

Received  
on

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

DEC 20 2011

In the Matter of the Application of )  
Mid-Kansas Electric Company, LLC )  
for Approval to Make Certain Changes )  
in its Charges for Electric Service in the )  
Geographic Service Territory Served by )  
Southern Pioneer Electric Company. )

by  
State Corporation Commission  
of Kansas

Docket No. 12-MKEE-380-RTS

APPLICATION

COMES NOW, Mid-Kansas Electric Company, LLC (“Mid-Kansas”) and pursuant to K.S.A. 66-117, hereby files this Application to the State Corporation Commission of the State of Kansas (“Commission”) for the purpose of making changes to Mid-Kansas’s rate schedules for the geographic service territory served by Southern Pioneer Electric Company (“Southern Pioneer”), requesting establishment of a Debt Service Coverage (“DSC”) Ratemaking Plan for Mid-Kansas’s rates in the territory served by Southern Pioneer, and for other related relief that may be required. In support of the Application, Mid-Kansas states as follows:

**I. INTRODUCTION AND BACKGROUND**

1. Mid-Kansas is a Kansas Limited Liability Company operated on a not-for-profit basis with its principal place of business located in Hays, Kansas. Mid-Kansas is a coalition of five Kansas consumer-owned cooperatives and one corporation wholly owned by a sixth Kansas consumer-owned cooperative, who collectively organized Mid-Kansas for the purpose of acquiring Aquila, Inc., d/b/a Aquila Networks – WPK’s

("WPK") Kansas electric utility assets.<sup>1</sup> Mid-Kansas is an electric public utility regulated by the Commission.

2. In addition to the undersigned, copies of pleadings, documents, and correspondence in this docket should be sent to:

Don Gulley  
Senior Manager, Regulatory Relations and Billing  
Mid-Kansas Electric Company, LLC  
301 West 13th Street  
P.O. Box 980  
Hays, KS 67601

Randy Magnison  
Executive Vice President  
Southern Pioneer Electric Company  
P.O. Box 430  
Ulysses, KS 67880-0430

3. On November 16, 2005, WPK and Mid-Kansas filed a Joint Application in Docket No. 06-MKEE-524-ACQ ("524 Docket"), requesting approval to transfer WPK's certificate of convenience and franchise to Mid-Kansas, as well as transfer all WPK's electric business in Kansas to Mid-Kansas, including WPK's generation, transmission and local distribution facilities located in Kansas.

4. On January 10, 2007, a Joint Motion for Approval of Stipulation and Agreement was filed in the 524 Docket, requesting approval of, among other things, the transfer of WPK's generation, transmission and local distribution facilities located in Kansas to Mid-Kansas. Mid-Kansas also agreed to adopt the then-current WPK retail and wholesale rates.

---

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

5. On February, 23, 2007, the Commission issued an Order Adopting Stipulation and Agreement in the 524 Docket approving the transfer of WPK's generation, transmission and local distribution facilities located in Kansas to Mid-Kansas, subject to specific conditions set forth in the Stipulation and Agreement ("524 Stipulation"). The 524 Stipulation prohibited Mid-Kansas from filing for a rate increase that would affect Mid-Kansas customers until March 2009. Stipulation, at ¶17.

6. On April 1, 2007, Mid-Kansas began operation of the WPK electric generation, transmission and distribution facilities in Kansas.

7. On July 26, 2007, Mid-Kansas submitted its Application in Docket No. 08-MKKE-099-MIS ("099 Docket"), requesting the authority to transfer its distribution assets and enter into service agreements with the Mid-Kansas Members to service its retail electric customers, pursuant to the terms of the 524 Stipulation, which stated that "...Mid-Kansas will file a request to transfer the distribution assets and certificated territory as soon after the Effective Date as reasonably possible." 524 Stipulation, at ¶23. As part of the Application filed in the 099 Docket, Mid-Kansas submitted for approval an Electric Customer Service Agreement ("Service Agreement") with each Mid-Kansas Member that replaced the Lease and Service Agreement previously executed and approved by the Commission. The Service Agreements required each of the Mid-Kansas Members to provide to Mid-Kansas certain electric service to facilitate Mid-Kansas's ability to service its customers within its certificated service territory, all in accordance with the terms of the Service Agreements. Mid-Kansas was to continue to utilize the retail rates previously approved by the Commission.

8. On December 21, 2007, the Commission issued an Order Approving Spin-Down of Distribution Assets in the 099 Docket, approving the transfer of the distribution assets of Mid-Kansas to the respective Mid-Kansas Members. The distribution assets transferred to the respective members were to be utilized, in part, for the service of Mid-Kansas's customers as required under the Service Agreements.

9. Mid-Kansas, with the exception of the Mid-Kansas certificated territory served by Wheatland Electric, filed for changes in rates in 09-MKEE-969-RTS ("969 Docket") for each designated geographical service area within its certificated service territory served by its respective Members that reflected the current cost of service for Mid-Kansas within each of the specified geographical areas. In the 969 Docket, Mid-Kansas also filed to establish a wholesale rate for sales to each of the Mid-Kansas Members.

10. On November 22, 2011, a Joint Petition for Waiver of Filing Requirements was filed in this docket by Mid-Kansas, the Commission Staff, and the Citizens' Utility Ratepayer Board ("CURB"), wherein the parties requested the Commission waive the filing requirements of K.A.R. 82-1-231 and allow Mid-Kansas to file this rate case using a modified process previously approved for other Mid-Kansas Members. On December 14, the Commission issued an Order approving the Joint Petition.

## II. OVERVIEW OF THE APPLICATION

### A. *RATE ADJUSTMENT*

11. Mid-Kansas now files for changes in its rates that reflect a DSC Ratemaking approach for Mid-Kansas's services provided to customers within its

designated geographical certificated service territory served by Southern Pioneer under the terms of the Service Agreement as follows:

- Establishment of retail rates for sales made to retail customers by Mid-Kansas in the designated geographical certificated service territory served by Southern Pioneer using DSC Ratemaking approach.
- Establishment of a 5-Year timeframe that allows for the application of the DSC Ratemaking that anticipates annual rate adjustments to meet a target DSC ratio (“DSC Ratemaking Plan”).
- Establishment of a local access charge for services by Mid-Kansas to customers accessing the 34.5 kV sub-transmission owned by Southern Pioneer.

12. The proposed revenues in this Application permit Mid-Kansas to recover revenues that are in the public interest and are necessary to: (1) assure continuing, adequate, efficient and reliable utility service; (2) meet debt service requirements and make the required interest and principal payments on indebtedness; (3) maintain sufficient borrowing capability necessary to maintain, replace and expand the electrical infrastructure in the Southern Pioneer Division; and (4) achieve the financial covenants required for financing and protecting the financial integrity of the Southern Pioneer Division.

13. Based upon the calculations of Mid-Kansas witness Mr. Richard J. Macke included with this Application, a rate increase of \$7,992,522 or 13.7 percent is needed by Mid-Kansas for the customers in the Mid-Kansas designated geographic service territory served by Southern Pioneer. Mid-Kansas’s revenue requirement for the Southern Pioneer

Division has been determined by using a DSC ratio of 2.0. Mid-Kansas requests in this Application that this overall increase for the Southern Pioneer Division be broken out as follows:

Retail Rates: \$7,620,031,399 or 13.2 percent.

Local Access Charge: \$372,491 or 47.8 percent.<sup>2</sup>

This rate increase reflects the rates necessary *absent* Commission approval of the DSC Ratemaking Plan described in the following section of this Application. If the Commission approves the DSC Ratemaking Plan proposed by Mid-Kansas, then the initial rate increase proposed by Mid-Kansas would be lower, as described in the following section of this Application. Details about and support for Mid-Kansas's proposed cost of service and rate increase are contained in the Direct Testimony of Mr. Richard Macke.

*B. DSC RATEMAKING PLAN*

14. Mid-Kansas is also proposing for the Southern Pioneer Division a DSC Ratemaking Plan that will establish initial rates, with annual adjustments made each year as necessary to keep revenue at a level to achieve a pre-established DSC target ratio. The DSC target ratio would be 1.8 upon the date of approval in this docket and for the remainder of calendar year 2012, 1.8 in calendar year 2013, 1.9 in calendar year 2014, 2.0 in calendar year 2015 and 2.0 in calendar year 2016. After each year and beginning in 2013, an annual filing will be submitted by the Southern Pioneer division assessing the performance of the prior year, with the final filing occurring in 2017. Under the DSC

---

<sup>2</sup> The Local Access Charge schedule may require updating to reflect any change in the revenue requirements associated with the outcome of Docket No. 11-GIME-597-GIE, which is presently pending before the Commission.

Ratemaking Plan proposed by Mid-Kansas, the initial rate increase would be \$6,112,948 broken out as follows:

Retail Rates: \$5,871,021 or 10.2 percent.

Local Access Charge: \$241,927 or 31.0 percent.

The estimated rate adjustments for the following four years under the DSC Ratemaking Plan are as follows:

2013 – 4.9 percent

2014 – 3.3 percent

2015 – 3.1 percent

2016 – 2.8 percent

15. Because the Plan extends over five years, it facilitates in the earlier years a lower target ratio than the 2.0 proposed under the traditional regulatory structure because Mid-Kansas has the reasonable certainty that the revenues for the Southern Pioneer Division will remain predictable for a full five year period, allowing Southern Pioneer to meet its DSC loan agreement covenants. Under the DSC Ratemaking Plan, Mid-Kansas and its lenders can anticipate that the Southern Pioneer Division rates will allow Southern Pioneer to gradually increase the level of equity in its capital structure to meet the goals identified at this time for achieving financial independence from Pioneer. The uncertainty inherent in the traditional regulatory model has been alleviated, allowing for lower up-front increases in rates which benefits consumers. Overall regulatory costs are lowered and time dedicated to regulatory rate case activity is decreased – a benefit to consumers, the company, the Commission and its Staff.

16. The DSC Ratemaking Plan requires Southern Pioneer to submit to the Commission by May 1<sup>st</sup> of each year beginning in 2013 a calculation of its *Adjusted DSC* for the calendar year just ended. For purposes of each DSC Ratemaking filing, SPEC's *Adjusted DSC* shall be based on its Statement of Operations, as set forth on its *December Financial and Statistical Report* (Form 7), or equivalent report utilizing the FERC Uniform System or Accounts. The details of the DSC Ratemaking Plan are contained in the testimony of Mr. Richard Macke in Exhibit (RJM-SP-8).

C. MISCELLANEOUS

17. At this time, Mid-Kansas seeks the deferral and reservation by the Commission of the reclassification of the 34.5 kV and appropriate lower voltage facilities as provided for at paragraphs 10 and 11 of the Stipulation and Agreement approved by the Commission in the 969 Docket as the matter is currently being addressed in Docket 11-GIME-597-GIE.

18. Submitted with this Application is the testimony of Mid-Kansas witnesses, Mr. Stuart Lowry, Mr. Steve Epperson and Mr. Chantry Scott, in addition to the testimony of Mr. Richard J. Macke referenced above. Mid-Kansas has included with this Application the supporting information and data identified in Schedule 1 of the 816 Order as follows:

- (1) Prefiled Direct Testimony in Support of Exhibits and Workpapers.
- (2) A schedule detailing plant investments by functional classification, unadjusted amounts, proposed adjustments to these amounts, and jurisdictional amounts – *Direct Testimony and Schedules of Richard J. Macke*.
- (3) A schedule detailing the components included in working capital,



proposed adjustments and jurisdictional allocations- *Direct Testimony and Schedules of Richard J. Macke.*

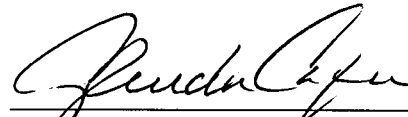
- (4) A schedule indicating the amounts of major components of the capital structure of the company, including long-term debt and patronage capital outstanding at the beginning and the end of the test year - *Direct Testimony and Schedules of Richard J. Macke.*
- (5) Statement of Operations – Present Rates with Pro Forma Adjustments and Supporting Schedules - *Direct Testimony and Schedules of Richard J. Macke.*
- (6) Schedule of Revenue Requirements - *Direct Testimony and Schedules of Richard J. Macke.*
- (7) Cost of Service analysis - *Direct Testimony and Schedules of Richard J. Macke.*
- (8) Statement of Operations – Proposed Rates with Pro Forma Adjustments and Supporting Schedules for Rate Classes - *Direct Testimony and Schedules of Richard J. Macke.*
- (9) Comparison of Present and Proposed Rate Schedules - *Direct Testimony and Schedules of Richard J. Macke.*
- (10) Comparison of Monthly Bills - *Direct Testimony and Schedules of Richard J. Macke.*
- (11) Present Rate Schedules - *Direct Testimony and Schedules of Richard J. Macke.*
- (12) Present Rate Schedules with Redlined Proposed Changes - *Direct Testimony and Schedules of Richard J. Macke.*
- (13) Proposed Rate Schedules - *Direct Testimony and Schedules of Richard J. Macke.*
- (14) Workpapers - *Direct Testimony and Schedules of Richard J. Macke.*
- (15) Audited Financial Statements - *Direct Testimony and Schedules of*  
*—Chantry C. Scott.*

19. The proposed revenues in this Application are just and reasonable, and are necessary to assure continuing, adequate, efficient and reliable utility service, and to maintain the financial integrity of Mid-Kansas and the Southern Pioneer Division. The DSC Ratemaking Plan proposed by Mid-Kansas will result in lower rates to customers and greater financial stability for the company than under the traditional regulatory approach.

WHEREFORE, Applicant prays that the Commission (1) issue a final Order approving the DSC Ratemaking Plan proposed herein allowing an annual adjustment of rates to meet a pre-established, graduated DSC ratio; (2) if the 5-Year Regulatory Plan is not adopted, issue an Order establishing revised rates as set forth above using a 2.0 DSC ratio, (3) approve the Applicant's revised rate schedules to produce the annual revenue required hereunder, substituting such schedules for those currently on file and approved for Applicant; (4) and such other and further relief as the Commission may deem just and proper.

Respectfully submitted,

Mark D. Calcara, #09957  
Watkins Calcara, Chtd.  
Suite 300, 1321 Main Street  
P. O Drawer 1110  
Great Bend, Kansas 67530  
(620) 792-8231 telephone  
(620) 792-2775 facsimile



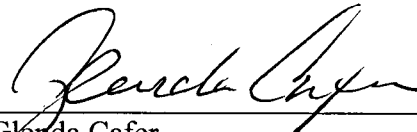
---

Glenda Cafer (#13342)  
(785) 271-9991  
Terri Pemberton (#23297)  
(785) 232-2123  
CAFER LAW OFFIC, L.L.C.  
3321 SW 6<sup>th</sup> Avenue  
Topeka, Kansas 66606  
(785) 233-3040 (fax)  
[glenda@caferlaw.com](mailto:glenda@caferlaw.com)  
[terri@caferlaw.com](mailto:terri@caferlaw.com)

**COUNSEL FOR MID-KANSAS  
ELECTRIC COMPANY, LLC**

**VERIFICATION**

I verify under penalty of perjury that the foregoing document is true and correct to the best of my knowledge and belief.



---

Glenda Cafer  
Counsel for Mid-Kansas

[Prepared in Accordance with KSA 53-601]