

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

In the Matter of the Annual Filing of)
Southern Pioneer Electric Company for)
Approval to Make Certain Changes to its) Docket No. 16-SPEE-_____-RTS
Charges for Electric Services, Pursuant to)
the Debt Service Coverage Formula Based)
Ratemaking Plan Approved in Docket)
No.13-MKEE-452-MIS.)

PREFILED DIRECT TESTIMONY OF

**RANDALL D. MAGNISON
EXECUTIVE VICE PRESIDENT – ASSISTANT CHIEF EXECUTIVE OFFICER
SOUTHERN PIONEER ELECTRIC COMPANY**

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

May 2, 2016

I. INTRODUCTION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Randall D. Magnison. My business address for legal service is 1850 W. Oklahoma, Ulysses Kansas 67880 and for mail receipt, PO Box 430, Ulysses Kansas 67880-0430.

Q. What is your profession?

A. I am the Executive Vice President and Assistant Chief Executive Officer (“Assistant CEO”) of Southern Pioneer Electric Company (“Southern Pioneer”), a wholly owned subsidiary of Pioneer Electric Cooperative, Inc. (“Pioneer”), pursuant to the Services Agreement entered into between Pioneer and Southern Pioneer on July 7, 2006. Our corporate office is located in Ulysses, Kansas, and our distribution-customer service offices are located in Liberal and Medicine Lodge, Kansas.

Q. Please describe your responsibilities with Southern Pioneer.

A. As the Executive Vice President and Assistant CEO of both companies, I provide assistance to the Chief Executive Officer (“CEO”) in the day-to-day management of both Pioneer and Southern Pioneer. Additionally, I oversee all of the Human Resource functions, personnel, compensation planning, benefits administration and regulatory/compliance activities, including ratemaking and regulatory filings. Further, as the Assistant CEO, I work directly for the CEO and with the Board of Directors in establishing policy and rates, implementing strategic programs, and conducting the overall operation of both Pioneer and Southern Pioneer to ensure reliable service at a competitive cost, using generally acceptable industry business practices.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support the compliance filing in Southern Pioneer's Debt Service Coverage ("DSC") Formula Based Ratemaking ("FBR") Pilot Program (referred to hereafter as the "DSC-FBR Plan", "DSC Plan" or "Plan"), which results in a slight rate increase of \$679,308, or overall rate increase of 1.18% for retail ratepayers. Specifically, my testimony will (1) provide historical information on Southern Pioneer; (2) summarize and convey the comments of the Southern Pioneer Consumer Advisory Council ("Council") as it relates to the DSC Plan and any rate adjustment therefrom; (3) summarize the Commission-approved settlement between Mid-Kansas, Southern Pioneer and KMEA in Docket 15-MKKEE-461-TAR (the "15-461 Docket") and the resulting payment received; and (4) affirm, as part of calculating the revenue requirement adjustment and incorporating the Commission's policy and practice, Southern Pioneer's continued removal of 100% of certain promotional or corporate advertising expenses and limiting to 50% the amount of certain dues, donations and charitable contribution expenses, etc.

Q. What is your educational background?

A. I graduated from Friends University in 1991 with a Bachelor of Science Degree in Human Resource Management. In 2005, I successfully completed the National Rural Electric Cooperatives' Management Internship Program through the University of Wisconsin.

Q. What is your professional background?

A. I was employed in July 2000 as the Assistant to the CEO at Pioneer Electric. In September 2005, I served a dual role as the Assistant to the CEO and Southern Pioneer's Executive Vice President-Chief Operating Officer ("COO"). As the COO of Southern Pioneer, I was instrumental in the formation of Southern Pioneer and coordinated the acquisition and

transition of Southern Pioneer's portion of the acquired Aquila, Inc., d/b/a Aquila Networks-WPK ("Aquila") assets from an investor-owned utility to that of a for-profit C-Corporation, owned by a cooperative and agreeing to operate as a taxable, not-for-profit entity. In May 2011, I was appointed the Executive Vice President and Assistant CEO of both Pioneer and Southern Pioneer, the position I continue to hold today. Prior to July of 2000, I served as Manager of Benefits for Sunflower Electric Power Corporation ("Sunflower") in Hays, Kansas, where I managed all Statutory and Welfare Benefit Programs, and provided support to all Sunflower Member Systems and the 500 plus system employees. Prior to Sunflower, I served seven years as the Administrator at a regional accounting firm where I managed the daily activities of the firm, as well as provided compensation and benefit consulting to clients.

Q. Have you previously presented testimony before the Commission?

A. Yes. I have filed both direct and rebuttal testimony as well as compliance reports in Docket Nos. 06-MKKEE-524-ACQ (the "06-524 Docket"), 12-MKKEE-380-RTS, 13-MKKEE-452-MIS (the "13-452 Docket"), 14-SPEE-507-RTS (the "14-507 Docket"), 15-SPEE-116-RTS (the "15-116 Docket"), 15-SPEE-519-RTS (the "15-519 Docket"), 15-SPEE-161-RTS (the "15-161 Docket") and 16-MKKEE-023-TAR (the "16-023 Docket"). In addition to preparing testimony or testifying before the Commission, I have filed applications for the purpose of adopting an *ad valorem* tax surcharge in Docket Nos. 13-MKKEE-695-TAR, 14-SPEE-297-TAR, 15-SPEE-267-TAR and 16-SPEE-306-TAR.

Q. In addition to your testimony, is Southern Pioneer offering other testimony in support of this Application?

A. Yes. Utilizing the prescribed Protocols adopted in the 452 Docket, Mr. Richard J. Macke, rate consultant with Power System Engineering (“PSE”), has calculated Southern Pioneer’s adjusted DSC ratio for the test year as compared to the Commission-approved target. Additionally, Mr. Macke has prepared proposed tariffs to achieve the slightly increased revenue requirement to meet the target in this annual filing. All of the exhibits, as outlined in the Protocols, are attached to the Application rather than attached to individual testimony.

II. SOUTHERN PIONEER

Q. Please provide some historical information on the origination of and describe the business activities of Southern Pioneer.

A. Southern Pioneer was formed in 2005 in response to Aquila’s announcement of its intention to sell its Kansas electric assets. Five member-owner cooperatives of Sunflower Electric Power Corporation (“Sunflower”) and Southern Pioneer, a wholly owned subsidiary of Pioneer, joined to form Mid-Kansas Electric Company, LLC (“Mid-Kansas”), a not-for-profit limited liability company, to acquire and serve the former Aquila service territory. Mid-Kansas and Aquila executed an Asset Purchase Agreement dated September 21, 2005 (“the Acquisition”), and submitted the agreement to the State Corporation Commission of the State of Kansas (“Commission” or “KCC”) for approval in the 06-524 Docket. On February 23, 2007, the Commission approved the Acquisition, and pursuant to Commission order, on April 1, 2007, Southern Pioneer began to serve and independently operate a designated geographic portion of the Mid-Kansas certificated territory formerly serviced by Aquila. At that time, Mid-Kansas held the Certificate of Convenience and Necessity for the former Aquila area and Southern Pioneer was serving a portion of the area via a Commission-approved Electric Customer Service Agreement.

Q. Please continue.

A. As a Mid-Kansas member-owner, and pursuant to a Commission-approved Electric Customer Service Agreement, Southern Pioneer contractually provided retail service to approximately 17,300 Mid-Kansas consumers in 34 communities in the Mid-Kansas “Southern Pioneer Division.” Southern Pioneer also provided sub-transmission service to 34.5 kV wholesale sub-transmission users. The Commission approved this arrangement until such time that the Mid-Kansas certificated territory and customers were transferred to the member-owners on November 21, 2013, when the Commission issued its order in Docket No. 13-MKEE-447-MIS (the “13-447 Docket”), approving the Mid-Kansas spin-down, which provided for, among other things, the transfer of the individual certificated territories, consumers, KCC-approved rules and regulations, and tariffs to each of the Mid-Kansas Members, including Southern Pioneer. As part of the 13-447 Docket, the Commission granted to Southern Pioneer public utility status and the Mid-Kansas customers being served by Southern Pioneer by virtue of the Electric Customer Service Agreement noted above, officially became Southern Pioneer Customers.

III. Southern Pioneer Consumer Advisory Council

Q. As part of the Protocols set forth in the DSC-FBR Plan, Southern Pioneer agreed to consult with its Consumer Advisory Council (“Council”) regarding the ratepayer impact of the annual filings and include with the Application the comments received from the Council.¹ Additionally, Southern Pioneer agreed to submit the minutes from

¹ 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 2, Section 2

quarterly Council Meetings that occurred during the test year,² which in this case is calendar year 2015. Are the Council minutes from the test year attached to the filing?

A. Yes. Included with the filing, as **Exhibit 13**, are the minutes from the quarterly Council meetings for the 2015 calendar year.

Q. What are the Council's comments with regard to the annual filing impact to ratepayers?

A. On April 29, 2016, at a special Council meeting conducted via conference call, Southern Pioneer shared with the Council the calculation for the 2016 DSC-FBR Plan filing and the overall impact to ratepayers. In summary, Chief Executive Officer Stephen J. Epperson and I advised the Council that the third DSC Plan filing was due on or before May 2, 2015. Mr. Epperson and I explained to the Council that in following the Protocols adopted in the 13-452 Docket, PSE calculated that Southern Pioneer achieved a DSC ratio of 1.63, which is under the allowed 1.75 target, which requires a rate increase of \$679,308 to reach the target. This shortfall results in an overall rate increase of 1.18% for retail ratepayers.

Q. And how did the Council react to this announced adjustment?

A. Because Southern Pioneer retail ratepayers enjoyed just under a one percent (0.78%) decrease in 2014, the first year of the DCS Plan filing, and a 1.32% increase in 2015, the second year of the DSC Plan filing, the Council was pleased to learn that the results of the third filing, the 2016 DSC calculation, resulted in such a slight overall increase in rates. The Council complimented Southern Pioneer on its continued commitment to provide reliable service and its involvement in the Southern Pioneer communities, all while achieving

² 452 Docket, Order Approving Non-Unanimous Settlement Agreement, Exhibit A, Page 7, Section J(13)

relative rate stability. The Council requested that Southern Pioneer seek approval of and implement the final rate adjustment within the 90-day schedule as outlined in the DSC Plan.

IV. Mid-Kansas-Southern Pioneer-KMEA Settlement

Q. You mentioned that in this Annual Filing, there is a Commission-approved settlement between Mid-Kansas, Southern Pioneer and KMEA in the 15-461 Docket that affected the rate as calculated by Mr. Macke. Can you generally summarize the circumstances leading to the settlement?

A. Yes, I can. Mid-Kansas and Southern Pioneer became vaguely aware in June 2014 that KMEA and the Kansas Power Pool (“KPP”) had entered into a transaction for KPP to sell the City of Kingman’s generation capacity to KMEA to serve the City of Garden City, Kansas. Because neither Mid-Kansas nor Southern Pioneer had been contacted by either KPP or KMEA to arrange for “first-mile” generation service (local access delivery service) over Southern Pioneer’s 34.5 kV sub-transmission system before commencing the transaction on January 1, 2014, Mid-Kansas contacted both KPP and KMEA regarding the details of the transaction. After an extended period of time, Mid-Kansas and Southern Pioneer finally received copies of the agreements (“KPP-KMEA Wholesale Power Agreement”) by way of an open records request, and upon reviewing and discussing with KMEA, subsequently Mid-Kansas, Southern Pioneer and KMEA reached a mutual settlement to resolve the dispute and avoid additional costs of pursuing and litigating this matter. This settlement (“KMEA Settlement”) was memorialized in a settlement agreement executed January 26, 2015 and filed as Exhibit 3 of the Joint Application filed with the Commission on April 3, 2015 in the 15-461 Docket.

Q. Please highlight the terms of the settlement as it impacts this Annual Filing

A. There were basically four key terms of the KMEA Settlement of which one impacts this filing. KMEA agreed to pay Southern Pioneer a lump sum amount due under the Mid-Kansas Open Access Transmission Tariff (“OATT”), and Southern Pioneer’s Local Access Delivery Service (“LADS”) Tariff and Property Tax Surcharge Rider Tariff (“PTS Tariff”), for point-to-point LADS and associated ad valorem property tax charges for KMEA’s use of Southern Pioneer’s 34.5 kV LADS facilities.

Q. And what was the agreed to lump sum amount?

A. The lump sum payment was \$480,914.40 for point-to-point LADS and associated ad valorem property tax charges accrued pursuant to the Mid-Kansas OATT”, Southern Pioneer LADS Tariff and Southern Pioneer Ad Valorem Property Tax Surcharge Rider Tariff (“PTS Tariff”), for KMEA’s use of Southern Pioneer’s 34.5 kV LADS facilities pursuant to the KPP-KMEA Wholesale Power Agreement, from January 1, 2014 until October 31, 2014. KMEA agreed that this payment would be made in full by KMEA to Southern Pioneer within five (5) business days of the date of a final and non-appealable order from the Commission approving the Settlement Agreement in its entirety, without material modification.

Q. Did the Commission approve this settlement as proposed by the parties?

A. Yes it did. Based on the Commission Staff’s Report and Recommendation filed December 17, 2015 recommending approval of the settlement³, the Commission issued its final Order approving the terms of the settlement on January 12, 2016⁴.

Q. Has Southern Pioneer received KMEA’s payment?

³ Docket 15-461, Staff Report and Recommendation, p. 2

⁴ Docket 15-461, Order Granting Joint Application for Approval of Settlement Agreement, p. 5, ¶ 11.

A. Yes, on January 28, 2016, Southern Pioneer received a payment in the full amount of \$480,914.40, which represented \$444,800.00 for 10-months of Firm Point-to-Point LADS and \$36,114.40 for 10-months of Property Tax Surcharge.

Q. If this payment was received in the 2016-year, why is it being considered in this Annual Filing as it is based on a 2015-test year?

A. Because it was a unanimous settlement among the parties, the dollar amount was material, and the Commission Staff recommended approval in its Report and Recommendation filed December 17, 2015, Southern Pioneer believed in 2015 that there was a high degree of probability the Commission would approve the settlement. Therefore, it was the recommendation of Southern Pioneer's financial auditor to recognize the income in the 2015-year as opposed to 2016.

Q. What impact did receiving this payment and applying to the 2015-year have on the filing?

A. I will defer to Mr. Macke to explain in detail and demonstrate the actual revenue requirement impact, but generally speaking, it affected or reduced the required revenue requirement from the third-party users and retail consumers of Southern Pioneer.

V. Corporate Advertising, Dues, Donations, and Charitable Contributions

Q. In previous filings, Southern Pioneer has included and sought recovery of 100% of expenses associated with corporate advertising and dues, donations and charitable contributions made by Southern Pioneer. Subsequently, the KCC Staff and interveners recommended adjustments by disallowing 100% of corporate advertising and 50% of dues, donations and contributions. In this filing, did Southern Pioneer include and seek full recovery of these expenses?

A. No, it is not.

Q. And why is that?

A. Southern Pioneer has elected to seek recovery of these costs consistent with the Commission's Order in the 14-507 Docket and Southern Pioneer's filings in the 15-161 and 15-519 Dockets, as evident in the DSC-FBR analysis performed by Mr. Macke, and as depicted in Filing **Exhibit 9**.

Q. Can you explain why Southern Pioneer has continued to alter its traditional filings to recover these costs?

A. Absolutely. First though, Southern Pioneer would like to reiterate, as it has in previous testimony, that it does not agree with Staff's analysis and the Commission's Order in the 14-507 Docket, in which certain adjustments were made to exclude or reduce expenditures associated with corporate advertising and dues, donations, and contributions. As a not-for-profit company, Southern Pioneer has no means to recover these expenditures other than through its operating margins.

Q. Continue please.

A. However, Southern Pioneer respects the Commission's determination as to the treatment of these expenditures in the 14-507, 15-161 and 15-519 Dockets, and for the purposes of this filing has continued to incorporate the Commission's current policy and practice pursuant to K.S.A. 66-101f(a)⁵ and applied this same adjustment methodology in the current annual DSC-FBR Plan compliance filing.

⁵ K.S.A. 66-101f (a) allows adoption of a policy of "disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate."

Q. Does this mean or imply that sometime in the future, Southern Pioneer will not seek to include these excluded costs as part of its rate filings?

A. No, this should not be construed as Southern Pioneer's acquiescence on this issue. Southern Pioneer instead remains optimistic that the Commission and its Staff will reconsider their position on this issue in the future with a more comprehensive understanding of the impacts these disallowances have on a not-for-profit utility like Southern Pioneer.

Q. In applying the Commission's current policy and practice of disallowing 100% of corporate advertising and 50% of dues, donations and contributions, can you summarize Southern Pioneer's process in complying with this practice?

A. Certainly. Using the list of dues, donations, charitable contributions, promotional advertising, penalties, fines and entertainment expenses compiled in **Exhibit 9**, Southern Pioneer reviewed each item listed to identify its purpose, categorically classified, and then applied the appropriate level of inclusion or exclusion. For example, penalties and advertising were 100% excluded, but dues and donations were 50% excluded.

Q. And in using this methodology, what was the outcome?

A. In total, **Exhibit 9** represents just over \$240,823 in expenditures related to dues, donations, charitable contributions, promotional advertising, penalties, fines and entertainment expenses. Of this total amount, only \$106,996 was included in the annual revenue requirement after applying the criteria discussed above.

Q. Based on this analysis and in your opinion, are the amounts included by Southern Pioneer reasonable and appropriate.

A. Yes, that is correct. As previously noted, Southern Pioneer analyzed the items in **Exhibit 9** based on past dockets and made the appropriate adjustments.

V. CONCLUSION

Q. In closing, is there anything else you would like to say?

A. Yes. In the 13-452 Docket, one of the many reasons cited for support of a DSC-FBR Plan was that it could minimize future overall rate increases to consumers.⁶ I believe Southern Pioneer achieved that objective yet again by submitting its third annual update filing that provides for a slight overall increase in the third year of the Plan. I believe the third year results are not only commendable, but they also lend credibility to the DSC-FBR ratemaking process by stabilizing retail rates to Southern Pioneer ratepayers and bringing regulatory certainty to Southern Pioneer and its lender. While it is impossible to predict what will occur in the remaining two years of the DSC-FBR Plan, the ability to react to the current financial and commodity market conditions being experienced by Southern Pioneer using an annual formula-based rate approach rather than traditional rate case filings provides significant benefits to Southern Pioneer and its consumers, which is exactly what was intended when seeking to implement the DSC-FBR Plan.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

⁶ 452 Docket, Epperson Prefiled Testimony, Page 17, lines 15-20

VERIFICATION OF RANDALL D. MAGNISON

STATE OF KANSAS)
) ss:
COUNTY OF GRANT)

Randall D. Magnison, being first duly sworn, deposes and says that he is the Randall D. Magnison referred to in the foregoing document titled "Prefiled Direct Testimony of Randall D. Magnison" before the State Corporation Commission of the State of Kansas, that he is an officer of Southern Pioneer Electric Company, 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.



Randall D. Magnison

SUBSCRIBED AND SWORN to before me this 2 day of May 2016.



Notary Public

My Appointment Expires:

