

BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of The)
Victory Electric Cooperative Association,)
Inc. Seeking Commission Approval to)
Update Its Local Access Delivery Service) Docket No. 17-VICE- 481 _TAR
Tariff Pursuant to the 34.5kV Formula)
Based Rate Plan Approved in Docket No.)
16-MKEE-023-TAR.)

PREFILED DIRECT TESTIMONY OF

ELENA E. LARSON
RATE AND FINANCIAL ANALYST
POWER SYSTEM ENGINEERING, INC.

ON BEHALF OF

THE VICTORY ELECTRIC COOPERATIVE ASSOCIATION, INC.

May 1, 2017

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PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Elena E. Larson. My business address is 3321 Southwest 6th Avenue, Topeka, KS 66606.

Q. What is your profession?

A. I am a Rate and Financial Analyst in 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 work on a team of staff that provides 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 Washburn University in Topeka, Kansas in 2001 with a Bachelor of Science degree in Mathematics and a minor in Computer Science. In 2008, I received my Masters of Business Administration (“MBA”) degree from Ashford University in Clinton, Iowa.

Q. What is your professional background?

A. Prior to advancing to graduate degree studies in 2006, I worked as a computer programmer for a private corporation and taught mathematics. After graduating with an MBA in September 2008, I began my employment with the Kansas Corporation Commission (“KCC” or “Commission”) in Topeka, Kansas in July 2009, as an Energy Analyst in the Energy Operations Section of the Utilities Division. My work responsibilities at the KCC at that time included monitoring and assessing various periodic compliance reports (e.g., Quality of Service and Electric Reliability); providing technical analysis on informal and formal electric and gas customer complaints; and assisting in writing the rules and regulations when mandated by the Kansas legislature. In January 2012, I assumed the position of Senior Utility Rate Analyst in the Economics and Rates Section of the Utilities Division of KCC. In that capacity, my responsibilities expanded to filing recommendations

1 and/or testimony addressing utility applications for various tariff modifications, including
2 change of retail and wholesale rates.

3 In April 2013, I joined PSE, where I assumed my current position of Rate and Financial
4 Analyst in the Rates and Financial Planning Department. My responsibilities include
5 performing rate studies consisting of determination of revenue requirements, cost of service,
6 and rate design. Additionally, I assist with regulatory filings, financial forecasting, special
7 rates and programs development, and other financial analysis for various PSE clients.

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

10 A. Yes. I submitted testimony on behalf of KCC Staff in Docket Nos. 11-GBEE-624-COC,
11 12-WSEE-112-RTS, and 12-MKEE-380-RTS; on behalf of Prairie Land Electric
12 Cooperative, Inc. (“Prairie Land” or “Cooperative”) in Docket No. 15-PLCE-176-TAR; and
13 on behalf of Midwest Energy in Docket No. 16-MDWE-324-TFR. I also helped prepare
14 testimony on behalf of Southern Pioneer Electric Company (“Southern Pioneer”), Victory
15 Electric Cooperative Association, Inc., Western Cooperative Electric Association, Inc., and
16 Prairie Land in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-357-TAR,
17 15-SPEE-519-RTS, 16-PLCE-490-TAR, 16-VICE-494-TAR, 16-WSTE-496-TAR, 16-
18 SPEE-497-RTS, and 16-SPEE-501-TAR. Additionally, I authored Report and
19 Recommendations on behalf of KCC Staff in Docket Nos. 09-KGSG-927-COM, 10-
20 BHCG-409-COM, 10-WSEE-507-TAR, 10-KGSG-535-COM, 10-KGSG-644-COM, 10-
21 MDWE-733-TAR, 11-KCPE-031-COM, 11-WSEE-599-TAR, and 11-MDWE-763-TAR,
22 as well as performed analyses filed with the Applications on behalf of Mid-Kansas Electric
23 Company, LLC (“Mid-Kansas”), Prairie Land, and Southern Pioneer in Docket Nos. 14-
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1 MKEE-084-TAR, 14-PLCE-312-TAR, 15-SPEE-267-TAR, 16-SPEE-306-TAR, and 17-
2 SPEE-263-TAR.

3 **Q. Do you have any other relevant experience?**

4 A. I have attended several industry seminars/courses on cost of service, rate design, pricing,
5 distributed generation, financing transmission expansion, transmission cost allocation,
6 renewable power project siting, etc. I have also presented at industry events on the topics of
7 Revenue Requirement, Rate Design, and Net Metering.

8
9 **PART II - SUMMARY OF DIRECT TESTIMONY**

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

11 A. The purpose of my testimony is to support the Application submitted in the instant Docket by
12 The Victory Electric Cooperative Association, Inc. ("Victory") for the approval of its 34.5kV
13 Formula Based Rate ("FBR") Annual Update filing for the 2016 Test Year.

14 **Q. Are there particular Exhibits to Victory's Application that you will be describing and**
15 **explaining?**

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

18 Exhibit 5 - 34.5KV FBR Calculation for Test Year
19 Exhibit 14 - Proposed Tariff Sheets Including Rate Adjustment

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

21 A. Yes.

22 **Q. Please briefly recap Victory's 34.5kV FBR.**
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1 A. The 34.5KV FBR, as approved for Victory by the Commission in Docket No. 16-MKEE-023-
2 TAR ("16-023 Docket"), is a five-year ratemaking plan that provides a method for periodic
3 adjustments to a demand rate assessed on the Cooperative's wholesale customers taking the
4 Local Access Delivery Service ("LADS") over Victory's 34.5kV sub-transmission facilities in
5 its acquired Mid-Kansas division territory. The details of the predetermined and agreed-upon
6 process for the corresponding rate adjustments are outlined in Calculation Sections D and E,
7 Pages 3-7 of the Commission-approved Victory's 34.5kV FBR Protocols ("Protocols"),
8 attached as Exhibit C to the March 10, 2016 Commission Order Approving Settlement and
9 April 26, 2016 Order Granting Petition for Clarification in the 16-023 Docket.¹ The purpose
10 of this formulaic ratemaking mechanism is to allow for timely adjustments to the
11 aforementioned rate without incurring the substantial expense and/or experiencing regulatory
12 lag typically associated with the preparation of a full rate case.

13 **Q. What data formed the basis for Victory's 2017 34.5kV FBR calculation?**

14 A. Consistent with the Protocols, the calculation was based upon a 2016 Historical Test Year. As
15 such, it utilized historical figures from Victory's (Mid-Kansas division) December 2016
16 Operating Income Statement, Balance Sheet, Payroll Journal, and 2016 Monthly Trial
17 Balance.²

18 **Q. Please summarize the results of Victory's 2017 34.5kV FBR calculation.**

19 A. Completing the 34.5kV FBR template calculation consistent with the Protocols approved by
20 the Commission in the 16-023 Docket results in the Revenue Requirement of \$3,238,455. In
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22 ¹ The corrected pagination and section numbering, as contained in the April 26 Commission's Order Granting
23 Petition for Clarification, is used throughout this document.

24 ² Included in Victory's Application as part of Exhibits 4 (Comparative Operating Income Statements and
25 Balance Sheets), 6 (Trial Balances), and 7 (Payroll Journals).

accordance with Section D, Part 1.4, Page 6 of the Protocols, the resultant amount was divided by the total billing demand for the Historical Test Year to arrive at the final rate of \$3.16/kW, a \$0.17/kW increase from Victory's currently effective rate for LADS of \$2.99/kW authorized by the Commission in Docket No.16-VICE-494-TAR. Translated into total dollars, this constitutes a \$174,385 increase.³ Applying Victory's wholesale LADS customers' Load Ratio Share ("LRS") of around 29.68 percent indicates approximately \$51,757 of the overall increase will be collected from these customers on the combined basis. Note that, considering this is the second Annual Update of the 34.5kV FBR, the Annual True-Up Section E, found on Pages 6 and 7 of the Protocols, is not applicable in this year's filing.⁴ The detailed 34.5kV FBR calculation for the Test Year is contained in Exhibit 5 attached to the Application filed in the instant Docket.

PART III - ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS

Q. You stated that 2016 actual results formed the basis for the 34.5kV FBR calculation. The Protocols specify a limited number of adjustments to be made. What adjustments did you make to Victory's actual 2016 financial results in completing the 34.5kV FBR template?

A. Consistent with Section D, Part 1, Pages 4 and 5 of the Protocols, adjustments to reflect the projected amounts for the Budget Year were made to the following categories of costs⁵:

- Depreciation Expense - Other

³ Applied to Test Year total billing determinants as reported by Mid-Kansas.

⁴ Per E.3 of the Protocols, the initial True-Up will be applicable with the third Annual Update filing.

⁵ Protocols also allow adjustment to Interest Charged to Construction. However, Victory did not have any amount booked in historical or budgeted for the projected Interest Charged to Construction. Therefore, that expense category was not adjusted in this Annual Filing.

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

The projected amounts for the above expense categories are supported by the detail found in Exhibit 9 attached to the Application filed in the instant Docket.⁶

Further, per Section D, parts 1.b and 1.e, Pages 4 and 5 of the Protocols, and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), Administrative and General (“A&G”) and Other Deductions expenses 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.⁷ The excluded amounts, as well as reasoning in support of inclusion or exclusion of the associated items, are noted on Page 7 of Exhibit 5. In addition, Exhibit 10, filed with the Application in the instant Docket, contains account-specific details of the adjustments.

Finally, Section D, Part 2, Pages 5 and 6 of the Protocols mandates that certain revenue and expense categories be further allocated to remove the costs not associated with Victory’s 34.5kV facilities.

⁶ Although the Cooperative is submitting its 2017 Budget in Exhibit 8, the amounts as shown and/or calculated in Exhibit 9 were used instead, where the latter followed the methodology specified in the Commission-approved Protocols. In some instances, such methodology may vary from how the Cooperative budgets internally; for example, the Cooperative may not budget depreciation for the plant additions or by individual General Ledger (“GL”) accounts. Instead, work order and cost estimate modeling may be used for the overall project amount estimates. The exact GL-specific detail (for example, number of wooden poles for a line buildout) is typically not known until the project is complete. In addition, the Cooperative Budget specifies total depreciation expense versus by plant category. The same principal is true for debt service projections; i.e., Budget may deviate from how the Protocols direct the Cooperative to apply projections for interest and principal. Victory followed the Commission-prescribed Protocols methodology for calculating and applying projected amounts in its 34.5kV FBR Annual Update filed in the instant Docket.

⁷ 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.”

Q. Please describe the adjustments made to the 2016 Test Year Depreciation Expense.

A. Per Section D, Part 1.c, Page 4 of the Protocols, depreciation expense allowed to be included in Victory's 34.5kV FBR should reflect "...projected depreciation expense that reasonably reflects the average monthly 34.5kV plant in service during the Budget Year using the Commission-approved depreciation rates." Furthermore, such projections are to be based upon the plant additions and retirements planned by the Cooperative in the Budget Year. To achieve this, Section D, Part 2.b, Page 6 of the Protocols directs the Cooperative to apply Commission-approved depreciation rates to the projected monthly average plant for the Budget Year. Accordingly, Pages 2 and 4 of Exhibit 9 detail the calculation of the projected Depreciation Expense for Transmission and General Plant for the Budget Year using Commission-approved depreciation rates.⁸ The projected average plant balances used in the calculations are shown on Page 1 of Exhibit 9. As a result, the projected Transmission and General Plant Depreciation Expense amounts, detailed on Exhibit 5, Page 1, Lines 13 and 14, Column (f), are \$590,011 and \$193,392, respectively. These amounts are the result of an approximate 20 percent net projected increase in LADS-related plant expected to be in service for the 2017 Budget Year.⁹ In comparison, the 2016 historical amounts for the Transmission and General Plant Depreciation Expense were \$525,351 and \$123,834, respectively. Therefore, Exhibit 5, Page 1, Lines 13 and 14, Column (e) details the respective adjustments of \$64,659 and \$69,558 to the historical Transmission and General Plant Depreciation Expenses. The adjustments are

⁸ Transmission Plant used in 34.5kV FBR is defined more broadly to also include General Plant allocated on Labor ratio, as well as any Distribution Plant used in the provision of the LADS, if applicable (see Section K of the Protocols). The latter was not included at this time. However, there was General Plant allocated to the 34.5kV FBR. Accordingly, per Section D, Part 2.b of the Protocols, the depreciation expense was calculated to recognize the portion corresponding with the allocated GL.

⁹ Taking into account both planned additions and retirements.

1 calculated on Page 3 of Exhibit 5, Lines 13-21. It should be noted that in this second 34.5kV
2 FBR Annual Update, the Revenue Requirement was established using the Modified Debt
3 Service Coverage (“MDSC”) metric in accordance with Section D, Part 3, Page 6 of the
4 Protocols.¹⁰ Under DSC rate-making, the depreciation expense amount becomes essentially
5 immaterial, as it is removed as an offset to the margin requirement.

6 **Q. Please describe the adjustments made to the 2016 Test Year Interest on Long-Term**
7 **Debt.**

8 A. The historical amount of Interest on Long-Term Debt for the 2016 Test Year was \$2,440,201,
9 as reported on Victory’s Operating Income Statement for 2016, included in Exhibit 4.¹¹ The
10 Protocols, in Section D, Part 1.d, Page 4 of the Protocols, specify that the actual amount be
11 adjusted to reflect Victory’s interest on long-term debt projected for the Budget Year.
12 Victory’s 2017 budgeted long-term interest expense is \$2,323,348, as evidenced on Page 7 of
13 Exhibit 9 that details the budgeted amount by individual loans. Accordingly, a downward
14 adjustment of \$116,853 was included in Exhibit 5, Page 1, Line 17, Column (e). The details
15 of this adjustment are shown in Exhibit 5, Page 3, Lines 23-26.

16 **Q. Please describe the adjustments made to the 2016 Test Year Interest Expense - Other.**

17 A. The historical amount of Other Interest Expense for the 2016 Test Year was \$4,644 as reported
18 on Victory’s Operating Income Statement for 2016 (Mid-Kansas division). Consistent with
19 Section D, Part 1.d of the Protocols, the amount has been adjusted to reflect Victory’s 2017
20 Budget for short-term interest expense of \$5,680. To accomplish this, an adjustment in the

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22 ¹⁰ Per Section D.3 of the Protocols, the Cooperative may utilize either the 1.8 Operating Times Interest Earned
23 Ratio (“OTIER”) or 1.8 MDSC metrics. The ratio resulting in greater net margins required will be used.
For 2016 Historical Test Year/2017 Budget Year, the MDSC metric was used as it produced greater net
margins.

24 ¹¹ Mid-Kansas division.
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1 amount of \$1,036 was included. The details of the adjustment can be found in Exhibit 5, Page
2 3, Lines 33-36.

3 **Q. Please describe the adjustments made to the 2016 Test Year Debt Service Payments.**

4 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.
5 Since I previously discussed the adjustments to interest expense, I will now focus on the
6 adjustment to principal payments. The historical amount of Principal Payments for the 2016
7 Test Year was \$1,857,742 (see Exhibit 9, Page 6 for detail). The Protocols, in Section D, Part
8 1.f, Page 5, require that the Test Year be adjusted to reflect Victory's budgeted amount for
9 2017, where the latter is calculated using an amortization schedule at the expected borrowing
10 rate(s) as specified in the Cooperative's agreements with its lender(s). Victory's budget for
11 2017 principal payments, detailed on Page 7 of Exhibit 9, is \$1,997,528. Accordingly, an
12 adjustment in the amount of \$139,785 was included on Line 24, Column (e) of Exhibit 5. This
13 adjustment is further detailed in Exhibit 5 on Page 3, Lines 46-49.

14 **Q. Please describe the adjustments made to the 2016 Test Year Operating Expenses in**
15 **conjunction with the Commission's policy per K.S.A. 66-101f (a), as applicable to**
16 **paragraphs a, b, and e of the Protocols' Section D, Part 1 on Pages 4 and 5.**

17 A. Reductions in the amounts of \$87,917 and \$21,634, as evidenced on Page 1 of Exhibit 5, Lines
18 10 and 20, Column (e), were applied to the historical amount of \$2,303,722 in A&G Expense
19 and \$43,267 in Other Deductions, respectively. This was done to remove the amounts
20 associated with promotional or image advertising and dues and donations; i.e., activities
21 traditionally disallowed by the Commission either as unnecessary to provide safe, efficient,
22 reliable electric utility service, or consistent with the Commission policy adopted per K.S.A.
23 66-101f (a). Accordingly, historical amounts, as recorded in Victory's applicable GL accounts,
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1 were adjusted as follows: promotional or image advertising items, as well as expenses for
2 meals, subscriptions to publications, gifts/giveaways for members, community festivals and
3 parades, and holiday entertainment were excluded 100 percent; and dues and donations items
4 were excluded 50 percent. Note that advertising associated with items such as public safety
5 announcements, annual meeting notices, and legal ads were not removed, as those activities
6 are directed toward keeping the members well informed and thus align with the Commission-
7 advocated goal of providing safe, efficient, and reliable electric utility service. Additionally,
8 dues associated with the Kansas Electric Cooperatives, Inc. (“KEC”) statewide organization
9 membership were not removed for similar reasons, as KEC functions for the mutual benefit of
10 its member-cooperatives to promote rural electrification and provides essential services, such
11 as safety programs and inspections, Occupational Safety and Health Administration (“OSHA”) compliance,
12 Cooperative staff and Board training, and administrative functions on a state-wide
13 level.

14 The summary of the aforementioned items by GL account and the corresponding
15 adjustments performed can be found in Exhibit 5, Page 7; and the detailed listings are included
16 in Exhibit 10 filed with the Application in the instant Docket. The resultant adjusted A&G
17 amount of \$2,215,805 is reflected on Page 1, Line 10, Column (f) of Exhibit 5. The resultant
18 adjusted Other Deductions amount of \$21,634 is reflected on Page 1, Line 20, Column (f) of
19 Exhibit 5. The resulting adjustments to both expense categories are further documented on
20 Page 3 of Exhibit 5, Lines 9-11 and 43-44.

21 **Q. You have explained how the historical overall system (i.e., transmission and distribution)**
22 **costs were adjusted in accordance with the 34.5kV FBR Protocols. Next, please describe**
23 **how the adjusted system-wide financial results were allocated to the 34.5kV system to**
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1 **arrive at Victory's 34.5kV FBR Revenue Requirement that includes only those costs**
2 **which are associated with the Cooperative's sub-transmission facilities used in the**
3 **provision of LADS.**

4 A. Section D, Part 2, Pages 5 and 6 of the Protocols specifies the methodology for allocating
5 applicable total system-wide operating expenses and margin requirements to the 34.5kV
6 system so as to arrive at the revenue requirement associated with Victory's sub-transmission
7 facilities used to provide LADS in the acquired Mid-Kansas service territory.¹² Following is
8 an explanation of the allocations:

- 9 • Per Part 2.a on Page 6 of the Protocols, the A&G expenses are to be allocated using a
10 Labor ratio ("LAB"), where the latter is calculated as a ratio of Transmission Labor to
11 Total Non-A&G Labor. The corresponding labor dollar amounts are found in the Labor
12 Amount Column of the December 31, 2016 Payroll Journal, included with Exhibit 4
13 attached to the Application filed in the instant Docket. Next, Exhibit 5, Page 4, Lines
14 7-20 show how the resultant LAB ratio of 0.000469 is calculated. Applying the LAB
15 to the \$2,215,805 in Adjusted Historical Test Year A&G expense assigns \$1,039 to the
16 34.5kV FBR, as shown in Exhibit 5, Page 1, Line 10, Column (i).
- 17 • Depreciation and Amortization Expense is to be calculated directly (a.k.a. "direct-
18 assignment"), in accordance with Part 2.b on Page 6 of the Protocols. The calculation
19 of the associated depreciation expense for the Budget Year was already discussed on
20 Pages 7 and 8 previously. The only additional detail here is that the \$193,392 in
21 Adjusted amount for the General Plant Depreciation Expense for the Budget Year is to

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24 ¹² Again, to clarify, "system-wide," as used in this context, is intended to mean combined distribution and
25 transmission.

be allocated on the LAB ratio, ultimately assigning \$91 to the 34.5kV FBR, as evidenced on Page 1, Line 14, Column (i) of Exhibit 5. As detailed on the top of Page 9 previously, these allocated expenses are ultimately subtracted out as Offsets to the Margin Requirements when applying MDSC calculation.

- For allocating Taxes - Other, Other Deductions, Interest on Long-Term Debt, Other Interest, Principal Payments, and Offsets to Margin Requirements, the Budget Year Net Transmission Plant Ratio ("NP") is calculated. The Budget Year NP, as defined in Part 2, Pages 5 and 6 of the Protocols, reflects the ratio of the average monthly Transmission Net Plant to the average monthly Total Net Plant for the Budget Year.¹³ The calculation of the Budget Year NP allocation factor is detailed on Page 4, Lines 22-47 of Exhibit 5. The results of applying the calculated Budget Year NP of 0.375723 to the corresponding Adjusted Historical Test Year expenses are evidenced on Page 1, Lines 15-25, Column (i) of Exhibit 5.

It should also be noted that the Transmission O&M Expense is a category that is directly related to the provision of the LADS. Therefore, \$384,399 was assigned 100 percent (i.e., using allocator of 1.0) to the 34.5kV FBR Revenue Requirement.

PART IV - REVENUE REQUIREMENT AND RATE CALCULATION

Q. How was Victory's 34.5kV FBR Revenue Requirement for Year 2017 calculated after performing all of the adjustments and allocations detailed above?

¹³ As noted in Footnote 6 previously, per Section K of the Protocols, Net Transmission Plant includes a General Plant allocation based upon a LAB ratio.

1 A. Per Section D, Part 4, Page 6 of the Protocols, the Total 34.5kV FBR Revenue Requirement is
2 a sum of all the applicable operating expenses and margin requirements. Specifically, after the
3 2016 actual operating expenses were adjusted to the budgeted levels, as allowed by the
4 Protocols, and allocated to reflect the portion applicable to the Cooperative's sub-transmission
5 facilities used in the provision of the LADS, the Total Cost of Service was quantified at
6 \$1,858,736 as evidenced on Page 1, Line 21, Column (i) of Exhibit 5. Next, the Net Margin
7 Requirement was calculated using 1.8 OTIER and 1.8 MDSC metrics, as contemplated in
8 Section D, Part 3, Page 6 of the Protocols. The same section dictates that the ratio resulting in
9 greater net margins required will be used. An MDSC of 1.8 produced a greater margin (at
10 \$1,379,719) than OTIER of 1.8 (at \$698,341), as evidenced on Page 1, Lines 23-30, Column
11 (i) of Exhibit 5. Applying the MDSC-produced Net Margin Requirement of \$1,379,719 to the
12 \$1,858,736 in Total Cost of Service generates the 34.5kV FBR Total Revenue Requirement of
13 \$3,238,455.¹⁴ Since the True-Up does not yet apply in this year's filing, as already noted on
14 Page 6 and in Footnote 2, the resultant Net Revenue Requirement is unchanged at \$3,238,455.

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

16 A. Section D, Part 4, Page 6 of the Protocols further directs that the 34.5kV FBR Revenue
17 Requirement is to be divided by the Total Billing Demand for the Test Year. The latter is
18 comprised of both retail and wholesale billing determinants, as reported by Mid-Kansas (a
19 G&T company who serves as Victory's power supplier, as well as metering and billing agent
20 for the Cooperative's wholesale LADS over its sub-transmission facilities), and then factoring
21 in the appropriate losses' percentages. For 2016 Test Year, the Total Billing Demand for
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23 ¹⁴ See Footnote 10 on Page 9.
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1 Victory's 34.5kV system was quantified at 1,025,797 kW, as reflected on Page 1, Line 36,
2 Column (i) of Exhibit 5 and further detailed on Page 6 of the same Exhibit. Dividing
3 \$3,238,455 by 1,025,797 kW produces the rate of \$3.16/kW. When compared to Victory's
4 currently effective wholesale demand rate for LADS of \$2.99/kW, this represents a 5.7 percent
5 increase.

6 **Q. What is your final recommendation to the Commission?**

7 A. My recommendation is to approve Victory's Application in the instant Docket, as the resultant
8 rate is reflective of the COS, which was calculated in accordance to the Commission-approved
9 34.5kV FBR Protocols, and therefore is just and reasonable and in the public interest.

10 **Q. Have the proposed tariffs as required in the Protocols in Section F.14 been provided?**

11 A. Yes, they are included as Exhibit 14 of the Application filed in the instant Docket.

12 **Q. Does this conclude your prefiled Direct Testimony?**

13 A. Yes, it does.
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VERIFICATION

STATE OF MINNESOTA)
) ss
COUNTY OF ANOKA)

The undersigned, Elena Larson, upon oath first duly sworn, states that she is an employee of Power System Engineering, Inc., and that the foregoing testimony was prepared by her or under her supervision, that she is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of her knowledge and belief.

Elena Larson
Elena Larson

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Subscribed and sworn to before me this 24 day of April, 2017.

Marilyn M. Cuellar
Notary Public

My appointment expires: 1/31/20

