

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

JAN 07 2013

In the Matter of the Joint Application of )  
Mid-Kansas Electric Company, LLC, )  
Lane-Scott Electric Cooperative, Inc., )  
Prairie Land Electric Cooperative, Inc., )  
Southern Pioneer Electric Company, )  
Victory Electric Cooperative Association, Inc., )  
Western Cooperative Electric Association, Inc., and )  
Wheatland Electric Cooperative, Inc., Joint Applicants, )  
for an Order approving the transfer of Certificates of )  
Convenience with respect to all of Mid-Kansas' retail )  
electric services and for other related relief. )

by  
State Corporation Commission  
of Kansas

Docket No. 13-MKEE-447-MIS

DIRECT TESTIMONY  
OF  
DAVID SCHNEIDER

WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.

JANUARY 7, 2013

1 **Q. Please state your name.**

2 A. My name is David Schneider.

3 **Q. By whom are you employed and what is your business address?**

4 A. I am employed by Western Cooperative Electric Association, Inc. ("Western") as  
5 general manager. My business address is 635 South 13th, WaKeeney, Kansas.

6 **Q. Would you summarize your educational background?**

7 A. I hold a Bachelor of Science degree in business administration. I am also a  
8 graduate of the National Rural Electric Cooperative Association's (NRECA)  
9 management internship program and hold NRECA credentialed cooperative  
10 director and board leadership certifications.

11 **Q. Please summarize your work experience.**

12 A. I worked one year as an insurance salesperson; one year as office manager of a  
13 private cattle feeding feedlot; three years as a bookkeeper for a private gasoline,  
14 diesel, and propane bulk delivery business; and from 1978 to 1990, various  
15 positions at Western, including lineman, digger derrick operator, material  
16 purchasing person, member services person, and administrative assistant. For  
17 the past 22 years, I have been general manager at Western.

18 **Q. Are you also an officer of Mid-Kansas Electric Company, LLC?**

19 A. Yes. I am member of the Board of Directors of Mid-Kansas Electric Company,  
20 LLC ("Mid-Kansas"). I have served in that position since its inception.

21 **Q. Do you serve on any other boards for public utilities?**

1 A. Yes. Western is a member of both Sunflower Electric Power Corporation  
2 (Sunflower) and Mid-Kansas. I serve as a Director on the Sunflower Board of  
3 Directors also.

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to provide background information on Western  
6 and support for relief sought in the Joint Application filed by Mid-Kansas and its  
7 Members<sup>1</sup>, including Western.

8 **1. HISTORICAL INFORMATION ON WESTERN**

9 **Q. Please provide an overview of your testimony.**

10 A. My testimony will primarily focus on a brief overview of Western and  
11 determination of the process for exemption from regulation.

12 **Q. Please provide a brief overview of Western.**

13 A. Western is an electric cooperative formed under the Kansas Electric Cooperative  
14 Act. It was formed for the purpose of supplying electric energy and promoting  
15 and extending the use of such energy in rural areas of northwest Kansas.  
16 Western was formed in 1945. Western, therefore, has been providing electric  
17 retail service in the northwest Kansas for over 65 years.

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<sup>1</sup> The six Kansas entities, collectively referred to as Members of Mid-Kansas, and their headquarters are as follows: Lane-Scott Electric Cooperative, Inc., Dighton, Kansas; Southern Pioneer Electric Company, a subsidiary of Pioneer Electric Cooperative, Inc., Ulysses, Kansas; Prairie Land Electric Cooperative, Inc., Norton, Kansas; Victory Electric Cooperative Association, Inc., Dodge City, Kansas; Western Cooperative Electric Association, Inc., WaKeeney, Kansas; Wheatland Electric Cooperative, Inc., Scott City, Kansas.

1 **Q. Would you provide a summary of the service area and the nature of service**  
2 **Western provided before the acquisition on Aquila-WPK by Mid-Kansas?**

3 A. Prior to the acquisition, Western served over eight counties, with 5,100 meters.  
4 Its service territory ran from Ellis and Rooks counties on the eastern end to Gove  
5 and Sheridan counties on the western end. Western did not serve any cities  
6 within its certificated territory. Although it did not operate generation or  
7 transmission lines, it operated and maintained approximately 2,937 miles of  
8 distribution line and 14 miles of 34.5 kV lines.

9 **Q. Would you provide a summary of the area served and scope by Western**  
10 **after the acquisition of the Aquila-WPK by Mid-Kansas?**

11 A. After the acquisition, pursuant to a service contract with Mid-Kansas, Western  
12 increased the number of meters to approximately 11,368 and now serves  
13 approximately 12,000 meters in the Western division. Through the acquisition,  
14 the service territory was extended easterly to approximately 70 miles from the  
15 eastern edge of the original Western service territory. With the acquisition of  
16 Aquila-WPK, the number of customers/members served is approximately 6,000.

17 **Q. Prior to the acquisition, was Western a deregulated cooperative?**

18 A. Yes. In 1994, the member customers of Western voted to deregulate. Of the  
19 member customers voting, 89% approved the deregulation of Western. Since  
20 that date, Western has operated as a deregulated cooperative. The deregulation  
21 of the cooperative has allowed the member owners to govern themselves with far  
22 less expense than Western could otherwise have done had it continued to be  
23 regulated.

1 **Q. Why did the six Members of Mid-Kansas elect to pursue the acquisition of**  
2 **Aquila-WPK?**

3 A. Western saw the acquisition as an opportunity to increase its service territory and  
4 serve more residential customers. Aquila-WPK's service territory was next door  
5 to Western's service territory. The expansion into this territory could be done at  
6 far less of a cost to Western than any other utility as we were already serving in  
7 the general area. It increased the number of customers per mile for distribution  
8 lines and allowed us to spread across a larger body of customers the general  
9 overhead costs of Western. There were a number of synergies associated with  
10 the acquisition, all of which resulted in cost savings to both Western's existing  
11 customers and those customers acquired in the acquisition.

12 **Q. Do you believe the synergies that you anticipated have been realized?**

13 A. Yes. We firmly believe the acquisition has been good for both the existing and  
14 acquired customers. There have been cost savings as anticipated, and the  
15 increases in cost have been slowed as a result of the synergies and ability to  
16 spread costs across a larger segment of customers. Also, the diversity in  
17 customers has been beneficial as economic conditions change throughout  
18 northwest Kansas. The territory acquired by Mid-Kansas was more residential in  
19 nature than the customer base served by Western in its certificated territory. The  
20 diversity has helped in stabilizing load.

21 **Q. Do you believe Western is capable of succeeding to a portion of Mid-**  
22 **Kansas' certificated service territory as contemplated in the application?**

1 A. Yes. Western has been serving the customers in the Western division since the  
2 acquisition in 2007. We have great confidence in our ability to service the  
3 customers and provide quality electric services.

4 **Q. Is Western asking the Commission to approve the transfer of the territory**  
5 **Western is currently serving pursuant to its service contract with Mid-**  
6 **Kansas?**

7 A. Yes.

8 **2. DETERMINATION OF PROCESS FOR EXEMPTION FROM REGULATION**

9 **Q. The application requests the determination of the process the Members are**  
10 **to follow upon transfer of a Certificate to exempt themselves from**  
11 **regulation under K.S.A. 66-104d. Would you explain why the applicants are**  
12 **seeking approval of this process?**

13 A. I will defer to Mr. Lowry's legal analysis of the statute and implication of the  
14 process set forth in the order approving the acquisition as I am not an attorney.  
15 Western was deregulated prior to the acquisition and is currently deregulated.  
16 Our member owners overwhelmingly supported the election to exempt  
17 themselves from regulation. Of the members voting, 89% approved the election  
18 to deregulate. Because the member owners exempted themselves from  
19 regulation, they have enjoyed the benefits of reduced regulatory costs. Plus the  
20 owners are much better at determining their needs and the rate needed to  
21 provide affordable and reliable service to themselves. Western's Board of  
22 Directors of Western has done a very good job of controlling rates, which we

1 think has been validated by the member owners' satisfaction with being  
2 deregulated.

3 **Q. You recall that in the acquisition docket the Members stipulated to the**  
4 **steps for deregulation upon transfer of the Certificate of Convenience. Why**  
5 **are the applicants now seeking a modification to that procedure?**

6 A. The stipulation provided that the Aquila-WPK customers be given full cooperative  
7 membership rights. Western, upon the acquisition, granted all of the former  
8 Aquila-WPK customers full cooperative membership rights, including the right to  
9 vote and the right to patronage. Therefore, we have already met part of the  
10 requirement of the stipulation. The remainder of the stipulation requires a vote by  
11 the Aquila-WPK customers to determine whether they should exempt themselves  
12 from regulation. The vote is limited to only those customers in the former Aquila-  
13 WPK certificated territory being transferred to Western. Although we are  
14 optimistic such a vote would be in favor of exemption, a vote disapproving  
15 deregulation would raise serious questions as to the impact on the customers  
16 currently deregulated. As Mr. Lowry has stated, the statute does not contemplate  
17 a partial deregulation of the cooperative's members. As to its member owners,  
18 the cooperative is either regulated or not regulated. Our Board of Directors does  
19 not believe it would be fair or equitable to force our member owners that are  
20 currently satisfied with the deregulated status of Western to become regulated by  
21 a vote of the acquired customers. Plus, as Mr. Lowry has pointed out, the statute  
22 does not allow another vote for a period of two years. Disapproval would subject

1 Western and a majority of its customers to regulation for a two-year period before  
2 it could vote again during which it would incur costs of regulatory oversight.

3 **Q. Does Western have a recommended solution?**

4 A. Yes. We seek the modification of Order 524 to provide that to the extent any  
5 Member cooperative is exempt from regulation at the time of the transfer of the  
6 certificate the Member cooperative would remain unregulated subject to  
7 customers of not less than 10% of the members of the cooperative petitioning for  
8 a re-vote on deregulation. Certainly, this would be consistent with past transfer of  
9 service territory between various cooperatives. When transferred, those  
10 customers come in to the new cooperative subject to the current regulatory  
11 status of the cooperative to which they have been transferred. Additionally,  
12 Western believes the ability of the former Aquila-WPK customers to petition for a  
13 vote provides adequate relief, is fair to the currently deregulated customers, and  
14 falls within the spirit of the stipulation.

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

16 A. Yes.

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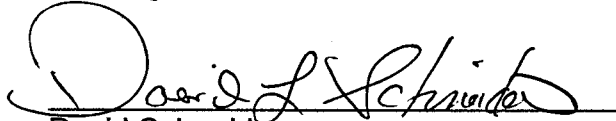
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**VERIFICATION**

STATE OF KANSAS )  
COUNTY OF Trego ) ss:

David Schneider, of lawful age, being first duly sworn, deposes and says that he is the David Schneider referred to in the foregoing document entitled "Direct Testimony of David Schneider" before the State Corporation Commission of the State of Kansas and that the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge, and belief.

  
David Schneider

SUBSCRIBED AND SWORN to before me this 5<sup>th</sup> day of  
December, 2012.

  
Notary Public

My appointment expires: 4-25-2013

