

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

Application of Southern Pioneer Electric )  
Company for Approval to Make Certain )  
Changes to Its Local Access Charge Rate. ) Docket No. 15-SPEE- 161 -RTS  
)  
)  
)

**PREFILED DIRECT TESTIMONY OF**  
**RICHARD J. MACKE**  
**VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS**  
**PLANNING**  
**POWER SYSTEM ENGINEERING, INC.**

**ON BEHALF OF**  
**SOUTHERN PIONEER ELECTRIC COMPANY**

October 8, 2014

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**PART I - QUALIFICATIONS**

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

A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE, Suite 201, Minneapolis, Minnesota 55449.

**Q. What is your profession?**

A. I am a Vice President and lead 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. Power System Engineering, Inc. 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; 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 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 lead and direct staff in Indiana, Kansas, Minnesota, Ohio, and Wisconsin who provide 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 Bethel University in St. Paul, Minnesota in 1996 with a Bachelor of Arts degree in Business, which included an emphasis in Finance and Marketing. In 2007, I received my Masters of Business Administration degree, with an emphasis in Finance and Strategic Management, from the University of Minnesota in Minneapolis, Minnesota. I have also attended numerous industry seminars/courses on cost of service, pricing, valuation, distributed generation, etc.

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

A. From 1996 to 1998, I was employed by PSE in its Minneapolis, Minnesota office as a Financial Analyst in the Utility Planning and Rates Department. My work responsibilities primarily were focused on retail rate studies, including revenue requirements and bundled/unbundled cost of service studies. I also provided analyses used to support testimony, mergers and acquisitions analysis, and financial forecasting.

From 1998 to 1999, I was employed as a Senior Analyst by Energy & Resource Consulting Group, LLC in Denver, Colorado, a financial, engineering, and management consulting firm. I performed consulting services related to electric, gas, and water rate studies. As part of the Legend Consulting Advisor Team contracted by the City Council of the City of New Orleans,

1 Louisiana, I assisted in various electric and gas utility matters. I also provided general  
2 financial, management, and public policy support to clients.

3 I rejoined PSE in 1999; and from 1999 to 2002, I held the position of Rate and Financial  
4 Analyst in the Rates and Financial Planning Department. From 2002 to March 2008, I held  
5 the position of Senior Rate and Financial Analyst in the Utility Planning and Rate Division.  
6 My responsibilities have included performing complex financial analyses, such as rate studies  
7 consisting of determination of revenue requirements, bundled and unbundled cost of service  
8 analysis, and rate design. Other responsibilities included performing analysis of special rates  
9 and programs, key account analyses, financial forecasting, merger and acquisition analysis,  
10 activity-based costing, policy development and evaluation, and other financial analyses for  
11 various PSE clients. Additional responsibilities included strategic planning, litigation support,  
12 regulatory compliance, capital expenditure and operational assessments, and advisement.  
13 From April 2008 to June 2010, I held the position of Leader, Rates and Financial Planning. In  
14 July 2010, my title changed to Vice President, Rates and Financial Planning. Since June 2011,  
15 I have held the position of Vice President, Economics, Rates, and Business Planning. In this  
16 capacity, I continue to provide, amongst other things: 1) rate, financial, and economic  
17 consulting services to clients, 2) management and leadership to the Economics, Rates, and  
18 Business Planning Department, and 3) management and leadership at the corporate level to  
19 PSE through participation on the Executive Committee and Board of Directors.

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

22 A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-  
23 PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-RTS;  
24 Mid-Kansas Electric Company, LLC (“Mid-Kansas”) in Docket Nos. 09-MKEE-969-RTS, 11-  
25

1 MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, and 13-MKEE-452-MIS; and  
2 Southern Pioneer Electric Company in Docket No. 14-SPEE-507-RTS.

3 **Q. Do you have any other relevant experience?**

4 A. Yes. I have directed well over 100 rate and cost of service studies and numerous other rate  
5 and financial related projects. Many times these projects were conducted for self-regulated  
6 electric utilities. I have also performed such analysis which was filed in regulated rate cases  
7 on behalf of cooperatives in Iowa, Kansas, Michigan, Minnesota, New Hampshire, and Texas.

8 I have also conducted seminars and made presentations to utilities, consumers, and industry  
9 groups on a variety of topics including: cost of service, rate design, rate change  
10 communications, line extension policies, mergers and acquisitions, DSM pilot programs,  
11 conservation and energy efficiency, distributed generation rates, and industry trends.

12 **PART II - SUMMARY OF DIRECT TESTIMONY**

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

14 A. The purpose of my testimony is to support the Application of Southern Pioneer Electric  
15 Company ("Southern Pioneer" or "Company") for the approval of changes to its Local Access  
16 Charge ("LAC") in the instant docket. I sponsor the LAC Cost of Service ("COS") analysis,  
17 which supports the proposed LAC and the corresponding adjustments to the retail rates.

18 **Q. Are there particular Exhibits to Southern Pioneer's Application that you will be**  
19 **describing and explaining?**

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

22 Exhibit 3 - LAC Cost of Service Analysis  
23 Exhibit 9 - Comparison of Monthly Bills  
24 Exhibit 10 - Tariffs Sheets (Clean and Red-Lined Versions)

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

A. Yes.

**PART III - LAC COS ANALYSIS**

**Q. Please briefly recap the Southern Pioneer LAC rate.**

A. Southern Pioneer's LAC rate is a monthly demand rate designed to recover costs of operating and maintaining its 34.5 kV system, which provides service to both retail and wholesale customers.<sup>1</sup> However, Southern Pioneer's Local Access Delivery Service tariff schedule specifying the \$/kW LAC is applicable explicitly to the wholesale users of its 34.5 kV facilities ("Third Party").<sup>2</sup> The retail load's share of the total 34.5 kV system costs is embedded in Southern Pioneer's retail base rates.

**Q. What underlying data formed the basis for the LAC COS analysis and the proposed rate calculation in the instant filing?**

A. Accounting costs as recorded on the Company's books were used in the analysis. Specifically, the calculation was based upon a 2013 Historical Test Year. As such, it utilizes historical figures from Southern Pioneer's December 2013 Financial and Statistical Report ("Form 7"), Trial Balance, and Payroll Journal.<sup>3</sup>

**Q. Please describe the LAC COS and rate methodology.**

A. The LAC COS analysis is used to establish the revenue requirements for Southern Pioneer's 34.5 kV system. Total system-wide operating expenses and margin requirements are input into the analysis and then allocated to the 34.5 kV system using appropriate allocation factors, as

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<sup>1</sup> Southern Pioneer's retail customers taking service under the "Sub-transmission & Transmission Level Electric Service" ("STR") tariff at 115 kV are an exception; i.e., since they do not use the lower voltage part of the system, they are not assessed the LAC. However, STR customers taking service at 34.5 kV still share in the 34.5 kV system costs.

<sup>2</sup> Southern Pioneer's STR customers taking service at 34.5 kV are also assessed an LAC. Additionally, the LAC rate specified in Southern Pioneer's tariff is incorporated by reference in the Open Access Transmission Tariff ("OATT") administered by Mid-Kansas Electric Company, LLC (a generation and transmission entity of which Southern Pioneer is a member).

<sup>3</sup> Form 7, Trial Balance, and Payroll Journal are attached to the Application as Exhibits 2, 4, and 5 respectively.

1 evidenced in Exhibit 3, Page 1, Lines 1-22. The resultant 34.5 kV system revenue requirement  
2 is then divided by the total (wholesale and retail) 34.5 kV system monthly coincidental billing  
3 demand to develop a monthly LAC demand charge, which is detailed on Page 1 of Exhibit 3,  
4 Lines 24-36.<sup>4</sup> This is the same methodology as was applied in determining the LAC for all of  
5 the Mid-Kansas member-systems as included in the following prior Commission Dockets: 09-  
6 MKEE-969-RTS, 11-MKEE-439-RTS, 12-MKEE-491-RTS, and 12-MKEE-380-RTS. This  
7 methodology is based on principles of cost causation. Moreover, because this approach  
8 determines the full revenue requirement associated with Southern Pioneer's 34.5 kV facilities  
9 and divides it by the total (i.e., wholesale and retail) monthly coincidental billing demands for  
10 the Test Year, it provides for an equal rate treatment of the Company's retail and wholesale  
11 customers.

12 **Q. Are there any additional steps included in this particular LAC COS analysis for Southern**  
13 **Pioneer versus prior similar applications?**

14 A. Yes. There are three additional steps included:

- 15 1. Recognition of Commission-approved adjustments to the operating expenses as per  
16 Docket No. 14-SPEE-507-RTS ("14-507 Docket").
- 17 2. Recognition of the Property Tax Surcharge ("PTS") rider rate revenues.
- 18 3. Allocation of the retail portion of the LAC revenue adjustment to individual classes.

19 **Q. Please discuss the recognition of the Commission-approved adjustments to Southern**  
20 **Pioneer's 2013 operating expenses.**

21 A. The Commission's *Final Order* and *Order on Petition for Reconsideration* issued in the 14-  
22 507 Docket, which addressed the Company's first annual update to its Debt Service Coverage  
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24 <sup>4</sup> Since Southern Pioneer has previously established a system-wide (i.e., applicable both to distribution  
25 and 34.5 kV) PTS rider, it is necessary to subtract the PTS per kW charge applicable to the 34.5 kV  
system users from the calculated per kW LAC result to arrive at the final LAC.



1 Formula-Based Rate (“DSC-FBR”) Plan on the distribution side, approved certain adjustments  
2 to Southern Pioneer’s 2013 Historical Test Year operating expenses, as recommended by  
3 Commission Staff. Specifically, the adjustments relate to the treatment of expenses for  
4 corporate advertising and dues, donations, and charitable contributions. I have mirrored those  
5 adjustments in the computation of the LAC revenue requirement. Specifically, a downward  
6 adjustment of \$26,227 was applied to the Company’s administrative and general expense; and  
7 a reduction of \$28,371 was applied to the Company’s other deductions expense category, as  
8 detailed in Exhibit 3, Page 1, Col. (e), Lines 3 and 8.<sup>5</sup>

9 **Q. Please discuss the adjustment to recognize PTS rider rate revenues.**

10 A. Southern Pioneer established a system-wide (i.e., applicable both to distribution and 34.5 kV)  
11 PTS rider in Docket No. 13-MKEE-695-TAR. As a result, a portion of its revenue requirement  
12 (i.e., increase in property tax expense) is being recovered via the PTS rider. In order to  
13 recognize the 34.5 kV portion of the revenue stream collected through this surcharge, the most  
14 recent PTS applicable to the 34.5 kV system users, as updated in Docket No. 14-SPEE-297-  
15 TAR, was subtracted from the initial per kW cost to arrive at the final LAC rate. This step is  
16 evidenced on page 3 of Exhibit 3, Lines 28-36.<sup>6</sup>

17 **Q. Please discuss how you have allocated the retail portion of the LAC revenue adjustment**  
18 **to the individual rate classes.**

19 A. The first step in completing this allocation is to determine the retail portion of the necessary  
20 revenue adjustment. The retail portion of the LAC revenue adjustment is determined by  
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22 <sup>5</sup> The specified adjustments can be found in Direct Testimony of C. Unrein, Exhibit CCU-1, page 1, as  
23 well as in Exhibit CCU-6, pages 2-6.

24 <sup>6</sup> The reason for subtracting \$0.13160/kW versus the full \$0.225715/kW PTS currently in effect is that  
25 only \$47,346 (the LAC portion of the difference between the 2013 property tax and the base (property  
tax embedded in base rates)) was used, while the \$34,008 (the LAC’s portion of the “carry-over” of the  
under-recovery from the prior period (difference between the 2012 property tax and the base)) was  
excluded, as the latter is outside the Test Year period; plus, it will not be continuing forward.

1 calculating the new LAC rate times the historical retail billing units, which is documented in  
2 Exhibit 3, page 2.

3 Next, the portion recoverable from the retail customers is allocated to each retail class in a  
4 similar manner as Southern Pioneer's DSC-FBR Plan for the distribution costs, as approved  
5 by the Commission in Docket No. 13-MKEE-452-MIS ("13-452 Docket") and updated in the  
6 14-507 Docket. Namely, I have apportioned the retail rate adjustment resulting from the LAC  
7 COS using the Test Year base revenues as follows:

- 8 1. First, all power costs recovered in rates were removed from the historical schedule  
9 revenues to arrive at the base revenues by rate schedule.
- 10 2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base  
11 revenues was determined.
- 12 3. The base revenue ratios were then applied to the LAC COS-determined retail revenue  
13 adjustment to establish each rate schedule's apportioned revenue adjustment.

14 Exhibit 3, Page 3 summarizes the results of this process.

#### 15 **PART IV - LAC COS RESULTS**

##### 16 **Q. Please summarize the results of the LAC COS and rate calculation.**

17 A. Completing the LAC COS calculation using 2013 historical financials and a Debt Service  
18 Coverage ("DSC") ratio of 1.75 results in the need for a total revenue increase of \$1,816,153.  
19 This equates to a per unit LAC rate of \$4.53 per kW.<sup>7</sup> Of the total \$1,816,153 in additional  
20 revenues needed, \$627,852, or about 35 percent, is due from Southern Pioneer's Third Party  
21 users; and the remaining \$1,188,301, or approximately 65 percent, is due from its retail load.<sup>8</sup>

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23 <sup>7</sup> DSC target of 1.75 was authorized by the Commission in Southern Pioneer's DSC-FBR (see 13-452  
24 and 14-507 Dockets).

25 <sup>8</sup> For the reasons mentioned on page 5, the STR customers taking service at 115 kV will not share in the  
LAC rate increase. Also, Real Time Pricing ("RTP") customers will share in the LAC costs in their

To collect the Third Party users' portion of the total dollars, it is sufficient and appropriate to bill the proposed per kW LAC rate (i.e., \$4.53 per kW) directly. To collect the retail portion, the remaining \$1,188,301 is spread amongst Southern Pioneer's applicable retail rate schedules based upon the Test Year base revenue (i.e., gross revenue less purchased power expense), as summarized below in Table 1.

**Table 1**  
**SOUTHERN PIONEER ELECTRIC COMPANY**  
**Allocation of LAC COS Retail Rate Adjustment to Rate Classes**

Rate Schedule	Test Year Rate Schedule Revenue	LAC COS Adjustment	Change As Percent *
	(\$)	(\$)	(\$)
Residential Service (13-RS)			
General Use	15,795,617	501,098	3.2%
Space Heating	974,090	28,773	3.0%
General Service Small (13-GSS)	1,973,424	64,623	3.3%
General Service Large (13-GSL)	15,910,577	437,816	2.8%
General Service Space Heating	604,356	14,593	2.4%
Industrial Service (13-IS)	3,062,258	61,266	2.0%
Interruptible Industrial Service (13-INT)	-	-	0.0%
Real -Time Pricing (RTP)	346,853	-	0.0%
Sub-transmission Level Service (13-STR) *	24,506,560	-	0.0%
Municipal Power Service (13-M-I)	195,001	5,823	3.0%
Water Pumping Service (13-WP)	602,435	16,243	2.7%
Irrigation Service (13-IP-I)	244,652	7,945	3.2%
Temporary Service (13-CS)	18,172	622	3.4%
Lighting	1,015,807	49,501	4.9%
<b>Total Retail Rates</b>	<b>65,249,803</b>	<b>1,188,301</b>	<b>1.8%</b>

\* 34.5 kV STR (Greensburg wind farm) picks up its share of LAC revenue adjustment in the demand (LAC) rate

corresponding baseline tariff schedule rates; but their marginal RTP piece is not adjusted for the increase.

1 **Q. How do you recommend implementing the resulting LAC COS retail increases by rate**  
2 **schedule?**

3 A. I recommend that the increases by rate schedule be implemented on energy charges only. This  
4 is easily determined by dividing the revenue adjustment for each schedule by the historical  
5 energy sales. The result is the amount that the current energy charges need to be increased by  
6 class and is shown in Column (k) of Exhibit 3, Page 3.

7 The one exception required is for lighting. Since the lighting rate schedules do not have  
8 an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have  
9 an estimated energy use for the various sizes/types of lights, and so the energy adjustment can  
10 still be applied so as to affect the monthly charge in a way that is proportionate to usage. This  
11 approach then provides consistency between all the retail rates being adjusted.

12 **Q. Why do you recommend that the revenue increase be implemented by increasing the**  
13 **current energy charges?**

14 A. Handling this type of adjustment as an energy adjustment is simple, common, and reasonably  
15 accurate. Energy adjustments are an industry-accepted approach for flowing through cost  
16 changes that occur between full, or “traditional,” rate cases. For example, Southern Pioneer’s  
17 current Energy Cost Adjustment (“ECA”) is an energy-based charge established to flow  
18 through not only energy costs but also demand cost changes from the amount embedded in  
19 rates during the last full rate case. Similarly, the retail portion of Southern Pioneer’s property  
20 tax surcharge rider is an energy adjustment established to pass through changes in property tax  
21 expense increases since the last full rate case. The same is true for the DSC-FBR Plan currently  
22 in place for Southern Pioneer’s distribution system where, in the 14-507 Docket, the retail rate  
23 decrease was passed through using only the energy charge component. Given the plentiful  
24 examples evidencing similar scenarios, it is reasonable to treat any resulting LAC rate  
25

1 adjustments similar to how the ECA, Property Tax Surcharge, and the DSC-FBR are treated;  
2 i.e., as a per kWh adjustment.

3 From a cost of service perspective, the 34.5 kV revenue requirement would typically be  
4 determined to be primarily capacity-related versus customer-related. It is an industry accepted  
5 practice to collect capacity-related costs through energy charges, especially in rate schedules  
6 that do not have a separate demand charge. Rather than adjusting energy charges for some  
7 rates and demand charges for others, adjusting energy charges for all rates is a more simple  
8 and consistent approach.

9 I would also point out that in my opinion the additional effort required to attempt a sort of  
10 proportionate change for each rate component is neither economical nor a good use of  
11 resources. Given the relatively minor retail rate change being made, the benefits of an energy-  
12 based adjustment outweigh doing something more detailed, expensive, potentially  
13 controversial, and time consuming.

14 **Q. Have the proposed tariffs been provided?**

15 A. Yes, they are included as Exhibit 10 of the Application. I have also included red-lined versions  
16 of the tariffs for ease of review. Additionally, I would like to advise the Commission that,  
17 upon the Commission's issuance of the final Order in the instant Docket updating Southern  
18 Pioneer's LAC, Southern Pioneer will request that Mid-Kansas file the corresponding pages  
19 of its OATT containing Southern Pioneer's LAC, as to ensure the latest Commission-  
20 authorized per unit LAC rates are being referenced in the OATT.

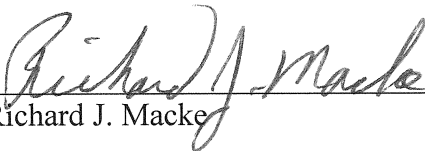
21 **Q. Does this conclude your pre-filed Direct Testimony?**

22 A. Yes, it does.  
23  
24  
25


## VERIFICATION

STATE OF MINNESOTA    )  
                                      ) ss  
COUNTY OF ISANTI     )

The undersigned, Richard J. Macke, upon oath first duly sworn, states that he is an employee of Power System Engineering, Inc., and that he has prepared 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.

  
Richard J. Macke

Subscribed and sworn to before me this 4th day of October 2014.

  
Notary Public

My appointment expires: 1/31/15

