

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of)
Kansas Electric Power Cooperative, Inc. and) Docket No. 19-KEPE-063-CON
Sunflower Electric Power Cooperative for)
Approval of Master Purchase Power and Sale)
Agreement)

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION
(PUBLIC VERSION)

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively), having investigated the issues presented in this docket, hereby files its attached Report and Recommendation (R&R). Staff recommends that the Commission approve the proposed Master Purchase Power and Sale Agreement between Sunflower Electric Power Cooperative and Kansas Electric Power Cooperative, Inc.

WHEREFORE, Staff respectfully requests that the Commission adopt its recommendation of approval.

Respectfully Submitted,



Michael Neeley, S. Ct. #25027
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STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Michael Neeley, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Michael Neeley # 25027
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 20th day of November, 2018.



Notary Public

My Appointment Expires: June 30, 2022

STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.

SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION [PUBLIC VERSION]

TO: Shari Feist Albrecht, Chair
Jay Scott Emler, Commissioner
Dwight D. Keen, Commissioner

FROM: Darren Prince, Managing Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: November 13, 2018

SUBJECT: Docket No. 19-KEPE-063-CON: In the Matter of the Joint Application of Kansas Electric Power Cooperative, Inc., and Sunflower Electric Power Cooperative for Approval of Master Purchase Power and Sale Agreement

EXECUTIVE SUMMARY:

On August 10, 2018, Kansas Electric Cooperative, Inc. (KEPCo) and Sunflower Electric Power Corporation (Sunflower) submitted a Joint Application for Commission approval of a Master Power Purchase and Sales Agreement (Master Agreement).¹ The Master Agreement, if approved, would replace the existing contract (Arkalon Agreement) which will expire December 31, 2018.

Because the Master Agreement would most likely put downward pressure on KEPCo's member rates and Sunflower has sufficient capacity to serve the load, Staff has determined the Master Agreement would result in just and reasonable rates and promote the public interest of the state of Kansas. Staff recommends the Commission approve the Master Agreement.

BACKGROUND:

In Docket No. 09-SEPE-1013-CON on June 26, 2009, Sunflower and KEPCo entered into the Restated Agreement Replacing Interim Agreement (Restated Agreement). Under the Restated Agreement, Sunflower delivered and sold power and energy to KEPCo. The Restated Agreement provided power and energy to serve the Arkalon Ethanol Plant and a carbon dioxide production

¹ Joint Application for Approval of Master Power Purchase and Sale Agreement, Docket No. 19-KEPE-063-CON, August 10, 2018.

facility located in CMS Electric Cooperatives' service territory (CMS). CMS is a member of KEPCo. The Commission approved the Restated Agreement on October 16, 2009.²

On October 15, 2013, prior to the expiration of the Restated Agreement, Sunflower and KEPCo entered into the Arkalon Agreement in Docket No. 14-KEPE-171-CON. The Arkalon Agreement was a sale of power for resale. The Arkalon Agreement eliminated the demand charge KEPCo paid to Sunflower and established the wholesale rates of \$45.00 per MWh for sales made in calendar year 2014, \$47.00 per MWh for sales made in calendar year 2015, and \$49.00 per MWh for sales made in calendar year 2016.³ The Commission approved the Arkalon Agreement on February 2, 2014.⁴

On March 24, 2016, KEPCo and Sunflower signed Amendment One to the Arkalon Agreement. Amendment One extended the Arkalon Agreement through December 31, 2018, at the same price of \$49.00 per MWh. Amendment One was approved by the Commission in Docket No. 16-KEPE-542-CON on September 13, 2016.⁵

In the current Docket, KEPCo and Sunflower are requesting approval of the Master Agreement to replace the Amended Arkalon Agreement, which expires December 31, 2018. The Master Agreement is a capacity and optional firm energy contract.

ANALYSIS:

Jurisdiction

K.S.A. 66-101c requires electric public utilities to “furnish the commission copies of all rules and regulations and contracts between electric public utilities pertaining to any and all jurisdictional services to be rendered by such electric public utilities.” As stated above, the Master Agreement involves the sale of power for resale, which is a Commission-jurisdictional service, pursuant to K.S.A. 66-104d(f). Pursuant to K.S.A. 66-117(a), no public utility “shall make effective any changed rate...except by filing the same with the commission...,” and K.S.A. 66-117(d) continues, “no change shall be made in any rate...without the consent of the commission.” Because the Master Agreement between Sunflower and KEPCo sets jurisdictional rates and services, the Commission has jurisdiction to review the Application.

Standard of Review

Pursuant to K.S.A. 66-101b, every electric public utility is required to furnish reasonably efficient and sufficient service at just and reasonable rates. Staff examines a variety of factors, depending on the type of contract, to analyze whether a contract rate is just and reasonable.⁶ Past Commission Orders approving the interim and restated wholesale power agreements have relied on a mutually beneficial analysis.⁷ Staff believes this type of analysis is appropriate in this proceeding, as it allows the Commission to judge the agreement's impact on both the Commission-jurisdictional

² Order Granting in Part and Denying in Part Joint Application for Approval of Restated Agreement Replacing Interim Agreement, Docket No. 09-SEPE-1013-CON, October 16, 2009.

³ Staff's Report and Recommendation, Docket No. 14-KEPE-171-CON, January 31, 2014.

⁴ Order Adopting Staff's Report and Recommendation, Docket No. 14-KEPE-171-CON, Feb. 6, 2014.

⁵ Order Adopting Staff's Report and Recommendation, Docket No. 16-KEPE-542-CON, September 13, 2016.

⁶ See e.g., Docket Nos. 13-KG&E-451-CON, 13-SUBW-744-CON, 12-KG&E-718-CON, 13-BHCG-170-CON, 17-KG&E-352-CON, 16-KEPE-542-CON, 17-MKEE-497-CON, 17-MKEE-498-CON, and 18-MKEE-329-CON.

⁷ See e.g., Docket Nos. 08-SEPE-245-CON, 09-SEPE-1013-CON, and 14-KEPE-171-CON.

entity (Sunflower) and KEPCo, including their members and other customers.⁸ This ensures the agreement results in just and reasonable rates and promotes the public interest of the state of Kansas. Accordingly, Staff analyzed the Master Agreement using a mutually beneficial analysis.

For KEPCo, Staff investigated whether the Master Agreement was entered into through a competitive bid process. Additionally, Staff completed an analysis comparing the Master Agreement rates and Arkalon Agreement rates. For Sunflower, Staff examined the Master Agreement's impact on its system capacity to determine if the Master Agreement would result in Sunflower needing to build or purchase additional generation.

Mutual Benefit Analysis

KEPCo

For KEPCo, we start with a presumption that the Master Agreement provides a benefit given that it was competitively bid, freely entered-into, and we presume KEPCo is acting in the best interests of its members. Therefore, in the absence of evidence to the contrary, Staff will not second-guess KEPCo's decision-making. However, Staff did review the competitive bid process and analyzed the effects the Master Agreement would have on KEPCo's member rates.

Competitive Bid

KEPCo used Alliance for Cooperative Energy Services (ACES), a consulting firm, to secure bids from potential suppliers to supply power to the Arkalon delivery point.⁹ ACES directly contacted potential suppliers instead of issuing a formal Request for Proposals (RFP).¹⁰

Upon receiving offers from 14 different potential suppliers, KEPCo created a short list consisting of two suppliers.¹¹ KEPCo then asked ACES to discuss with the short-listed suppliers the possibility of improving their capacity offers.¹² The suppliers provided updated offers which KEPCo reviewed and determined that Sunflower's offer was the most economical.¹³

Effect on Member Supply Cost

KEPCo's member rate is a blended supply cost. The blended supply cost includes the costs to serve the Arkalon load so, if the proposed contract price is less than the current contract price, it will put downward pressure on KEPCo's blended supply costs. To analyze the effect the proposed contract would have upon KEPCo's supply costs, Staff compared the Master Agreement costs to the Arkalon Agreement costs. Staff made several assumptions when performing this analysis. First, Staff assumed KEPCO's load to serve CMS would not significantly decrease. Second, KEPCo's SPP energy cost per MWh is a reasonable estimate for the duration of the Master

⁸ In at least one prior docket, Staff only analyzed the impact on the Commission-jurisdictional entity (See Docket No. 06-SEPE-1203-CON, Order, March 16, 2012 (Staff R&R attached)). In this proceeding, Staff believes the impact on both entities should be considered to ensure the approved rate is just and reasonable and promotes the public interest of the state of Kansas. This seems especially significant because KEPCo is a Kansas municipality.

⁹ Response to KCC DR 1.

¹⁰ Response to KCC DR 1.

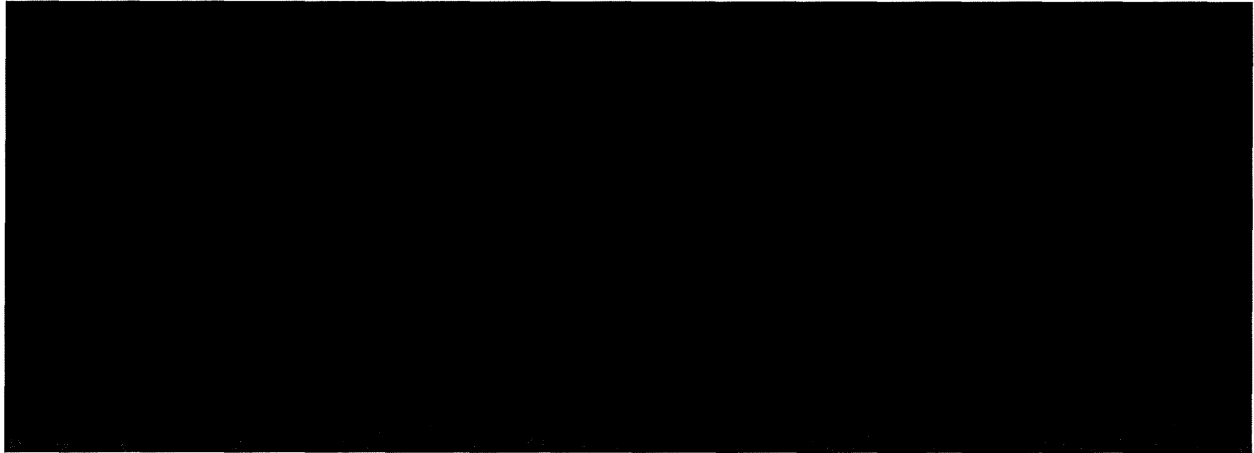
¹¹ Response to KCC DR 1.

¹² Response to KCC DR 1.

¹³ Response to KCC DR 1. By using Sunflower as the provider, KEPCo avoided adding a new Synch, which would require a SPP Aggregate Study to be conducted.

Agreement. Table 1¹⁴ displays the comparison between the Master Agreement and Arkalon Agreement annual all-in-rate per MWhs.

****Table 1****

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As shown in Table 1, the Master Agreement costs per MWh of ****[REDACTED]**** in 2019 and ****[REDACTED]**** in 2020 are lower than the current contract's cost of \$49.00. It can be inferred the lower costs to serve the Arkalon load will put downward pressure on KEPCo's blended supply costs.

Conclusion

KEPCo utilized a competitive bid process, which produced a bid suitable to KEPCo's supply needs. Also, the proposed contract costs would put downward pressure on overall supply costs, benefitting KEPCo and its members.

Sunflower

System Capacity

The Sunflower analysis evaluated its total system capacity, peak capacity, and excess capacity. The analysis confirms that Sunflower has enough excess capacity to continue serving the Arkalon Load. Table 2 displays Sunflower's forecasted peak capacity, total capacity, excess capacity, and the proposed Arkalon load contribution to Sunflower's peak capacity.¹⁵

****Table 2****

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¹⁴ The \$/kWh for the Master Agreement is a projection of the average annual Locational Marginal Price (LMP) that KEPCo assumes can be secured by participating in the SPP market over the term of the Master Agreement. The "Other Costs \$/kWh" included in the Master Agreement are projections to serve the load for ancillary services, uplift, deviation, Admin., and loss refund costs.

¹⁵ 2018 SPP Resource Adequacy Report, p. 30.

As can be observed from Table 2, Sunflower is capable of providing capacity to meet the Arkalon load from existing capacity without the need to acquire additional generation capacity at additional cost.¹⁶

Conclusion

Sunflower has sufficient capacity to supply the required MWs without the need to acquire additional generation capacity at an additional cost. Since Sunflower has sufficient capacity, it will benefit Sunflower to provide the demand to KEPCo.

RECOMMENDATION:

The proposed contract was produced through a competitive bid process and will most likely put downward pressure on KEPCo's supply costs benefitting its members. Sunflower has sufficient capacity to continue to meet the contract requirements without the need to acquire additional generation capacity at additional cost. Therefore, Staff recommends the Commission approve the proposed Master Agreement.

¹⁶ Sunflower is already serving the Arkalon Load so it is included in Sunflower's 2018 SPP Resource Adequacy Report.

CERTIFICATE OF SERVICE

19-KEPE-063-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation (PUBLIC) was served via electronic service this 20th day of November, 2018, to the following:

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