

BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS

JAN 08 2013

by
State Corporation Commission
of Kansas

In the Matter of the Application of Mid-Kansas)
Electric Company, LLC for Approval of a Debt)
Service Coverage Ratemaking Pilot Plan for the) Docket No. 13-MKEE- 452 -MIS
Geographic Territory Served by its Member-)
Owner Southern Pioneer Electric Company.)

PREFILED DIRECT TESTIMONY OF

DONALD L. GULLEY
VICE-PRESIDENT, REGULATORY AND MARKET AFFAIRS
SUNFLOWER ELECTRIC POWER CORPORATION

ON BEHALF OF

MID-KANSAS ELECTRIC COMPANY, LLC

January 8, 2013

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

2 A. My name is Donald L. Gulley.

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

4 A. I am employed by Sunflower Electric Power Corporation (Sunflower). My business
5 address is 301 W. 13th Street, Hays, Kansas.

6 **Q. What is your present position at Sunflower?**

7 A. My present position is vice president, regulatory & market affairs. By agreement,
8 Sunflower, through its employees, operates Mid-Kansas Electric Company, LLC (Mid-
9 Kansas).

10 **Q. Mr. Gulley, please summarize your educational and work experience.**

11 A. I hold B.S. degrees in geology (1984) and electrical engineering (1987) from Southern
12 Illinois University – Carbondale. I also hold a M.B.A. degree from Southern Illinois
13 University – Edwardsville (1993). I began employment with Sunflower in August 2010.
14 Prior to joining Sunflower, I was employed by Ameren Corporation for over 23 years,
15 where I held various leadership positions. Just prior to joining Sunflower, I held the
16 position of manager, business operations for Ameren Energy Marketing with primary
17 responsibility for overseeing account management functions and regional transmission
18 organization (RTO) market operations for Ameren’s merchant generation business.

19 **Q. On whose behalf are you testifying?**

20 A. I am testifying on behalf of Mid-Kansas.

21 **Q. Have you testified before the Kansas Corporation Commission (KCC) or any other
22 regulatory commission on previous occasions?**

1 A. I have filed Direct Testimony in Commission Docket 11-GIME-597-GIE and Docket 12-
2 MKEE-650-TAR.

3 **Q. What is the purpose of your testimony today?**

4 A. In addition to a brief overview of the Mid-Kansas structure, I will provide a discussion on
5 alternative regulatory framework or formula based rate (FBR) type filings in Kansas. I
6 will also provide an overview of impacts that oil field development has had on Mid-
7 Kansas infrastructure requirements and subsequent impacts to Mid-Kansas Members.

8 My specific testimony will cover the following topics:

- 9 1) Overview of Mid-Kansas' organization and governance.
10 2) Discussion on formula based rates as they pertain to Kansas.
11 3) Impacts of oil field developments on the infrastructure requirements of Mid-
12 Kansas and Mid-Kansas Members.

13

14 **1) ORGANIZATION AND GOVERNANCE OF MID-KANSAS**

15 **Q. Please provide background on Mid-Kansas.**

16 A. Mid-Kansas is a not-for-profit limited liability company operated on a not for profit basis.
17 It is owned directly (in the case of one division, indirectly) by the six consumer-owned
18 electric distribution cooperatives that also own Sunflower. The Members of Mid-Kansas
19 are as follows: Lane-Scott Electric Cooperative, Inc. (Lane-Scott); Southern Pioneer
20 Electric Company (Southern Pioneer); Prairie Land Electric Cooperative, Inc. (PLEC);
21 Victory Electric Cooperative Association, Inc. (VECA); Western Cooperative Electric
22 Association, Inc. (WCEA); and Wheatland Electric Cooperative, Inc. (WEC). Southern

1 Pioneer is wholly owned by Pioneer Electric Cooperative, Inc. (PEC). Lane-Scott, PEC,
2 PLEC, VECA, WCEA, and WEC are the six Members of Sunflower.

3 **Q. Who operates Mid-Kansas?**

4 A. By contract approved by the KCC, Sunflower, through its employees, operates Mid-
5 Kansas.¹

6 **Q. Why was Mid-Kansas formed?**

7 A. The Members formed Mid-Kansas to acquire the Kansas electric utility assets from
8 Aquila, Inc., Aquila Networks - WPK ("Aquila"). Mid-Kansas is an electric public utility
9 regulated by the KCC. In February 2007, the KCC approved the sale and transfer of
10 Aquila's certificate of convenience and franchise to Mid-Kansas, as well as all of
11 Aquila's generation, transmission, and local distribution facilities located in Kansas.² The
12 transaction closed April 1, 2007.

13 **Q. You previously said that Mid-Kansas is a limited liability company operated on a
14 non-profit basis. What does that mean?**

15 A. Mid-Kansas is operated on a non-profit basis in a manner similar to a cooperative.
16 Cooperatives are operated on a non-profit basis and are owned by its members. All year-
17 end revenues in excess of the cooperatives' actual cost of service are allocated to capital

¹ The original Service and Operation Agreement (available on the Commission's website at <http://estar.kcc.ks.gov/estar/portal/kcc/page/docket-docs/PSC/DocketDetails.aspx?DocketId=61fc7358-59e9-49b3-a57f-9e9de6b0148d>) was approved by the Commission in the Order Adopting Stipulation and Agreement, KCC Docket No. 06-MKEE-524-ACQ, ¶ 14.B. (Feb. 23, 2007), available on the Commission's website at <http://www.kcc.state.ks.us/scan/200702/20070223114828.pdf> ("524 Order"). The Agreement is also available on the Commission's website at: <http://estar.kcc.ks.gov/estar/portal/kcc/page/docket-docs/PSC/DocketDetails.aspx?DocketId=3fa03184-9702-45cc-8957-0e44759aa03e>. This is the currently effective version, which was approved in the Order Approving Spin-Down of Distribution Assets, Docket No. 08-MKEE-099-MIS (Dec. 21, 2007) ("Distribution Transfer Order"), available on the Commission's website at <http://estar.kcc.ks.gov/estar/ViewFile.aspx?id=95db96d0-03e6-4c96-8a16-b04d2d239104>

² 524 Order, ¶ 14.B.

The [KCC] authorizes and directs [Mid-Kansas] to serve WPK's customers, meaning those customers in the former Aquila retail certificated service territory to be served by [Mid-Kansas] or the members of [Mid-Kansas] after transfer of certificated territory, within the same area and at the same rates currently in effect; the [KCC] further authorizes WPK to cease providing electric service to customers in the area. . . .
See also, *Aquila, Inc.*, FERC Docket No. EC06-46-000 *et al.*, 117 FERC ¶ 61,276 (2006).

1 accounts for the benefit of the members and may be periodically refunded to the
2 members, in a manner consistent with the cooperatives' by-laws. In addition, cooperative
3 members participate in its management oversight by electing its directors. In a
4 cooperative utility, the majority of the ratepayers and the owners of the utility are one and
5 the same. There are no competing interests between shareholders who want higher
6 returns and customers who want lower rates and better service.

7 **Q. Does this mean that rates are not an issue?**

8 A. No. Rates are always a driving concern for a cooperative, because Generation &
9 Transmission ("G&T") members (and their ultimate retail customers) want low rates like
10 anyone else. However, in a cooperative business model, there are not competing interests
11 between the ratepayer and the utility shareholders as there are in an investor-owned
12 utility (IOU) model. As more fully discussed by Mr. Epperson in his direct testimony,
13 there is no credible argument for why Mid-Kansas (Southern Pioneer) would set rates in
14 excess of the true cost of service.

15 **Q. Why is this a Mid-Kansas filing?**

16 A. Mid-Kansas has not yet transferred its certificates of public convenience and necessity to
17 any of the Members (we refer to this as the final spin-down). Mid-Kansas filed an
18 application on January 7, 2013 requesting approval of the final spin-down in KCC
19 Docket No. 13-MKEE-447-MIS. Until that application is approved by the Commission,
20 the Members will continue to handle the billing and day-to-day interaction with the retail
21 customers pursuant to the Electric Customer Service Agreement, much as they will do
22 upon final spin-down.

23

1 **2) FORMULA BASED RATES IN KANSAS**

2 **Q. Are formula based rates a new concept?**

3 A. No. Formula based rates have been established and used in both retail and wholesale
4 transmission service applications. Mr. Macke's Direct Testimony will more fully discuss
5 retail formula type rates that have been established in other parts of the country. I note
6 that the retail rates of the customers of Mid-Kansas, including the Southern Pioneer
7 division, already pay rates that include a component set using a formula based rate. Mid-
8 Kansas has in effect a transmission delivery charge ("TDC") that is updated annually
9 based upon a pre-established formula. That TDC is charged to Members, who then
10 collect that charge from retail customers as part of their Energy Cost Adjustment
11 ("ECA"). More recently, many companies have moved to formula type rate designs in
12 order to meet infrastructure build-out requirements as well as maintain reliability without
13 having to file costly, time consuming rate case applications on an annual basis.

14 **Q. Has the Kansas Corporation Commission had specific experience with formula
15 based rate designs?**

16 A. Yes. Formula based rate design is not new to this Commission. In general, the
17 Commission is familiar with formula based rate design applications as a result of filings
18 made by Kansas transmission owners. Specifically, Midwest Energy, Inc., Westar
19 Energy, Inc., and Kansas City Power & Light Co. have all used a formula based
20 regulatory framework. More recently, the Commission issued an Order on Mid-Kansas'
21 Formula Based Rate in Docket 12-MKEE-650-TAR.

22 **Q. Will 34.5 kV transmission service customers of Southern Pioneer be treated
23 comparably to Member consumers under a formula based framework?**

1 A. Yes. Under the Debt Service Coverage Formula Based Rate Pilot Plan (“DSC-FBR
2 Plan”) proposed by Mid-Kansas in this docket, rates for customers taking transmission
3 service through Local Delivery Service Agreements and Local Delivery Operating
4 Agreements will be impacted similarly to retail customers. This is more fully described
5 in Mr. Macke’s Direct Testimony.

6

7 **3) THE IMPACT OF OIL FIELD DEVELOPMENT ON MID-KANSAS & ITS**
8 **MEMBERS**

9

10 **Q. Have recent developments in the Mississippi Lime oil play impacted load**
11 **projections for Mid-Kansas and Mid-Kansas Members?**

12 A. Yes. Mid-Kansas and Mid-Kansas Members are beginning to see new delivery point
13 service requests for additional load associated with the increase in drilling and production
14 from the Mississippi Lime formation.

15 **Q. What are the load/delivery point requests that have been made?**

16 A. Mid-Kansas, through the Southwest Power Pool (SPP) Attachment AQ process, has
17 identified new load additions associated with requests from oil companies for service.
18 The load requests and projections so far are as follows:

- 19
- Year 1 – 36 MWs
 - 20 • Year 3 – 59 MWs
 - 21 • Year 10 – 228 MWs

22 These delivery point impacts have been predominately for the Members with the
23 southernmost service areas (Victory, Wheatland, Southern Pioneer) and on the Mid-
24 Kansas transmission system. The early impacts to Southern Pioneer are detailed in Mr.
25 Epperson’s Testimony.

1 **Q. Does this include all impacts associated with oil field developments?**

2 A. No. These load additions are specifically tied to the oil company pumping load and do
3 not include secondary impacts that Members will see as a result of the economic
4 development activities.

5 **Q. What are those potential secondary impacts?**

6 A. Secondary impacts include growth in housing and commercial development related to the
7 increase in oil and gas activity in the area. Southern Pioneer will be required to support
8 this secondary growth so as not to impede the oil & gas industry growth. This is done by
9 being proactive and working ahead of the development to support it rather than waiting
10 until the situation is upon us and then try to react. While it's not certain, we can look to
11 Oklahoma as a proxy for potential impacts on the Members distribution system. For
12 example, Alfalfa Electric has reported over 600 miles of new distribution lines being built
13 to serve the oil field load.

14 **Q. What is the significance of such a large amount of distribution growth?**

15 A. What this means is that as the oil and gas companies expand their operations in southern
16 Kansas, the small communities being served by Mid-Kansas and its Members are
17 expected to grow in direct relation to the influx in supporting industries and population
18 resulting from the expansion of oil and gas operations. Mid-Kansas and its Members
19 must be able to meet this growing demand in order to assist with the economic growth of
20 the region and to meet their obligation to serve.

21 **Q. Are there other examples?**

22 A. Yes. In fact the Commission Staff has traveled to North Dakota to review impacts
23 associated with the Bakken Shale development. Industry groups in Kansas have been

1 formed to study the Bakken Shale development in an effort to track and determine
2 impacts the Mississippi Lime oil play may have on Kansas. While it is not certain,
3 examples like the Bakken Shale in North Dakota have shown that Kansas can be
4 positioned for economic development, beginning in the south central and southwest part
5 of the state – overlapping Mid-Kansas Member service areas.

6 **Q. How do Mid-Kansas and the Mid-Kansas Members plan to address this**
7 **development?**

8 A. Mid-Kansas has addressed the economic development opportunity from a transmission
9 standpoint. A Transmission Line Extension Policy has been filed with the Commission
10 in Docket 13-MKEE-434-TAR with full stakeholder involvement in order to be able to
11 respond to the growth while at the same time protect existing transmission customers
12 from potential rate increases. This was recently filed as an Appendix to the Mid-Kansas
13 OATT.³ The Members are just at the front of seeing growth on the distribution side
14 which obviously can have an impact on service and rates. Meeting the needs of new
15 capital requirements will be a challenge. Southern Pioneer's proposed DSC-FBR Plan is
16 an alternative to help meet the requirements of new load growth.

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

18 A. Yes.

³ 13-MKEE-434-TAR filed December 21, 2012.

VERIFICATION OF DONALD L. GULLEY

STATE OF KANSAS)

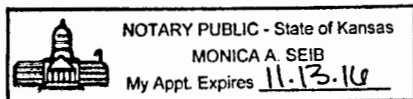
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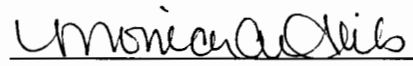
COUNTY OF ELLIS)

Donald L. Gulley, being first duly sworn, deposes and says that he is Donald L. Gulley referred to in the foregoing document entitled "Direct Testimony of Donald L. Gulley" 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.


Donald L. Gulley

SUBSCRIBED AND SWORN to before me this 31st day of December, 2012.




Notary Public

My Appointment Expires: 11.13.16