

**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 )  
Charges for Electric Services Pursuant to )  
the Consolidated Formula Based )  
Ratemaking Plan Approved in Docket No. ) Docket No. 21-SPEE-\_\_\_\_\_-RTS  
19-SPEE-240-MIS and Implementation of )  
Rate Adjustment Pursuant to Docket No. )  
20-SPEE-169-RTS. )

**PREFILED DIRECT TESTIMONY OF**

**RICHARD J. MACKE**  
**VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS**  
**PLANNING**  
**POWER SYSTEM ENGINEERING, INC.**

**ON BEHALF OF**

**SOUTHERN PIONEER ELECTRIC COMPANY**

May 3, 2021

## TABLE OF CONTENTS

<b>PART I - QUALIFICATIONS .....</b>	<b>1</b>
<b>PART II - SUMMARY OF DIRECT TESTIMONY .....</b>	<b>4</b>
<b>PART III –FBR CALCULATIONS.....</b>	<b>5</b>
1. SUMMARY OF THE FBR PLAN RESULTS.....	5
2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the FBR PLAN .....	8
3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT .....	13
4. IMPLEMENTATION OF THE FBR PLAN REVENUE ADJUSTMENT TO RATE SCHEDULES .....	15
<b>PART IV - CONCLUSION.....</b>	<b>20</b>

## TABLES

Table 1 - Southern Pioneer Electric Company Allocation of 2017 DSC-FBR Rate Adjustment to Rate Schedules.....	7
Table 2 - Southern Pioneer Electric Company Allocation of 2017 DSC-FBR Rate Adjustment to Rate Schedules.....	15
Table 1 - Southern Pioneer Electric Company Allocation of 2017 34.5kV FBR Rate Adjustment to Rate Schedules .....	19
Table 2 - Southern Pioneer Electric Company Allocation of 2017 34.5kV Rate Adjustment to Rate Schedules.....	28
Table 3 - Southern Pioneer Electric Company Allocation of 2017 Combined DSC-FBR and 34.5kV Rate Adjustment to Rate Schedules.....	31

**PART I - QUALIFICATIONS**

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

A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE, Suite 201, Minneapolis, Minnesota 55449.

**Q. What is your profession?**

A. I am a Vice President and lead the Economics, Rates, and Business Planning Department at Power System Engineering, Inc. (“PSE”), which is headquartered at 1532 W. Broadway, Madison, Wisconsin 53713.

**Q. Please describe the business activities of PSE.**

A. PSE is a consulting firm serving electric utilities across the country, but primarily in the Midwest. Our headquarters is in Madison, Wisconsin with regional offices in Topeka, Kansas; Minneapolis, Minnesota; Marietta, Ohio; Cincinnati, Ohio, and Sioux Falls, South Dakota. PSE is involved in: power supply, transmission and distribution system planning; distribution, substation and transmission design; construction contracting and supervision; retail and wholesale rate and cost of service (“COS”) studies; economic feasibility studies; merger and acquisition feasibility analysis; load forecasting; financial and operating consultation; telecommunication and network design, mapping/GIS; and system automation including Supervisory Control and Data Acquisition (“SCADA”), Demand Side Management (“DSM”), metering, and outage management systems.

**Q. Please describe your responsibilities with PSE.**

A. I lead and direct staff in Indiana, Minnesota, and Wisconsin who provide economic, financial, and rate-related consulting services to investor-owned, cooperative and municipal utilities as well as regulators and industry associations. These services include:

- Cost of Service Studies.
- Capital Credit Allocations.
- Demand Response.
- Distributed Generation Rates.
- Energy Efficiency.
- Financial Forecasting.
- Individual Customer Profitability.
- Large Power Contract Rates/Proposals.
- Line Extension Policies/Charges.
- Load Management Analysis.
- Load Forecasting.
- Market and Load Research.
- Merger Analysis.
- Pole Attachment Charges.
- Policy and Board Audits.
- Power Cost Adjustments.
- Rate Consolidation.
- Retail Rate Design and Analysis.
- Special Fees and Charges.
- Statistical Performance Measurement (Benchmarking).
- Value of Service.

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

A. I graduated from Bethel University in St. Paul, Minnesota in 1996 with a Bachelor of Arts degree in Business, which included an emphasis in Finance and Marketing. In 2007, I received my Masters of Business Administration degree, with an emphasis in Finance and Strategic Management, from the University of Minnesota in Minneapolis, Minnesota. I have also attended numerous industry seminars/courses on cost of service, pricing, valuation, distributed generation, etc.

**Q. What is your professional background?**

A. From 1996 to 1998, I was employed by PSE in its Minneapolis, Minnesota office as a Financial Analyst in the Utility Planning and Rates Department. My work responsibilities primarily were focused on retail rate studies, including revenue requirements and bundled/unbundled COS studies. I also provided analyses used to support testimony, mergers and acquisitions analysis, and financial forecasting.

From 1998 to 1999, I was employed as a Senior Analyst by Energy & Resource Consulting Group, LLC in Denver, Colorado, a financial, engineering, and management consulting firm. I performed consulting services related to electric, gas, and water rate studies. As part of the Legend Consulting Advisor Team contracted to the City Council of the City of New Orleans,

1 Louisiana, I assisted in various electric and gas utility matters. I also provided general  
2 financial, management, and public policy support to clients.

3 I rejoined PSE in 1999; and from 1999 to 2002, I held the position of Rate and Financial  
4 Analyst in the Rates and Financial Planning Department. From 2002 to March 2008, I held  
5 the position of Senior Rate and Financial Analyst in the Utility Planning and Rate Division.  
6 My responsibilities have included performing complex financial analyses, such as rate studies  
7 consisting of determination of revenue requirements, bundled and unbundled COS analysis,  
8 and rate design. Other responsibilities included performing analysis of special rates and  
9 programs, key account analyses, financial forecasting, merger and acquisition analysis,  
10 activity-based costing, policy development and evaluation, and other financial analyses for  
11 various PSE clients. Additional responsibilities included strategic planning, litigation support,  
12 regulatory compliance, capital expenditure and operational assessments, and advisement.  
13 From April 2008 to June 2010, I held the position of Leader, Rates and Financial Planning. In  
14 July 2010, my title changed to Vice President, Rates and Financial Planning. Since June 2011,  
15 I have held the position of Vice President, Economics, Rates, and Business Planning. In this  
16 capacity, I continue to provide, amongst other things: 1) rate, financial, and economic  
17 consulting services to clients, 2) management and leadership to the Economics, Rates, and  
18 Business Planning Department, and 3) management and leadership at the corporate level to  
19 PSE through participation on the Executive Committee and Board of Directors.

20 **Q. Have you previously presented testimony before the Kansas Corporation Commission**  
21 **(“KCC” or “Commission”)?**

22 A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-  
23 PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-RTS;  
24 Mid-Kansas Electric Company, LLC (“Mid-Kansas”) in Docket Nos. 09-MKEE-969-RTS, 11-  
25 MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, 13-MKEE-452-MIS, and 16-

1 MKEE-023-TAR; Southern Pioneer Electric Company (“Southern Pioneer”) in Docket Nos.  
2 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, 16-SPEE-  
3 501-TAR,17-SPEE-476-TAR, 18-SPEE-477-RTS, 18-WSEE-328-RTS, 19-SPEE-240-MIS,  
4 and 20-SPEE-169-RTS; Prairie Land Electric Cooperative, Inc. in Docket No. 16-PLCE-490-  
5 TAR; Victory Electric Cooperative Association, Inc. in Docket No. 16-VICE-494-TAR; and  
6 Western Cooperative Electric Association in Docket No. 16-WSTE-496-TAR.

7 **Q. Do you have any other relevant experience?**

8 A. Yes. I have directed over 200 rate and COS studies and numerous other rate and financial  
9 related projects. Many times these projects were conducted for self-regulated electric utilities.  
10 I have also performed such analysis which was filed in regulated rate cases on behalf of  
11 cooperatives in Iowa, Kansas, Kentucky, Michigan, Minnesota, New Hampshire, and Texas.

12 I have also conducted seminars and made presentations to utilities, consumers, and industry  
13 groups on a variety of topics including: COS, rate design, rate change communications, line  
14 extension policies, mergers and acquisitions, DSM pilot programs, conservation and energy  
15 efficiency, distributed generation rates, and industry trends.

16  
17 **PART II - SUMMARY OF DIRECT TESTIMONY**

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

19 A. The purpose of my testimony is to support the Application of Southern Pioneer for its first  
20 annual update under its Consolidated FBR Plan approved by Order dated August 11, 2020 in  
21 Docket No. 19-SPEE-240-MIS (“19-240 Order” and “19-240 Docket”). My testimony  
22 provides the FBR Plan calculations which establish the annual adjustment to Southern  
23 Pioneer’s retail rates and its wholesale Local Access Delivery Service (“LADS”) rates for  
24 service over Southern Pioneer’s 34.5kV sub-transmission system. My testimony also provides  
25 rate design to implement the established revenue adjustments in alignment with the provisions

1 of the Order in the 19-240 Docket and protocols included therein. Finally, this Application  
2 includes the rate changes approved by the Commission in its July 14, 2020 Order issued in  
3 Southern Pioneer's last general rate case in Docket No. 20-SPEE-169-RTS ("20-169 Order"  
4 and "20-169 Docket"), including the re-basing of property taxes.

5 **Q. Are there particular Exhibits to Southern Pioneer's Application that you will be**  
6 **describing and explaining?**

7 A. Yes. My testimony concerns, and is supported by, the following Exhibits to the Application  
8 filed by Southern in this Docket:

9 Exhibit 3 - FBR Calculation for Test Year  
10 Exhibit 11 - Proposed Tariffs

11 **Q. Have the exhibits been prepared by you or under your supervision?**

12 A. Yes.

13  
14 **PART III –FBR CALCULATIONS**

15 **1. SUMMARY OF THE FBR PLAN RESULTS**

16 **Q. Please briefly recap the FBR Plan.**

17 A. The FBR Plan, as approved by the Commission in the 19-240 Docket, provides a method  
18 for periodic adjustments to retail and LADS rates, as might be necessary, to achieve a debt  
19 service coverage ("DSC") ratio of 1.60x. The FBR Plan includes a calculation of any  
20 revenue adjustment (a.k.a. net operating income adjustment) necessary for providing service  
21 over Southern Pioneer's 34.5kV sub-transmission system and its distribution system. Prior  
22 to the 19-240 Docket, Southern Pioneer had two separate FBRs, one for the 34.5kV System  
23 and one for the Distribution System. The 19-240 Docket combined these into one FBR Plan  
24 which continues to separately establish any revenue adjustments for each system. If the  
25 result of the calculation for either system is a DSC that is less than 1.60, then a rate increase

1 would be implemented, so long as such an increase does not cause the equity ratio to exceed  
2 15 percent.<sup>1</sup> If the DSC is above 1.60, then a rate decrease would be implemented. If the  
3 resultant DSC equals 1.60, there would be no change in rates. The details of the calculations  
4 for the DSC and any corresponding rate adjustments are outlined in Section F of the FBR  
5 Plan Protocols (Protocols), which are attached to Southern Pioneer's Application as **Exhibit**  
6 **A**.

7 **Q. What data formed the basis for the 2021 FBR Plan calculation?**

8 A. Consistent with the Protocols, the calculation was based upon a 2020 Historical Test Year. As  
9 such, it utilizes historical figures from Southern Pioneer's December 2020 Financial and  
10 Statistical Report ("Form 7"), Trial Balance, and Payroll Journal.<sup>2</sup>

11 **Q. Please summarize the results of the 2021 FBR Plan calculation for the 34.5kV System and**  
12 **Distribution System.**

13 A. The FBR Plan calculation for the Test Year is contained in **Exhibit 3**. Completing the FBR  
14 Plan template calculation consistent with the Protocols approved by the Commission in the 19-  
15 240 Docket results in the need for the following 34.5kv System and Distribution net operating  
16 income adjustments:

17 **34.5kV System:** The calculation shows that a DSC of 1.90 was achieved for the  
18 Test Year. To bring the revenue in line with the Commission authorized 1.60 DSC,  
19 a decrease of \$633,267 is required, representing an average 11.8% decrease.

21 **Distribution System:** The calculation shows that a DSC of 1.33 was achieved for  
22 the Test Year. To bring the revenue in line with the Commission authorized 1.60

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24 <sup>1</sup> Unless such an increase was necessary for Southern Pioneer to avoid violating its debt covenants with its  
25 lender, FBR Plan Protocols, Page 4, Section E.

<sup>2</sup> Included in Southern Pioneer's Application as part of **Exhibit 2** (Form 7), **Exhibit 4** (Trial Balance), and  
**Exhibit 5** (Payroll Journal).



1 DSC, a revenue increase of \$1,902,389 is required, representing an average 2.9%  
2 increase.

3 **Q. Please summarize how the adjustment for 34.5kV service will be implemented.**

4 A. In accordance with Section F.3.c of the Protocols, the change for the 34.5kV System is  
5 converted to a \$/kW adjustment by dividing it by the 34.5kV Total Billing Demand (retail and  
6 wholesale). The resultant per unit adjustment, multiplied by the respective retail and wholesale  
7 34.5kV billing demand, yields the corresponding retail and wholesale shares of the total  
8 34.5kV adjustment. For the retail share of the 34.5kV adjustment, the dollar amount is  
9 included with the Distribution System adjustment and allocated to the rate classes as described  
10 below, which is on the basis of Test Year base revenue (i.e., gross revenue less purchased  
11 power expense).

12 **Q. Please summarize how the revenue change for distribution service will be implemented.**

13 A. It should be noted that, for retail rates, this 2021 annual update includes both the results of the  
14 FBR Plan, and the Commission approved rate changes in the 20-169 Docket. The first step is  
15 to adopt the retail rates approved in the 20-169 Docket. The second step is to adjust those retail  
16 rates for the FBR Plan results. In accordance with Section F.4.a. of the Protocols, the increase  
17 is to be spread amongst the retail rate schedules of Southern Pioneer based upon the Test Year  
18 base revenue (i.e., gross revenue less purchased power expense).

19 **Q. Please provide a summary of the retail adjustment by rate schedule for both the 34.5kV  
20 and Distribution system adjustment.**

21 A. Table 1 summarizes the revenue adjustment for both the 34.5kV and distribution system to  
22 each of the retail rate schedules.

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**Table 1**

<b>SOUTHERN PIONEER ELECTRIC COMPANY</b>						
<b>Allocation of FBR Rate Adjustment to Retail Rate Schedules</b>						
Line No.	Rate Schedule	Rate Schedule Revenue <sup>1</sup>	34.5kV System Adjustment	Distribution System Adjustment	Total Adjustment	Change as Percent
		(\$)	(\$)	(\$)	(\$)	(%)
1	Residential Service (17-RS)					
2	General Use	16,198,672	(152,777)	695,281	542,504	3.3%
3	Space Heating	746,947	(7,278)	33,124	25,846	3.5%
4	General Service Small (17-GSS)	1,950,982	(21,852)	99,448	77,596	4.0%
5	General Service Large (17-GSL)	16,148,502	(152,320)	693,204	540,883	3.3%
6	General Service Space Heating	239,573	(1,745)	7,942	6,197	2.6%
7	Industrial Service (17-IS)	4,807,379	(40,230)	183,086	142,856	3.0%
8	Industrial Service-Primary Discount	0	0	0	-	N.A.
9	Real -Time Pricing (13-RTP)	44,443	0	0	-	N.A.
10	Transmission Level Service (17-STR)	23,186,167	(3,229)	66,420	63,191	0.3%
11	Municipal Power Service (17-M-I)	34,840	(407)	1,854	1,447	4.2%
12	Water Pumping Service (17-WP)	703,712	(6,894)	31,375	24,481	3.5%
13	Irrigation Service (17-IP-I)	349,030	(3,373)	15,349	11,977	3.4%
14	Temporary Service (17-CS)	686,470	(9,763)	44,433	34,669	5.1%
15	Lighting	444,044	(6,784)	30,873	24,089	5.4%
16	<b>Total Retail Rates</b>	65,540,761	(406,654)	1,902,389	1,495,735	2.3%

**2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the FBR PLAN**

**Q. You stated that 2020 actual results formed the basis for the FBR Plan calculation. The Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer’s actual 2020 financial results in completing the FBR Plan calculation?**

**A. Consistent with Section F.1 of the FBR Plan Protocols, adjustments were made to the following categories of revenues and/or costs:**

- Operating Revenue and Patronage Capital
- Tax Expense - Other
- Interest on Long-Term Debt

- 1 • Interest Expense - Other
- 2 • Debt Service Payments

3 Further, per Section F.1.g of the Protocols and in recognition of the Commission policy  
4 adopted per K.S.A. 66-101f (a), the following expense categories were adjusted to remove  
5 certain amounts associated with the dues, donations, charitable contributions, promotional  
6 advertising, penalties and fines, and entertainment expenses incurred during the Test Year:<sup>3</sup>

- 7 • Distribution Expense - Operation
- 8 • Customer Accounts Expense
- 9 • Customer Service and Informational Expense
- 10 • Sales Expense
- 11 • Administrative and General (“A&G”) Expense
- 12 • Other Deductions

13 The position and reasoning in support of inclusion or exclusion of these items is provided  
14 in the direct testimony of Mr. Chantry Scott, filed on behalf of Southern Pioneer in this Docket.

15 **Q. Please describe the adjustments made to the Test Year Operating Revenue and**  
16 **Patronage Capital.**

17 A. An adjustment was made to include the current level of the Property Tax Surcharge (“PTS”)  
18 being charged to customers. The PTS was approved in January of 2021 (Docket No. 21-SPEE-  
19 232-TAR). It is based on recovering 2020 Property Tax expense and thus it is appropriate to  
20 include the additional revenue from the 2021 PTS versus the PTS that was in place during  
21 2020. This is a similar approach to how the PTS has been handled in the Annual Updates under  
22 the prior 34.5kV FBR and DSC-FBR. In the prior 34.5kV FBR after the rate was determined  
23

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24 <sup>3</sup> K.S.A. 66-101f (a) allows adoption of a policy of “ disallowing a percentage, not to exceed 50%, of utility  
25 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.”

1 based upon the Test Year revenue requirement, the then current PTS was subtracted to yield  
2 the rate for the LADS schedule. The amount of the the adjustment in the instant filing is  
3 \$328,175 and represents the difference between the current and prior PTS applied to 2020  
4 billing determinants. It should be noted that while the current PTS will not be applied to 2020  
5 billing determinants, rather 2021, the annual PTS filing includes a true-up which should  
6 account for this difference between the 2020 and 2021 volumes. Workpaper WP8, provided to  
7 the parties, details this adjustment, which is then summarized in **Exhibit 3**, Page 4, Lines 9  
8 and 20.

9 **Q. Please describe the adjustments made to the Test Year Tax Expense - Other.**

10 A. Section F.1.d of the Protocols calls for an adjustment to reflect only cash tax expense. In 2020,  
11 Southern Pioneer's cash tax transactions reflected a refund in the amount of \$40,116 (i.e. cash  
12 transaction was a credit, or a negative amount), as evidenced in Workpaper WP-2 attached to  
13 Exhibit 3. Therefore, an adjustment of \$1,022,343 was applied to remove all non-cash tax  
14 expense from the Test Year. The adjustment is detailed in **Exhibit 3**, Page 5, Lines 37-39.

15 **Q. Please describe the adjustments made to the Test Year Interest on Long-Term Debt.**

16 A. The historical amount of Interest on Long-Term Debt for the 2020 Test Year was \$5,785,072  
17 as reported on Southern Pioneer's Form 7. The Protocols, in Section F.1.e., specify that the  
18 actual amount be adjusted to reflect Southern Pioneer's budgeted amount for 2021. Southern  
19 Pioneer's budgeted long-term interest expense is \$5,781,478, and so an adjustment of -\$3,594  
20 was included. The details of this adjustment are shown in **Exhibit 3**, Page 5, Lines 43-45.

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1 **Q. Please describe the adjustments made to the Test Year Interest Expense - Other.**

2 A. The historical amount of Other Interest Expense for the 2020 Test Year was \$80,904 as  
3 reported on Southern Pioneer's Form 7. Consistent with Section F.1.f of the Protocols, the  
4 amount has been adjusted to reflect Southern Pioneer's 2021 Budget for short-term interest  
5 expense of \$100,919. To accomplish this, an adjustment of \$20,015 was included. The details  
6 of the adjustment can be found in **Exhibit 3**, Page 5, Lines 49-51.

7 **Q. Please describe the adjustments made to the Test Year Debt Service Payments.**

8 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.  
9 Since I previously discussed the adjustments to interest expense, I will here focus on the  
10 adjustment to principal payments. The historical amount of Principal Payments for the 2020  
11 Test Year was \$2,949,718 (as reported on Southern Pioneer's Form 7). The Protocols, in  
12 Section F.1.h, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted  
13 amount for 2021. Southern Pioneer's budget for 2021 principal payments is \$3,180,041, so an  
14 adjustment in the amount of \$230,323 was included. This adjustment is detailed in **Exhibit 3**,  
15 Page 5, Lines 55-57.

16 **Q. Please describe the adjustment made to Non-Operating Margins – Other.**

17 A. An adjustment was made to include proceeds from the Payroll Protection Plan ("PPP") loan  
18 proceeds received by Southern Pioneer during the 2020 Test Year. Southern Pioneer witness  
19 Scott describes PPP loan that Southern Pioneer received and why the company is requesting  
20 that it be included to improve the performance of the 34.5kV and Distribution System in the  
21 FBR calculation. Including this adjustment of \$940,000 directly reduces the revenue required  
22 from the Test Year for the benefit of wholesale and retail customers.

23 **Q. Please describe the adjustments made to the Test Year Operating Expenses in**  
24 **conjunction with Section F.1.g of the Protocols and the Commission's policy per K.S.A.**  
25 **66-101f (a).**

1 A. The historical amounts of the following operating expenses were adjusted as shown:

- 2 • Distribution - Operation Expense was reduced by \$474.
- 3 • Customer Accounts Expense was reduced by \$1,619.
- 4 • Customer Service and Informational Expense was reduced by \$24,670.
- 5 • Sales Expense was reduced by \$16,467.
- 6 • A&G Expense was reduced by \$52,295.
- 7 • Other Deductions Expense was reduced by \$22,810.

8 Overall, \$118,336 of expenses were removed through these adjustments. The details are  
9 shown in **Exhibit 3**, Page 4, Lines 27-33.

10 **Q. Please describe the allocations made to classify revenue and expenses between the 34.5kV**  
11 **System and the Distribution System.**

12 A. Section F.2 of the Protocols specifies the relevant explanation of the allocations.

13 Per Section F.2.a of the Protocols, 34.5kV system-related revenues are to be direct-  
14 assigned using 34.5kV system rates effective during the Test Year. As such, revenue in the  
15 amount of \$5,381,115 was determined to be directly assignable to the 34.5kV System. This  
16 includes \$4,432,834 in base rate revenues obtained by multiplying the total 34.5kV system  
17 billing demand by the LADS rate effective during the Test Year. In addition, it includes  
18 \$948,281 in Property Tax Surcharge (“PTS”) rider revenues to reflect the portion attributable  
19 to the 34.5kV System. The latter amount was determined by multiplying the total 34.5kV  
20 system billing demand by the PTS rate currently in effect.<sup>4</sup> After the direct-assignment of  
21 34.5kV System revenues, the resultant Distribution System revenues in the FBR Plan is  
22 \$62,010,257, as evident on Page 1, Line 2, Column “Distribution System” of **Exhibit 3**.

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25 <sup>4</sup> Per 21-SPEE-232-TAR.

1 For Depreciation and Amortization Expense, as per Section F.2.c of the Protocols,  
2 \$982,476 of the historical Form 7 amount of \$3,661,752 was allocated to the 34.5kV System  
3 with the remainder of \$2,679,276 allocated to Distribution System.

4 For A&G, Property and Gross Receipts Tax, Interest on Long-Term Debt, Other Interest,  
5 Other Capital Credits, Principal Payments, and other applicable items per Sections F.2.b, F.2.d,  
6 F.2.f, F.2.g, F.2.h, F.2.i and F.2.j of the Protocols, the following two allocation ratios are  
7 calculated: Transmission Labor Ratio (“LAB”) and Net Transmission Plant Ratio (“NP”).  
8 Applying the allocation factor to the Adjusted Historical Test Year amounts establishes the  
9 34.5kV System amount with the remainder assigned to the Distribution System. These  
10 allocation factors are listed on **Exhibit 3**, Pages 1-2, “34.5kV Allocation Factors” and the  
11 calculations is detailed in **Exhibit 3**, Page 6.

12 Tax Expense - Other (cash portion) was allocated between the 34.5kV and Distribution  
13 Systems based on Operating Margins per Section F.2.e of the Protocols.

14 Non-Operating Margins – Other, because it substantially relates to the proceeds from the  
15 PPP load was allocated based upon payroll using the labor allocator.

### 16 **3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT**

17 **Q. Using the FBR Plan template<sup>5</sup>, what is Southern Pioneer’s DSC ratio for the 2020 Test**  
18 **Year for the 34.5kV System and Distribution System after performing the adjustments**  
19 **and allocations detailed above?**

20 A. The FBR Plan template with the adjustments and allocations prescribed by the Protocols  
21 produces a DSC ratio of 1.90 for the 34.5kV System and 1.33 for the Distribution System for  
22 the Test Year. Below shows the calculations:

23  
24  
25 <sup>5</sup> As required under the Protocols, Section G.3.

1           **34.5kV System:** \$4,024,610 Total Debt Service Margins ÷ \$2,119,823 Total Debt  
2           Service Payments = 1.90 DSC

3           **Distribution System:** \$9,206,169 Total Debt Service Margins ÷ \$6,942,849 Total  
4           Debt Service Payments = 1.33DSC

5           The 34.5kV resultant ratio is above the 1.6 target DSC. Consistent with the provisions of  
6           Section F.3.a. of the Protocols, a decrease is being requested.

7           The Distribution resultant ratio is below the 1.6 target DSC. Consistent with the provisions  
8           of Section F.3.a of the Protocols, and increase is being requested.

9   **Q. Please identify and explain how the revenue adjustment was determined within the FBR**  
10 **Plan template for the 2020 Test Year.**

11 A. Section F.3.a of the Protocols directs that the revenue adjustment is to be determined by  
12 comparing the Test Year DSC to a 1.60 DSC Ratio for each system. This section addresses  
13 the scenario when the Test Year DSC is lower than the target DSC, instructing that an increase  
14 in rates will be necessary to bring the Test Year DSC up to 1.60. The first step then is to  
15 subtract the Test Year DSC from the target DSC, to get the variance between the Test Year  
16 and target DSC. Multiplying this variance by the Test Year debt service payments for the  
17 34.5kV and Distribution System yields the adjustment required for each. Please see the  
18 calculation below:

19           **34.5kV System:**  $1.60 - 1.90 = -0.30$  multiplied by \$2,119,589 = \$633,267 revenue  
20           decrease required.

21           **Distribution System:**  $1.60 - 1.33 = 0.27$  multiplied by \$9,206,169 = \$1,902,389  
22           revenue increase required.

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1 **4. IMPLEMENTATION OF THE FBR PLAN REVENUE ADJUSTMENT TO RATE**

2 **SCHEDULES**

3 **Q. Please describe how the revenue adjustment determined in the FBR Plan for the 34.5kV**  
4 **System is implemented.**

5 A. In accordance with Section F.3.c. of the Protocols, the resultant revenue adjustment was  
6 divided by the total billing demand for the Test Year to arrive at the \$ per kW adjustment.<sup>6</sup>  
7 The result is an \$0.71 per kWh decrease to the \$5.00 per kW LADS rate currently in effect.  
8 Using the Load Ratio Share (“LRS”), around \$226,613, or 36 percent, of the decrease is  
9 applicable to Southern Pioneer’s wholesale LADS customers; and the remaining \$406,654, or  
10 about 64 percent, is applicable to Southern Pioneer’s retail customers. For Southern Pioneer’s  
11 wholesale LADS customers, the result is a new LADS rate of \$4.29 per kW. In accordance  
12 with Section F.4. of the Protocols, the revenue adjustments resulting from the FBR Plan  
13 attributable to retail rates are to be spread amongst the retail rate schedules of Southern Pioneer  
14 based upon the Test Year base revenue (i.e., gross revenue less purchased power expense).  
15 Therefore, consistent with the FBR Plan Protocols, the Net Operating Income Adjustments  
16 resulting from the FBR Plan was apportioned accordingly:

- 17 1. First, all power costs recovered in rates were removed from the historical revenues  
18 recorded for each schedule to arrive at the base revenues by rate schedule.  
19 2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base  
20 revenues was determined.

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25 <sup>6</sup> The billing demand for the Test Year, shown on page 7 of **Exhibit 3**, is provided by Sunflower Electric Power Corporation, Southern Pioneer’s G&T provider.

3. The base revenue ratios were then applied to the sum of 1) the retail share of the 34.5kV System adjustment and, 2) the Distribution System adjustment establish each rate schedule's apportioned revenue adjustment.<sup>7</sup>

Table 2 shows the allocation of the 34.5kV adjustment to the retail rate schedules.

**Table 2**

<b>SOUTHERN PIONEER ELECTRIC COMPANY Allocation of 34.5kV Adjustment to Retail Rate Schedules</b>				
Line No.	Rate Schedule	Rate Schedule Revenue <sup>1</sup>	34.5kV System Adjustment	Change as Percent
		(\$)	(\$)	(%)
1	Residential Service (17-RS)			
2	General Use	16,198,672	(152,777)	-0.9%
3	Space Heating	746,947	(7,278)	-1.0%
4	General Service Small (17-GSS)	1,950,982	(21,852)	-1.1%
5	General Service Large (17-GSL)	16,148,502	(152,320)	-0.9%
6	General Service Space Heating	239,573	(1,745)	-0.7%
7	Industrial Service (17-IS)	4,807,379	(40,230)	-0.8%
8	Industrial Service-Primary Discount	-	0	N.A.
9	Real -Time Pricing (13-RTP)	44,443	0	0.0%
10	Transmission Level Service (17-STR)	23,186,167	(3,229)	0.0%
11	Municipal Power Service (17-M-I)	34,840	(407)	-1.2%
12	Water Pumping Service (17-WP)	703,712	(6,894)	-1.0%
13	Irrigation Service (17-IP-I)	349,030	(3,373)	-1.0%
14	Temporary Service (17-CS)	686,470	(9,763)	-1.4%
15	Lighting	444,044	(6,784)	-1.5%
16	<b>Total Retail Rates</b>	<b>65,540,761</b>	<b>(406,654)</b>	<b>-0.6%</b>

<sup>1</sup> Include each rate class' share of the PTS revenue adjustment determined in WP8.

<sup>7</sup> As per the Protocols, Section F.4.a., the FBR adjustment for the STR class was determined first and system-wide without the impact of additional debt service for investments in distribution plant in the Budget Year. This resulting revenue adjustment was then allocated to the STR class based upon its base revenue. This STR class revenue adjustment was then subtracted from the total to be allocated to the remaining retail rate classes, as detailed in **Exhibit 3**, Page 6 and corresponding work papers containing the electronic format of **Exhibit 3**.

1 **Q. Please describe how the revenue adjustment determined in the FBR Plan for the**  
2 **Distribution System is implemented.**

3 A. Whereas the net operating income adjustment for the 34.5kV System must be allocated  
4 between wholesale LADS rate and retail rates using the LRS, the revenue adjustment  
5 determined by the FBR Plan for the Distribution System is fully assigned to retail rates. As  
6 stated in the implementation of the retail share of the 34.5kV System operating income  
7 adjustment above, Section F.4.a. of the Protocols prescribes that any revenue adjustment  
8 resulting from the FBR Plan is to be allocated to the retail rate classes on the basis of Test Year  
9 base revenues by rate schedule.<sup>8</sup> Southern Pioneer has therefore apportioned the adjustment  
10 to retail rate classes using the Test Year base revenues, as approved in the 20-169 Docket.

11 Table 3 on the following page summarizes the results of this allocation for the Distribution  
12 System adjustment. **Exhibit 3**, Page 7 and Workpaper WP3 provides further detail.

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25 <sup>8</sup> Unless Southern Pioneer files a COS study supporting something different and the Commission approves such a request for variance per Plan Protocols, at F.4.a.

**Table 3**

<b>SOUTHERN PIONEER ELECTRIC COMPANY</b>				
<b>Allocation of Distribution Adjustment to Retail Rate Schedules</b>				
<b>Line No.</b>	<b>Rate Schedule</b>	<b>Rate Schedule Revenue<sup>1</sup></b>	<b>Distribution System Adjustment</b>	<b>Change as Percent</b>
		(\$)	(\$)	(%)
1	Residential Service (17-RS)			
2	General Use	16,198,672	695,281	4.3%
3	Space Heating	746,947	33,124	4.4%
4	General Service Small (17-GSS)	1,950,982	99,448	5.1%
5	General Service Large (17-GSL)	16,148,502	693,204	4.3%
6	General Service Space Heating	239,573	7,942	3.3%
7	Industrial Service (17-IS)	4,807,379	183,086	3.8%
8	Industrial Service-Primary Discount	-	0	N.A.
9	Real -Time Pricing (13-RTP)	44,443	0	0.0%
10	Transmission Level Service (17-STR)	23,186,167	66,420	0.3%
11	Municipal Power Service (17-M-I)	34,840	1,854	5.3%
12	Water Pumping Service (17-WP)	703,712	31,375	4.5%
13	Irrigation Service (17-IP-I)	349,030	15,349	4.4%
14	Temporary Service (17-CS)	686,470	44,433	6.5%
15	Lighting	444,044	30,873	7.0%
16	<b>Total Retail Rates</b>	<b>65,540,761</b>	<b>1,902,389</b>	<b>2.9%</b>

<sup>1</sup> Include each rate class' share of the PTS revenue adjustment determined in WP8.

**Q. How are the resulting revenue increases by rate schedule implemented in the rate design?**

A. The Protocols, in F.4.b. specify that the resultant revenue adjustment by rate schedule is to be divided by the Test Year energy sales to determine a per kWh rate adjustment that is then added to the energy charges for each rate schedule. The result of this calculation is shown in Column (e) of **Exhibit 3**, Page 7.

The one exception required is for lighting. Since the lighting rate schedules do not have an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have an estimated energy use for the various sizes/types of lights, and so the energy adjustment can

1 still be applied to affect the monthly charge in a way that is proportionate to usage. This  
2 approach then provides consistency between all the retail rates being adjusted.

3 **Q. What other adjustments have been made to the retail rates?**

4 A. In compliance with the outcome of the 20-169 Docket, the retail rates contained in Exhibit A  
5 of the 20-169 Order are adopted prior to applying any adjustments from the FBR Plan. Those  
6 adjustments are reflected in blue in the tariffs attached to the Application as **Exhibit 13**. The  
7 adjustment from the 2020 Test Year FBR are applied against these previously approved rates  
8 to result in the retail rates being requested in the instant docket. The result is a full set of retail  
9 rates that complies with the 20-169 Order by implementing the rates approved in that rate case  
10 while also rolling in the impact of the 2020 Test Year FBR Plan so that both impacts are  
11 captured in a single rate change, as required by the 20-169 Order.

12 **Q. The rates approved in the 20-169 Docket include a rebasing of the PTS for the non-STR**  
13 **retail rate schedules. Do you have any recommendations concerning this rebasing?**

14 A. Yes. Because the non-STR retail rates being implemented (which are subsequently further  
15 adjusted by this FBR Plan) include the rebasing of the PTS, the PTS charged by Southern  
16 Pioneer should be reduce by the amount of the rebasing in order to avoid double collection and  
17 to reduce the customer impact of the change. While any double collection could be true-ed up  
18 in the 2021 PTS filing, Southern Pioneer would prefer to avoid this and the impact it would  
19 have on customer bills in the interim period, even if it is only for a few months. As specified  
20 in Exhibit A of the SA approved in the 20-169 Docket, the rates include a rebasing of \$0.00456  
21 per kWh. I recommend that when customer bills under the rates from this Application take  
22 effect, the PTS charge (for those same bills) be reduced by the \$0.00456 per kWh to reflect the  
23 amount that in embedded in those rates

24 **Q. Have the proposed tariffs as required in the Protocols in Section G.13 been provided?**

25 A. Yes, they are included as **Exhibit 13** of the Application in the instant Docket.

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**PART IV - CONCLUSION**

**Q. Please recap the results of the FBR Plan Annual Update for Southern Pioneer.**

A. Southern Pioneer’s FBR Plan, updated for 2020 Test Year, results in a DSC ratio of 1.33 for the Distribution System, requiring a \$1,902,389 revenue increase applicable to Southern Pioneer’s retail customers. The FBR Plan results in a DSC ratio of 1.90 for the 34.5kV system, requiring a \$633,267 decrease. On a LRS basis, the retail share of this adjustment is 64% and the wholesale share is 36%. The aggregate retail increase when combining the Distribution and 34.5kV System results is \$1,495,735 or 2.3% which is allocated to the rate schedules and implemented as a per kWh adjustment, consistent with the FBR Protocols. The wholesale LADS rate will decrease from \$5.00 per kW to \$4.29. The allocation of the net change to retail rate schedules is summarized in Table 4 below.

**Table 4**

<b>SOUTHERN PIONEER ELECTRIC COMPANY</b>						
<b>Allocation of FBR Rate Adjustment to Retail Rate Schedules</b>						
<b>Line No.</b>	<b>Rate Schedule</b>	<b>Rate Schedule Revenue<sup>1</sup></b>	<b>34.5kV System Adjustment</b>	<b>Distribution System Adjustment</b>	<b>Total Adjustment</b>	<b>Change as Percent</b>
		(\$)	(\$)	(\$)	(\$)	(%)
1	Residential Service (17-RS)					
2	General Use	16,198,672	(152,777)	695,281	542,504	3.3%
3	Space Heating	746,947	(7,278)	33,124	25,846	3.5%
4	General Service Small (17-GSS)	1,950,982	(21,852)	99,448	77,596	4.0%
5	General Service Large (17-GSL)	16,148,502	(152,320)	693,204	540,883	3.3%
6	General Service Space Heating	239,573	(1,745)	7,942	6,197	2.6%
7	Industrial Service (17-IS)	4,807,379	(40,230)	183,086	142,856	3.0%
8	Industrial Service-Primary Discount	0	0	0	-	N.A.
9	Real -Time Pricing (13-RTP)	44,443	0	0	-	N.A.
10	Transmission Level Service (17-STR)	23,186,167	(3,229)	66,420	63,191	0.3%
11	Municipal Power Service (17-M-I)	34,840	(407)	1,854	1,447	4.2%
12	Water Pumping Service (17-WP)	703,712	(6,894)	31,375	24,481	3.5%
13	Irrigation Service (17-IP-I)	349,030	(3,373)	15,349	11,977	3.4%
14	Temporary Service (17-CS)	686,470	(9,763)	44,433	34,669	5.1%
15	Lighting	444,044	(6,784)	30,873	24,089	5.4%
16	<b>Total Retail Rates</b>	65,540,761	(406,654)	1,902,389	1,495,735	2.3%

<sup>1</sup> Include each rate class' share of the PTS revenue adjustment determined in WP8.

**Q. What is your final recommendation to the Commission?**

A. My recommendation is to approve Southern Pioneer’s Application in this docket and the resultant rates which incorporate, 1) the rates approved by the 20-169 Order, and 2) the adjustments determined in accordance with the Commission-approved FBR Plan, into one rate adjustment which is just and reasonable and in the public interest.

**Q. Does this conclude your Direct Testimony?**

A. Yes, it does.

VERIFICATION

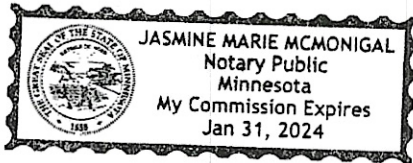
STATE OF MINNESOTA        )  
  ) ss  
COUNTY OF WASHINGTON )

The undersigned, Richard J. Macke, upon oath first duly sworn, states that he is the Vice President, Economics, Rates, and Business Planning for Power System Engineering, Inc.; that he has read this Prefiled Direct Testimony and knows the contents thereof; and, that the facts therein are true and correct to the best of his knowledge, information, and belief.

Richard J. Macke  
Richard J. Macke

Subscribed and sworn to before me this 26<sup>th</sup> day of April, 2021.

Jasmine McMonigal  
Notary Public



My appointment expires: Jan 31st 2024



## CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a true and correct copy of the foregoing Testimony was electronically served this 3<sup>rd</sup> day of May, 2021 to:

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*Glenda Cafer*

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