. Calcara

SUBSCRIBED AND SWORN to before me this 16th day of March, 2017.

Renee K. Braun

Notary Public

Commission Expires: April 30, 2018

NOTARY PUBLIC - State of Kansas
Reneé K. Braun
My Appt. Expires 4/30/2018