

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

Before Commissioners: Shari Feist Albrecht, Chairman
Jay Scott Emler
Dwight D. Keen

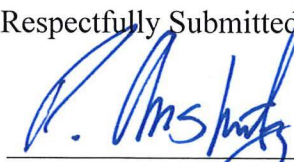
In the Matter of the Application of the Victory)
Electric Cooperative Association, Inc. Seeking)
Commission Approval to Update its Local Access) Docket No. 18-VICE-479-TAR
Delivery Service Tariff Pursuant to the 34.5kV)
Formula Based Rate Plan Approved in Docket)
No. 16-MKEE-023-TAR.)

**NOTICE OF FILING OF STAFF'S SUPPLEMENTAL REPORT &
RECOMMENDATION [REDACTED VERSION]**

COMES NOW, the Staff of the Kansas Corporation Commission (Staff and Commission, respectively), and files the redacted version of its Supplemental Report and Recommendation regarding The Victory Electric Cooperative Association, Inc.'s (Victory) application for approval to update its local access delivery service tariff pursuant to the 34.5kV formula based rate plan approved in Docket No. 16-MKEE-023-TAR.

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

Respectfully Submitted



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SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION REDACTED VERSION

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Dwight D. Keen

FROM: Tim Rehagen, Senior Auditor
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: August 29, 2018

SUBJECT: Docket No. 18-VICE-479-TAR – In the Matter of the Application of The Victory Electric Cooperative Association, Inc. Seeking Commission Approval to Update Its Local Access Delivery Service Tariff Pursuant to the 34.5kV Formula Based Rate Plan Approved in Docket No. 16-MKEE-023-TAR.

EXECUTIVE SUMMARY:

Staff recommends approval of the Victory Electric Cooperative Association, Inc. – Mid-Kansas Division (Victory Mid-Kansas) 34.5 kV monthly Local Access Charge (LAC) rate of \$3.78 per kilowatt-month (kW-month). This rate was derived in accordance with the 34.5 kV Formula Based Rate (FBR) plan approved by the Kansas Corporation Commission (Commission) in Docket No. 16-MKEE-023-TAR (16-023 Docket). An Order is due in this matter by October 25, 2018.

BACKGROUND:

The Victory Electric Cooperative Association, Inc. (Victory) is a member-owned distribution electric cooperative and a member-owner of Sunflower Electric Power Corporation, Inc. (Sunflower) and Mid-Kansas Electric Company, Inc. (Mid-Kansas). Victory serves around 19,650 retail customers in its Sunflower and Mid-Kansas service areas, as well as wholesale customers over its 34.5 kV system located in the Mid-Kansas service region. According to Kansas law, the services rendered to customers of the 34.5 kV system have been designated as “transmission service.”¹ Even though Victory has elected to deregulate from the jurisdiction,

¹ See the Stipulation and Agreement and the Order Addressing Joint Motion to Approve Stipulation and Agreement issued under Docket No. 11-GIME-597-GIE on December 1, 2011, and January 11, 2012, respectively.

regulation, and control of the Commission, the Commission retains jurisdiction over charges related to transmission services.²

In the 16-023 Docket, the Commission approved a 34.5 kV FBR plan, which allows for Victory Mid-Kansas to make annual adjustments to its LAC rate assessed to wholesale customers receiving service off Victory Mid-Kansas' 34.5 kV sub-transmission facilities.³ On May 1, 2018, Victory Mid-Kansas filed a request in the current Docket to update its monthly LAC rate, in accordance with the established 34.5 kV FBR plan. Victory Mid-Kansas is requesting an increase in its monthly LAC rate from \$3.16 per kW-month to \$3.78 per kW-month.⁴

In determining the proposed LAC rate of \$3.78 per kW-month, Victory Mid-Kansas divided its total revenue requirement of \$3,874,377 by the total billing demand of 1,026,006 kW.⁵ This proposed rate represents a 19.62% increase from Victory Mid-Kansas' current LAC rate of \$3.16 per kW-month. Factors contributing to this increase include increases in transmission operation and maintenance expenses, other interest expense, other deductions, and the labor and net plant allocators from the 17-481 Docket to the current Docket.⁶

ANALYSIS:

Upon reviewing the Application, Staff discovered only one minor adjustment. As shown in Exhibit 10 of the Application, Victory Mid-Kansas excluded 50% or 100% of various administrative and general expenses related to dues, donations, advertising, employee meals, etc. Upon reviewing this exhibit, Staff determined that the following additional disallowances should be made: 100% of expenses related to a golf tournament and an additional 50% of expenses related to sponsorships. These expenses are the result of activities or programs that are not necessary to provide safe and reliable electric utility service. However, this adjustment is not material enough to have any impact on the final revenue requirement and, consequently, it has no effect on the final proposed LAC rate. Therefore, the monthly LAC rate after accounting for this adjustment is still \$3.78 per kW-month.

In this year's audit, Staff decided to inquire about the process whereby Victory determines the salaries of its highest paid employees. The primary purpose of Staff's audit of Victory's 34.5kV-FBR filing is to ensure that the proposed revenue requirement results in a just and reasonable rate. Payroll expense is an inherent component of the cost of service that flows through the 34.5kV-FBR calculation. Staff elected to expand its audit this year and review this particular cost of service element, thereby obtaining further evidence that Victory's cost of service and proposed revenue increase are just and reasonable.⁷

² See K.S.A. 66-104d(f).

³ See the Order Approving Settlement issued on March 10, 2016, in Docket No. 16-MKEE-023-TAR.

⁴ The LAC rate of \$3.16/kW-month was approved in Docket No. 17-VICE-481-TAR (17-481 Docket). See Order Approving Application issued on September 14, 2017, in that Docket.

⁵ See Exhibit 5, page 1 of the Application for a detailed breakdown of the proposed monthly LAC rate calculation.

⁶ See pages 6-11 of the direct testimony of Shane Laws for a detailed explanation of the aforementioned increases.

⁷ It should be noted that only 1.05% of Victory's Administration and General expenses flow through the calculation of the 34.5kV LAC rate. Therefore, only a minimal portion of the top three salaries is reflected in the revenue requirement. Nevertheless, salary expense is still included in Victory's cost of service. Staff's review of Victory's salaries further confirms the justness and reasonableness of Victory's cost of service.

At Staff's request, Victory provided the annual salaries of its three highest paid employees along with detailed narratives that explain the process utilized in determining its employees' salaries.

[REDACTED]

[REDACTED]

Staff concludes that Victory has provided adequate information in order for Staff to ascertain the reasonableness of its three highest salaries. As a result of Staff's review of the information provided, Staff concludes that the salaries of Victory's three highest paid employees are just and reasonable. Therefore, Staff is not proposing any adjustments to Victory's payroll expense in the present Docket.

RECOMMENDATION:

Staff recommends the Commission approve Victory Mid-Kansas' proposed monthly LAC rate of \$3.78 per kW-month.

⁸ According to Victory, this CEO compensation analysis is performed by the NRECA every two years.

CERTIFICATE OF SERVICE

18-VICE-479-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Supplemental Report & Recommendation was served via electronic service this 29th day of August, 2018, to the following:

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