

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

In the Matter of the Application of Midwest)
Energy, Inc. for Approval of its 2017 Update)
to the Annual Transmission Revenue) Docket No. 17-MDWE-495-TFR
Requirement (ATRR) Associated With its)
Transmission Formula Rate.)

NOTICE OF FILING STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation regarding Midwest Energy, Inc.'s (Midwest) 2017 Update to its Annual Transmission Revenue Requirement (ATRR) associated with its Transmission Formula Rate (TFR). Staff notes the purpose of this docket is to update Midwest's ATRR using 2016 financial data in the Company's TFR. Staff reviewed Midwest's TFR populated with 2016 financial data and the resulting ATRR and found Midwest's proposed ATRR of \$18,793,344 accurately reflects Midwest's cost of transmission service. Staff's recommends Midwest file in this docket any changes to its 2016 ATRR as a result of ongoing Federal Energy Regulatory Commission proceedings. Additionally, Staff recommends this docket serve as the compliance docket for Midwest's future ATRR annual updates. To ensure parties have a uniform understanding of future docket procedures, Staff requests Midwest file a Response to Staff's Report and Recommendation indicating their agreement or disagreement with Staff's recommendations.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and proper.

Respectfully submitted,

/s/ Robert Elliott Vincent

Robert Elliott Vincent, S. Ct. #26028

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REPORT AND RECOMMENDATION UTILITIES DIVISION

TO: Chairman Pat Apple
Commissioner Shari Feist Albrecht
Commissioner Jay Scott Emler

FROM: Kristina Luke Fry, Managing Auditor
Justin Grady, Chief of Accounting and Finance
Jeff McClanahan, Director

DATE: November 14, 2017

SUBJECT: Docket No. 17-MDWE-495-TFR: In the Matter of the Application of Midwest Energy, Inc. (Midwest) for Approval of its 2017 Update to the Annual Transmission Revenue Requirement (ATRR) Associated With its Transmission Formula Rate (TFR).

EXECUTIVE SUMMARY:

The Kansas Corporation Commission (KCC) originally approved a TFR and related protocols for Midwest in Docket No. 12-MDWE-489-GIE. The TFR and protocols were updated in Docket No. 16-MDWE-324-TFR (16-324 Docket). Midwest is not seeking revisions to its TFR or protocols in this proceeding. The purpose of this Docket is to update Midwest Energy's ATRR using 2016 financial data in the Company's TFR. This process is carried out pursuant to Midwest's Commission-approved TFR protocols. Staff reviewed Midwest Energy's TFR populated with 2016 financial data and the resulting ATRR and found that the Company's proposed ATRR of \$18,793,344 accurately reflects Midwest Energy's cost of transmission service.

BACKGROUND:

Midwest is a vertically integrated cooperative that provides electric and natural gas distribution services to its members or customers. The Company also owns electric transmission assets that provide transmission services billed through the open access transmission tariff (OATT) at Southwest Power Pool (SPP). As the Federal Energy Regulatory Commission (FERC) does not regulate Midwest's transmission rates and Kansas statutes do not allow electric cooperatives to deregulate their transmission rates and services, its transmission rates remain regulated by the KCC.¹

¹ 16U.S.C.A. § 824(f); K.S.A. 66-104d(f).

This is Midwest's first ATRR filing since its most recent TFR was approved.² Per the Commission-approved TFR Protocols:

- The updated rates go into effect on September 1 each year;
- Midwest must hold a customer meeting no later than June 16;
- Interested parties have 150 days, or October 9, 2017, in this instance, to review the calculation and notify Midwest Energy of any specific challenges;
- The Commission is not required to issue an Order approving Midwest's updated ATRRs nor is Staff required to file a Report and Recommendation. However, as a matter of practice, Staff will file a Report and Recommendation after its review of each annual update to serve as notice of the review that was performed and to serve as a formal notification of Midwest's new ATRR.

While Midwest is not regulated by FERC, SPP's rates are regulated at FERC. Midwest's TFR and Protocols that were approved in the 16-324 Docket were subsequently included as part of SPP's OATT and filed with FERC for review and approval in Docket No. ER17-469. On March 24, 2017, FERC issued a Letter Order setting the matter for hearing and settlement procedures. Settlement discussions are still ongoing and the Commission is a party to those discussions. In the event that the FERC process results in changes to Midwest's TFR and Protocols, those changes will need to be reviewed and approved by this Commission, as the primary economic regulator of Midwest's transmission rates and services. Staff recommends that any changes to the TFR and Protocols be filed in the original 16-324 Docket. If the Commission approves any changes to the TFR and Protocols that affects the results of the 2016 ATRR that is the subject of this Report and Recommendation, Midwest will need to file an updated ATRR in this Docket and Staff will file a revised Report and Recommendation accordingly.

ANALYSIS:

Midwest's TFR is dependent solely on historic financial data reported in the FERC Form 1; there is no projected data in Midwest's TFR. Staff reviewed the Company's TFR calculations and the data inputs from its 2016 FERC Form 1. Staff also reviewed the non FERC Form 1 data included in Attachment H-1 to its OATT. Staff finds that the Company correctly calculated its 2017 ATRR of \$18,793,344, an increase from \$15,663,092 in 2016. The ATRR amount of \$18,793,344 includes \$14,074,764 classified as Zonal Revenue Requirement, \$3,880,237 classified as Base Plan Revenue Requirement, and \$838,343 classified as Balanced Portfolio Revenue Requirement. Because Midwest's Annual Update filing accurately calculated these ATRRs in accordance with the Commission-approved TFR and Protocols, Staff contends that Midwest Energy's 2016 Annual Update will result in just and reasonable transmission rates, in compliance with K.S.A. 66-101b.

Per the protocols approved in the 16-MDWE-324-TFR Docket, Midwest is required to file future Annual Updates in a compliance docket with a TFR docket designation. The current protocols state the following in Section 1, Sub-Section A. Definitions:

- File shall mean file in the Compliance Docket

² 16-MKEE-324-TFR Order Approving Unanimous Settlement Agreement filed on August 25, 2016.

- Compliance Docket means the KCC proceeding for the administration of Annual Updates under the TFR designation

Staff suggests that the current Docket should serve as this compliance docket. It's not clear whether this recommendation would have to be memorialized in a Commission Order. At a minimum, if Midwest agrees with this recommendation, Staff requests that Midwest file a response to this Report and Recommendation that states its agreement with this approach.

RECOMMENDATION:

Staff verified all the documents and calculations required by the TFR and Protocols and concluded that Midwest properly adhered to the TFR and Protocols in its 2016 Annual Update. Staff's only recommendation is that Midwest file in this Docket any changes to its 2016 ATRR as a result of the FERC proceeding. Additionally, this Docket should serve as the compliance-type docket that Midwest should file all future Annual Updates. Staff does not believe a Commission Order is required to approve these recommendations, but it would be appropriate for Midwest to file a response to this Report and Recommendation in order to confirm its agreement with this approach. Staff will apprise the Commission if Midwest does not follow through with these actions. Staff will continue to monitor Midwest's TFR by reviewing the financial data in Midwest's future TFR Annual Updates and any True-Up adjustments and providing annual updates to the Commission.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

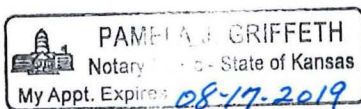
VERIFICATION

Robert E. Vincent, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Robert E. Vincent, Litigation Counsel # 26028
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 20th day of November, 2017.


Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

17-MDWE-495-TFR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was placed in the United States mail, postage prepaid, or hand-delivered this 20th day of November, 2017, to the following:

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