

BEFORE THE STATE 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]
CHARGES FOR ELECTRIC SERVICES,] DOCKET NO. 21-SPEE-411-RTS
PURSUANT TO THE CONSOLIDATED]
FORMULA BASED RATEMAKING PLAN]
APPROVED IN DOCKET NO. 19-SPEE-240-]
MIS AND IMPLEMENTATION OF RATE]
ADJUSTMENT PURSUANT TO DOCKET]
NO. 20-SPEE-169-RTS.]

CROSS ANSWERING TESTIMONY OF

PATRICK ORR

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

July 23, 2021

1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Patrick N. Orr, and my business address is 1500 SW Arrowhead Road, Topeka,
4 Kansas 66604.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Kansas Citizens' Utility Ratepayer Board (CURB) as a Regulatory
7 Analyst.

8 **Q. Please summarize your professional experience in the utility industry.**

9 A. I have been employed as a rate analysis with CURB since 2019. Since beginning my
10 employment with CURB I have researched and analyzed several utility dockets filed with
11 the Kansas Corporation Commission ("KCC" or "Commission").

12 **Q. Have you previously testified in regulatory proceedings?**

13 A. Yes, I provided cross-answering testimony in KCC Docket No. 19-SPEE-240-MIS,
14 regarding the Southern Pioneer Electric Company's ("Southern Pioneer") Debt Service
15 Coverage and 34.5 kV Formula Based Rate Plans.

16 **Q. What is your educational background?**

17 A. I have a Bachelor of Business Administration degree in Finance and Personnel
18 Management from Washburn University (1980). I worked for the Kansas Department of
19 Administration for thirty years. In that position, I was responsible for preparing rates for
20 information technology (IT) services in accordance with *Circular A-87 Cost Principles for*
21 *State, Local and Indian Tribal governments.*

22

1 **II. PURPOSE OF TESTIMONY**

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

3 A. The purpose of my testimony is to provide support for both the renewal of Southern
4 Pioneer’s Debt Service Coverage (“DSC”) and 34.5 kV Formula Based Rate Plans
5 (“FBR”), as laid out in Southern Pioneer’s application, and the adjustments recommended
6 by KCC Staff (“Staff”) witness Tim Rehagen.

7 **Q. Please provide an overview of Southern Pioneer’s current FBR Plan.**

8 A. The Commission approved Southern Pioneer’s current FBR Plan in Docket No. 19-SPEE-
9 240-RTS (“19-240 Docket”). The FBR mechanism allows Southern Pioneer to make
10 annual updates to its retail rates charged to customers receiving service from its distribution
11 system and its Local Access Delivery Service (“LADS”) rate to those customers receiving
12 service off its 34.5 kV sub-transmission system. These adjustments enable Southern
13 Pioneer to achieve a 1.60 DSC ratio for both systems.

14 **Q. Please provide an overview of the DSC formula.**

15 A. As defined in Article 7, Section 7.1 of Southern Pioneer’s Credit Agreement with CoBank,
16 the Debt Service Coverage Ratio means:

17 The ratio of (a) net income (after taxes and after eliminating any gain or loss
18 on sale of assets or other extraordinary gain or loss), plus depreciation
19 expense, amortization expense, interest expense, non-cash tax expense, and
20 other non-cash expenses minus non-cash patronage, non-cash income from
21 joint ventures, and cash tax expense; to (b) all principal payments due within
22 the period on all Long-Term Debt...plus interest expense (all as calculated
23 on a consolidated basis for the applicable period in accordance with the
24 Accounting Standards).

25
26 Southern Pioneer’s agreement with CoBank requires them to maintain a minimum

1 unadjusted DSC ratio of 1.35 at the end of each fiscal year. The targeted DSC ratio within
2 the current FBR protocols is 1.60.

3 **III. SUMMARY OF ADJUSTMENTS**

4 **Q. Please provide a summary of the revenue adjustments to the FBR as proposed by**
5 **Southern Pioneer.**

6 A. Southern Pioneer's current FBR Plan is designed to achieve a DSC ratio of 1.60 for both
7 its distribution system and 34.5 sub-transmission system. Southern Pioneer used its FBR
8 template and calculated a DSC ratio of 1.33 for its distribution system for the 2020 test
9 year. They subtracted the 1.33 ratio from the targeted ratio of 1.60 resulting in a variance
10 of 0.27. They then multiplied the variance by 2021 distribution system debt service
11 payments to yield a net operating increase of \$1,902,389. After applying the rounding
12 function which was agreed to by CURB and Southern Pioneer, the actual revenue net
13 operating increase was \$1,874,569. This adjusted total was allocated to Southern Pioneer's
14 various retail customer classes based on base revenues and converted to per kW rate
15 adjustments for each customer service class.

16 Southern Pioneer calculated a DSC ratio of 1.90 for the 34.5 kV sub-transmission
17 2020 test year. Since the ratio was greater than 1.60, Southern Pioneer subtracted 1.90
18 from 1.60 which resulted in a variance of -0.30 yielding a net operating income decrease
19 of \$633,267. The revenue decrease was divided by total 34.5 kW which resulted in a per
20 kW adjustment of 0.71. This amount was subtracted from the current LADS rate of \$5.00
21 per kW resulting in an adjusted rate of \$4.29 per kW.

22 **Q. Please provide a summary of Staff's adjustments to the FBR.**

1 A. In addition to the limited number of adjustments that are allowed within the FBR protocols
2 which are made to Southern Pioneer's historical test year financial data, Staff made the
3 following adjustments:

4 Include Excel rounding function in the calculations of the DSC ratio
5 adjustments. In the 19-240 Docket, Southern Pioneer included the rounding
6 function into its consolidated FBR template. Staff believes this change is
7 warranted based upon the following statement found in the 19-240 Docket,
8 Unanimous Settlement Agreement, Section C, paragraph 15, where it states:

9
10 Adjustments to Southern Pioneer's retail rates under the FBR Plan
11 will be allocated consistent with the manner of allocation contained
12 in the initial FBR Plans.
13

14 Staff believes since the rounding function has been used in previous FBR filings
15 that were deemed just and reasonable by the Commission, the absence of the rounding
16 function in the current FBR template is not in compliance with the Settlement Agreement
17 from the 19-240 Docket.¹ Staff discussed this error with Southern Pioneer and CURB and
18 its impact on Net Operating Income adjustments. All parties agreed that it would be
19 necessary to reinstitute the rounding function.²

20 **Q. How does the addition of the rounding function affect the FBR calculation?**

21 A. The addition of the rounding function resulted in a \$2,610 decrease in the sub-transmission
22 net operating income adjustment of -\$635,877 and a \$27,820 reduction to revised
23 distribution net operating income of \$1,874,569.

24 **Q. Were there other modifications made by Staff?**

25 A. Yes. Southern Pioneer used an Excel virtual lookup function to determine the coincident

1 Tim Rehagen testimony, page 9.

2 Ibid.

1 peak demand for each month of the test year; however, the lookup function pointed to the
2 wrong array of data. Southern Pioneer, upon notification of the error, provided Staff with
3 a revised document that contained the correct April 2020 billing determinants. The
4 correction was not material enough to affect the 34.5 kV sub-transmission rate; however,
5 the correction affected the allocation of the FBR retail rate adjustments.

6 Staff also discovered and corrected a rate design formula error that impacted the
7 Residential Space Heating and General Service Space Heating customer classes. Southern
8 Pioneer agreed to the corrections, which will be reflected in the final tariff sheets that will
9 include the updated kWh rates for these two classes.

10 Staff also removed 50% or 100% of various expenses related to dues, donations,
11 promotional items, etc. Staff determined an additional \$18,140 of various expenses should
12 be disallowed since they are the result of activities that are not necessary to provide safe
13 and reliable electric utility service. Staff made no adjustments to account for these
14 disallowances because they were not material in nature.

15 **IV. RECOMMENDATIONS**

16 **Q. What is your recommendation regarding the Direct Testimony filed by Staff?**

17 A. CURB supports Staff's recommended modifications to Southern Pioneer's FBR filing and,
18 therefore, recommends that the Commission approve Southern Pioneer's application as
19 modified by Staff. With Staff's modifications, Southern Pioneer's filing complies with the
20 methodology established in the 19-240 Docket and results in just and reasonable rates.
21 Furthermore, Staff's modifications to the FBR template in this docket will ensure that
22 future FBR filings follow an identical methodology as done in prior proceedings, which

1 enhances the role of the FBR in establishing rates for Southern Pioneer moving forward.

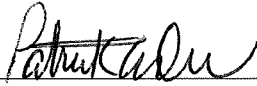
2 **Q. Does this conclude your testimony?**

3 A. Yes, it does.

VERIFICATION

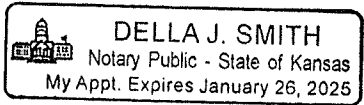
STATE OF KANSAS)
)
COUNTY OF SHAWNEE) ss:


I, Patrick Orr, of lawful age and being first duly sworn upon my oath, state that I am an attorney for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.



Patrick Orr

SUBSCRIBED AND SWORN to before me this 23rd day of July, 2021.





Notary Public

My Commission expires: 01-26-2025.

CERTIFICATE OF SERVICE

21-SPEE-411-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 23rd day of July, 2021, to the following:

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