

**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.)

TESTIMONY IN SUPPORT OF UNANIMOUS SETTLEMENT AGREEMENT

STUART S. LOWRY

PRESIDENT AND CHIEF EXECUTIVE OFFICER

ON BEHALF OF

SUNFLOWER ELECTRIC POWER CORPORATION

and

MID-KANSAS ELECTRIC COMPANY, INC.

March 8, 2019

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

2 A. My name is Stuart S. Lowry.

3 **Q. Are you an officer of Sunflower Electric Power Corporation (“Sunflower”)**
4 **and Mid-Kansas Electric Company, Inc. (“Mid-Kansas”)?**

5 A. Yes, I am the President and Chief Executive Officer of both Sunflower and Mid-
6 Kansas and have been since August 2011.

7 **Q. By whom are you employed and what is your business address?**

8 A. I am employed by Sunflower. My business address is 301 W. 13th Street, Hays,
9 Kansas. I am not an employee of Mid-Kansas as it has no employees. By
10 contract approved by the Kansas Corporation Commission (“KCC” or
11 “Commission”), Sunflower, through its employees, operates Mid-Kansas.

12 **Q. Are you the same Stuart S. Lowry that filed Direct and Rebuttal Testimony**
13 **in this Docket?**

14 A. Yes.

15 **Q. What is the purpose of your Testimony?**

16 A. The purpose of my testimony is to offer support for the approval of the merger
17 and Unanimous Settlement Agreement (referred to as “Agreement” or “SA”)
18 entered in this docket and to apply the Commission’s settlement standards to the
19 provisions of the settlement agreement entered in this docket.

20 **Q. Does the approval of the terms set forth in the Agreement change your**
21 **opinion expressed in your testimony that the merger is in the public**
22 **interest?**

1 A. Joint Applicants believe that the Agreement, if approved, will facilitate the five key
2 desirable outcomes from the merger identified earlier in my testimony in this
3 docket:

4 (1) creating a single company that will be stronger operationally and financially
5 than the two stand-alone companies;

6
7 (2) lowering our cost of borrowing by creating a single company with a stronger
8 credit profile than the two stand-alone companies;

9
10 (3) stabilizing wholesale rates through economy of scale and mitigation of
11 impacts from load variations;

12
13 (4) greater diversification of the generation portfolio; and

14
15 (5) capturing savings and synergies associated with merging the two companies.

16 **Q. Do you support the Agreement in this docket?**

17 A. Yes, I do. For the reasons stated below, I believe the Agreement to be in the
18 public interest as well as in the common interests of the Joint Applicants and the
19 intervening parties. Those parties not joining in support of the Agreement do not
20 oppose the Agreement but are unable to outwardly support for reasons unique to
21 each of those parties.

22 **Q. Why do you support the Agreement?**

23 A. As stated in the Agreement at Paragraph 19, the terms of the Agreement
24 constitute a fair and reasonable resolution of the issues addressed in the
25 Agreement, which are not detrimental to the public interest. By agreeing to the
26 terms, the Signatories have addressed important issues to the Signatories, and
27 facilitated the Joint Applicants' ability to complete the final steps of merging

1 Sunflower and Mid-Kansas, which is an overall benefit to the public and
2 specifically to retail customers.

3 **Q. Are there other benefits from the Agreement?**

4 A. Yes. The Agreement preserves the benefits of the merger for the retail customers
5 taking service from Sunflower and Mid-Kansas Members and aligns Sunflower
6 and Mid-Kansas with its wholesale generation and transmission customers as we
7 proceed to combine the Sunflower and Mid-Kansas transmission zones and rates
8 at the Federal Energy Regulatory Commission (FERC).

9 **Q. Please explain your understanding of the conditions set forth in Paragraph**
10 **17 of the Agreement.**

11 A. Let me begin somewhat out of order and address Paragraph 17d. first. Mr.
12 Rooney will address the Transition Method in greater detail in his testimony. I will
13 provide an overview of the Agreement. The Joint Applicants will cause to be filed
14 with FERC an application to combine the Sunflower and Mid-Kansas
15 transmission zones and converge the two companies' transmission rates into a
16 single rate. My understanding is that a request such as this has not been made
17 at SPP or with FERC to date. With such uncertainty, the approval by FERC of
18 combining of the two zones and forming a single rate is more likely to occur with
19 the support of KEPCo and KPP. We believe that the support of the zonal
20 transmission customers for this filing will be important and will enhance the
21 success of the request.

1 **Q. Is the support for the filing to combine the two zones and a single rate**
2 **unconditional?**

3 A. KEPCo's and KPP's support of combining of the two zones and forming a single
4 rate is unconditional, but as provided in the Agreement, KPP and KEPCo retain
5 all rights to comment on, challenge, and protest any and all aspects, components
6 and details of the filing other than the Joint Applicants' requests that there be one
7 merged transmission zone and one merged transmission formula rate ("TFR").¹

8 **Q. Are other KEPCo Merger Conditions addressed in the Agreement?**

9 A. Yes. In addition to Paragraph 17d. which address KEPCo's Merger Condition 11
10 in Mr. Doljac's Direct Testimony, Paragraph 17a. reflects agreement with and
11 confirms that effective upon merger all debts, liabilities, obligations, and duties of
12 Mid-Kansas shall attach to Sunflower, as the surviving company, and may be
13 enforced to the same extent the same had been incurred or contracted by
14 Sunflower, including, as required by law, duties and obligations of tariffs,
15 regulations, and orders. This is simply a reiteration of and in accord with Kansas
16 law as set forth in K.S.A. 17-6709.

17 Paragraph 17b. is a commitment by Sunflower to undertake a transmission loss
18 study for the planned combined transmission zone and to cause the loss factor to
19 be filed with FERC. Sunflower acknowledges this would be expected in
20 conjunction with the filing to converge the two TFRs into a single rate.

¹ See Unanimous Settlement Agreement, Paragraph 17d.ii.

Paragraph 17c. requires Sunflower to maintain accounting and other records as necessary to support the TFR as required by applicable law, tariff and order and as required to comply with the terms of the Transition Method.

Finally, the Signatories agree to the approval of the merger, approval of the adoption of the current tariffs, rules, regulations and policies of the surviving company, Sunflower, with the exception of the Mid-Kansas Open Access Transmission Tariff ("MKEC OATT") which will remain in effect with Sunflower serving as the Transmission Provider under the MKEC OATT and with the Transmission Facilities under the MKEC OATT referring to the facilities acquired by Mid-Kansas from Aquila, Inc. in Docket No. 06-MKEE-524-ACQ and transferred to the Transmission Owners pursuant to the order issued in Docket 08-MKEE-099-MIS. This is necessary to preserve the current administration of the Mid-Kansas Members' services by the surviving company for the Mid-Kansas Members' respective local access transmission services and for clarity that Sunflower will now administer the services once Mid-Kansas is merged into Sunflower.

Q. KEPCo and KPP noted other conditions and requests in their testimony.

Does the Agreement address those conditions and requests?

A. KEPCo withdrew Conditions 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 reflected in Dr. Dismukes' Exhibit DED-2 of his Direct Testimony. KPP had advocated for zonal uplift of the 34.5 kV facility costs and assets owned by the Mid-Kansas Members and for combination of transmission zones beyond the Sunflower and Mid-Kansas zones. As Mr. Gatewood testified to, the KPP requests are beyond the

1 scope of this docket and the Agreement reflects that KPP will not be prejudiced
2 by any Order in this docket from raising those issues in future dockets.

3 **Q. Does any portion of the Agreement impair the operational or financial**
4 **benefits of the merger?**

5 A. No. There were detailed discussions with all parties about the terms, and
6 specifically the TFR Transition Method and the Transition Adjustment described
7 by Mr. Rooney in his testimony. Certainly true-up calculations and benefits or
8 costs from this calculation will vary if the true up is done for the two stand-alone
9 companies or for the merged company zones. The Agreement will result in the
10 parties seeking FERC approval for a formula rate that calculates true-ups for the
11 stand-alone company and will also allow for a transition over two years from the
12 current method to the proposed merged method. Although we do not know today
13 how the Transition Adjustment will play out, I do not expect the dollars at risk for
14 Joint Applicants or any transmission customer to be significant or impactful.

15 **Q. Was there other important consideration given for the terms of the**
16 **Agreement?**

17 A. Yes. Importantly, all Signatories felt the Transition Method to be a fair exchange
18 for their support for both the combination of the transmission zones and rates. As
19 this has not been done at FERC before, I see great benefit in making the request
20 in a way that allows other transmission customers to indicate support.

1 **Q. Is the Agreement supported by substantial competent evidence in the**
2 **record as a whole?**

3 A. Yes. All terms agreed to and included in the Agreement are supported by the
4 evidence in the record as a whole. Nine Joint Applicants' witnesses filed direct
5 testimony, with Mr. Rooney and myself filing rebuttal testimony in response to the
6 issues and concerns raised by the direct testimony and cross-answering
7 testimony filed by Dr. Dismukes and Mark Doljac on behalf of KEPCo. Adam
8 Gatewood filed direct testimony and cross-answering testimony on behalf of
9 Staff. Larry Holloway filed his direct testimony on behalf of KPP. The terms of the
10 Agreement reflect a fair and just response to the concerns and needs of the
11 Signatories. The most significant terms are those addressing the Transition
12 Method. Mr. Doljac and Mr. Rooney in their testimony in support of the
13 Agreement go to great lengths to explain in detail the purpose and method of
14 calculating the Transition Adjustment. The evidence in the record is more than
15 sufficient to support the Agreement.

16 **Q. Will the Agreement result in just and reasonable rates?**

17 A. Yes. The Agreement will allow the merger to be approved under conditions that
18 are fair to customers, the Sunflower and Mid-Kansas Members and the
19 intervenors. It is important to note that the Sunflower and Mid-Kansas Members
20 analyzed the rate impact of the merger on the services provided by Sunflower
21 and Mid-Kansas and determined that the combined company would result in just
22 and reasonable rates and, moreover, as a larger combined company, the merged
23 company would be stronger financially and able to withstand some of the

1 unforeseeable events that tend to drive rates from year to year. Rates of the two
2 companies were reduced in 2019 and had converged to the point that cost shifts
3 due to the merger would be minimized. This is also true for the transmission
4 rates of the two companies. The combination of the rates, even with the transition
5 true-up settlement provisions in the Agreement, should result in minimal impacts,
6 pro or con, to any individual customer.

7 **Q. Do you still believe the merger is in the public interest and should be**
8 **approved?**

9 A. Yes. As testified to by the Joint Applicants' and Staff witnesses, Joint Applicants'
10 application for merger meets the Commission's standards for merger. Those
11 standards are designed to ensure the proposed merger transaction promotes the
12 public interest. Considering each party to this proceeding represents their
13 specific interest, the fact a unanimous settlement of the parties was reached is
14 confirmation the settlement will promote the public interest and represents an
15 equitable balancing of the interests of all the parties.

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

17 A. Yes.

CERTIFICATE OF SERVICE

I do hereby certify that on the 8th day of March, 2019, I electronically filed via the Kansas Corporation Commission's Electronic Filing System a true and correct copy of the above and foregoing Testimony with an electronic copy e-mailed to the Service List:

/s/ Renee K. Braun

As of 3/8/2019 and last modified 3/7/2019

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