

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

In the Matter of the Joint Application of Mid-Kansas)
Electric Company, LLC, Sunflower Electric Power)
Corporation, Prairie Land Electric Cooperative, Inc.,)
Pioneer Electric Cooperative, Inc., The Victory)
Electric Cooperative Association, Inc., Western) Docket No. 18- MKEE-160-TFR
Cooperative Electric Association, Inc., Wheatland)
Electric Cooperative, Inc. and Southern Pioneer)
Electric Company for Approval of a Local Access)
Tariff and Mid-Kansas and Sunflower Open Access)
Transmission Tariff.)

PREFILED DIRECT TESTIMONY OF

STEPHEN J. EPPERSON

ON BEHALF OF

PIONEER ELECTRIC COOPERATIVE, INC. AND
SOUTHERN PIONEER ELECTRIC COMPANY

October 11, 2017

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

2 A. My name is Stephen J. Epperson. My business address for legal service is 1850
3 W. Oklahoma, Ulysses, Kansas 67880 and for mail receipt is PO Box 430,
4 Ulysses, Kansas 67880-0430.

5 **Q. What is your profession?**

6 A. I am the Chief Executive Officer (“CEO”) of Pioneer Electric Cooperative, Inc.
7 (“Pioneer Electric”). I also serve as the President and CEO of Southern Pioneer
8 Electric Company (“Southern Pioneer”) pursuant to a certain Services Agreement
9 by and between Pioneer Electric and Southern Pioneer, dated July 7, 2006.

10 **Q. Please describe your responsibilities with Pioneer Electric and Southern**
11 **Pioneer.**

12 A. As the CEO, I work directly for the Board of Trustees of Pioneer Electric and the
13 Board of Directors of Southern Pioneer, and am responsible for assisting in
14 establishing policy, implementing strategic programs, establishing rates, and
15 overseeing the overall operation of Pioneer Electric and Southern Pioneer to
16 ensure reliable service at a competitive cost using generally acceptable industry
17 business practices. I also serve on the Board of Directors of Sunflower Electric
18 Power Corporation (“Sunflower”) and Mid-Kansas Electric Company, LLC (“Mid-
19 Kansas”), the wholesale generation and transmission suppliers for Pioneer
20 Electric and Southern Pioneer, respectively.

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

22 A. I graduated in 1991 from Ozark Christian College, a cooperative program with
23 Missouri Southern State University, with a Bachelor’s Degree, which included

1 double majors in Bible and Psychology. In 2002, I successfully completed the
2 National Rural Electric Cooperatives Association's Management Internship
3 Program through the University of Nebraska at Lincoln, Nebraska. In 2010, I
4 received my Masters of Business Administration from Bradley University.

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

6 A. I was appointed CEO of Pioneer Electric and President and CEO of Southern
7 Pioneer, both effective January 1, 2011. Prior to that date, I served as the
8 President and CEO at McDonough Power Cooperative, located in Macomb,
9 Illinois, from July 2006 to December 31, 2010. From August 2001 to July 2006, I
10 served as the Senior Vice President of Northeast Rural Services, Inc., a
11 subsidiary of Northeast Oklahoma Electric Cooperative. I have also served in
12 other capacities in both utilities and the private not-for-profit sectors: as a
13 business supervisor, consultant, business development director, and counselor.

14 **Q. Have you previously presented testimony before the Kansas Corporation**
15 **Commission ("Commission")?**

16 A. Yes. I have provided testimony in Docket Nos. 12-MKEE-380-RTS, 13-MKEE-
17 447-MIS, 13-MKEE-452-MIS, 13-MKEE-699-RTS, 14-SPEE-507-RTS, 16-
18 MKEE-023-TAR and 17-KPPE-092-COM.

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

20 A. The purpose of my testimony is to support the filing with the Commission for the
21 approval of the Local Access Tariff ("LAT") for local access delivery service
22 ("LADS") to wholesale customers over the Sunflower and Mid-Kansas Member-
23 owned 34.5 kV sub-transmission systems. I will specifically testify in support of

1 the Rate Stabilization and Make Whole Payment provisions proposed in the LAT
2 for those wholesale customers exiting the 34.5 kV systems as described below,
3 and centralized local planning.

4 **Q. Please provide a brief overview of Pioneer Electric.**

5 A. Pioneer Electric is a member-owned Kansas electric cooperative with its principal
6 place of business located in Ulysses, Kansas. Pioneer Electric serves
7 approximately 4,712 members and 16,625 meters in ten southwest Kansas
8 counties. Pioneer Electric owns approximately 128 miles of transmission line and
9 3,800 miles of distribution line and substation facilities. Pioneer Electric is a
10 Member-Owner of Sunflower, and takes wholesale generation and transmission
11 services from Sunflower pursuant to an all-requirements contractual
12 arrangement. Pioneer Electric is a certificated electric public utility.

13 **Q. Is Pioneer Electric regulated by the Commission?**

14 A. Pioneer Electric is self-regulated under K.S.A. § 66-104d and therefore its retail
15 rates are not regulated by the Commission. However, it is still regulated for
16 purposes of providing local transmission service.

17 **Q. Please provide a brief overview of Southern Pioneer.**

18 A. Southern Pioneer is a not-for-profit, taxable Kansas corporation with its principal
19 place of business located in Ulysses, Kansas, with distribution and customer
20 service offices in Liberal and Medicine Lodge, Kansas. Southern Pioneer serves
21 approximately 16,965 total retail customers, as well as provides LADS to
22 wholesale 34.5 kV sub-transmission users, in ten southcentral and southwest
23 Kansas counties. Southern Pioneer owns and operates approximately 302 miles

1 of 34.5 kV sub-transmission line and substation facilities and approximately 818
2 miles of distribution line and substation facilities. Southern Pioneer is a
3 certificated electric public utility and is a wholly owned subsidiary of Pioneer
4 Electric. Southern Pioneer was granted public utility status on November 21,
5 2013, when the Commission approved the transfer of the retail certificated
6 territory, customers, Rules and Regulations, and tariffs from Mid-Kansas to
7 Southern Pioneer in Docket No. 13-MKEE-447-MIS.

8 **Q. Is Southern Pioneer regulated by the Commission?**

9 A. Yes. Southern Pioneer does not qualify as an entity that is eligible for self-
10 regulation under K.S.A. § 66-104d and therefore its wholesale and retail rates are
11 fully regulated by the Commission.

12 **Q. Would you describe the facilities which are subject to the LAT?**

13 A. Southern Pioneer owns and operates 34.5 kV sub-transmission facilities or what
14 are defined as the Local System in the LAT. These facilities consist of 34.5 kV
15 sub-transmission lines and the facilities on the low side of the substation. Pioneer
16 Electric currently does not own or operate 34.5 kV sub-transmission facilities.

17 **Q. How is the Local System utilized by Southern Pioneer?**

18 A. The Local System provides both retail service to our retail customers and
19 wholesale service to wholesale LADS customers to wheel power and energy for
20 wholesale LADS customer loads. Southern Pioneer has designated Mid-Kansas
21 as its agent for providing wholesale LADS over its 34.5 kV system pursuant to
22 the terms of the 11-GIME-597-GIE Docket ("11-597 Docket") Settlement, the
23 Mid-Kansas OATT approved by the Commission in Docket No. 12-MKEE-650-

1 TAR ("12-650 Docket"), and the local delivery Network Integration Transmission
2 Service Agreement and local delivery Network Operating Agreements, approved
3 by the Commission in the 11-597 Docket and 12-650 Docket. The Kansas Power
4 Pool ("KPP"), Kansas Electric Power Cooperative, Inc. ("KEPCo") and Kansas
5 Municipal Energy Agency ("KMEA") take wholesale LADS over the 34.5 kV sub-
6 transmission facilities owned by Southern Pioneer.

7 **Q. Are Pioneer Electric or Southern Pioneer subject to the jurisdiction the**
8 **Federal Energy Regulatory Commission ("FERC")?**

9 A. No. Both Pioneer Electric and Southern Pioneer are considered non-public
10 utilities under the Federal Power Act. Pioneer Electric is as organized as a
11 cooperative and Southern Pioneer is owned by a cooperative. Additionally,
12 neither sell in excess of 4,000,000 MW hours of sales. As a result, while I am not
13 an attorney, it is my understanding that both are exempt from FERC regulation.

14 **Q. Is Pioneer Electric or Southern Pioneer a member of the Southwest Power**
15 **Pool, Inc. ("SPP")?**

16 A. No.

17 **Q. Do you support the LAT as proposed in the Joint Application?**

18 A. Yes. The LAT is far easier to understand for both the System Owner¹ and the
19 wholesale LADS customers.

20 **Q. In your opinion does the LAT provide the same core services as the current**
21 **Mid-Kansas and Sunflower OATTs?**

¹ Unless otherwise defined, all capitalized terms used here in shall have the same meaning as set forth in the Local Access Tariff.

1 A. Yes. The LAT continues to provide open access on the Local System, retains the
2 single point of contact and single set of terms and conditions for wholesale LADS
3 while maintaining the Commission jurisdiction.

4 **Q. Are you familiar with the Rate Stabilization and Make-Whole provision at**
5 **Section 6 of the LAT?**

6 A. Yes. I am familiar with the provision and support its inclusion in the LAT.

7 **Q. Why are Southern Pioneer and Pioneer Electric requesting the Commission**
8 **approve the Rate Stabilization and Make-Whole provision?**

9 A. I can give you a specific example of why the provision is needed. On September
10 8, 2016, Southern Pioneer filed with the Commission a formal complaint against
11 KPP for KPP's proposed bypass of its LADS on Southern Pioneer's 34.5 kV sub-
12 transmission facilities through the construction of a new 115/34.5 kV substation
13 and facilities to interconnect with the Mid-Kansas-owned Ninnescah 115 kV
14 transmission line for full import and generation export service to the City of
15 Kingman.² These facilities would be constructed in lieu of KPP committing to
16 upgrades to Southern Pioneer's existing 115/34.5 kV SemCrude transmission
17 substation currently interconnected to the Ninnescah 115 kV transmission line as
18 agreed to between KPP, Southern Pioneer and Mid-Kansas, for full import and
19 generation export service to the City of Kingman. Instead, KPP proposes to
20 duplicate facilities and services by building its own 34.5 kV facilities directly
21 adjacent to the Southern Pioneer 34.5 kV facilities to serve the City of Kingman,
22 solely to avoid payment of the Commission-approved Southern Pioneer

² See Docket 17-KPPE-092-COM.

1 wholesale LADS charge for service over Southern Pioneer's 34.5 kV system. As
2 set forth in the Complaint, Southern Pioneer asserts, among other things, that the
3 construction of such facilities by KPP is a wasteful duplication of facilities and
4 services, a violation of the global settlement agreement between KPP, Southern
5 Pioneer and Mid-Kansas, and inconsistent with Kansas law and public policy and
6 is not in the public interest.³

7 In the Complaint, Southern Pioneer requests that the Commission enjoin
8 KPP from bypassing Southern Pioneer's 34.5 kV system through the construction
9 of duplicate facilities and services; or alternatively, requests that the Commission
10 assess a facility switching fee against KPP, the purpose of which is to insulate
11 Southern Pioneer's retail customers and the wholesale customers utilizing the
12 Local System from a significant increase in the 34.5 kV charges.⁴ The wholesale
13 and retail rates for service over the 34.5 kV sub-transmission system are very
14 sensitive to increases and decreases in load. By approving the Rate Stabilization
15 and Make-Whole Provision, the rates will be more stable and less likely to be
16 subject to large swings should a wholesale customer unilaterally decide to
17 prematurely exit the Local System for its own economic reasons. It would have
18 the same effect as the switching fee requested in Southern Pioneer's Complaint.

³ *Id.*

⁴ Specifically, Southern Pioneer is requesting the Commission obligate KPP to hold the remaining wholesale and retail customers of Southern Pioneer harmless by allowing Southern Pioneer to charge KPP a facility switching fee equal to the net present value of KPP's LADS charge at its current load service levels over a ten-year planning horizon based upon Southern Pioneer and Mid-Kansas's 34.5 kV LADS planning for KPP's long-term LADS.

1 **Q. Why do you believe it is appropriate for the Commission to approve the**
2 **Rate Stabilization and Make-Whole provision?**

3 A. Since the acquisition of the Aquila-WPK system in 2007, Southern Pioneer has
4 continually planned its 34.5 kV sub-transmission system to reliably meet the
5 present and projected needs of both its native retail and firm wholesale loads,
6 including the load managed by wholesale LADS customers. Over the past nine
7 years, Southern Pioneer has made substantial investments in its 34.5 kV network
8 system in order to bring the 34.5 kV system within acceptable service and
9 reliability standards and practices to ensure efficient and sufficient service to
10 wholesale LADS and retail customers. These necessary capital investments
11 have been the primary driver for Commission-approved increases to Southern
12 Pioneer's 34.5 kV LADS tariff rate over the past few years.⁵ I believe the same is
13 true for the other System Owners.

14 Further, the Settlement Agreement entered into by Mid-Kansas and the
15 Mid-Kansas Members (including Southern Pioneer) in Docket No. 11-GIME-597-
16 GIE was an attempt to recognize and address in good faith the concerns of
17 wholesale customers regarding the obligation to open the Local System to
18 wholesale LADS customers for service and provide a single point of contact
19 under which wholesale LADS customers could take service. The 11-597 Docket
20 Settlement includes an express obligation for Southern Pioneer to plan and build
21 the 34.5 kV facilities necessary to meet the present and future needs of both

⁵ See Docket Nos. 16-SPEE-501-TAR, 15-SPEE-161-RTS, 13-MKEE-699-RTS and 12-MKEE-380-RTS.

1 native retail customers as well as wholesale LADS customers.⁶ The costs
2 incurred by Southern Pioneer's obligation to plan for the needs of 34.5 kV
3 wholesale LADS network loads are included in Southern Pioneer's 34.5 kV
4 revenue requirement and paid for by all Southern Pioneer wholesale and retail
5 customers on a load-ratio share basis. Also as part of the 11-597 Docket
6 Settlement, Mid-Kansas implemented, at the request of KPP and KEPCo, a
7 formal and robust 34.5 kV system planning process to meet the needs of
8 wholesale LADS customers.

9 **Q. Do you have additional comments regarding the appropriateness of the**
10 **Rate Stabilization and Make-Whole Provision?**

11 A. Yes, I do. It is inherently unfair and unduly discriminatory to require Southern
12 Pioneer retail customers to foot the bill to plan and build or upgrade for the long
13 term a viable Local System necessary to serve the needs of wholesale LADS
14 customers when the same wholesale LADS customers demanding long-term
15 service can leave Southern Pioneer's 34.5 kV system at any point in time without
16 being required to bear their equitable share of the costs of the 34.5 kV system
17 built to serve their needs for the long term. By opening its 34.5 kV facilities to
18 wholesale customers and making the required extensions and improvements
19 under the 11-597 Docket Settlement, Southern Pioneer, and more importantly
20 the wholesale LADS customers, should expect that in return for Southern
21 Pioneer's investment in facilities to service the wholesale LADS customers, there

⁶ 11-597 Settlement, ¶¶1(e) and (g).

1 will be available to Southern Pioneer's customers a long-term wholesale LADS
2 revenue stream to support and recover the cost of the prudent capital
3 investments in the facilities necessary to accommodate the present and
4 forecasted load levels of Southern Pioneer's wholesale LADS customers. If the
5 Commission expects Southern Pioneer and the other System Owners to invest in
6 facilities to service wholesale LADS customers in order to provide reliable
7 service, yet also allow the sudden and unilateral departure of wholesale LADS
8 customer's loads from the 34.5 kV system, it will set a harmful precedent and
9 perverse incentive for wholesale LADS customers to abandon 34.5 kV facilities
10 for potential higher voltage interconnection options. This will result in waste from
11 the underutilization of capital-intensive 34.5 kV facilities built to serve customers
12 over the long term. This causes direct harm to the remaining wholesale LADS
13 customers and captive retail customers of Southern Pioneer, who will be left to
14 pay for the 34.5 kV facility revenue requirement previously paid by the departed
15 wholesale LADS customer through increased 34.5 kV rates. Further, if wholesale
16 customers are allowed to leave or bypass the 34.5 kV system at any point in time
17 to avoid payment of the LADS rate, it will become extremely difficult for Southern
18 Pioneer to accurately forecast load. This will lead to less accurate system
19 planning, which is likely to result in wasteful or inadequate system investments,
20 unnecessarily raising rates to Southern Pioneer's wholesale LADS and captive
21 retail customers.

22 **Q. In your opinion does the Rate Stabilization and Make-Whole Provision**
23 **serve the public interest?**

1 A. As I previously discussed, Southern Pioneer remains very concerned with the
2 precedential effect and rate impacts to retail and wholesale customers if a
3 wholesale LADS customer is now allowed by the Commission to deploy
4 construction of facilities to allow it to switch from the Southern Pioneer 34.5 kV
5 system to the higher voltage transmission system, especially when such activities
6 result in a duplication of facilities and services. It is not an unreasonable
7 expectation that Southern Pioneer's obligation to serve wholesale customers
8 came with the expectation there would be a continued right to a long-term
9 revenue stream sufficient to support and recover the cost of the required
10 investment in the 34.5 kV system necessary to accommodate the present and
11 forecasted load levels of Southern Pioneer's wholesale LADS customers. Nor
12 should all of the wholesale LADS customers expect it to be otherwise. It is only
13 equitable to view the benefit of the Rate Stabilization and Make-Whole Provision
14 from the perspective of the public as a whole as opposed to the benefit to the
15 individual wholesale LADS customer who has elected to leave the system. The
16 question should not be what is in the best interest of an individual wholesale
17 LADS customer but what is in the best interest of the public in general. Retail
18 customers generally do not have the same ability to unilaterally switch to the
19 higher voltage transmission system to avoid the 34.5 kV system charge. The
20 incentive for wholesale LADS customers to bypass and "strand" 34.5 kV facility
21 investments has just recently been accelerated in the current paradigm with the
22 birth of independent transmission companies in the State of Kansas. These
23 independent transmission companies offer to work with wholesale customers to

1 build unnecessary transmission facilities to directly interconnect wholesale
2 customer loads and generation resources with the intent to roll the facilities into
3 SPP and assign a large portion of the cost to the Mid-Kansas or Sunflower
4 pricing zones.⁷ Thus, not only will Kansas ratepayers pay a greater share of the
5 34.5 kV facility costs due to the wholesale customer bypassing the 34.5 kV
6 system to avoid payment of the Commission-approved local access charge, but
7 Kansas ratepayers will also be directly allocated their share of 100% of the cost
8 of the unnecessary high-voltage transmission facilities built by the independent
9 transmission company and charged by SPP directly to the host transmission
10 zone where the transmission facilities are located. The Commission should be
11 very concerned about this slippery slope and the implications to Kansas
12 ratepayers if there is not a mechanism in place to hold Kansas ratepayers
13 harmless from these self-serving decisions made by wholesale LADS customers
14 and independent transmission companies.

15 **Q. Is the proposed method for calculating the Rate Stabilization and Make-**
16 **Whole provision supported by regulatory policy?**

17 A. Yes, it is. The proposed method for calculating the Rate Stabilization and Make-
18 Whole provision is conceptually similar to the Revenues Lost Formula adopted
19 by the FERC in Order No. 888 for calculating stranded cost charges to customers
20 switching power suppliers.

⁷ See Approved Minutes of City Commission Meeting Minutes of the City of Pratt, Kansas, September 6, 2016, available at <http://cityofprattks.blogspot.com/2016/09/>.

1 **Q. Are Southern Pioneer and Pioneer Electric supportive of the approval of**
2 **the LAT?**

3 A. Yes, both are and we would ask the Commission to approve it as proposed.

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

5 A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF Grant)

Stephen J. Epperson, being first duly sworn, deposes and says that he is the Stephen J. Epperson referred to in the foregoing document entitled "PREFILED DIRECT TESTIMONY OF STEPHEN J. EPPERSON" 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.



Stephen J. Epperson

SUBSCRIBED AND SWORN to before me this 10 day of October, 2017.



Notary Public

My Appointment Expires:

