2012.11.30 09:12:15
Kansas Corporation Commission
/S/ Patrice Petersen-Klein

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State Corporation Commission
of Kansas

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION OF]
OF MID-KANSAS ELECTRIC COMPANY, LLC] KCC Docket No. 12-MKEE-410-RTS
FOR APPROVAL TO MAKE CERTAIN]
CHANGES IN ITS CHARGES FOR]
ELECTRIC SERVICES IN THE GEOGRAPHIC]
SERVICE TERRITORY SERVED BY LANE]
SCOTT ELECTRIC COOPERATIVE, INC.]

DIRECT TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

November 30, 2012

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211, Ridgefield, Connecticut 06877. (Mailing Address: PO Box 810, Georgetown, Connecticut 06829.)

Q. By whom are you employed and in what capacity?

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony since January 2008 is included in Appendix A.

Q. What is your educational background?

A. I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. On April 2, 2012, Mid-Kansas Electric Company ("MKEC" or "Company") filed an Application with the State of Kansas Corporation Commission ("KCC" or "Commission") seeking a rate increase in distribution rates for customers served in the Lane Scott portion of its service territory ("Lane Scott Division" or "Company"). MKEC is owned by five Kansas cooperatives and one corporation, Southern Pioneer Electric Company, which is a whollyowned subsidiary of a sixth Kansas cooperative, Pioneer Electric Cooperative. Collectively, the owners of MKEC are referred to as its "Members".

The Company requested a rate increase of $510,915 or approximately 13.34% over its adjusted Test Year pro forma sales revenue. The Lane Scott Division filed its case based on the rate base/rate of return methodology using a capital structure consisting of 100% equity and a cost of equity of 8.72%.

The Columbia Group, Inc. was engaged by The State of Kansas, Citizens' Utility Ratepayer Board ("CURB") to review MKEC's Application, and to provide recommendations to the KCC regarding certain issues in the case. I am providing testimony relating to the Company's Plant Acquisition Adjustment and the appropriate valuation of the Aquila assets in rate base. I also provide recommendations regarding the Lane Scott Division's financial and managerial relationship to Lane Scott Electric Cooperative, Inc. ("Lane Scott"), which owns the native system and the assets of the Lane Scott Division and which provides services to the Lane Scott Division under MKEC's certificate. Benjamin D. Cotton, of The Columbia Group, Inc., is providing testimony on capital structure and cost of capital issues. Stacey Harden, of CURB, is providing testimony on certain rate base and operating income adjustments. Ms. Harden also sponsors CURB's overall revenue requirement recommendation.

III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. What are your conclusions regarding the Company's Plant Acquisition Adjustment and its financial and managerial relationship with Lane Scott?

A. Based on my analysis of the filing and other documentation in this case, my conclusions and recommendations are as follows:

1. The Company's rate base should reflect an asset valuation based on the purchase price for the Aquila assets.
2. The Company's depreciation expense should be adjusted to reflect depreciation based on the purchase price of the Aquila assets.
3. The Lane Scott Division has not been operated or managed independently from Lane Scott.
4. In the future, the Lane Scott Division and Lane Scott should formalize any intercompany loans so that the KCC has the information it needs to properly evaluate the financial condition of the regulated entity.
5. The Lane Scott Division should demonstrate that it is in compliance with all the provisions of the S&A approved in KCC Docket No. 06-MKEE-524-ACQ.

IV. DISCUSSION OF THE ISSUES

A. Overview

Q. Please provide a brief description of MKEC.

A. As discussed on page 2 of Mr. Lowry's Direct Testimony, MKEC was organized by its

Members "for the purpose of acquiring and operating the former Aquila-WPK electric utility business and operations." On February 23, 2007, the KCC approved a Stipulation and Agreement ("S&A") in KCC Docket No. 06-MKEE-524-ACQ ("524 Docket") whereby MKEC was authorized to acquire the Aquila assets. MKEC began operating those assets on April 1, 2007 pursuant to an operating agreement between MKEC and Sunflower Electric Power Cooperative, which is owned by the Members of MKEC.

MKEC owns 389 MW of generation and 1,083 miles of transmission facilities and associated substation facilities. MKEC also has purchase power agreements for 175 MW of generation from the Jeffrey Energy Center ("JEC") and for 75 MW of wind generation from two wind facilities.

Initially, the customers of MKEC were served based on the Aquila rate structure that existed at the time of the acquisition. In KCC Docket No. 09-MKEE-969-RTS ("969 Docket"), the KCC approved divisional rates for the customers of five of the Members based on the cost of service for customers served by each of those MKEC Members.[1] The current filing is the first filing made by the Lane Scott Division since divisional rates were established in the 969 Docket.

B. <u>Plant Acquisition Adjustment</u>

Q. How much did the Lane Scott Division pay for its share of the assets acquired from Aquila?

[1] Wheatland Electric Cooperative, Inc. was not included in MKEC's request in KCC Docket No. 09-MKEE-969-RTS.

A. The Lane Scott Division paid $2,475,896 for the assets that it acquired from Aquila.[2] At the time of the acquisition, the assets acquired by the Lane Scott Division had a net book value of $5,413,703. Thus, the Company booked a negative Plant Acquisition Adjustment of $2,937,807 to reduce its utility plant in service balance to reflect the amount actually paid for the assets.

Q. Has the Lane Scott Division included this negative Plant Acquisition Adjustment in its rate base claim in this case?

A. No, it has not. The Lane Scott Division has included utility plant-in-service in rate base at the higher original book value at the time of the acquisition. Thus, the Company is asking customers to pay both a return <u>on</u> investment and a return <u>of</u> investment based on the higher net book value amount, even though a portion of this investment was never funded by the Lane Scott Division.

Q. How did the purchase price paid for all of the Aquila assets compare to the net book value of the plant acquired by MKEC?

A. The original Asset Purchase Agreement included a base purchase price of $255.2 million. That agreement was subsequently modified and a Supplemental Asset Purchase Agreement was filed with the KCC in August 2006 as part of MKEC's Supplemental Application in the 524 Docket. The Supplemental Asset Purchase Agreement included a base purchase price of

[2] On page 3, at lines 7-8 of his testimony, Mr. Morris states that the portion of the purchase price assigned to the Lane Scott Division assets was $2,937,807. However, as noted in the response to CURB-39, that actual purchase price was $2,475,896. The $2,937,807 actually represented the Plant Acquisition Adjustment.

$235.3 million, based on a projected net plant balance at closing of $169.1 million. Therefore, on a consolidated basis, MKEC and its Members paid more than net book value for the Aquila assets, resulting in an Acquisition Premium that was initially recorded by MKEC. However, in the unique case of the Lane Scott Division, the Company's purchase price was less than the net book value of the assets acquired.

Q. Why did the Lane Scott Division pay less than net book value for its assets when MKEC and all of the other Members paid more than net book value?

A. It appears that this was the result of the methodology used to allocate the purchase price and the Acquisition Premium among MKEC and the Members. In the 524 Docket, MKEC proposed to first allocate the purchase price based on the estimated Earnings Before Interest Taxes Depreciation and Amortization ("EBITDA"). Next, the purchase price for MKEC and each Member was compared to the net book value of the assets assigned to each entity. The difference between the purchase price assigned to each Member and the book value of the assets assigned to that Member was the Acquisition Premium assigned to each Member. It appears that in the unique case of Lane Scott, the net book value of the assets assigned to it was actually more than its share of the purchase price, based on the EBITDA allocation. Hence, none of the Acquisition Premium was assigned to the Lane Scott Division. Instead, the Lane Scott Division recorded a negative Plant Acquisition Adjustment to reduce its investment by the difference between the net book value of the assets acquired and the purchase price.

Q. Can you provide a simple mathematical example of how a negative Plant Acquisition Adjustment could result from the allocation methodology used by MKEC and its Members?

A. Yes, assume that there are three entities purchasing assets with a net book value of $100. The three entities have agreed to pay $200 for the assets. Moreover, the three entities estimate that there will be $50 of annual EBITDA associated with the acquisition. Further assume that Entity 1 expects $20 in incremental EBITDA and will receive assets with a net book value of $20. Entity 2 expects $15 in incremental EBITDA and will receive assets with a net book value of $10. Entity 3 also expects $15 in incremental EBITDA but will receive assets with a net book value of $70. The Purchase Price and Acquisition Premium would be allocated in the following manner:

Company	EBITDA	Purchase Price	Net Book Value	Acquisition Premium	EDITDA/ Assets
1	$20	$80	$20	$60	1/1
2	$15	$60	$10	$50	1.5/1
3	$15	$60	$70	($10)	.214/1

According, under this methodology, if a company purchased assets that were expected to produce a proportionately lower EBITDA than the EBITDA expected by other Members, then that company would not be allocated any of the Acquisition Premium. Instead, that Company would have recorded a negative Plant Acquisition Adjustment on its books to record the fact that it paid less than net book value for the assets that it acquired. This appears to be the case with the Lane Scott Division.

Q. How is a negative Plant Acquisition Adjustment typically reflected in a utility's balance sheet?

A. As shown in Schedule D-1, page 2, of the Company's filing, the Plant Acquisition Adjustment is recorded as a reduction to the gross utility plant-in-service on the Company's balance sheet. In addition, this negative Plant Acquisition Adjustment is amortized over some reasonable period of time, in this case, over thirty years. This amortization is shown in Schedule E-1 as an offset to Accumulated Depreciation. Thus, the Company takes depreciation on the entire gross amount of utility plant-in-service, but that depreciation is reduced by the annual amortization of the negative Plant Acquisition Adjustment. This amortization impacts both the balance sheet and the income statement. Every year, a portion of the negative Plant Acquisition Adjustment is amortized, so that after 30 years the entire negative Plant Acquisition Adjustment would be eliminated. In addition, the annual amortization expense credit serves as an expense reduction each year. In this case, the Lane Scott Division is amortizing ($99,758) per year.

Q. Did the Lane Scott Division reflect this negative Plant Acquisition Adjustment in its filing?

A. No, it did not. While the Lane Scott Division made this adjustment on its balance sheet, it did not include this adjustment in its rate base claim on Schedule C-2. Thus, the Lane Scott Division is requesting that customers pay a return on net plant of $4,387,666, even though the Company's actual net plant balance is only $1,749,335, as shown in Schedule D-1 and Schedule E-1. Moreover, net plant of $1,749,335 is also the amount shown in the Company's cost of equity claim, Schedule G-3. In addition, on Schedule I-1.1 of the Company's filing, the Lane Scott Division made an adjustment to eliminate the expense credit associated with the annual amortization. This has the effect of charging ratepayers for depreciation expense based on the higher net book value of the assets acquired. The net result is that the Lane Scott Division is proposing that its rate base reflect plant that is valued at more than the Lane Scott Division's actual cost to acquire the plant. This results in the Lane Scott Division customers paying a return on inflated plant investment balances that exceed the amount actually invested by the Lane Scott Division to acquire the plant. In addition to seeking a return on these higher plant balances, the Lane Scott Division is also proposing that customers pay depreciation expense based on these higher plant balances.

Q. What do you recommend?

A. I recommend that the KCC limit the Company's plant-in-service claim to the actual amount invested by the Lane Scott Division. Thus, the KCC should utilize the lower of cost or book value standard in evaluating the appropriate rate base amount. Utilities should be provided with an opportunity to earn a reasonable return on no more than the investment actually provided by investors, whether those investors are stockholders, bondholders, or customers of a cooperative. Alternatively, investors should not be permitted to earn a return on amounts that they never invested in the first place. In addition, the return of investment through depreciation charges should be limited to no more than the actual amount of the investment made.

Q. How was this issue resolved in the last rate case?

A. This issue was not addressed in the Company's last base rate case, since the Company did not file that case using a rate base/rate of return approach. Instead, the margin requested in the 969 Docket was based on a proposed Times Interest Earned Ratio ("TIER"). That approach determines a targeted level of margin based on a multiple of the actual interest expense incurred by the utility. In this case, the Lane Scott Division switched from a TIER methodology of determining margin to a rate base/rate of return approach because the Lane Scott Division stated that its acquisition debt has been retired. Thus, the Company contends that it has no debt and therefore it would receive no margin using a TIER methodology or any other ratio tied to its actual Debt Service costs.

Q. Did the Stipulation and Agreement ("S&A") in the 524 Docket address how a negative Plant Acquisition Adjustment was to be handled in future cases?

A. No, it did not. The S&A did not address the current situation at the Lane Scott Division. Instead, the S&A only addressed the situation whereby a company reflected an Acquisition Premium, since the total amount paid for the Aquila assets exceeded the consolidated net book value of the assets acquired. Moreover, the S&A anticipated that MKEC and its Members would utilize the TIER or Debt Service Coverage ("DSC") methodology to determine margins in future rate cases; it did not anticipate the use of the rate base/rate of return approach to determine margin, as is being proposed here. Specifically, the S&A required the Acquisition Premium to be amortized over a period of thirty years and required that the Acquisition Premium be reflected "below-the-line" in subsequent rate proceedings. Specifically, paragraph 21 of the S&A provided that,

> The Acquisition Premium ("AP") relating to this transaction shall be amortized over a thirty-year period beginning with the Effective Date, and shall be included below-the-line in subsequent MKEC, Distribution Cooperatives(s) and Southern Pioneer rate proceedings. The AP shall be considered for purposes of calculating TIER and other financial ratios and shall be considered in the calculation of TIER for purposes of determining if a refund is due as provided for herein. Notwithstanding, the signatories agree that in subsequent retail rate cases(s) filed after the Effective Date by MKEC, Distribution Cooperative(s) or Southern Pioneer, the determination of the total revenue requirement shall be sufficient to take into consideration generally acceptable financial covenants, debt costs and acceptable levels of equity and cash reserves of MKEC, the Distribution Cooperative(s) or Southern Pioneer, as the case may be. Hereafter, estimated savings associated with this transaction shall not be subject to review in subsequent rate case(s) filed by MKEC, Distribution Cooperative(s) or Southern Pioneer.

Thus, the S&A adopted a hybrid approach. While it specifically stated that the amortization of the Acquisition Premium should be "below the line", it also permitted the companies to consider the Acquisition Premium for purposes of establishing an appropriate TIER. The S&A attempted to insure that a company would have adequate margins to meet its financial covenants while at the same time recognizing that management's decision to pay more than net book value for the Aquila assets should not unduly increase customers' rates.

Q. Is your recommendation in this case is consistent with the S&A executed in the 524 Docket?

A. Yes, it is. My recommendation to reflect the actual cost of the assets in rate base will not hinder the Lane Scott Division's ability to meet its financial covenants. The debt that the Company incurred related to the acquisition has been paid off and there is no other long-term debt being used to finance the Company's operations. Moreover, my recommendation is consistent with the goal of keeping customers' rates at reasonable levels. However, the most important rationale for adopting my recommendation is that it is consistent with an important ratemaking principle, i.e., that investors are only entitled to a return on, and to a return of, amounts that they actually invest in a utility.

Q. How did you quantify your adjustment?

A. There are two parts to my adjustment. First, at Schedule ACC-1, I have made an adjustment to reduce Utility Plant in Service at the end of the Test Year by the Plant Acquisition Adjustment of $2,937,808. This is the adjustment shown in Schedule D-1 to the Company's filing. Second, it is necessary to make an adjustment to reduce Accumulated Depreciation by the cumulative amortization of the Plant Acquisition Adjustment. Through December 31, 2010, the end of the Test Year, the Lane Scott Division had amortized $299,273 of the Plant Acquisition Adjustment, as shown in Schedule E-1. Therefore, at Schedule ACC-1, I have also made an adjustment to offset accumulated depreciation by the accumulated amortization that the Company has booked. The net impact of my adjustments is a reduction to rate base of $2,638,535.

Q. In addition to your recommendation that the Company's rate base should reflect the actual purchase price of the assets acquired, are you recommending a related adjustment to depreciation expense?

A. Yes, I am recommending that the Company's depreciation expense be recalculated to exclude depreciation on plant balances that exceed the purchase price of the Aquila assets. The Lane Scott Division has based its depreciation expense on a gross book value that includes $2,937,808 of plant that the Lane Scott Division did not pay for. However, depreciation is, by definition, the return of investment to investors. If investors never made the investment in the first place, they are not entitled to any return of this investment. Accordingly, at Schedule ACC-2, I have recalculated pro forma depreciation expense to reflect depreciation only on that portion of the gross plant that was actually financed by the Company. My adjustment results in a reduction to depreciation expense of $78,439.

Q. How did you quantify your depreciation adjustment?

A. I quantified my depreciation adjustment based on the amount of my recommended utility plant-in-service disallowance and the composite depreciation rate during the Test Year. To calculate the composite depreciation rate, I utilized the actual Test Year depreciation expense and the average Test Year utility plant-in-service balance. This resulted in a composite rate of 2.67%.

Q. Earlier you mentioned that the Company had excluded the negative amortization expense associated with the Plant Acquisition Adjustment from its pro forma operating income. Did you make any adjustment to this amortization as reflected in the Company's filing?

A. No, I did not. The Company has increased its operating expenses to reflect the removal of this negative amortization expense. The net impact of the Company's presentation is that depreciation expense reflects annual depreciation on the higher gross book value of the assets, prior to the negative Plant Acquisition Adjustment being made. Since I am recommending a separate depreciation expense adjustment to align annual depreciation expense with my recommended pro forma utility plant-in-service balance, then it was not necessary to reverse the Company's adjustment, which eliminates the negative acquisition expense from operating income. Alternatively, one could eliminate the Company's adjustment, thereby reducing annual operating expense by $99,758. In that case, no separate depreciation expense adjustment would be necessary. The theoretical difference between my depreciation expense adjustment and reversing the Company's adjustment is that my depreciation expense adjustment assumes a composite depreciation rate of 2.67%, which equates to a 37.45 year useful life, while the Company's amortization expense adjustment is based on 30 years. I believe that either adjustment would be acceptable.

C. Relationship to Lane Scott Native System

Q. Please describe the relationship between the Lane Scott Division and Lane Scott's native system.

A. According to the testimony of Mr. Shepherd at page 4, lines 4-5, the Lane Scott Division is served at the distribution level by Lane Scott under a service agreement with Mid-Kansas. But it appears that the relationship between the two entities goes well beyond the service agreement referenced in Mr. Shepherd's testimony. In fact, in many respects, it appears that the Lane Scott Division and Lane Scott's native system are operated jointly.

Q. Why do you believe that in many respects the Lane Scott Division and the native system are operated jointly?

A. There are several reasons for this conclusion. First, according to the response to CURB-17, "[t]he Lane Scott Electric Cooperative Board directs operations for both the Lane-Scott Division and Lane-Scott Electric." This was confirmed by the response to CURB-3, which indicates that the same people serve as officers of both the Lane Scott Division and the native system. In addition, as discussed in the testimony of Ms. Harden, only two of the nine native system Board members live in counties served by the Lane Scott Division, although it appears that no Board members are customers of the Lane Scott Division. This fact is troubling, in that cooperatives are intended to be managed by their customers, through elected representatives to a Board of Directors. The Board members of most cooperatives are customers of the respective cooperatives that they represent. Obviously, this does not appear to be the situation in the case of the Lane Scott Division.

Q. How many customers of the Lane Scott Division voted in the last Board election?

A. According to the response to CURB-21, only 24 customers of the Lane Scott Division voted in the most recent election for the Board of Directors. This represents less than two percent of the Lane Scott Division members.

Q. What are the consequences of having a common Board for the Lane Scott Division and the native system?

A. One consequence is that it does not appear that there is sharp demarcation between the operations of the Lane Scott Division and the native system. For example, as discussed in Mr. Cotton's testimony, the Lane Scott Division has paid off the loan related to the acquisition of the Aquila assets, in spite of the fact that the Lane Scott Division is in a negative equity situation. This could only be accomplished by the native system advancing funds to the Lane Scott Division that were never recorded as a formal receivable. In response to KCC-110, the Company stated that it operates as two divisions, the native division and the

MKEC division. That response also indicates that there is no separate MKEC bank account from which to deposit funds or make payments. Instead, there is one bank account for both divisions and accounting entries are used to transfer amounts to and from the Lane Scott Division books. As stated in that response, "[t]he net of these results creates interdivision payables between the two divisions. To know the true cash balance for the entire company, the balances in both divisions must be added together." Thus, the Lane Scott Division and the native system are treated as two divisions of one company, even though they serve different customers, have different margins, and award different capital credits. Other accounts, such as Materials and Supplies and Prepayments, are similarly booked on a consolidated basis and allocated for ratemaking purposes, as evidenced by Schedule F-2 to the Company's filing and the Company's response to KCC-4 and KCC-115.

Q. Does the existence of negative equity on the Lane Scott Division's balance sheet suggest that the native system has been subsidizing the Lane Scott Division operations?

A. The negative equity balance suggests that the Lane Scott Division had not earned the revenues necessary to cover its operating costs and pay off the acquisition-related debt. The only other source of funds is the native system. Thus, it appears that the native system has been subsidizing the operations of the Lane Scott Division. However, this conclusion is based on the assumption that the allocation methodologies used by the native system to allocate expenses and working capital items are appropriate. The Lane Scott Division has not provided an allocation study in this case and does not have a cost allocation manual to support the Company's rate filing.[3] While certain working capital items were allocated based on various allocation factors, these factors were based on "estimates", some of which were significantly revised during the course of this proceeding.[4] Thus, we have no way of verifying that the actual allocation of expenses or working capital as presented by the Lane Scott Division accurately represents the resources utilized to serve the Lane Scott Division customers.

Q. Is the intercompany payable considered a liability of the Lane Scott Division?

A. No, according to the response to KCC-110, "[t]he Company does not have any written documentation regarding the interdivision payables. It does not consider the negative cash balance a liability with established payment terms. The company has not established a payable or liability for the credit cash balance." Thus, the intercompany payable between the Lane Scott Division and the native system has not been formalized.

Q. Was the Lane Scott Division required to maintain separate books and records of account as a result of the S&A in the 524 Docket?

A. Yes, it was. There were several provisions of the S&A in the 524 Docket that addressed appropriate accounting controls after the acquisition. Specifically, the S&A provided that,

[3] *See* response to KCC-4.

[4] The Company's response to KCC-115 changed the allocation for prepayment of property tax insurance to 21% for account 165.1, when Schedule F-2 in the application stated the estimate was based on a 47% allocation. The Company's response to KCC-115 also changed the allocation for plant materials and supplies to 15%, when Schedule F-2 in the application stated the estimate was based on a 75% allocation.

The Distribution Cooperatives shall maintain separate books and records for their newly acquired WPK division until such time as acquired WKP retail customers and the acquiring Distribution Cooperatives' retail customers are served under the same general terms and conditions and rates. ¶ 14

The Distribution Cooperatives that are regulated by the Commission shall file separate annual reports with the Commission for each cooperative division, as well as, a combined annual report until such time as acquired WPK retail customers and the acquiring Distribution Cooperatives' retail customers are served under the same general terms and conditions and rates. The Distribution Cooperatives that are not regulated by the Commission shall file annual reports with the Commission for only the WPK cooperative division. In addition, deregulated Distribution Cooperatives shall provide to the Commission Staff annual financial statements for the deregulated portion of their operations.¶15

The Distribution Cooperatives shall develop cost allocation procedures to make an appropriate assignment of costs between divisions. When developing cost allocation procedures, the Distribution Cooperatives agree to apply the following principles:

a. If only one division causes a cost to be incurred or benefits from a cost, that cost shall be directly assigned to that entity to the greatest extent practicable.

b. If more than one division causes a cost to be incurred or benefits from a cost, that cost shall be fairly and equitably allocated among divisions that cause the cost to be incurred or benefit from the cost to the greatest extent practicable.

c. If more than one division causes a cost to be incurred or benefits from a cost and that cost can not be fairly and equitably allocated to the entities based on the principles outlined in (a) and (b) above, a general allocation shall be used to allocate costs. ¶19

The Distribution Cooperatives shall require employees to record their time on timesheets in a manner which properly charges payroll and benefit costs between divisions. The Distribution Cooperatives shall maintain such timesheets. ¶20

Q. Has the Lane Scott Division complied with each of these provisions?

A. It does not appear that the Lane Scott Division has complied with each of these provisions. For example, as noted above, there has been a commingling of accounts for Lane Scott Division and the native system, resulting in an intercompany payable that is not actually considered a liability of Lane Scott Division. Moreover, it does not appear that formal cost allocation procedures have been developed. While there are some allocations factors utilized to allocate costs between Lane Scott Division and the native system, as shown in the response to KCC-4, these factors do not appear to be based on a formal cost allocation study. It is also unclear if employees maintain time sheets specifying the time spent on Lane Scott Division activities relative to time spent on native system operations, as required pursuant to the S&A. In summary, the accounting for costs between Lane Scott Division and the native system appears to be significantly less formalized than that required pursuant to the S&A in the 524 Docket.

Q. What do you recommend?

A. Lane Scott Division should be required to demonstrate that the Company is in compliance with each of the provisions of the Docket 524 S&A referenced above. To the extent that the Company is not in compliance, Lane Scott Division should take steps to comply with the requirements outlined in the S&A. Such compliance would include the development of a cost allocation manual specifying how costs will be allocated between Lane Scott Division and the native system. A cost allocation manual should also include the rationale for each allocation factor used to allocate costs to Lane Scott Division. Moreover, once an appropriate cost allocation manual has been developed, then Lane Scott and the native system should formalize any future intercompany loans or advances, so that the overall financial position of each entity can be independently and accurately evaluated. Any such loans or advances should result in the establishment of a liability with specific repayment terms.

In addition, Lane Scott Division should take steps to establish an independent Board of Directors, comprised of customers of the Lane Scott Division, to oversee the operations of the Lane Scott Division. The establishment of a separate Board of Directors will ensure that there is no longer any conflict of interest for directors that serve both Lane Scott Division and the native system. In the alternative, Lane Scott Electric Cooperative, Inc. should amend its Bylaws to provide for equitable representation of Lane Scott Division members on the Board of Directors, consistent with the number of members of Lane Scott Division and members of the native system.

Q. **Do you have any final comments regarding compliance with the S&A in the 524 Docket?**

A. Yes, I do. The S&A in the 524 Docket provided that the Acquisition Premium would be allocated based on the purchase price paid by each Member. Specifically, the S&A stated that,

> The AP shall be assigned to each Distribution Cooperative and Southern Pioneer at such time as the distribution assets of MKEC are transferred to the Distribution Cooperative and Southern Pioneer. The AP shall be allocated to the Distribution Cooperatives and Southern Pioneer on the same percentage as the percentage allocation of the purchase price for the distribution assets, as set forth in the testimony of Dennis Eicher, and also comply with other relevant financial covenants. ¶22

However, it is difficult to see how this allocation could have resulted in all of the Acquisition Premium being allocated to MKEC and its other Members, while Lane Scott Division's allocation resulted in a negative Plant Acquisition Adjustment, i.e., Lane Scott Division paid less than the net book value for the assets it acquired. As discussed previously, it appears that contrary to the provisions of the S&A, the Acquisition Premium was allocated based on estimated EBITDA for each Member, and not on the Purchase Price as required in the S&A. Thus, I recommend that the KCC require Lane Scott Division to provide further information about the process used to allocate the Acquisition Premium and to state why the Acquisition Premium was not allocated in accordance with the S&A if in fact, such was not the case.

Q. Does this complete your testimony?

A. Yes, it does.

VERIFICATION

STATE OF CONNECTICUT)

COUNTY OF FAIRFIELD) ss: Ridgefield

Andrea C. Crane, being duly sworn upon her oath, deposes and states that she is a consultant for the Citizens' Utility Ratepayer Board, that she has read and is familiar with the foregoing testimony, and that the statements made herein are true to the best of her knowledge, information and belief

Andrea C. Crane

Andrea C. Crane

Subscribed and sworn before me this 27th day of November, 2012.

Notary Public Sandra P. Mosiello

SANDRA P. MOSIELLO
NOTARY PUBLIC
MY COMMISSION EXPIRES MAY 31, 2017

My Commission Expires: ______________________________

APPENDIX A

List of Testimonies Filed Since January 2008

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

APPENDIX B

Supporting Schedules

**MID-KANSAS ELECTRIC COOPERATIVE -
LANE SCOTT DIVISION**

TEST YEAR ENDING DECEMBER 31, 2010

UTILITY PLANT ACQUISITION ADJUSTMENT

1.	Utility Plant In Service	($2,937,808)	(A)
2.	Accumulated Amortization	(299,273)	(B)
3.	Net Plant in Service	**($2,638,535)**	

Sources:
(A) Company Filing, Schedule D-1, page 2.
(B) Company Filing, Schedule E-1.

MID-KANSAS ELECTRIC COOPERATIVE -
LANE SCOTT DIVISION

TEST YEAR ENDING DECEMBER 31, 2010

DEPRECIATION EXPENSE

1. Utility Plant In Service Adjustment	($2,937,808)	(A)
2. Composite Depreciation Rate	2.67%	(B)
3. Net Plant in Service	**($78,439)**	

Sources:
(A) Schedule ACC-1.
(B) Derived from Company Filing, Schedule I-1 and Schedule D-1.

APPENDIX C

Referenced Data Requests

CURB-3
CURB-17
CURB-21
CURB-39
KCC-4
KCC-110
KCC-115

Citizen's Utility Ratepayer Board
Information Request

Request No: CURB-3.

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 4, 2012	
Date Information Needed	September 18, 2012	

RE: Officers and Directors

Please Provide the Following:

Please identify the officers and directors of a) Lane Scott Division, b) Lane Scott Electric Cooperative, c) MKEC, and d) Sunflower.

Submitted By C. Steven Rarrick

Submitted To MKEC Lane-Scott Division

Please see the attached Word document "CURB DR 3".

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: Doug Morris

Date: September 14, 2012

Lane-Scott Division and Lane-Scott Electric Cooperative

Richard Jennison - President
Craig Ramsey – Vice President
Paul Seib, Jr. - Secretary
Eric Doll – Treasurer
Ed Gough
Harold Hoss
Rad Roehl
Richard Sorem
Bruce Wilkens

MKEC and Sunflower

Loren Ochs – Chairman
Larry Evans – Vice Chairman
Charles Ayers
Steve Epperson
Terry Janson
Robert Johnson
Allan Miller
Dow Morris
Bruce Mueller
Perry Rubart
Dave Schneider
Paul Seib, Jr.

Citizen's Utility Ratepayer Board
Information Request

Request No: CURB-17.

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 4, 2012	
Date Information Needed	September 18, 2012	

RE: Cooperative Board

Please Provide the Following:

Is there a separate Cooperative Board for members of the Lane Scott Division or does the Lane Scott Electric Cooperative Board direct operations for both the Lane Scott Division and the Lane Scott Electric Cooperative?

Submitted By C. Steven Rarrick

Submitted To MKEC Lane-Scott Division

The Lane-Scott Electric Cooperative Board directs operations for both the Lane-Scott Division and Lane-Scott Electric.

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: Don Morris

Date: September 14, 2012

Citizen's Utility Ratepayer Board
Information Request

Request No: CURB-21.

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 4, 2012	
Date Information Needed	September 18, 2012	

RE: Voting Members

Please Provide the Following:

How many members of the a) Lane Scott Division and b) Lane Scott Electric Cooperative voted in the most recent election for the Lane Scott Board of Directors?

Submitted By C. Steven Rarrick

Submitted To MKEC Lane-Scott Division

a) 24 b) 154

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: Dow Morris

Date: September 14, 2012

Citizen's Utility Ratepayer Board
Information Request

Request No: CURB 39

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	November 9, 2012	
Date Information Needed	November 26, 2012	

RE: Acquisition Adjustment

Please Provide the Following:

Regarding page 3, lines 7-12 of Mr. Morris' testimony, please confirm that the purchase price relating to the assets assigned to the Lane-Scott Division was $2,475,896 instead of the $2,937,807 referenced on line 8. If this is not correct, then explain why the acquisition adjustment is $2,937,807 instead of the difference between the gross book value of $5,413,703 and the purchase price.

Submitted By C. Steven Rarrick

Submitted To MKEC Lane-Scott Division

This is correct, the purchase price on page 3, line 8 of Mr. Morris' testimony should have been $2,475,896. The testimony incorrectly listed the amount of the acquisition adjustment.

Purchase Price	2,475,896
Book Value	5,413,703
Acquisition Adj.	(2,937,807)

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: Don Morris

Date: November 20, 2012

Kansas Corporation Commission
Information Request

Request No: **4**

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	January 13, 2012	
Date Information Needed	January 24, 2012	

RE: Cost Allocation Manuals

Please Provide the Following:

1. The Accounting Cost Allocation manual that supports Applicant's rate filing.
2. Provide any addendums subsequent to the test year.

Submitted By Laura Bowman

Submitted To Lane Scott

Response:

Expenses allocated to MKEC division:

Software & Billing	42 – 45%
Utilities	20 – 22%
Phone	40%
Mtg & Travel	50%
Postage	43%
KEC	50%

For any expenses that are not listed, we are able to determine which division they need to be charged to (native or MKEC) and charge them directly to that division

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: Don Morris

Date: August 29 2012

Kansas Corporation Commission
Information Request

Request No: 110

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 20, 2012	
Date Information Needed	October 1, 2012	

RE: Intercompany Payable

Please Provide the Following:

In reference to Doug Shepherd's e-mail on October 9th, 2012, I was informed that the negative cash balance reported on Schedule H-1 of the application for the Lane-Scott Division (MKEC Division) is the result of an intercompany payable between the MKEC system and the native Lane-Scott system. Please confirm this understanding.

Submitted By Tim Rehagan

Submitted To Doug Shepherd

Please see the attached file "DR 110.docx".

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: Doug Morris

Date: October 29, 2012

Request No.:	110-115
Company:	Mid-Kansas Electric Company, LLC
Docket No.:	12-MKEE-410-RTS
RE:	Intercompany Payable/Negative Cash Balance

The company operates with two divisions. The general ledger accounts are set up with a prefix to identify the two divisions:

0 = native division
1 = MKEC division

The company did not open a separate MKEC division bank account for which to deposit funds for A/R or withdraw funds for A/P. Therefore, when we write a check (from account 0.131.12) for something charged to a 1.XXX (or MKEC) account there must be a "due to, due from" entry to keep the divisions in balance on our general ledger.

When we receive A/R payments, all money is deposited in the one bank account and booked to one general ledger account (0.136.12). The amount of those payments applicable to electric accounts belonging to our MKEC division is transferred to the MKEC A/R account (1.142.10) with a "due to, due from" entry.

Example: Payments in the amount of $5,760.83 are received. $4,521.76 is for division 1 electric accounts and $1,239.07 is for division 0 electric accounts. The following entry would be made to the general ledger:

1.143.19	4,521.76	
0.232.30		4,521.76
0.136.12	5,760.83	
0.142.10		1,239.07
1.142.10		4,521.76

Anytime something is done throughout the month (A/R, Payroll, Construction, Retirement, A/P) that involves both divisions, "due to, due from" entries are made to keep the divisions in balance. At month end, a journal entry is made to zero out the due to, due from accounts of 0.143.19, 0.232.30, 1.143.19 & 1.232.30 and the difference between them goes to 0.131.12 & 1.131.12. The following is the entry that was made in Feb 2010 to balance divisions:

0.131.12	48,565.71	
0.143.19		376,485.45
0.232.30	327,919.74	
1.131.12		48,565.71
1.143.19		327,919.74
1.232.30	376,485.45	

The net of these results creates interdivision payables between the two divisions. To know the true cash balance for the entire company, the balances in both divisions must be added together.

The company does not have any written documentation regarding the interdivision payables. It does not consider the negative cash balance a liability with established repayment terms. The company has not established a payable or liability for the credit cash balance.

The company believes that the credit cash balance has been increasing as a result of the electric rates not being sufficient enough to create a positive cash flow for the Lane-Scott MKEC division. As the MKEC division generates a positive cash flow, the credit cash balance will be eliminated.

Kansas Corporation Commission
Information Request

Request No: 115

Company Name	MID-KANSAS ELECTRIC COMPANY, LLC	MKEE
Docket Number	12-MKEE-410-RTS	
Request Date	September 20, 2012	
Date Information Needed	October 1, 2012	

RE: Working Capital

Please Provide the Following:

In reference to Data Request No. 71, the Material and Supplies estimate for the Lane-Scott division is based on 15% of the total system and the Prepayments estimate for the Lane-Scott division is based on 21% of the total system for 165.1 and 7% of the total system for 165.11. Please provide a detailed explanation as well as all supporting workpapers used to calculate these allocation percentages. Additionally, please provide a detailed explanation as to the frequency in which the company re-calculates these allocation percentages.

Submitted By Tim Rehagan

Submitted To Doug Shepherd

The plant materials & supplies estimate for the Lane-Scott division is based on 15% because that's roughly the percentage of materials that are ordered and used for the Lane-Scott division each year.

The prepayment of property insurance (165.1) is based on 47%. Now that I'm revisiting this, it would be more accurate if it were based on 21%, which is a 5 year average of Lane-Scott division plant to total plant. For work papers see attachment DR 115.xlsx. This will be recalculated each year, now that we have 5 years of history.

The prepayment of work comp insurance (165.11) is based on 8% because that's roughly the total payroll dollars attributed to the Lane-Scott division each year. For work papers see attachment DR 115.xlxs. This will be recalculated each year, now that we have 5 years of history.

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: Doug Morris

Date: October 23, 2012

CERTIFICATE OF SERVICE

12-MKEE-410-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service this 30th day of November, 2012, to the following parties who have waived receipt of follow-up hard copies:

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