

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

In the Matter of the Joint Application of)
Sunflower Electric Power Corporation and)
Mid-Kansas Electric Company, Inc. for an)
Order Approving the Merger of Mid-Kansas) Docket No. 19-SEPE- 054 -MER
Electric Company, Inc. into Sunflower)
Electric Power Corporation.)

PREFILED DIRECT TESTIMONY OF

STEPHEN J. EPPERSON

CHIEF EXECUTIVE OFFICER

PIONEER ELECTRIC COOPERATIVE, INC.

ON BEHALF OF

SUNFLOWER ELECTRIC POWER CORPORATION

and

MID-KANSAS ELECTRIC COMPANY, INC.

AUGUST 3, 2018

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 368,
4 Ulysses, Kansas 67880-0368.

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

6 A. I am the Chief Executive Officer ("CEO") of Pioneer Electric Cooperative, Inc.
7 ("Pioneer").

8 **Q. Please describe your responsibilities with Pioneer.**

9 A. As the CEO, I work directly for the Board of Trustees of Pioneer and am
10 responsible for assisting in establishing policy, implementing strategic programs,
11 establishing rates, and overseeing the overall operation of Pioneer to ensure
12 reliable service at a competitive cost using generally acceptable industry
13 business practices. I also serve on the Board of Directors of Sunflower Electric
14 Power Corporation ("Sunflower"), the wholesale generation and transmission
15 supplier for Pioneer.

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

17 A. I graduated in 1991 from Ozark Christian College, a cooperative program with
18 Missouri Southern State University, with a Bachelor's Degree, which included
19 double majors in Bible and Psychology. In 2002, I successfully completed the
20 National Rural Electric Cooperatives Association's Management Internship
21 Program through the University of Nebraska at Lincoln, Nebraska. In 2010, I
22 received my Masters of Business Administration from Bradley University.

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

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

9 **Q. Have you previously presented testimony before the Kansas Corporation**
10 **Commission (“Commission”)?**

11 A. Yes. I have provided testimony in Docket Nos. 12-MKEE-380-RTS, 13-MKEE-
12 447-MIS, 13-MKEE-452-MIS, 13-MKEE-699-RTS, 14-SPEE-507-RTS, 16-
13 MKEE-023-TAR, 17-KPPE-092-COM, and 18-MKEE-160-TAR.

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

15 A. The purpose of my testimony is to provide a background of Pioneer and to
16 support the approval of the merger of Sunflower Electric Power Corporation
17 (“Sunflower”) and Mid-Kansas Electric Company, Inc (”Mid-Kansas”).

18 **Q. Please provide a brief overview of Pioneer.**

19 A. Pioneer is a not-for-profit member-owned Kansas electric cooperative with its
20 principal place of business located in Ulysses, Kansas. Pioneer serves
21 approximately 4,955 members and 16,669 meters in ten southwest Kansas
22 counties. Pioneer owns approximately 128 miles of transmission line and 3,974
23 miles of distribution line and substation facilities. Pioneer is a Member-Owner of

1 Sunflower, and takes wholesale generation and transmission services from
2 Sunflower pursuant to an all-requirements contractual arrangement. Pioneer is a
3 certificated electric public utility.

4 **Q. Is Pioneer regulated by the Commission?**

5 A. Pioneer is self-regulated under K.S.A. § 66-104d and therefore its retail rates are
6 not regulated by the Commission. However, it is still regulated for purposes of
7 providing wholesale power sales and local transmission service.

8 **Q. Does Pioneer support the merger of Sunflower and Mid-Kansas with**
9 **Sunflower becoming the surviving corporation?**

10 A. Yes. Our Board of Trustees approved the Agreement and Plan of Merger which
11 included the new bylaws for the surviving corporation.

12 **Q. Why does Pioneer support the merger of the two companies?**

13 A. In December 2005, Pioneer organized Southern Pioneer Electric Company
14 ("Southern Pioneer") as a subsidiary to acquire the electric assets of Aquila, Inc.
15 ("Aquila-WPK"). Southern Pioneer joined with the other Members of Sunflower in
16 forming Mid-Kansas for the acquisition. The acquisition was approved in 2007
17 and in 2013 the distribution assets and functions were transferred to the Mid-
18 Kansas Members. The intent at the time of Mid-Kansas' formation was to merge
19 Mid-Kansas with Sunflower to create an organization that would be stronger and
20 more efficient than either Sunflower or Mid-Kansas alone. The merged company
21 would have a stronger balance sheet and equity, allowing the organization to
22 achieve greater economies of scale to reduce borrowing costs and streamline
23 operations. Our Board, and the Boards of Sunflower and Mid-Kansas, have been

1 analyzing relevant information for some time now to ensure that decision made
2 over ten years ago is the correct decision, and we believe that it is. The merged
3 company will continue to provide reliable service but with lower costs and more
4 rate stability.

5 **Q. Why is rate stability a key factor in Pioneer's decision to approve the**
6 **merger?**

7 A. Rate stability allows retail customers to plan, as significant rate fluctuation results
8 in disruption of budgeting, product pricing, operational scheduling and other
9 activities. The merged organization will be approximately twice the size of either
10 organization alone and therefore will be able to better absorb the impact of load
11 losses or any other event that may affect revenue requirements by spreading the
12 impact over the larger system, resulting in greater rate stability. Sunflower
13 management has tried to operate Sunflower and Mid-Kansas as a single
14 company to the extent it can; therefore, our Board does not anticipate much in
15 the way of operational efficiency savings from the merger. Most savings have
16 been captured over time, but there are duplication of services and functions that
17 can be eliminated by combining the two companies, which will uncomplicate and
18 further streamline the operations. All of this will result in savings in expense and
19 manhours. All things considered, combining the two companies will provide the
20 synergies and operational efficiency contemplated at the time of acquisition.

21 **Q. Are there other benefits from merging the two companies?**

22 A. Yes. While Sunflower management has operated the two companies as closely
23 to one as feasible since the acquisition, there are some service and function

1 duplications that can be eliminated through merging. This will result in lowered
2 expenses and human capital costs, but the ability to use existing resources of
3 both organizations to create one having a resource-balanced generation portfolio
4 at a lower cost than either organization can achieve on its own is likely where the
5 big savings will arise. Mid-Kansas currently has coal generation via contract that
6 is expiring early in 2019. The merged organization will use Sunflower's Holcomb
7 plant to serve as a hedge against rising gas prices without extending the current
8 contract or purchasing additional contracts for coal generation. The Sunflower
9 side will benefit from the greater gas generation and a solar power purchase
10 agreement Mid-Kansas owns. Additionally, the combined company will have a
11 stronger balance sheet and financial metrics that could facilitate a credit rating,
12 and as a result, a lower cost of debt. This savings is not insignificant and would
13 not be possible unless the two companies merge.

14 **Q. Who are your current electric wholesale providers?**

15 A. Pioneer is an all requirements customer of Sunflower.

16 **Q. How do you currently set your retail rates?**

17 A. Pioneer's retail rates are set in large part off of the wholesale rate charged by
18 Sunflower in addition to the cost of service on Pioneer's distribution system, all
19 approved by the Board pursuant to member-approved bylaws. Sunflower's
20 wholesale power rate comprises approximately 75% of our overall retail rates
21 paid by our members.

1 **Q. Does Pioneer believe the merger of the two companies is in the public**
2 **interest?**

3 A. Our Board has always felt that merging the two companies is in the best interest
4 of our member owners and western Kansas. After thorough review and
5 consideration, our Board still holds to that belief and approves of the merger.

6 **Q. Does that conclude your testimony?**

7 A. Yes.

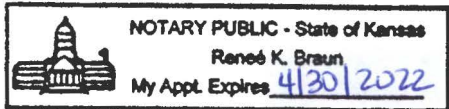
VERIFICATION

STATE OF KANSAS)
COUNTY OF Ellis) ss:

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 3rd day of ^{August}~~July~~, 2018.



My Appointment Expires:

Renee K. Blauw
Notary Public