

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

In the Matter of the Application of)
Southern Pioneer Electric Company for)
Approval to Make Certain Changes in its) Docket No. 15-SPEE-__161__-RTS
Charges for Electric Service.)

PREFILED DIRECT TESTIMONY OF

**RANDALL D. MAGNISON
EXECUTIVE VICE PRESIDENT AND ASSISTANT CHIEF EXECUTIVE OFFICER
SOUTHERN PIONEER ELECTRIC COMPANY**

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

October 8, 2014

I. INTRODUCTION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Randall D. Magnison. My business address for legal service is 1850 W. Oklahoma, Ulysses Kansas 67880 and for mail receipt, PO Box 430, Ulysses Kansas 67880-0430.

Q. What is your profession?

A. I am the Executive Vice President and Assistant Chief Executive Officer (“Assistant CEO”) of Southern Pioneer Electric Company (“Southern Pioneer”), a wholly owned subsidiary of Pioneer Electric Cooperative, Inc. (“Pioneer”), pursuant to the Services Agreement entered into between Pioneer and Southern Pioneer on July 7, 2006. Our corporate office is located in Ulysses, Kansas, and our distribution-customer service offices are located in Liberal and Medicine Lodge, Kansas.

Q. Please describe your responsibilities with Southern Pioneer.

A. As the Executive Vice President and Assistant CEO of both companies, I provide assistance to the Chief Executive Officer (“CEO”) in the day-to-day management of both Pioneer and Southern Pioneer. Additionally, I oversee all of the Human Resource functions, personnel, compensation planning, benefits administration and regulatory/compliance activities, including ratemaking and regulatory filings. Further, as the Assistant CEO, I work directly for the CEO and with the Board of Directors in establishing policy and rates, implementing strategic programs, and conducting the overall operation of both Pioneer and Southern Pioneer to ensure reliable service at a competitive cost, using generally acceptable industry business practices.

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

A. The purpose of my testimony is to support the Application of Southern Pioneer requesting approval to make certain changes to its charges for electric services in the service territory served by Southern Pioneer. Specifically, my testimony will (1) provide historical information on Southern Pioneer; (2) explain why Southern Pioneer is seeking additional rate relief for use of its 34.5 kV sub-transmission system immediately following Southern Pioneer's first annual compliance filing in Docket No. 14-SPEE-507-RTS (the "14-507 Docket"); (3) clarify the level of expenses included in the revenue requirement as it relates to corporate advertising and dues, donations and contributions; and (4) summarize meetings of the Southern Pioneer Consumer Advisory Council ("Council") as it pertains to adjusting rates.

Q. What is your educational background?

A. I graduated from Friends University in 1991 with a Bachelors of Science Degree in Human Resource Management. In 2005, I successfully completed the National Rural Electric Cooperatives' Management Internship Program through the University of Wisconsin.

Q. What is your professional background?

A. I was employed in July 2000 as the Assistant to the CEO at Pioneer Electric. In September 2005, I served a dual role as the Assistant to the CEO and Southern Pioneer's Executive Vice President-Chief Operating Officer ("COO"). As the COO of Southern Pioneer, I was instrumental in the formation of Southern Pioneer and coordinated the acquisition and transition of Southern Pioneer's portion of the acquired Aquila, Inc., d/b/a Aquila Networks-WPK ("Aquila") assets from an investor-owned utility to that of a for-

1 profit C-Corporation, owned by a cooperative and agreeing to operate as a taxable, not-
2 for-profit entity. In May 2011, I was appointed the Executive Vice President and
3 Assistant CEO of both Pioneer and Southern Pioneer, the position I continue to hold
4 today. Prior to July of 2000, I served as Manager of Benefits for Sunflower Electric
5 Power Corporation (“Sunflower”) in Hays, Kansas, where I managed all Statutory and
6 Welfare Benefit Programs, and provided support to all Sunflower Member Systems and
7 the 500 plus system employees. Prior to Sunflower, I served seven years as the
8 Administrator at a regional accounting firm where I managed the daily activities of the
9 firm, as well as provided compensation and benefit consulting to clients.

10 **Q. Have you previously prepared or presented testimony before the Commission?**

11 A. Yes. I have filed both direct and rebuttal testimony in Docket No. 06-MKEE-524-ACQ,
12 the Joint Application of Aquila and Mid-Kansas Electric Company, LLC (“Mid-Kansas”)
13 in which the Joint Applicants sought an order approving the transfer to Mid-Kansas of
14 Aquila’s Certificates of Convenience and Franchises with respect to all of Aquila’s central
15 and western Kansas electric business, including its generation, transmission and local
16 distribution facilities (the “06-524 Docket”). I have also filed annual compliance reports
17 in the 06-524 Docket. Additionally, I have filed rebuttal testimony in Docket No. 12-
18 MKEE-380-RTS (the “12-380 Docket”), in which the applicant, Mid-Kansas, on behalf of
19 the Southern Pioneer Division, sought an order approving revised rates, tariffs and rate
20 design for services provided by Southern Pioneer. Furthermore, I filed rebuttal testimony
21 in Docket No. 13-MKEE-452-MIS, the Application for Debt Service Coverage Formula
22 Based Ratemaking Pilot Program (the “DSC-FBR Program”) in which the applicant, Mid-
23 Kansas, on behalf of the Southern Pioneer Division, sought an order approving a retail

1 formula based rate for Southern Pioneer's distribution system (the "13-452 Docket"). I
2 have also prepared direct testimony in Docket No. 14-SPEE-507-RTS (the "14-507
3 Docket"), the first compliance filing for the DSC-FBR Program. In addition to preparing
4 testimony or testifying before the Commission, I have filed applications for the purpose of
5 adopting an *ad valorem* tax surcharge in Docket No. 13-MKEE-695-TAR and Docket No.
6 14-SPEE-297-TAR.

7 **Q. In addition to your testimony, is Southern Pioneer offering other testimony in**
8 **support of this Application?**

9 A. Yes. Mr. Richard J. Macke, rate consultant with Power Systems Engineering, Inc.
10 ("PSE"), has conducted a Cost of Service ("COS") analysis using the 2013 historical test
11 year and based on this study, has prepared proposed changes to tariffs to achieve the
12 necessary revenue requirement. Additionally, Mr. Chantry C. Scott, Chief Financial
13 Officer and Vice President of Finance and Accounting of Southern Pioneer, will provide
14 testimony describing the major activities and primary expenditures driving Southern
15 Pioneer to seek recovery of its 34.5kV sub-transmission system costs to meet the revenue
16 requirement as identified in Mr. Macke's COS analysis.

17 **II. SOUTHERN PIONEER**

18 **Q. Please summarize Southern Pioneer's historical and operation background.**

19 A. Southern Pioneer, a not-for-profit taxable corporation, was formed in 2005 in response to
20 Aquila's announcement of its intention to sell its Kansas electric assets. Five member-
21 owner cooperatives of Sunflower Electric Power Corporation ("Sunflower") and Southern
22 Pioneer, a wholly owned subsidiary of Pioneer, joined to form Mid-Kansas, a not-for-
23 profit limited liability company, to acquire and serve the former Aquila service territory in

1 central and western Kansas. Mid-Kansas and Aquila executed an Asset Purchase
2 Agreement dated September 21, 2005, and submitted the agreement to the State
3 Corporation Commission of the State of Kansas (“Commission” or “KCC”) for approval
4 in the 06-524 Docket. On February 23, 2007, the Commission approved the acquisition,
5 and pursuant to Commission order, on April 1, 2007, Southern Pioneer began to serve
6 approximately 17,300 retail consumers and independently operate a designated geographic
7 portion of the Mid-Kansas certificated territory located in 34-communities formerly
8 serviced by Aquila, as well as provide sub-transmission service to 34.5 kV sub-
9 transmission users. From that point in time and up until late November 2013, Mid-Kansas
10 held the Certificate of Convenience and Necessity for the former Aquila territory and
11 Southern Pioneer provided service via a Commission-approved Electric Customer Service
12 Agreement.

13 **Q. You mention that up until late November 2013, Mid-Kansas held the Certificate of**
14 **Convenience and Necessity for the former Aquila territory. What occurred in**
15 **November 2013?**

16 A. On November 21, 2013, the Commission issued its order in Docket No. 13-MKEE-447-MIS
17 (the “13-447 Docket”), approving the long awaited Mid-Kansas spin-down, which provided
18 for, among other things, the transfer of the individual certificated territories, consumers,
19 KCC-approved rules and regulations, and tariffs to each of the Mid-Kansas Members,
20 including Southern Pioneer. As part of the 13-447 Docket, the Commission granted to
21 Southern Pioneer public utility status. Therefore, with the transfer, the Mid-Kansas
22 customers being served by Southern Pioneer officially became Southern Pioneer customers.
23 Provided, however, the service provider responsibilities for third party customers utilizing

1 Southern Pioneer's 34.5 kV sub-transmission system remained with Mid-Kansas as the single
2 point of contact and agent for Southern Pioneer pursuant to the Commission's Order in
3 Docket No. 11-GIME-597-GIE, administered under the terms and conditions of the Mid-
4 Kansas Open Access Transmission Tariff under Commission jurisdiction.

5 **III. 34.5 kV Sub-Transmission System**

6 **Q. In the Application, Southern Pioneer states that the COS calculation indicates that**
7 **Southern Pioneer needs a total revenue increase of approximately \$1,816,153 to**
8 **recover the cost of providing electric service to Southern Pioneer's retail consumers**
9 **and third party (local access) customers utilizing the 34.5 kV sub-transmission**
10 **system. Can you explain why this increase is necessary - why these costs were not**
11 **recovered in the recently concluded 14-507 Docket, and primarily what projects were**
12 **completed or expenses incurred during the historical test year that attributed to the**
13 **additional revenue requirement?**

14 A. I will defer to Mr. Rich Macke to thoroughly explain the COS results and resulting revenue
15 requirement, and to Mr. Chantry Scott to quantify and summarize the various 34.5 kV sub-
16 transmission projects and associated expenses causing the requested revenue requirement
17 increase. However, I will respond to the question regarding 34.5 kV cost recovery as part of
18 the 14-507 Docket and the magnitude of the proposed adjustment.

19 Concerning seeking recovery of these expenses as part of the 14-507 Docket, it was
20 agreed , as part of the Non-Unanimous Settlement Agreement¹ and because Mid-Kansas and
21 its members with 34.5 kV sub-transmission systems were contemplating filing a separate
22 34.5 kV formula based rate to recover these costs, that the annual DSC-FBR Program would

¹ Docket 13-MKEE-452-MIS Commission Order Approving Non-Unanimous Settlement Agreement, Section 15, Page 4.

1 only recover costs associated with the “distribution portion” of the electric system, and
2 exclude all costs related to the 34.5 kV sub-transmission system that serve Southern
3 Pioneer’s retail consumers and third-party customers. Therefore, these identified expenses,
4 equivalent to just over \$1.8 million as identified in Mr. Macke’s COS analysis, were not
5 eligible for recovery in the 14-507 Docket.

6 As to the amount of the revenue request, Southern Pioneer has invested heavily in its 34.5
7 kV sub-transmission system as testified to by Mr. Scott and as demonstrated in the COS
8 study completed by Mr. Macke, and as a general matter, sub-transmission systems are
9 historically more expensive to build and maintain than traditional distribution plant.

10 **Q. Has Southern Pioneer previously sought and received adjustments in its rates for the**
11 **34.5 kV sub-transmission system to serve retail consumers and third part local access**
12 **users?**

13 A. Yes it has. Not including rate recovery from the 2013 and 2014 adopted *ad valorem* tax
14 surcharges in Docket No. 13-MKEE-695-TAR and Docket No. 14-SPEE-297-TAR,
15 respectively, Southern Pioneer sought and received adjustments to rates for the use of the
16 34.5 kV sub-transmission system in the 12-380 and 13-699 Dockets. As the Commission
17 may recall, the 12-380 docket was the last general rate proceeding filed by Southern Pioneer,
18 and the 13-699 Docket was the subsequent abbreviated rate proceeding authorized by the
19 Commission in the 12-380 Docket. Southern Pioneer has not sought an increase in its costs
20 for the 34.5 sub-transmission system services since that time.

IV. Expenses Associated with Advertising and Dues, Donations, and Charitable Contributions

Q. In previous filings, Southern Pioneer has historically included and sought recovery of 100% of expenses associated with corporate advertising and dues, donations and charitable contributions made by Southern Pioneer. Subsequently, the KCC Staff and interveners recommended adjustments by disallowing 100% of corporate advertising and 50% of dues, donations and contributions. In this filing, is Southern Pioneer including and seeking full recovery of these categorical expenses?

A. No, Southern Pioneer is seeking recovery of these costs consistent with the Commission's Order in the 14-507 Docket, as will be evident in the COS analysis performed by Mr. Macke.

Q. Can you explain why Southern Pioneer decided to alter its traditional filing to recover these costs?

A. Certainly. First, Southern Pioneer wants to state that it does not agree with the Commission's Order and Staff's analysis in the 14-507 Docket, in which certain adjustments were made to reduce expenditures associated with corporate advertising and dues, donations, and contributions. As a not-for-profit company, Southern Pioneer has no means to recover these expenditures other than through its operating margins. However, Southern Pioneer respects the Commission's determination as to the treatment of these expenditures in the 14-507 Docket. Also, because this filing uses the same 2013 historical test year as used in the 14-507 Docket, and the Commission approved Staff's adjustments, it seems appropriate from a ratemaking perspective and to ensure non-discriminatory treatment to apply the same adjustments for the 34.5 kV sub-transmission system users.

1 **Q. Does this mean or imply that going forward, Southern Pioneer will always make**
2 **these adjustments as part of its rate filings?**

3 **A.** No, this should not be construed as Southern Pioneer's acquiescence on this issue; rather,
4 it should be viewed as a means to ensure equality in this particular filing that mirrors the
5 14-507 Docket. Southern Pioneer instead remains optimistic that the Commission and its
6 Staff will reconsider their position on this issue in the future with a more comprehensive
7 understanding of the impacts these disallowances have on a not-for-profit utility like
8 Southern Pioneer.

9 **V. Southern Pioneer Consumer Advisory Council**

10 **Q. While not required as part of this filing, did Southern Pioneer consult with its**
11 **Consumer Advisory Council ("Council") regarding the ratepayer impact of this**
12 **filing and include with the Application or prefiled Testimony the comments received**
13 **from the Council?**

14 **A.** Yes. As part of my testimony, I will summarize the input from the Council.

15 **Q. And what was the Council's comment with regard to the filing impact to ratepayers**
16 **to recover costs associated with the 34.5 kV sub-transmission system?**

17 **A.** As the Commission may recall from past proceedings, Southern Pioneer conducts
18 quarterly meetings with the Council to update it on activities of Southern Pioneer and
19 changes within the industry. As part of these meetings, Southern Pioneer provides a
20 regulatory update. Specifically, at the March 31, 2014 meeting, when reporting on the
21 "preliminary" calculations for the annual DSC-FBR Plan filing and the overall impact to
22 ratepayers as required by the Commission, Southern Pioneer made the Council aware that
23 because of the inability to recover 34.5 kV sub-transmission system related costs in the

1 distribution DSC-FBR filing (14-507 Docket), Southern Pioneer would need to pursue
2 separate cost recovery at a later date, and that while the estimated overall rate impact to
3 the third party users would be greater, the retail customers on average would experience
4 less than a 3% percent increase, which would be partially offset by the just under .8% rate
5 reduction calculated in the annual DSC-FBR filing.

6 **Q. Has Southern Pioneer met with the Council since the March 2014 meeting to**
7 **specifically discuss filing to recover the 34.5 kV related costs?**

8 **A.** Yes. At the September 29, 2014 Council meeting, Southern Pioneer provided the Council
9 an update on the filing status and the proposed rate adjustment. Southern Pioneer advised
10 the Council that a filing was anticipated in early October 2014 and that based on the 34.5
11 kV COS study completed by Mr. Macke an additional revenue requirement of \$1,816,153
12 or 63% was needed to cover the costs of the 34.5 kV sub-transmission system, which
13 would be apportioned on a 65%/35% load ratio share basis between the retail rate classes
14 (excluding the 115 kV STR rate class) and third party local access users of the 34.5 kV
15 sub-transmission system. The Council was advised that the overall retail rate impact was
16 equivalent to 1.8%, and the average residential user would experience a 3.2% increase.
17 However, after factoring in the less than .8% rate decrease from the 14-507 Docket, the
18 net increase between the two filings for the average residential consumer would be
19 approximately 1.9%. Overall, the Council was pleased with the minimal rate adjustment
20 required to meet the additional revenue requirement in order to continue to provide safe
21 and reliable service.

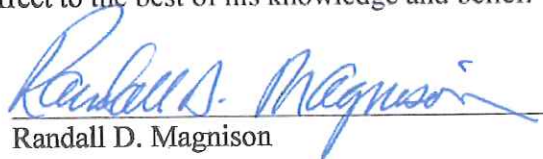
22 **Q. Does this conclude your Direct Testimony?**

23 **A.** Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss
COUNTY OF GRANT)

The undersigned, Randall D. Magnison, upon oath first duly sworn, states that he is an officer of Southern Pioneer Electric Company, and that he has prepared or overseen the preparation of the foregoing testimony, 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.


Randall D. Magnison

Subscribed and sworn to before me this 8th day of October, 2014.


Notary Public



My appointment expires: 12/3/16