

**BEFORE THE KANSAS CORPORATION COMMISSION**  
**OF THE STATE OF KANSAS**

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

**PREFILED DIRECT TESTIMONY OF**

**DARRIN LYNCH**  
**GENERAL MANAGER**  
**WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.**

**ON BEHALF OF**

**WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.**

May 1, 2017

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**PART I - QUALIFICATIONS**

**Q. Please state your name and business address.**

A. My name is Darrin Lynch. My business address is 635 S. 13<sup>th</sup> St., WaKeeney, Kansas.

**Q. What is your profession?**

A. I am the General Manager of Western Cooperative Electric Association, Inc. (“Western” or “Cooperative”).

**Q. What is your educational background?**

A. I graduated from Fort Hays State University in December, 1996 with a degree in Business Administration. I later received my Certified Public Accountant (“CPA”) Certification in December, 1997. I have since continued to complete CPA training and other continuing professional education coursework.

**Q. What is your professional background?**

A. My professional career began as a CPA in 1997, working for Kennedy and Coe, LLC. My duties performed at Kennedy and Coe included mostly auditing and income tax work. Five years later, I transitioned from public accounting to the accounting department at Sunflower Electric Power Corporation (“Sunflower”), where I worked for the next 11 years until April 26, 2013. While employed by Sunflower, I worked on both routine and special projects, including the acquisition of the Aquila-WPK system by Mid-Kansas Electric Company, LLC (“Mid-Kansas”). In 2013, I was named General Manager of Western, the position that I still hold today.

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

A. Yes. I have provided testimony in Docket Nos. 13-MKEE-447-MIS, 16-MKEE-023-TAR (“16-023 Docket”), and 16-WSTE-496-TAR (“16-496 Docket”).

**PART II - SUMMARY OF DIRECT TESTIMONY**

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

A. The purpose of my testimony is as follows:

1. Affirm Western's support for the calculation of the wholesale demand rate for the Local Access Delivery Service ("LADS") over Western's 34.5kV sub-transmission system (Mid-Kansas division) as contained in Ms. Elena Larson's Direct Prefiled Testimony.
2. Confirm that Western has notified its customers as required in Section C of the Commission-approved 34.5kV FBR Protocols (included as Exhibit D with the Commission March 10 and April 26, 2016 Orders in the 16-023 Docket).
3. Attest to the Equity Test requirement noted in Section H of the Protocols.
4. Provide insight as to the information required by Item No. 11 listed in Section F of the Protocols.

**Q. What is Western's opinion concerning the proposed 2017 34.5kV FBR rate of \$1.70/kW?**

A. Western Staff has provided the data necessary for the calculations as contained in the populated 34.5kV FBR template attached to the Application filed in the instant Docket as Exhibit 5. Cooperative Staff has reviewed the exhibit and the supporting work papers and is in agreement that the resultant rate was calculated in accordance to Western's 34.5kV FBR Protocols as approved by the Commission. Accordingly, Western believes this rate, as detailed in Ms. Larson's Prefiled Direct Testimony and included in the proposed LADS tariff, is just and reasonable, as it is based on the cost of service ("COS") and follows the Commission-prescribed methodology.

**Q. Please elaborate on how the Customer Notification requirement, detailed in Section C of the Protocols, will be fulfilled.**

A. Upon filing of the Application and all of the exhibits in the instant Docket (and once the actual Docket Number is known to the Cooperative), all customers taking wholesale LADS from

Western will receive notice of the filing when it is made with the Commission. Such notice may be made via electronic mail or bill insert and will contain the following information:

1. The date the filing was made with the Commission and the docket number assigned.
2. The amount of the revenue adjustment sought.
3. The resulting rate impact.
4. A statement explaining that the rate adjustment is being made pursuant to the 34.5kV FBR, with a cite to Docket No. 16-MKEE-023-TAR and the date of the Commission's March 10, 2016 Order approving the initial application for Western's 34.5kV FBR.
5. A Western contact person and phone number for questions.

**Q. Please address the Equity Test requirement as noted in Section H of the 34.5kV FBR Protocols.**

A. Per Section H of the Protocols, Western (Mid-Kansas division) must notify the Commission when its distribution equity ratio (calculated exclusive of equity in or from associated organizations) reaches 36.31 percent, which would signal the re-evaluation of the currently approved Operating Times Interest Earned ("OTIER") and Modified Debt Service Coverage ("MDSC") ratios as used in the 34.5kV FBR.

**Q. Has Western (Mid-Kansas division) calculated its Distribution Equity Ratio for the 2016 Test Year?**

A. Yes. Table 1 on the following page evidences that for 2016, Western's Distribution Equity Ratio (for the Mid-Kansas division), calculated to be at a negative 1.73 percent, was below the prescribed 36.31 percent threshold. Note that one of the major items excluded as equity in Associated Organizations is represented by Western's equity in Mid-Kansas, its Generation and Transmission ("G&T") provider.

<b>Table 1. Western 2016 Distribution Equity Ratio (MKEC division only)</b>		
Excluding Investment in Associated Organizations		
Total Margins & Equity		\$ 2,981,571.87
Equity in Assoc. Org Pat Cap		\$ 3,506,873.38
		<u>\$ (525,301.51)</u>
Total Assets & Other Debits		\$ 33,860,787.58
Equity in Assoc. Org Pat Cap		\$ 3,506,873.38
		<u>\$ 30,353,914.20</u>
<b>Distribution Equity Ratio</b>	$\frac{\$ (525,301.51)}{\$30,353,914.20} =$	<b>-1.73%</b>
<b>Detail of Equity in Assoc. Org Pat Cap</b>		
United Ag Service, Inc.		\$ 1,777.15
MKEC		\$ 3,505,096.23
		<u>\$ 3,506,873.38</u>

**Q. Now please discuss the information required for Item No. 11 on the list of required filing exhibits as contained in Section F of the Protocols.**

A. The aforementioned Item requires the Cooperative to provide a summary explanation of any material increases from the previous year (where “material” is quantified to be over 10 percent) in a COS item for the 34.5kV FBR. Comparing line items in Column (i) FBR Revenue Requirement on Exhibit 5, Page 1 submitted in the instant Docket against the same categories as filed last year in the 16-496 Docket, in which the Commission approved Western’s 34.5kV FBR first Annual Update Application, identifies Principal Payments as one item from the 2016 COS item that shows over a 10 percent increase as compared to the 2015 calendar year. See the following summary in Table 2.

<b>Table 2. Western (East/Mid-Kansas Division) COS Item Comparison</b>					
<b>COS Item Description</b>	<b>2016 FBR Filed Revenue Requirement</b>	<b>2017 FBR Filed Revenue Requirement</b>	<b>DIFF \$</b>	<b>DIFF %</b>	
<b><u>Operating Expenses</u></b>					
Transmission O&M	\$ 255,384	\$ 226,589	\$ (28,795)	-11%	
Administration & General	\$ 20,426	\$ 14,321	\$ (6,105)	-30%	
Depreciation and Amortization	\$ -				
Transmission	\$ 256,124	\$ 261,736	\$ 5,612	2%	
General Plant	\$ 2,318	\$ 1,796	\$ (522)	-23%	
Property Tax	\$ -	\$ -			
Other Taxes	\$ -	\$ -	\$ -		
L.T. Interest	\$ 251,271	\$ 238,956	\$ (12,315)	-5%	
Interest Charged to Construction - Credit	\$ -	\$ -			
Interest-Other	\$ -	\$ -	\$ -		
Other Deductions	\$ -	\$ -	\$ -		
<b><u>Margin Requirement Components</u></b>					
Principal Payments	\$ 240,248	\$ 318,722	\$ 78,474	33%	
L.T. Interest	\$ 251,271	\$ 238,956	\$ (12,315)	-5%	

**Q. Please explain the drivers behind the change in the Principal Payments and discuss the steps the Cooperative took to lessen the impact of the cost increases.**

A. The reason for the \$78,474 increase in the Principal Payments allocated to Western's 34.5kV FBR is primarily due to additional payments on a new CoBank note (RI0428T03) and RUS FFB loans (H0035 and H0040) scheduled for 2017 to help finance necessary plant additions, as evidenced on Page 7 in Exhibit 9 attached to the Application submitted in the instant Docket. To ensure the continued safe and reliable delivery of service to our customers, it is necessary to make timely investments in the system. Western makes every effort to capitalize appropriate investments in our system in order to allow for the cost of the project to be spread over the entire useful life of the investment, effectively sharing the cost with future customers that will also benefit from the investment. While we do at times pay for the investments out of operations, when it is necessary, we borrow funds as appropriate. This also allows Western to spread cost sharing to the future customers of the Cooperative, who will continue to benefit

1 from the required system upgrades.

2 **Q. Do you have any other comments regarding the steps Western took to lessen the impact**  
3 **of the cost increase noted above on its customers?**

4 A. I would like to close by noting that increases in costs due to operational changes affect  
5 Western's wholesale and retail customers alike. Decisions made with regards to debt financing  
6 and the overall operations of Western are always made with the customers' best interest in  
7 mind. Every effort is taken to find cost saving measures whenever possible in order to lessen  
8 the impact on our customers, including negotiating competitive low rates with our lenders.

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

10 A. I support Ms. Larson's recommendation to approve Western's Application in the instant  
11 Docket, as the resultant rate is reflective of the COS, was calculated in accordance with the  
12 Commission-approved 34.5kV FBR Protocols, and therefore is just and reasonable and is in  
13 the public interest.

14 **Q. Does this conclude your testimony?**


15 A: Yes, it does.  
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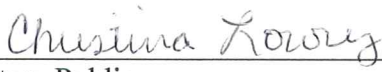
## VERIFICATION

STATE OF KANSAS       )  
                                      )  
COUNTY OF TREGO     )

The undersigned, Darrin Lynch, upon oath first duly sworn, states that he is an employee of Western Cooperative Electric, Association, Inc., and that the foregoing testimony was prepared by him or under his supervision, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Darrin Lynch

Subscribed and sworn to before me this 24<sup>th</sup> day of April, 2017.

  
\_\_\_\_\_  
Notary Public

My appointment expires: 4-25-2021

