BEFORE THE KANSAS CORPORATION COMMISSION

OF THE STATE OF KANSAS

In the Matter of the Application of The Victory Electric Cooperative Association, Inc. Seeking Commission Approval to Update Its Local Access Delivery Service Tariff Pursuant to the 34.5kV Formula Based Rate Plan Approved in Docket No. 16-MKEE-023-TAR.	)))))))	Docket No. 19-VICE-448- TAR

PREFILED DIRECT TESTIMONY OF

ELENA E. LARSON
MANAGER OF RATES AND REGULATORY SERVICES
POWER SYSTEM ENGINEERING, INC.

ON BEHALF OF

<u>THE VICTORY ELECTRIC COOPERATIVE ASSOCIATION, INC.</u>

May 1, 2019

TABLE OF CONTENTS

PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Elena E. Larson. My business address is 5883 SW 29th Street, Suite 101, Topeka, KS 66614.

Q. What is your profession?

A. I am a Manager of Rates and Regulatory Services in the Economics, Rates, and Business Planning Department at Power System Engineering, Inc. ("PSE"), which is headquartered at 1532 W. Broadway, Madison, Wisconsin 53713.

Q. Please describe the business activities of PSE.

A. PSE is a consulting firm serving electric utilities across the country, but primarily in the Midwest. Our headquarters is in Madison, Wisconsin with regional offices in Indianapolis, Indiana; Topeka, Kansas; Lexington, Kentucky; Minneapolis, Minnesota; Marietta, Ohio; and Sioux Falls, South Dakota. PSE is involved in: power supply, transmission and distribution system planning; distribution, substation and transmission design; construction contracting and supervision; retail and wholesale rate and cost of service ("COS") studies; economic feasibility studies; merger and acquisition feasibility analysis; load forecasting; financial and operating consultation; telecommunication and network design, mapping/GIS; and system automation including Supervisory Control and Data Acquisition ("SCADA"), Demand Side Management ("DSM"), metering, and outage management systems.

Q. Please describe your responsibilities with PSE.

A. I work on a team of staff that provides economic, financial, and rate-related consulting services to investor-owned, cooperative, and municipal utilities as well as regulators and industry associations. These services include:

- Cost of Service Studies.
- Capital Credit Allocations.
- Demand Response.
- Distributed Generation Rates.
- Energy Efficiency.
- Financial Forecasting.
- Individual Customer Profitability.
- Large Power Contract Rates/Proposals.
- Line Extension Policies/Charges.
- Load Management Analysis.
- Load Forecasting.
- Market and Load Research.
- Merger Analysis.
- Pole Attachment Charges.
- Policy and Board Audits.
- Power Cost Adjustments.
- Rate Consolidation.
- Retail Rate Design and Analysis.
- Special Fees and Charges.
- Statistical Performance Measurement (Benchmarking).
- Value of Service.

Q. What is your educational background?

A. I graduated from Washburn University in Topeka, Kansas in 2001 with a Bachelor of Science degree in Mathematics and a minor in Computer Science. In 2008, I received my Masters of Business Administration ("MBA") degree from Ashford University in Clinton, Iowa.

Q. What is your professional background?

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

In April 2013, I joined PSE, where I assumed a position of Rate and Financial Analyst in the Rates and Financial Planning Department. In January 2018, my title changed to Rate and Regulatory Consultant. In June 2018, I was promoted to Manager, Rates and Regulatory Services. My responsibilities include performing rate studies consisting of determination of revenue requirements, COS, and rate design; developing financial forecasting, special rates, and programs; and performing other financial analysis for various PSE clients. Additionally, I participate in the leadership of our department by heading PSE's Kansas office branch business development and helping develop strategy in the regulatory services area.

Q. Have you previously presented testimony before the Commission?

A. Yes. I submitted testimony on behalf of KCC Staff in Docket Nos. 11-GBEE-624-COC, 11-MKEE-597-GIE, 12-WSEE-112-RTS, and 12-MKEE-380-RTS, and I authored Report and Recommendations on behalf of KCC Staff in Docket Nos. 09-KGSG-927-COM, 10-BHCG-409-COM, 10-WSEE-507-TAR, 10-KGSG-535-COM, 10-KGSG-644-COM, 10-MDWE-733-TAR, 11-KCPE-031-COM, 11-WSEE-599-TAR, and 11-MDWE-763-TAR. I have also filed testimony on behalf of Prairie Land Electric Cooperative, Inc. ("Prairie Land") in Docket Nos. 15-PLCE-176-TAR, 17-PLCE-478-TAR, and 18-PLCE-462-TAR; on behalf of The Victory Electric Cooperative Association, Inc. ("Victory" or "Cooperative") in Docket No. 17-VICE-481-TAR and 18-VICE-479-TAR; on behalf of Western Cooperative Electric Association, Inc. ("Western") in Docket No. 17-WSTE-477-TAR and 18-WSTE-473-TAR; on behalf of Midwest Energy in Docket No. 16-MDWE-324-TFR; and on behalf of Southern Pioneer Electric Company ("Southern Pioneer") in Docket No. 18-KPPE-343-COC. I also helped prepare testimony on behalf of Southern Pioneer, Victory, Western, Prairie Land, and Mid-Kansas Electric Company, LLC ("Mid-Kansas") in Docket Nos. 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-357-TAR, 15-SPEE-519-RTS, 16-MKEE-023-TAR, 16-PLCE-490-TAR, 16-VICE-494-TAR, 16-WSTE-496-TAR, 16-SPEE-497-RTS, 16-SPEE-501-TAR, and 17-SPEE-476-TAR. Additionally, I have performed analyses filed with the Applications on behalf of Mid-Kansas, Prairie Land, and Southern Pioneer in Docket Nos. 14-MKEE-084-TAR, 14-PLCE-312-TAR, 15-SPEE-267-TAR, 16-SPEE-306-TAR, 17-SPEE-263-TAR, 18-SPEE-270-TAR, and 19-SPEE-236-TAR.

Q. Do you have any other relevant experience?

A. I have attended several industry seminars/courses on COS, rate design, pricing, distributed generation, financing transmission expansion, transmission cost allocation, renewable power project siting, etc. I have also presented to the Cooperatives' Boards of Directors and at industry events on the topics of Revenue Requirement, COS, Rate Design, and Net Metering.

PART II - SUMMARY OF DIRECT TESTIMONY

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

A. The purpose of my testimony is to support the Application submitted in the instant Docket by Victory for the approval of its 34.5kV Formula Based Rate ("FBR") Annual Update filing for Year 2019 based on Historical Test Year ending December 31, 2018.

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

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

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

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

A. Yes.

Q. Please briefly recap Victory's 34.5kV FBR.

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

Q. What data formed the basis for Victory's 2019 34.5kV FBR calculation?

A. Consistent with the Protocols, the calculation was based upon a 2018 Historical Test Year. As such, it utilized historical figures from Victory's (Mid-Kansas division) December 2018

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[1] The corrected pagination and section numbering, as contained in the Commission's April 26, 2016 Order Granting Petition for Clarification, is used throughout this document.

Operating Income Statement, Balance Sheet, Payroll Journal, and 2018 Monthly Trial Balance.[2]

Q. Please summarize the results of Victory's 2019 34.5kV FBR calculation.

A. Completing the 34.5kV FBR template calculation consistent with the Protocols approved by the Commission in the 16-023 Docket results in the Total Revenue Requirement of $3,692,842. Next, per Section E of the Protocols, a True-Up amount (in this case, under-recovery resulting from the prior Annual Updates) of $367,634 was applied to the Total Revenue Requirement, resulting in the Total Net Revenue Requirement of $4,060,476.

Lastly, in accordance with Section D, Part 1.4, Page 6 of the Protocols, the resultant amount was divided by the total billing demand for the Historical Test Year to arrive at the final rate of $3.89/kW, a $0.11/kW increase from Victory's currently effective rate for LADS of $3.78/kW authorized by the Commission in Docket No.18-VICE-479-TAR. Translated into total dollars, this constitutes a $114,915 increase.[3] Applying Victory's wholesale LADS customers' Load Ratio Share ("LRS") of about 28.83 percent indicates that approximately $33,130 of the overall increase will be collected from these customers on the combined basis. The detailed 34.5kV FBR calculation for the Test Year is contained in Exhibit 5 attached to the Application filed in the instant Docket.

PART III - ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS

Q. You stated that 2018 actual results formed the basis for the 34.5kV FBR calculation. The Protocols specify a limited number of adjustments to be made. What adjustments

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

3 Calculated by applying the $0.11/kW adjustment to the Test Year total billing determinants (kW) as reported by Mid-Kansas.

did you make to Victory's actual 2018 financial results in completing the 34.5kV FBR template?

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

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

The projected amounts for the above expense categories are supported by the detail found in Exhibit 9 attached to the Application filed in the instant Docket.[5]

Further, per Section D, parts 1.b and 1.e, Pages 4 and 5 of the Protocols, and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), Administrative and General ("A&G") and Other Deductions expenses were adjusted to remove certain amounts associated with the dues, donations, charitable contributions, promotional advertising,

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

5 Although the Cooperative is submitting its 2019 Budget in Exhibit 8, the amounts as shown and/or calculated in Exhibit 9 were used instead, where the latter followed the methodology specified in the Commission-approved Protocols. In some instances, such methodology may vary from how the Cooperative budgets internally; for example, the Cooperative may not budget depreciation for the plant additions or by individual General Ledger ("GL") accounts. Instead, work order and cost estimate modeling may be used for the overall project amount estimates. The exact GL-specific detail (for example, number of wooden poles for a line buildout) is typically not known until the project is complete. In addition, the Cooperative Budget specifies total depreciation expense versus by plant category. The same principal is true for debt service projections; i.e., Budget may deviate from how the Protocols direct the Cooperative to apply projections for interest and principal. Victory followed the Commission-prescribed Protocols methodology for calculating and applying projected amounts in its 34.5kV FBR Annual Update filed in the instant Docket.

penalties and fines, and entertainment expenses incurred during the Test Year.[6] The excluded amounts, as well as reasoning in support of inclusion or exclusion of the associated items, are noted on Page 7 of Exhibit 5. In addition, Exhibit 10, filed with the Application in the instant Docket, contains account-specific details of the adjustments.

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

Q. Please describe the adjustments made to the 2018 Test Year Depreciation Expense.

A. Per Section D, Part 1.c, Page 4 of the Protocols, depreciation expense allowed to be included in Victory's 34.5kV FBR should reflect "…projected depreciation expense that reasonably reflects the average monthly 34.5kV plant in service during the Budget Year using the Commission-approved depreciation rates." Furthermore, such projections are to be based upon the plant additions and retirements planned by the Cooperative in the Budget Year. To achieve this, Section D, Part 2.b, Page 6 of the Protocols directs the Cooperative to apply Commission-approved depreciation rates to the projected monthly average plant for the Budget Year. Accordingly, Pages 2 and 4 of Exhibit 9 detail the calculation of the projected Depreciation Expense for Transmission and General Plant for the Budget Year using Commission-approved depreciation rates.[7] The projected average plant balances used in the

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6 K.S.A. 66-101f (a) allows adoption of a policy of "disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate."

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

calculations are shown on Page 1 of Exhibit 9.[8] As a result, the projected Transmission and General Plant Depreciation Expense amounts, detailed on Exhibit 5, Page 1, Lines 13 and 14, Column (f), are $634,627 and $190,36, respectively. In comparison, the 2018 historical amounts for the Transmission and General Plant Depreciation Expense were $629,817 and $118,095, respectively. Therefore, Exhibit 5, Page 1, Lines 13 and 14, Column (e) details the respective adjustments of $4,810 and $72,266 to the historical Transmission and General Plant Depreciation Expenses. The adjustments are calculated on Page 3 of Exhibit 5, Lines 13-21. It should be noted that in this fourth 34.5kV FBR Annual Update, the Revenue Requirement was established using the Modified Debt Service Coverage ("MDSC") metric in accordance with Section D, Part 3, Page 6 of the Protocols.[9] Under DSC rate-making, the depreciation expense amount becomes essentially immaterial, as it is removed as an offset to the margin requirement.

Q. Please describe the adjustments made to the 2018 Test Year Interest on Long-Term Debt.

A. The historical amount of Interest on Long-Term Debt for the 2018 Test Year was $2,283,660, as reported on Victory's Operating Income Statement for 2018, included in Exhibit 4.[10] The Protocols, in Section D, Part 1.d, Page 4 of the Protocols, specify that the actual amount be adjusted to reflect Victory's interest on long-term debt projected for the Budget Year. Victory's 2019 budgeted long-term interest expense is $2,147,009, as

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[8] Taking into account both planned additions and retirements.

[9] Per Section D.3 of the Protocols, the Cooperative may utilize either the 1.8 Operating Times Interest Earned Ratio ("OTIER") or 1.8 MDSC metrics. The ratio resulting in greater net margins required will be used. For 2018 Historical Test Year/2019 Budget Year, the MDSC metric was used as it produced greater net margins.

[10] Mid-Kansas division.

evidenced on Page 7 of Exhibit 9 that details the budgeted amount by individual loans. Accordingly, a downward adjustment of $136,651 was included in Exhibit 5, Page 1, Line 17, Column (e). The details of this adjustment are shown in Exhibit 5, Page 3, Lines 23-26.

Q. Please describe the adjustments made to the 2018 Test Year Interest Expense - Other.

A. The historical amount of Other Interest Expense for the 2018 Test Year was $17,897 as reported on Victory's Operating Income Statement for 2018 (Mid-Kansas division). Consistent with Section D, Part 1.d of the Protocols, the amount has been adjusted to reflect Victory's 2019 Budget for short-term interest expense of $12,000. To accomplish this, a reduction in the amount of $5,897 was included. The details of the adjustment can be found in Exhibit 5, Page 3, Lines 33-36.

Q. Please describe the adjustments made to the 2018 Test Year Debt Service Payments.

A. Debt Service Payments are comprised of interest and principal payments on debt outstanding. Since I previously discussed the adjustments to interest expense, I will now focus on the adjustment to principal payments. The historical amount of Principal Payments for the 2018 Test Year was $2,047,735 (see Exhibit 9, Page 6 for detail). The Protocols, in Section D, Part 1.f, Page 5, require that the Test Year be adjusted to reflect Victory's budgeted amount for 2019, where the latter is calculated using an amortization schedule at the expected borrowing rate(s) as specified in the Cooperative's agreements with its lender(s). Victory's budget for 2019 principal payments, detailed on Page 7 of Exhibit 9, is $2,108,569. Accordingly, an adjustment in the amount of $60,834 was included on Line 24, Column (e) of Exhibit 5. This adjustment is further detailed in Exhibit 5 on Page 3, Lines 46-49.

Q. Please describe the adjustments made to the 2018 Test Year Operating Expenses in conjunction with the Commission's policy per K.S.A. 66-101f (a), as applicable to paragraphs a, b, and e of the Protocols' Section D, Part 1 on Pages 4 and 5.

A. Reductions in the amounts of $83,541 and $20,787, as evidenced on Page 1 of Exhibit 5, Lines 10 and 20, Column (e), were applied to the historical amount of $ $2,581,647 in A&G Expense and $41,575 in Other Deductions, respectively. This was done to remove the amounts associated with promotional or image advertising and dues and donations; i.e., activities traditionally disallowed by the Commission either as unnecessary to provide safe, efficient, reliable electric utility service, or consistent with the Commission policy adopted per K.S.A. 66-101f (a). Accordingly, historical amounts, as recorded in Victory's applicable GL accounts, were adjusted as follows: promotional or image advertising items, as well as expenses for meals, subscriptions to publications, gifts/giveaways for members, community festivals and parades, and holiday entertainment were excluded 100 percent; and dues and donations items were excluded 50 percent. Note that advertising associated with items such as public safety announcements, annual meeting notices, and legal ads were not removed, as those activities are directed toward keeping the members well informed and thus align with the Commission-advocated goal of providing safe, efficient, and reliable electric utility service. Additionally, dues associated with the Kansas Electric Cooperatives, Inc. ("KEC") statewide organization membership were not removed for similar reasons, as KEC functions for the mutual benefit of its member-cooperatives to promote rural electrification and provides essential services, such as safety programs and inspections, Occupational Safety and Health Administration ("OSHA") compliance, Cooperative staff and Board training, and administrative functions on a state-wide level.

The summary of the aforementioned items by GL account and the corresponding adjustments performed can be found in Exhibit 5, Page 7; and the detailed listings are included in Exhibit 10 filed with the Application in the instant Docket. The resultant adjusted A&G amount of $2,498,106 is reflected on Page 1, Line 10, Column (f) of Exhibit 5. The resultant adjusted Other Deductions amount of $20,787 is reflected on Page 1, Line 20, Column (f) of Exhibit 5. The resulting adjustments to both expense categories are further documented on Page 3 of Exhibit 5, Lines 9-11 and 43-44.

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

A. Section D, Part 2, Pages 5 and 6 of the Protocols specifies the methodology for allocating applicable total system-wide operating expenses and margin requirements to the 34.5kV system so as to arrive at the revenue requirement associated with Victory's sub-transmission facilities used to provide LADS in the acquired Mid-Kansas service territory.[11] Following is an explanation of the allocations:

- Per Part 2.a on Page 6 of the Protocols, the A&G expenses are to be allocated using a Labor ratio ("LAB"), where the latter is calculated as a ratio of Transmission Labor to Total Non-A&G Labor. The corresponding labor dollar amounts are found in the

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[11] Again, to clarify, "system-wide," as used in this context, is intended to mean combined distribution and transmission.

Labor Amount Column of the December 31, 2018 Payroll Journal, included with Exhibit 7 attached to the Application filed in the instant Docket. Next, Exhibit 5, Page 4, Lines 7-20 show how the resultant LAB ratio of 0.016734 is calculated.[12] Applying the LAB to the $2,498,106 in Adjusted Historical Test Year A&G expense assigns $41,803 to the 34.5kV FBR, as shown in Exhibit 5, Page 1, Line 10, Column (i).

- Depreciation and Amortization Expense is to be calculated directly (a.k.a. "direct-assignment"), in accordance with Part 2.b on Page 6 of the Protocols. The calculation of the associated depreciation expense for the Budget Year was already discussed on Pages 8 and 9 previously. The only additional detail here is that the $190,361 in Adjusted amount for the General Plant Depreciation Expense for the Budget Year is to be allocated on the LAB ratio, ultimately assigning $3,185 to the 34.5kV FBR, as evidenced on Page 1, Line 14, Column (i) of Exhibit 5. As detailed on Page 9 previously, these allocated expenses are ultimately subtracted out as Offsets to the Margin Requirements when applying MDSC calculation.
- For allocating Taxes - Other, Other Deductions, Interest on Long-Term Debt, Other Interest, Principal Payments, and Offsets to Margin Requirements, the Budget Year Net Transmission Plant Ratio ("NP") is calculated. The Budget Year NP, as defined in Part 2, Pages 5 and 6 of the Protocols, reflects the ratio of the average monthly

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[12] Like last year, this year's allocator reflects a higher amount of Transmission Labor when compared to years prior to 2017. It appears more realistic when compared to the other Kansas cooperatives that, similarly to Victory, maintain and operate 34.5kV systems; whereas in the past (prior to 2017), Transmission Labor amounts for Victory were abnormally low, which was most likely attributable in large part to under-reporting of time spent working on transmission system facilities (see page 9 in Direct Prefiled Testimony of S. Laws). It should be noted, that this allocator remains one of the lowest when compared to the other Mid-Kansas member-cooperatives that use the 34.5kV FBR mechanism.

Transmission Net Plant to the average monthly Total Net Plant for the Budget Year.[13] The calculation of the Budget Year NP allocation factor is detailed on Page 4, Lines 22-47 of Exhibit 5. The results of applying the calculated Budget Year NP of 0.402073 to the corresponding Adjusted Historical Test Year expenses are evidenced on Page 1, Lines 15-25, Column (i) of Exhibit 5.

It should also be noted that the Transmission O&M Expense is a category that is directly related to the provision of the LADS. Therefore, $584,187 was assigned 100 percent (i.e., using allocator of 1.0) to the 34.5kV FBR Revenue Requirement.

PART IV - REVENUE REQUIREMENT AND RATE CALCULATION

Q. How was Victory's 2019 34.5kV FBR Total Revenue Requirement calculated after performing all of the adjustments and allocations detailed above?

A. Per Section D, Part 4, Page 6 of the Protocols, the Total 34.5kV FBR Revenue Requirement is a sum of all the applicable operating expenses and margin requirements. Specifically, after the 2018 actual operating expenses were adjusted to the budgeted levels, as allowed by the Protocols, and allocated to reflect the portion applicable to the Cooperative's sub-transmission facilities used in the provision of the LADS, the Total COS was quantified at $2,140,139 as evidenced on Page 1, Line 21, Column (i) of Exhibit 5. Next, the Net Margin Requirement was calculated using 1.8 OTIER and 1.8 MDSC metrics, as contemplated in Section D, Part 3, Page 6 of the Protocols. The same section dictates that the ratio resulting in greater net margins required will be used. An MDSC of 1.8 produced a greater margin (at $1,552,603) than an OTIER of 1.8 (at $690,518), as evidenced on Page 1, Lines 23-30,

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[13] As noted in Footnote 8 previously, per Section K of the Protocols, Net Transmission Plant includes a General Plant allocation based upon a LAB ratio.

Column (i) of Exhibit 5. Applying the MDSC-produced Net Margin Requirement of $1,552,603 to the $2,140,139 in Total COS generates the 34.5kV FBR Total Revenue Requirement of $3,692,842.[14].

Q. How was Victory's 2019 34.5kV FBR Total Net Revenue Requirement calculated?

A. Per Section E of the Protocols, the True-Up amount has been applied to the Total Revenue Requirement to calculate the Total Net Revenue Requirement to be used to set the LADS rate. Pages 9-12 of the filing Exhibit 5 include the True-Up calculation prescribed by Section E of the Protocols, with the summary contained on Page 9, Lines 1 – 13 of Exhibit 5. Per Section E, Part7, the projected revenue requirement filed and approved for the Budget Years 2017 and 2018 (second and third Annual Update filings) were weighted using the portion of a year each was in effect.[15] The resultant Weighted Projected FBR Revenue Requirement was $3,398,742. Next, this amount was compared against the 2018 Actual Revenue Requirement of $3,754,374 (as calculated on Page 10 of Exhibit 5 using 2018 historical actual costs). Subtracting the Weighted Projected FBR Revenue Requirement of $3,398,742 from the Actual Revenue Requirement of $3,754,374 results in the under-recovery amount of $355,631, as shown on Page 9, Line 7 of Exhibit 5. Next, applying the interest per Section E, Part 5.b, calculated at $12,003, produces the True-Up amount of $260,065, as shown on Page 9, Lines 7-13. Applying the True-Up amount of $367,634 (i.e. adding the amount, since it is an under-recovery) to the Total Revenue Requirement of $3,692,842 results in the Total Net Revenue Requirement of $4,060,476, as shown on Page 1, Line 35, Column (i) of Exhibit 5.

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[14] See Footnote 9 on Page 9.

[15] The Projected FBR Revenue Requirement amounts used are as filed and approved in Docket Nos. 17-VICE-481-TAR and 18-VICE-479-TAR, respectively.

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

A. Section D, Part 4, Page 6 of the Protocols further directs that the 34.5kV FBR Total Net Revenue Requirement is to be divided by the Total Billing Demand for the Test Year. The latter is comprised of both retail and wholesale billing determinants, as reported by Mid-Kansas (a G&T company who serves as Victory's power supplier, as well as metering and billing agent for the Cooperative's wholesale LADS over its sub-transmission facilities), and then factoring in the appropriate losses' percentages. For 2018 Test Year, the Total Billing Demand for Victory's 34.5kV system was quantified at 1,044,686 kW, as reflected on Page 1, Line 36, Column (i) of Exhibit 5 and further detailed on Page 6 of the same Exhibit. Dividing $4,060,476 by 1,044,686 kW produces the rate of $3.89/kW.

Q. What is your final recommendation to the Commission?

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

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

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

Q. Does this conclude your prefiled Direct Testimony?

A. Yes, it does.

VERIFICATION

STATE OF MINNESOTA)
) ss
COUNTY OF ANOKA)

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

Elena Larson

Elena Larson

Subscribed and sworn to before me this 29th day of April, 2019.

Marilyn M. Cuellar
Notary Public

My appointment expires: 1/31/20

MARILYN M. CUELLAR
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2020