BEFORE 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

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation regarding Sunflower Electric Power Corporation's (Sunflower) request to continue using existing target financial metric ratio levels and make amendments to its Commission-approved formula-based rate for recovery of transmission costs. Staff recommends the Commission approve:

1. Sunflower's continued use of the current calculation mechanism for developing Sunflower's Debt Service Coverage and Times Interest Earned Ratio target financial metrics; and
2. Sunflower's request to amend its Transmission Formula Rate to allow for the use of competitive adjustments as proposed in Sunflower's Supplemental Application for competitively bid transmission projects within Sunflower's zone in the Southwest Power Pool.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and proper.

Respectfully submitted,

/s/ Robert Elliott Vincent

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Pat Apple

FROM: Chad Unrein, Senior Auditor
Adam Gatewood, Managing Financial Analyst
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: February 15, 2018

SUBJECT: Docket No. 17-SEPE-415-TAR – 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

EXECUTIVE SUMMARY:

On March 16, 2017, Sunflower Electric Power Corporation (Sunflower) filed an Application for the Kansas Corporation Commission (KCC or Commission) to approve the continued use of the current target financial metrics in Sunflower's Transmission Formula Rate (TFR) and amend the TFR to allow for adjustments to comport with the Southwest Power Pool, Inc. (SPP) competitively bid transmission projects as a result of the Federal Energy Regulatory Commission (FERC) Order 1000. As a result of several discussions with Staff, Sunflower filed a Supplemental Application on November 22, 2017, to recommend and describe specific revisions to its original request for TFR adjustments for competitively bid transmission projects in order to narrow the scope of the proposed changes. As a result of Staff's review of Sunflower's Supplemental Application, Staff recommends the Commission approve Sunflower's continued use of the current calculation mechanism for developing its Debt Service Coverage (DSC) and Times Interest Earned Ratio (TIER) target financial metrics and amend Sunflower's TFR to allow for the use of a competitive adjustment mechanism as proposed in Sunflower's Supplemental Application for SPP competitively bid transmission projects within Sunflower's transmission zone.

BACKGROUND:

On March 16, 2017, Sunflower filed an Application with the KCC seeking an Order approving Sunflower's continued use of the current target financial metrics in Sunflower's TFR and amending the TFR to include an adjustment mechanism to account for SPP competitively bid transmission projects as a result of FERC Order 1000. The calculation methodology used in Sunflower's TFR for its target financial ratios was approved by the KCC in the Docket No. 13-SEPE-701-TAR (13-701 Docket), which uses the greater of the DSC or TIER to determine the annual return component. While Sunflower's annual return component varies year-to-year due to the proxy return on equity adder for being a member of a Regional Transmission Organization (RTO), Sunflower has a TIER and DSC ratio in the range of 1.75 and 1.35 respectively. The Order approving the Stipulation and Agreement in 13-701 Docket requires Sunflower to re-evaluate its TIER and DSC ratios once Sunflower is able to obtain long-term secured financing or pre-pay its Residual Value Notes (RVN) with the Rural Utility Services (RUS). In September of 2014, Sunflower refinanced one of its debt holdings to extend the maturity date to 2033, which reduced annual loan payments by $19 million (M).[1] In December of 2016, Sunflower paid the remaining balance with RUS for a total of $125 M for its RVN with a combination of cash and $85 M of new debt. While Sunflower is requesting to maintain its currently approved target financial ratios in its TFR, Sunflower's total return has declined significantly given that the TIER and DSC ratios are a function of debt levels. Sunflower has passed the benefits of its debt refinancing to its members and transmission customers through the TFR without adjusting the coverage ratios. Additionally, Sunflower's current coverage ratios allows the Company to maintain its credit rating profile, which helps to offset some of the borrowing challenges Sunflower incurs due to its large commercial and industrial retail load profile. Finally, Sunflower states that the coverage ratios are comparable to other generating and transmission cooperatives that are similarly aligned and are fair and reasonable not only for Sunflower and its members, but for all Sunflower transmission customers.

As a second part of the Application, Sunflower detailed its request for Commission approval to modify its TFR to allow Sunflower to accurately reflect the revenue requirements for competitively bid transmission projects. As part of FERC Order 1000, RTOs were directed to develop a competitive bidding process for qualifying transmission projects to determine which organization would the build project. As a result, SPP developed parameters for projects to qualify as FERC Order 1000 projects and procedures for evaluating the competitive bids submitted from qualifying organizations.

One of the factors evaluated by SPP's bidding process is designed to lower the economic cost of transmission construction through competition. In order to evaluate the lowest economic cost, the SPP bidding process is designed to evaluate the incremental project-specific cost to calculate each bid's total revenue requirement. In contrast, most current TFRs use an average system cost methodology for calculating each project's revenue requirement. Sunflower's Application is seeking an adjustment mechanism to adjust the revenue requirements of competitive projects in order to effectuate the pricing structures present in Sunflower's bid for each project. Sunflower referenced that winning bid pricing structures could include cost caps, guarantees, reductions in return on equity requirements, project-specific financing, or other creative pricing structures, which are not currently reflected in Sunflower's TFR.

[1] On December 2, 2014, the Commission issued an Order in Docket No. 14-SEPE-220-TFR approving Sunflower's motion to immediately pass on the benefits of the "Amend and Extend" refinancing to Sunflower's transmission customers.

In Staff's review of the initial Application, Staff issued formal discovery regarding Sunflower's continued use of the DSC and TIER target ratios and held technical conferences to discuss Sunflower's competitive adjustment mechanism. Throughout our conversations, Staff provided feedback to help narrow the focus of the competitive adjustments mechanism and further define specific elements of the revenue requirement that could be adjusted. As a result of the discussions, Sunflower agreed to modify its request to narrow the scope of the adjustments by further defining the parameters of the adjustment mechanism and modifying the TFR template to include a competitive adjustment calculation tab.

On November 22, 2017, Sunflower filed its Supplemental Application similarly seeking to maintain the existing coverage ratios in its TFR and amending its requested revisions to the Sunflower TFR template for projects that were selected through SPP's competitive bidding process. Sunflower further simplified the adjustment mechanism, defined specific revenue requirement items that could be adjusted, and made several changes to the TFR template. Sunflower incorporated a separate calculation tab in the template, which compares the difference between the revenue requirement contained in the traditional TFR template and the revenue requirement with the bid commitments and incremental costs of the new competitive project. Finally, Sunflower's proposal for the adjustments will be limited to Sunflower's transmission zone in SPP.

ANALYSIS:

Staff has worked diligently and collaboratively with Sunflower in this Docket to develop a targeted plan that provides Sunflower the necessary flexibility to participate in the FERC Order 1000 competitive bidding process in SPP, while also protecting Sunflower's existing non-member transmission customers. In order to fully analyze Sunflower's proposal, Staff's analysis section of the report will be broken in to the following sections:

1. Staff's review of Sunflower's proposal to continue use of the current target financial ratios in the TFR.
2. Staff's review of Sunflower's proposal to include the competitive adjustment mechanism within the TFR.
3. Staff's review of Sunflower's initial proposal and issues Staff raised with Sunflower in early discussions about the competitive adjustment mechanism.
4. Staff's review of Sunflower's revised proposal contained within the Supplemental Application and how the proposal addressed Staff's concerns regarding the competitive adjustment mechanism.

DSC and TIER Target Ratios

In Staff's review of Sunflower's current target financial ratios, Staff issued Sunflower discovery seeking Sunflower's loan covenants provisions, financial models, Sunflower's projected financial statements through 2020, and a comparison analysis of target financial ratios of other Generation &Transmission (G&T) cooperatives. Sunflower's witness, James Brungardt, details Sunflower's recent debt refinancing and the impacts those refinancing have on Sunflower's total return. The DSC and TIER target ratios are a function of the Company's outstanding debt. Therefore, as the company has refinanced debt in the "Amend and Extend" transactions or used cash to pay down RVN, Sunflower's total transmission return as calculated in the TFR has also declined. Sunflower immediately passed on the benefits of these transactions to transmission customers without adjusting the overall coverage ratios. In 2013 prior to the debt refinancing, Sunflower's total annual return was $8.6 M, but following the refinancing in 2015, Sunflower's total return fell to $2.8 M. Using Sunflower's model, Sunflower projects that total TFR returns will rise to $4.3 M through 2020 using the Company's requested 1.75 TIER ratio, which would be roughly 50% of the company's total TFR return in 2013.

Another key element of Sunflower's request to maintain its coverage ratios pertains to Sunflower maintaining its current credit profile. While Sunflower is not officially rated by any of the credit rating agencies, Sunflower's credit profile is evaluated by lenders when Sunflower seeks to finance capital investment projects. Staff asked Sunflower to detail its expected capital expenditures for its transmission system for 2017 through 2020. Sunflower's capital expenditures totaled $23.7 M in 2017, and Sunflower projects its capital expenditures will average $22 M annually through 2020. Given Sunflower's decreased total transmission return, Sunflower will have to seek outside capital or use cash from other sources to fund its transmission capital expenditures through 2020. Sunflower's coverage ratios helps to support Sunflower's credit profile and maintains its ability to borrow at a reasonable rate. Additionally, Sunflower stated that favorable coverage ratios helps to offset the negative elements of its credit profile. Sunflower generates a high percentage of its annual sales from commercial and industrial loads. This load profile presents a challenge for creditors given a higher percentage of sales is coming from a smaller number of customers and is interpreted by lenders as an additional risk factor. Sunflower's financial coverage ratio metrics help to offset its larger commercial and industrial retail load profile.

The final element Staff considered in its analysis was the financial metrics of other similarly situated G&T cooperatives and other Commission approved coverage ratios for cooperatives regulated by the KCC. Staff requested Sunflower provided the workpapers the Company relied upon to calculate the average financial coverage ratios in the chart of comparison detail of 45 G&T cooperatives found in James Brungardt's testimony.[2] Sunflower segmented the cooperatives into groups that were similarly aligned based on total company employee count, equity ratios and total member sales. Staff is providing the comparison detail in the table below.[3]

2015 G&T Cooperative Comparison Data

	Average TIER	**Median TIER**
44 Coops (Excluding PNGC)	1.84	1.65
200 to 450 Employees (9 Coops)	1.65	1.48
Equity between 20% - 40% (23 Coops)	1.76	1.72
Member Sales 1.6 to 3.0mm MWH (14 Coops)	2.16	1.94
Member Sales 3.0 to 6.5mm MWH (13 Coops – Exc. PNGC)	1.77	1.89
Sunflower TIER	1.75	

[2] *See* James Brungardt's Testimony, page 11, filed with the initial Application.
[3] In the table, Staff labeled and excluded PNGC Power Coop's 28.47 TIER data point in two of Sunflower's data groups. The data point is a statistical outlier that would have heavily skewed the average TIER calculations.

Finally, Staff compiled a table of the current Commission-approved debt coverage ratios found in TFR's and other Formula Based Rates (FBRs) for other Kansas cooperatives, which Staff has detailed below.

Kansas Utilities - Approved Debt Coverage Ratios Comparison

	TIER	DSC
Sunflower TFR	1.75	1.35
Mid-Kansas Electric Company (Mid-Kansas) TFR	1.54[4]	1.28
Southern Pioneer FBRs	N/A	1.75
Prairie Land Electric Coop FBR	1.80	1.80
Victory Electric Coop FBR	1.80	1.80
Western Electric Coop FBR	1.80	1.80

Staff recommends the Commission approve Sunflower's request for the continued use of the current Commission approved target coverage ratios and calculation mechanism in Sunflower's TFR. Staff asserts that the debt coverage ratios are comparable to other current KCC approved coverage ratios in TFRs and lower than existing FBRs among other similarly situated cooperatives. As Sunflower has restructured debt financing, Sunflower and its retail and transmission customers have experienced a reduction to the Company's total TFR return, which Sunflower has passed back to customers without adjusting its approved coverage ratios. Finally, Sunflower's debt coverage ratios help support the Company's access to financial capital with favorable interest rates in order to continue to finance its expected transmission capital investment in projects projected through 2020. Staff contends that each of these factors supports the finding that Sunflower's request to maintain the current target ratios will result in transmission rates that are just and reasonable and in the public interest.

Review of the Competitive Adjustment Mechanism

In the second part of Sunflower's Application, Sunflower is seeking to modify and amend its TFR to include a competitive adjustment mechanism in its TFR. Staff and Sunflower have held multiple technical conferences to discuss this issue and fully evaluate the proposal. Staff reviewed documentation from Sunflower concerning the SPP competitive bidding process and details of Sunflower's competitive bid from the Walkemeyer transmission project. As a product of Staff's review of the initial Application and discussions with the Company, Sunflower decided to modify its initial requests to further define and narrow the scope of the competitive adjustment mechanism and set additional parameters for specific elements of the TFR that could be adjusted.

As discussed above, one of the factors considered during the SPP competitive bidding process is designed to lower the cost of construction for large transmission projects. The SPP competitive bidding process begins with a determination by SPP that a competitive project is needed. Companies that have been pre-qualified by SPP are permitted to bid on the project through the competitive building process. Upon receipt of all submitted bids, an Independent Expert Panel reviews each of the submitted bids and narrows down the applicants to two bids. The panel will recommend these top two bids directly to the SPP Board of Directors. Finally, the SPP Board will vote to determine which organization will be awarded the competitive project.

[4] Mid-Kansas's TFR uses the greater of a 1.54 Margin for Interest ratio or a 1.28 DSC ratio to calculate the transmission revenue requirement rather than using a TIER based coverage ratio.

The competitive bidding process is designed to evaluate each bidder's submitted revenue requirements based on incremental project-specific costs; however, Sunflower's TFR (like most existing TFRs) is designed to calculate the revenue requirement for an individual project based on system-wide average costs. Sunflower's proposed competitive adjustment mechanism will adjust the revenue requirement calculation methodology for competitive projects to align the calculation of the revenue requirement in the TFR with the submitted bid. Sunflower structured the competitive adjustment mechanism with the flexibility to deal with a wide range of scenarios and pricing structures used in the SPP bidding process. Without the competitive adjustment mechanism, Sunflower states that customers currently served by electric cooperatives in rural Kansas will experience higher cost for transmission projects built by other competitive transmission organizations.

In order to deal with the complexity that existed in the bidding process and flexibility of is bidding pricing structures, Sunflower proposed two types of competitive bid adjustments, which were defined as transmission related competitive adjustments and non-transmission related competitive adjustments. Transmission related competitive adjustments were designed to be recoverable adjustments that could adjust certain expenses, such as allocated administration and general expenses or operations and maintenance expenses (O&M), from Sunflower's system-wide average costs to incremental project costs. Sunflower stated that these adjustments, if designed properly, could reduce the average system costs for other transmission customers depending on whether all of the savings were assigned directly to the competitively bid project. Sunflower stated that if all the savings were assigned directly to the competitive project, other transmission rates would not be harmed by the adjustment. Sunflower defined non-transmission related adjustments as adjustments to include any costs that Sunflower reduces from its competitive bid that cannot be recoverable through transmission rates. Examples of these type of adjustments include caps or cost guarantees that Sunflower failed to achieve, which would not be recovered from Sunflower's transmission customers.

Sunflower contends that the competitive adjustment mechanism will allow Sunflower to use its cooperative structure to compete on level terms with competitive transmission organizations and accurately reflect its revenue requirements present in its winning bids. Westar Energy and Great Plains Energy have set-up separate subsidiaries, such as Kanstar Transmission, LLC and Transource Energy - Kansas, to participate in the bidding process for competitively bid transmission projects. These organizations have TFRs that are designed to capture incremental project-specific costs to calculate the total revenue requirement. Staff asked Sunflower to clarify whether the Company could set up a subsidiary in order to bid on competitive projects.[5] Sunflower stated it had borrowing limitations for creating a separate competitive transmission entity due to market based covenants within its loan agreements. Additionally, Sunflower provided reference to the difficulties with loan agreements that Mid-Kansas experienced in the creation of a separate competitive transmission subsidiary, Konza Transmission, LLC (Konza). In the creation of Konza, the Mid-Kansas loan agreements included a cap on its bid of $10 M, higher interest rates, and a 50/50 capital structure requirement. These investment provisions restricted Konza's ability to bid incremental costs and, thus, Sunflower determined a transmission subsidiary was not a viable option under its current corporate and lending structure. Sunflower stated that the cost, time, and lending provisions limit its ability to implement a

[5] *See* Attachment 1 - Staff Data Request No. 16.

separate competitive transmission entity and restricts its ability to bid incremental project-specific costs. These limitations would lead to additional costs to pass on to Sunflower's zonal transmission customers in its SPP transmission zone.

<u>Review of Sunflower's Initial Proposal</u>
In Staff's early discussions with Sunflower regarding its initial proposal, Staff asked Sunflower to develop multiple test cases to understand Sunflower's intended use of the competitive bid adjustment mechanism and the situations in which Sunflower planned to use the mechanism. These test cases helped Staff to evaluate the proposal and follow the competitive adjustments calculations through the TFR template. After evaluating the test cases, Staff and Sunflower held discussions centered on the competitive adjustment mechanism and the ability for Sunflower to effectively track project-specific expenditures, such as O&M expenses, across the timeframe of the project's useful life. While Sunflower had the ability to allocate O&M expenses to projects, Sunflower accounting system does not individually track project-specific incremental costs over the entire life of a transmission project. Sunflower proposed to evaluate these costs at the end of the first test year to establish the competitive adjustment that would be used across the useful life of the project. Staff contended this type of evaluation would fail to capture inclining expenses, like O&M, later in the project's life and could pass on these costs to other non-competitive transmission projects. In Staff's opinion, Sunflower's competitive adjustment mechanism should be limited to incremental costs that could easily be assigned to the competitive project and could be tracked across the project's useful life. Examples of these type of expenditures include financing costs, target TIER, depreciation expenses, and other cash taxes.

After identifying the type of items that could be adjusted, Staff and Sunflower focused on simplifying the competitive adjustment mechanism and incorporating a competitive adjustment tab into the TFR template. In order to simplify the mechanics of the adjustment, Staff and Sunflower discussed eliminating the recoverable transmission related competitive adjustment as initially proposed by Sunflower. Following Staff's recommendation, Sunflower agreed to limit the competitive adjustments to non-transmission unrecoverable expenses, which would be deducted from Sunflower's total transmission revenue requirement. Additionally, Staff sought to add further transparency by including separate calculation tabs within Sunflower's TFR template that would detail the calculation methodology between the average system cost revenue requirement calculated by the template and the project-specific incremental cost revenue requirement that was included in the bid.

Staff's final recommendation to Sunflower was that the competitive adjustment mechanism be limited to competitive transmission projects within Sunflower's transmission zone in SPP. Throughout its discussions with Staff, Sunflower stated that the ultimate goal of the proposal was to compete with competitive entities within Sunflower's transmission zone on an even playing field and to protect their zonal transmission customers from paying a higher revenue requirements due to Sunflower's limitations in constructing competitive bids for the project. Staff contended that this restriction protects the zonal transmission customers' interest by allowing Sunflower to compete for transmission projects in Sunflower's transmission zone. Staff contends that Sunflower should pursue other avenues to compete for regional transmission projects outside of their pricing zone, such as a joint venture or the formation of a separate independent transmission–only subsidiary.

Review of Sunflower's Final Proposal
After a lengthy process for review, Sunflower and Staff were able to reach an agreement on a proposal for adjusting Sunflower's TFR to help to accurately account for the revenue requirement for competitive projects in SPP. Under Sunflower's final proposal, Sunflower agreed to alter the TFR template to add Tab A-13 – Actual Year Competitively Bid Project and P-7 – Projected Year Competitive Bid Project to calculate the total Annual Transmission Revenue Requirement (ATRR) for each competitive project. The ATRR calculation compares the difference between the traditional ATRR, the ATRR with bid commitments, and the incremental costs and/or bid commitments of the new project.[6] Sunflower agreed to remove all columns in the TFR template related to transmission related competitive adjustments. The proposal retains the non-transmission related competitive adjustments and the adjustment columns in the TFR template. The non-transmission related adjustments will remove expenses from the revenue requirement calculation and will not be recoverable in transmission rates. Sunflower provided a reference in the TFR template that defined a list of committable items that are allowed to be adjusted by the proposed mechanism, which are included as Footnote E in tab A-13 of the TFR template. The list of committable items include financing costs, target TIER, depreciation expenses, and other cash taxes. Following Staff's recommendation, Sunflower also limited the use of the competitive adjustments mechanism to competitive transmission projects in Sunflower's zone. Under the revised proposal, Sunflower will gain the additional flexibility to compete with other FERC Order 1000 bid participants while eliminating the substantial costs and administrative burden associated with creating a separate subsidiary for each project.

Staff recommends the Commission approve Sunflower's request to modify its TFR to include the competitive adjustments mechanism contained in Sunflower's Supplemental Application. The competitive adjustment mechanism will permit Sunflower to correctly capture the incremental project-specific revenue requirement contained in Sunflower's competitive bids and will allow Sunflower to compete with other competitive transmission organizations on level terms. Staff believes Sunflower's request to modify its TFR to permit competitive adjustments is in the public interest and will help prevent Sunflower's retail and zonal transmission customers in rural Kansas from experiencing higher cost for competitively bid transmission projects.

RECOMMENDATION:
As a result of Staff's review of Sunflower's initial and Supplemental Applications, Staff recommends the KCC approves the following:

1. Sunflower's continued use of the current calculation mechanism for developing its Debt Service Coverage (DSC) and Times Interest Earned Ratio (TIER) target financial metrics.

2. Sunflower's request to amend the Sunflower's TFR to allow for the use of competitive adjustments as proposed in Sunflower's Supplemental Application for competitively bid transmission projects within Sunflower's zone in SPP.

[6] A complete list of all template changes can be found in James Brungardt's Testimony, page 4-5, filed in conjunction with Sunflower's Supplemental Application.

Kansas Corporation Commission

Information Request

Request No: **16**

Company Name	SUNFLOWER ELECTRIC POWER CORPORATION
Docket Number	17-SEPE-415-TAR
Request Date:	December 18, 2017
Date Information Needed	December 28, 2017

RE: Competitive Adjustments – Lending Restrictions

Please Provide the Following:

In meetings with Staff regarding Sunflower's competitive adjustments proposal, Sunflower discussed some of its lender restrictions as a barrier to creating separate competitive transmission entities for bidding on FERC Order 1000 SPP projects.

1. Please provide a detailed discussion regarding Sunflower's limitations for creating separate competitive transmission entities for bidding on SPP's competitive transmission projects as directed under FERC Order 1000.
2. Please include any references to provisions in Sunflower lending agreements that Sunflower finds problematic for establishing a separate entity for competing for competitive transmission projects.

Response:

Sunflower's limitations for creating separate competitive transmission entities for bidding on FERC Order 1000 SPP projects are created by market based covenants within loan documents. In 2014 Konza Transmission Company LLC ("Konza") was created, Konza is a subsidiary of Mid-Kansas Electric Company Inc. ("Mid-Kansas") and was established to allow Mid-Kansas through Konza to bid incremental cost on FERC Order 1000 projects.

Mid-Kansas currently has a market based syndicated line of credit, one of the covenants in the line of credit is an investment provision restricting an aggregate amount not to exceed $5mm to be injected into a subsidiary. This provision is a standard market based covenant in a syndicated line of credit facility. At the time of our last competitive bid lenders were willing to finance transmission projects directly with Konza under a 50/50 capital structure, under this structure a $5mm injection into the subsidiary limits us a total bid amount of $10mm. Also note the $5mm is an aggregate amount not a per subsidiary limitation, limiting us to a $5mm cap across all subsidiaries. In addition to the $10mm total bid limitation, borrowing in a subsidiary without any assets as opposed to a company with significant assets exposed Konza to a higher interest rate than a similar borrowing at Mid-Kansas resulting in higher interest cost to the transmission customer. The investment provision, 50/50 required capital structure and increased borrowing rates restricted our opportunity to bid incremental cost within Konza, and

determine a transmission subsidiary wasn't a viable option under our current corporate and lending structure. The other option to finance Konza was to put a Konza indenture (qualified securities indenture) in place similar to Mid-Kansas' indenture, borrow the funds at the Mid-Kansas level and inject the dollars under an intercompany loan. This option would require significant dollars (both legal and filing fees) to implement the Konza indenture and ultimately the final structure would be the same structure as bidding incremental cost under the current Mid-Kansas transmission formula rate.

This experience with Konza taught us multiple things about a subsidiary bidding structure. Although Sunflower doesn't currently have the same $5mm investment restriction in their bilateral line of credit it is important to note Sunflower built cash in the past because of lender restrictions against additional borrowings. Since Sunflower had a significant cash balance at the time the line of credit was entered into many of the same market restrictions weren't included in the smaller $40mm bilateral line of credit. The line of credit was mainly established to issue letters of credit and not borrow funds. As these lender restrictions were lifted at the end of 2016 we anticipate the next line of credit will be a similar $100mm syndicated line of credit like Mid-Kansas and lenders will ask for the $5mm investment provision as a market based covenant. This restriction will create the same complexities we experienced in Mid-Kansas and Konza. There is also the opportunity to create a similar structure under a qualifying securities indenture, but the cost and time to implement this structure results in the same structure as bidding incremental cost under the current Sunflower transmission formula rate making this option more difficult and higher cost to the transmission customer.

Submitted By	Chad Unrein
Submitted To	James Brungardt

If for some reason, the above information cannot be provided by the date requested, please provide a written explanation of those reasons.

Verification of Response

I have read the foregoing Information Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request.

Signed: ____________________

Date: December 22, 2017

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Robert E. Vincent, 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.

Robert E. Vincent, S. Ct. # 26028
Litigation Counsel
The State Corporation Commission
State of Kansas

Subscribed and sworn to before me this 19th day of February, 2018.

PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2019

Pamela J. Griffeth
Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

17-SEPE-415-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 19th day of February, 2018, to the following:

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