cc: LE

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August 4, 2022

VIA HAND DELIVERY
Ms. Terri Lemoine Bordelon
Louisiana Public Service Commission
Galvez Building, 12th Floor
602 North Fifth Street
Baton Rouge, LA 70802

Re: LPSC Docket No. R-36263: Louisiana Public Service Commission, ex parte. In re: *Consideration of Whether the Commission Should Adopt Minimum Physical Capacity Threshold Requirements for Load Serving Entities*

Dear Ms. Bordelon:

On behalf of Jefferson Davis Electric Cooperative, Inc. ("JDEC"), enclosed for filing in the above captioned docket are JDEC's Supplemental Responses to Staff's First Requests for Information.

Specifically, attached to the supplemental responses please find two (2) documents to supplement JDEC's initial responses to Staff's First Requests for Information filed on June 30, 2022 (Exhibits A and B). These analyses were referenced in the initial responses of JDEC. The first is the *Analysis of Louisiana Public Service Commission's Minimum Capacity Obligation Proposal (Docket R-36263)* by Gabel Associates – RTO Services for JDEC. The foundation of this analysis is a MISO South and Local Resource Zone 9 Capacity Supply Assessment, which demonstrates no resource adequacy shortfall risk to Louisiana (Exhibit A). Gabel Associates also outlines the policy considerations around a minimum capacity obligation ("MCO"), and possible mechanisms for the LPSC to monitor resource adequacy and improve operational reliability moving forward.

The second document is the *Minimum Capacity Obligation Analysis and Indicative Rate Impact* by Concentric Energy Advisors for JDEC (Exhibit B). This analysis uses the capacity market assessment from the Gabel Analysis and calculates the rate impacts to JDEC for different MCO threshold scenarios as compared to a base case. An MCO imposed on JDEC will increase

costs for cooperative ratepayers. Given the surplus of capacity expected in MISO South over the next 10 years, there is no justification for any projected cost increases.

If any additional information is needed, please feel free to contact me. Thank you and kindest regards.

Sincerely,

Kara B. Kantrow

Enclosure: as stated
cc: Service List

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LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. R-36263

LOUISIANA PUBLIC SERVICE COMMISSION, EX PARTE.

In re: Consideration of Whether the Commission Should Adopt Minimum Physical Capacity Threshold Requirements for Load Serving Entities

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JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.'S SUPPLEMENTAL RESPONSES TO STAFF'S FIRST REQUESTS FOR INFORMATION

Jefferson Davis Electric Cooperative, Inc. ("JDEC" or "Cooperative") supplements its initial responses to Louisiana Public Service Commission ("LPSC" or "Commission") Staff's First Requests for Information filed on June 30, 2022 as follows:

JDEC reasserts its "General Objections" as stated in JDEC's initial responses to Commission Staff's First Requests for Information.

SUPPLEMENTAL RESPONSES TO COMMISSION STAFF'S FIRST REQUESTS FOR INFORMATION

Staff Request 1-5

Please provide all projections that you have regarding the capacity and load within Louisiana over the next ten years.

JDEC's Supplemental Response to Request 1-5

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-6

Please provide all projections that you have regarding the capacity and load within MISO Zone 9 over the next ten years.

JDEC's Supplemental Response to Request 1-6

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-9

Please identify and explain any benefits that would result from the LPSC adopting a minimum requirement for Load Serving Entities to obtain physical capacity.

JDEC's Supplemental Response to Request 1-9

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-10

Please identify and explain any risks or detriments that would result from the LPSC adopting a minimum requirement for Load Serving Entities to obtain physical capacity. Please include both generic risks or detriments, as well as any risks or detriments specific to you.

JDEC's Supplemental Response to Request 1-10

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-11

If the LPSC were to adopt a minimum capacity requirement, what should be the time frame over which that initial requirement applies.

JDEC's Supplemental Response to Request 1-11

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-12

If the LPSC were to adopt a minimum capacity threshold for Load Serving Entities, what should be the appropriate minimum physical capacity threshold requirement stated as a percentage of load? Please explain the basis for your response.

JDEC's Supplemental Response to Request 1-12

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Staff Request 1-17

If the LPSC were to adopt a minimum capacity threshold for Load Serving Entities, what is your opinion on how such a requirement would affect the capacity and energy markets in Louisiana?

JDEC's Supplemental Response to Request 1-17

Please see attached analyses from Gabel Associates and Concentric Energy Advisors, attached hereto as Exhibits A and B, respectively.

Respectfully submitted,

MARIONNEAUX KANTROW, LLC

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Counsel for Jefferson Davis Electric Cooperative, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have on this 4th day of August 2022, served copies of the foregoing pleading upon all known parties to this proceeding by U.S. Mail, email, facsimile, and/or hand delivery.

KARA B. KANTROW

To: DEMCO and JDEC

From: Gabel Associates – RTO Services

Date: August 4, 2022

Re: Analysis of Louisiana Public Service Commission's Minimum Obligation Proposal (Docket R-36263)

gabel associates

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1. Executive Summary

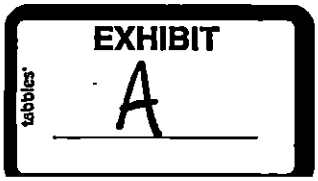
Gabel Associates (Gabel) was engaged by the Dixie Electric Membership Cooperation (DEMCO) and the Jefferson Davis Electric Cooperative (JDEC) to evaluate the necessity, benefits, costs, and risks associated with the Louisiana Public Service Commission's (LPSC) consideration of adopting a "Minimum Capacity Obligation" (MCO) for Louisiana Load Serving Entities (LSE) in LPSC Docket No. R-36263.

This LPSC MCO Rulemaking was initiated based on concerns raised in Docket No. U-35927 regarding grid reliability and the potential tightening of capacity margins if all LPSC utility-LSEs overly relied on the markets administered by the Midcontinent Independent System Operator (MISO). In this regard, we expect the MCO is considered as a regulatory backstop to ensure LSEs procure a minimum amount of physical capacity to limit their use of the MISO Resource Planning Auction (PRA).

Our analysis of the MCO evaluates the procurement of a minimum amount of physical capacity in advance of, or in supplement to, MISO's PRA.

As a threshold matter, we believe that in this rulemaking the LSPC should consider the adoption of a four-step process to ensure any MCO policy is appropriately tailored to Louisiana's needs. These four steps are as follows:

(1) Every two years, have an independent, third-party consultant evaluate capacity supply analyses to determine if a substantial Resource Adequacy (RA) shortfall risk has a high probability to exist within the next 5 years, and;
(2) If an RA shortfall is predicted, the independent third-party consultant should recommend a volume of MCO requirements that would alleviate those RA shortfall risks without overly burdening ratepayers;
(3) All interested parties should have an opportunity to comment on the findings of the independent third-party consultant;
(4) The LPSC would decide whether to impose an MCO. If an MCO is imposed, it would include the timeframe over which LSEs must implement it, as well as associated processes to substantiate that LSEs have complied with the MCO. Once an MCO is imposed, the bi-annual evaluation (steps 1-3) should continue and the LPSC would consider refinements and adjustments to the MCO every two years.



Currently, Gabel's capacity supply evaluation identifies no RA shortfall risk to Louisiana, the MISO South subregion, or MISO Local Resource Zone (LRZ) 9[1]. All publicly available information indicates the MISO South subregion and LRZ 9 are expected to maintain capacity volumes that exceed the RA targets needed to maintain reliability. The presence of persistent capacity excess highlights that Louisiana is not reasonably expected to incur a RA shortfall. The absence of any reasonable shortfall risk means an MCO is not needed, and no incremental RA or reliability benefit will flow from the adoption of an MCO. The installation of an MCO in the absence of need for additional RA support will unnecessarily increase the rates consumers pay for electricity. The analysis conducted by Concentric Energy Advisors, the Minimum Capacity Obligation Analysis and Rate Impact document, highlights that ratepayers face high-cost risk in an MCO construct in Louisiana because of market power concentration and the ability for suppliers to exercise that market power.

Therefore, while Gabel does not view the need to impose an MCO given the current access to capacity, Gabel does believe it is reasonable for the LPSC to codify in this rulemaking the process outlined above (steps 1-4), and to conduct those steps every two years.

In addition to the recurring two-year process, the LPSC can also monitor RA through the Integrated Resource Planning (IRP) requirements for utilities. The LPSC is considering whether the electric cooperatives should be included in this IRP requirement through rulemaking Docket R-36262. The IRP process will provide the LPSC with robust oversight as to electric cooperatives approach to managing Louisiana-specific risks and their resource planning decisions.

2. MISO South and LRZ 9 Capacity Supply Assessment

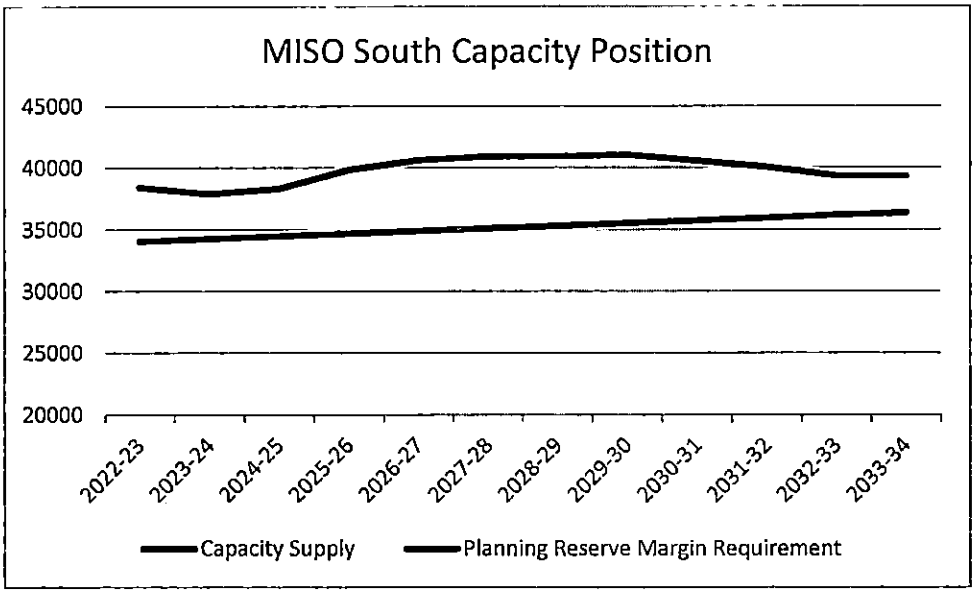
As explained, Gabel does not view current market data as justifying an MCO. Gabel's first step in determining if an MCO is needed for Louisiana to maintain RA was to consider the capacity supply condition for the MISO South sub-region and MISO LRZ 9. Gabel conducted a capacity position analysis that compares future supply scenarios to expected demand volumes. For each scenario, Gabel considered publicly available information, including details from the MISO Futures Report[2], the MISO Loss of Load Expectation Study[3], the CLECO Power and Entergy Louisiana utility integrated resource planning documents, the MISO interconnection queue, and MISO Planning Resource Auction (PRA) reports.

MISO South has substantial capacity excess today and is expected to maintain that excess through the 2033-34 Planning Year. On average, MISO South is forecasted to maintain approximately 4,440 MW of capacity excess throughout the study period.

[1] Local Resource Zone 9 (LRZ 9) in MISO is comprised of Louisiana and eastern Texas

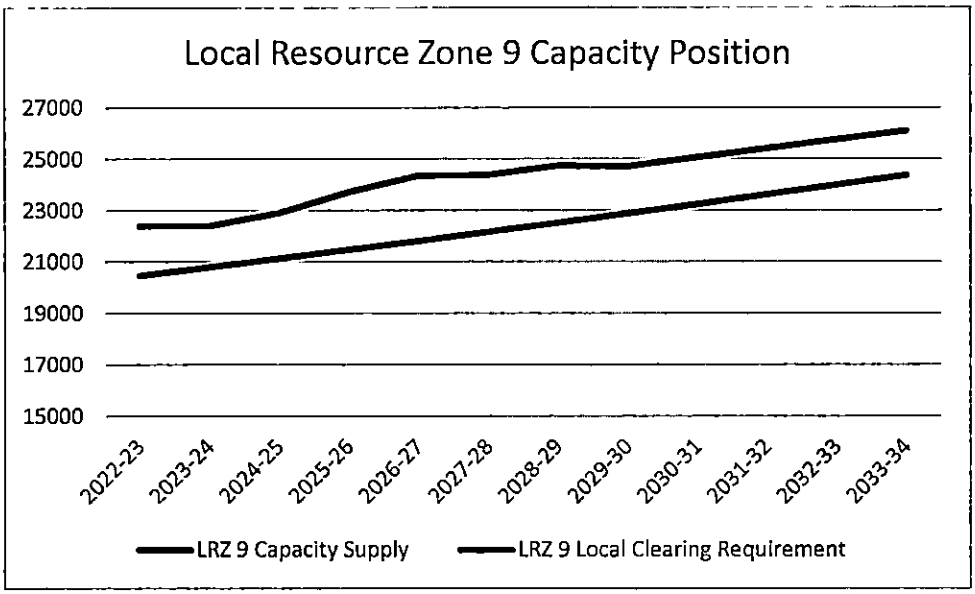
[2] https://cdn.misoenergy.org/MISO%20Futures%20Report538224.pdf.

[3] https://cdn.misoenergy.org/PY%202022-23%20LOLE%20Study%20Report601325.pdf.



Since MISO South is a constrained sub-region consisting of Louisiana, east-Texas, Arkansas, and Mississippi, capacity demand for the sub-region is calculated by summing the Planning Reserve Margin Requirements of each Zone (8, 9, and 10) within the sub-region. Similarly, capacity supply data is also aggregated for those same areas and compared to the aggregated sub-region PRMR. There is one additional consideration: exports. MISO South exports capacity to MISO North/Central along the Sub-Region Export Constraint (SREC). The SREC assumes that MISO South can deliver 2,500 MW of capacity, less firm transmission reservation volumes, to MISO North/Central. Even assuming that MISO South will always export the maximum allowable capacity to assist meeting needs in MISO North/Central and bind the SREC, MISO South maintains more than 2,000 MW of capacity excess on average throughout the study period.

A more focused analysis on LRZ 9, which is comprised of Louisiana and east-Texas, yielded similar results. However, the relevant data is slightly different. To evaluate a Zonal supply condition, that condition must be compared to the Local Clearing Requirement (LCR). The LCR represents the amount of capacity that must be sourced from inside a Zone to ensure local reliability while accounting for the ability for the transmission system to import capacity.



On average, Louisiana and east-Texas are expected to maintain a capacity supply excess of nearly 2,000 MWs above the LCR. But even if transmission capability is ignored, LRZ 9 averages more than 1,000 MWs of capacity excess above its assigned PRMR throughout the study period. LCR excess is maintained even within two standard deviations of the supply volumes, which indicates adequate supply will exist in 95% of market outcome absent widespread reform. This means that LRZ 9 does not face shortfall risk as a result of load forecasting errors, regular variations in the overall supply/demand balance, or year-over-year changes in accredited capacity values.

To summarize, MISO South is expected to maintain capacity volumes of more than 4,400 MWs in excess of reliability targets. LRZ 9 is expected to maintain a capacity excess of approximately 2,000 MWs above its local reliability target.

There is no pending capacity shortfall for MISO South, LRZ 9, or Louisiana for 12 years.

The totality of the publicly available information from local utilities and MISO demonstrates that sufficient capacity excess will be maintained to ensure Louisiana customers are reliably served by available capacity resources, even if new resources are slow to come online and aging resources accelerate retirements. A substantial portion of the currently expected retirements will likely be replaced with new resources. Even though some capacity value will be lost through those replacement efforts, generator retirement without any replacement would be inefficient and unnecessarily costly for ratepayers. The MISO replacement process allows for the current owner of a generating facility to retire the aging facilities and "replace" those facilities with new ones of any technology type. This process allows for the replacement facility to use the interconnection facilities and related transmission upgrades developed by the original facility, which accelerates the development cycle and reduces costs. A failure to leverage the replacement process would forfeit the interconnection rights of the retiring facility and require ratepayers to fund entirely new interconnection facilities and potentially very costly transmission system network upgrades.

3. The LPSC Joins MISO and Michigan in Investigating a Minimum Capacity Obligation

Prior to a formal adoption of an MCO that functions as a forward procurement of physical capacity, LPSC must identify specific reliability issues in MISO South or Zone 9 in Louisiana and determine whether those issue can be resolved through incremental RA assurance or other means. The Winter Storm Uri report and the Max Gen Order identify specific reliability concerns for Louisiana, but additional RA support does not appear to be a solution to those issues. More specifically, the Max Gen Order identified generator winterization issues and transmission system performance concerns as contributors to the Max Gen events. Even if there is even more excess capacity added, capacity resources that cannot operate during extreme weather events or generation that cannot be delivered to load due to transmission issues fails to improve the reliability of the Louisiana grid despite the additional costs. MISO South is projected to have a capacity excess of 4,400 MWs over the next 12 years, which sits in stark contrast to the RA issues MISO and Michigan were attempting the address through their respective MCO policies.

The only two other instances where an MCO has been introduced were in MISO to address the North/Central subregion capacity shortfall and in Michigan where an LCR shortfall occurred. In MISO, the MCO was filed with FERC to address the expected, and later realized, shortfall to the North/Central subregion. The lack of capacity in the North/Central portion of the footprint will likely be exacerbated by an additional 20 GWs of thermal resource retirements over the next 10 years.[4] It's worth noting that MISO is pursing other initiatives to address potential RA needs and that the MCO filing is still pending at FERC. The MISO MCO was criticized for a number of reasons, one of which was the overly broad application to MISO South when shortfall concerns had only been identified in MISO North/Central.

In a somewhat similar situation to MISO North/Central, the Michigan MCO was introduced through legislation in response to a demonstrated risk of capacity shortfall and local resource adequacy concerns,[5] including a projection of remarkable increase in thermal generator retirements which raised concerns over maintaining local generation level.[6] But the Michigan MCO appropriately accounted for transmission import capability and set the MCO threshold at a level equal to the MISO LCR. This aimed to ensure the concerns over local capacity resource volumes were addressed.

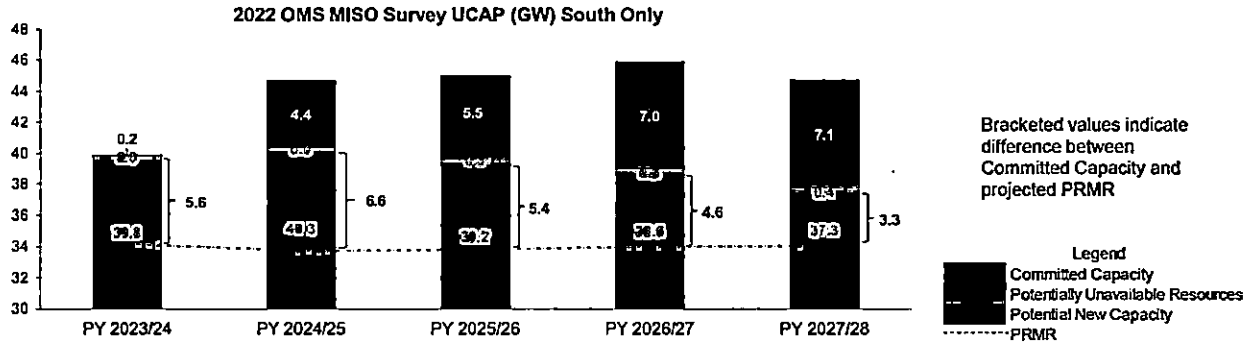
[4] *Transmittal Letter*, Midcontinent Independent System Operator, Inc.'s Filing to Include a Minimum Capacity Obligation in the MISO Resource Adequacy Construct, FERC Docket ER22-496, November 31, 2021.
[5] Act 31 is the law that introduced the MCO concept in Michigan. Michigan Common Law (MCL), Chapter 460, Act 341 of 2016 (2017), https://www.legislature.mi.gov/documents/2015-2016/publicact/htm/2016-PA-0341.htm.
[6] Mich. Agency for Energy & Natl. Assoc. of State Energy Officials, Baseline Research, *A Roadmap for Michigan's Energy Markets and Planning Program*, at 41-42 (Dec. 21, 2017), https://naseo.org/Data/Sites/1/emap/meo-doe-baseline-research-report-updated.pdf.

4. What MCO Threshold Should be Implemented and How Will Capacity Supply in LRZ 9 be Affected?

Unlike MISO North/Central and Michigan, there are no RA issues impacting Louisiana. Louisiana has, and is projected to, maintain RA while also retaining substantial capacity excess. Given this circumstance in Louisiana, the MCO threshold should be 0%.

This ensures that all LSEs in Louisiana can continue to rely upon existing and planned resources without unnecessarily increasing costs. RA related cost increases in efficient regulatory and market environment offer commiserate reliability benefits. In the present matter, there's no demonstrated need for an MCO so it is unclear what incremental reliability benefits an MCO could offer in an environment with access to at least 2,000 MWs of additional capacity above what is needed to ensure reliability is maintained to the 1-in-10 standard.[7] As such, the installation of additional physical capacity resources would come at a cost without offering a distinct reliability benefit.

Gabel's analysis that demonstrates capacity excess in MISO South sits against an environment that is concerned with capacity shortfalls in MISO. It is important to note that those capacity shortfalls are siloed in the MISO North/Central region and are not expected to impact MISO South. Certainly, opinions can differ as to what may happen in a specific portion of the footprint, but the consensus is that MISO North/Central is facing a shortfall risk and MISO South is expected to maintain excess. Even the recent OMS-MISO Survey press release was titled "2023 OMS-MISO survey projects adequate reserve margins for MISO South Region, but capacity deficit for North and Central Regions" (emphasis added). [8] While the OMS-MISO Survey has some imperfections like being voluntary and containing metrics that change each year, it is effective in highlighting directional trends in the MISO footprint. Of note, the 2023 OMS-MISO Survey states "...the South sub-region has a surplus."[9] These trends further support Gabel's findings that no MCO is needed to maintain RA in MISO South.



[7] MISO and other RTOs established Planning Reserve Margin Requirements to ensure the probability of a loss of load event is 1 day in a 10-year period. This is consistent with NERC guidance and FERC precedent. Planning in excess of the 1-in-10 standard had been widely adopted.

[8] https://www.misoenergy.org/about/media-center/2023-oms-miso-survey-results/.

[9] https://cdn.misoenergy.org/20220610%20OMS-MISO%20Survey%20Results%20Workshop%20Presentation625148.pdf at 17.

5. The LPSC Should Also Weigh Specific Policy Design Elements During the Consideration of an MCO

As part of the step 1 and 2 evaluations set forth in the 4 step process and in addition to the supply/demand balance, there are certain elements that should be included in the rule to ensure Louisiana ratepayers can receive distinct reliability benefits that are commensurate with any cost increases and risks. The first issue is transmission and locational requirements. The LPSC's consideration of locational requirements should comport with those of MISO. But locational concerns can be addressed by more than generation alone. Additional transmission in the right areas can "free up" trapped generation, reduce congestion, and provide improved deliverability to load in constrained areas. It can also improve the interconnectedness of Louisiana to neighboring areas, so Louisiana customers have access to more resources if localized events impact in-state generation.

The second consideration should be how any MCO will impact other market segments. An MCO that carries a physical capacity requirement will have those resources also offer into the MISO Day Ahead energy market. Depending on the resource mix of the MCO facilities, this could push prices higher depending on which resources provide the MCO capacity. Such a consideration as to how certain MCO mixes will impact energy prices will allow for all Louisiana stakeholders to understand the second order effects of the policy. Relatedly, if the LPSC is interested in specific generation operating characteristics, like dual fuel capability, those should be clearly articulated so Louisiana stakeholders can work to resolve any concerns the LPSC may have. The LPSC can even work with MISO in the ongoing Reliability Imperative discussions to develop specific market incentives that will aid Louisiana in increasing grid resiliency in the face of extreme weather events.

Third, any MCO requirement should comport with the MISO PRA construct like the policy that was adopted in Michigan. An MCO should respect transmission limitations to avoid LSEs procuring too much external capacity and accidentally creating an LCR shortfall by procuring too few local resources. Again, the Michigan MCO construct was based around the Zone 7 LCR so adequate local resources were secured. The LPSC could also permit MCO commitments from resources that are still in development or are in the MISO interconnection queue. An additional consideration here should be provided to MISO's current proposal before the FERC to install a seasonal capacity market so the timing and durational requirements of any LPSC obligation do not directly conflict with the MISO obligations. These administrative details could create compliance gaps for entities subject to the LPSC and MISO rules, potentially causing cost increases due to having to secure capacity in two forums for separate needs.

Fourth, the evaluations can leverage its authority in the IRP process to help identify shortfall risk. This can result in regulated entities contracting or building capacity resources in a certain timeframe to avoid over-reliance on the MCO function as a regulatory backstop. This shortfall inquiry could also include robust discussions around the future scenarios driving resource decisions in Louisiana.

Fifth, the evaluations should establish protections against the exercise of market power. As highlighted in the Concentric Energy analysis, suppliers in Louisiana have market power and can cause inefficiencies in the electric industry if that market power is exercise. There are dominant suppliers in Louisiana that could be provided with market power and could exercise that power to the detriment of entities that typically contract with those local generation facilities. The exercise of market power would unnecessarily increase customer costs and disrupt the efficiencies of the bilateral market.

6. Implementation Timelines

Any decision to implement an MCO now or in the future should provide ample time for Louisiana stakeholders to comply with the new policy. An abrupt implementation timeline of an MCO or reporting requirement can cause unnecessary increases in rates because stakeholders will not have the benefit of engaging in longer negotiations with other parties, which can produce favorable rates. Moreover, a short implementation windows fail to incent the development of resources that have the operating characteristics tailored to address all the LPSC's concerns.

Such an implementation timeline should also include time for competitive procurement processes to take place. Sometimes these processes include resources that are in the MISO interconnection queue that have a few years of development work ahead before achieving commercial operation. Relatedly, there may be transmission upgrades needed to integrate new resources which can take years to develop. Electric cooperatives also need additional time to ensure compliance with the MBM Order.

The implementation timeline should, to the extent possible, align with the time period as to when a shortfall is expected to occur. For example, Michigan provides a 4-year forward procurement requirement in advance of the relevant Planning Year. Whether the requirement is prompt or forward in nature, more notice to stakeholders means a smoother transition will occur. Gabel recommends the LPSC assess RA conditions on a 5-year forward basis to allow enough time to develop new resources that could be needed to address RA shortfalls identified towards the back end of that 5-year outlook.

Lastly, the LPSC could also rely on a phase-in approach to allow incremental compliance milestones to inform LSEs as to how to best comply and adjust to any new MCO policy.

CONCENTRIC ENERGY ADVISORS

MINIMUM CAPACITY OBLIGATION

TO: DIXIE ELECTRIC MEMBERSHIP CORPORATION ("DEMCO") AND JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC ("JDEC")

FROM: CONCENTRIC ENERGY ADVISORS

SUBJECT: MINIMUM CAPACITY OBLIGATION ANALYSIS AND INDICATIVE RATE IMPACT

DATE: AUGUST 4, 2022

I. Background

In January 2022, the Louisiana Public Service Commission ("LPSC") initiated a rulemaking to consider whether to adopt a Minimum Capacity Obligation ("MCO")[1] in MidContinent Independent System Operator Inc. ("MISO") for Louisiana's jurisdictional electric utilities. Under the MCO Proposal, a Load Serving Entity ("LSE") under LPSC jurisdiction would be required to procure a defined percentage of its Planning Reserve Margin Requirement ("PRMR") ahead of the Planning Resource Auction ("PRA") through generating resource ownership and/or bilateral contracts.

Based on a long-term assessment of the supply/demand balance in MISO South and in Zone 9 performed by Gabel Associates ("Gabel"), there is expected to be a surplus of over 2,000 MW of generating capacity over a 10-year forecast horizon starting in 2024. With this level of surplus, which is over 10% of the total capacity in Zone 9 (adjusted to reflect unforced capacity), it is difficult to reconcile the reliability concerns that the MCO is intended to address with the costs that will be imposed on Louisiana ratepayers by the market intervention being contemplated.

Forcing LSEs to buy a minimum amount of their PRMR through the bilateral market, ahead of the PRA, would increase the potential for the exercise of seller market power in Zone 9, with associated cost implications. Because the bilateral market is not monitored or mitigated, the market will be competitive only if generators do not have the incentive to exercise market power. Even in a situation where Zone 9 is long on capacity, an MCO would materially change the market structure, and capacity suppliers would almost certainly be incentivized to exercise market power that would be difficult, if not impossible, to mitigate. In fact, the Herfindahl-Hirschman Index ("HHI"), which is a measure of market concentration, is utilized by the MISO Internal Market Monitor ("IMM") to evaluate the competitiveness of the market. Based on the IMM's calculations, the MISO South region has a very high HHI score, meaning that single supplier operates

EXHIBIT tabbies B

[1] LPSC Docket R-36263

more than 60% of the generation.[2] The result would be increased costs for Louisiana ratepayers, as demonstrated in our analysis.

II. Scope of Work

Concentric Energy Advisors, Inc. ("Concentric") was asked to prepare an analysis to assess the directional impact on JDEC and DEMCO of the potential imposition of an MCO by the LPSC in the MISO South/Zone 9 region.[3] NextEra Energy Marketing ("NEM") is contractually obligated to meet both DEMCO and JDEC's PRMR in Louisiana through a contract starting in 2024 and 2025 respectively, and NEM, as the supplier, has the option to meet its capacity obligation to DEMCO and JDEC via various methods, including bilateral contracts and through PRA participation.

III. Approach to Analysis

Concentric's directional analysis of an MCO in MISO Zone 9 consists of the following approach:

1. Utilize Gabel's' forecast in MISO Zone 9 over a 10-year period, starting in 2024 and running through 2033, taking into account:[4]
    a. Expected retirements
    b. Expected new entry
    c. MISO South PRMR
    d. Assumed load growth
    e. Sub-regional export constraints[5]
2. Utilize the 2022Q2 S&P Capital IQ Pro forecast of 2022 capacity prices in MISO Zone 9, escalated for inflation after 2022.
3. Estimate a bilateral contract price based on the Avoidable Cost Rate ("ACR") in MISO, defined as the fixed annual operating expenses that would not be incurred if a unit were not a capacity resource for a year, and weighted by the 2020 MISO Generation Mix.[6,7] A seller of capacity would likely expect to recover its operating expenses under a bilateral contract; otherwise they would forego a capacity obligation.
4. If there are years when MISO Zone 9 is projected to be short of capacity, a seller of capacity would realize a premium over the ACR based on the difference between the Retirement Avoidable Cost, defined as the cost that a resource

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2 2021 State of the Market Report for the MISO Electricity Markets, Potomac Economics, June 2022, pg. 95.
3 MISO South is comprised on Arkansas, Louisiana, East Texas and Mississippi, Zone 8, 9, and 10 respectively.
4 See Gabel Analysis for a detailed explanation.
5 See Gabel Analysis; Sub-Regional export constraints.
6 Potomac Economics, Default Technology-Specific Avoidable Costs, MISO IMM, January 20, 2022.
7 MISO Region Reliability Imperative – January 2022, p. 13.

would need to assume a capacity obligation and avoid the costs associated with retirement, and the ACR.[8] This difference reflects what a generating unit would need above its yearly ACR to cover its long-terms costs to avoid retirement.

5. If there are years when MISO Zone 9 is projected to be short of capacity, an LSE might be triggered to build generation at a price close to the Net Cone value ($/MW-day).[9] The assumption for new build would be a gas combustion turbine plant.

6. Calculate the total portfolio cost to both JDEC and DEMCO of meeting their projected PRMR (based on JDEC and DEMCO forecasts) in a base case where NEM purchases 10% of their PRMR in the capacity auction and meets 90% of their PRMR through bilateral contracts.

7. Calculate the cumulative portfolio cost as of June 2024 and June 2025 for DEMCO and JDEC, respectively.

8. Develop three MCO scenarios where the LPSC imposes an MCO of 20%, 50% and 90%. Assume that the MCO scenarios being contemplated fulfill a one-year commitment.

9. The premium that JDEC and DEMCO would be exposed to under the scenarios is calculated as follows: i) under a base case, 25% of the PRMR in MISO South is transacted in the PRA using the HHI calculation that is calibrated to the IMM's calculation of HHI for MISO South[10]; ii) under varying MCO requirements, the percentage of capacity transacted in the PRA is decreased by the amount of the MCO in each scenario. For example, under a 20% MCO requirement, the base case 25% PRA assumption is decreased by 20%; iii) calculate the premium associated the three MCO scenarios based on the percent change in HHI. The ACR value is being used as a proxy for a bilateral contract price and is multiplied by the change in HHI. This is added to the ACR value under the base case to represent the premium that suppliers might realize with the imposition of a purchase requirement by the LPSC in each scenario.

10. Develop two additional sensitivity cases for each MCO scenario:

    a. Measure the sensitivity of the price premium if the region's largest supplier controls the capacity no longer offered through the PRA due to the MCO. In the example above, a 20% MCO assumption would reduce the baseline PRA capacity by 20%, and that capacity would be assumed to be controlled by Supplier #1 in the context of the HHI (rather than being controlled by additional and other suppliers throughout the region).

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8 Potomac Economics, Default Technology-Specific Avoidable Costs, MISO IMM, January 20, 2022.

9 MISO 2021 Annual CONE Filing, Attachment B, October 4, 2021.

10 The Herfindahl-Hirschman Index (HHI) is used to determine market competitiveness. A market with an HHI of less than 1,500 is considered a competitive marketplace, an HHI of 1,500 to 2,500 is moderately concentrated, and an HHI of 2,500 or greater is highly concentrated.

b. Measure the cost of building a unit to meet the MCO instead of purchasing this capacity under bilateral contract(s).

IV. Results

The approach to our analysis required the development of many assumptions, some of which are grounded in publicly available information. Because bilateral contract pricing and terms are not publicly available, the assumptions regarding premiums that might be commanded by capacity sellers required us to develop more hypothetical assumptions about how sellers might behave under an LPSC-imposed purchase requirement. The results of this analysis are shown in the figures below:

Figure 1: DEMCO Portfolio Cost (2024 – 2033)

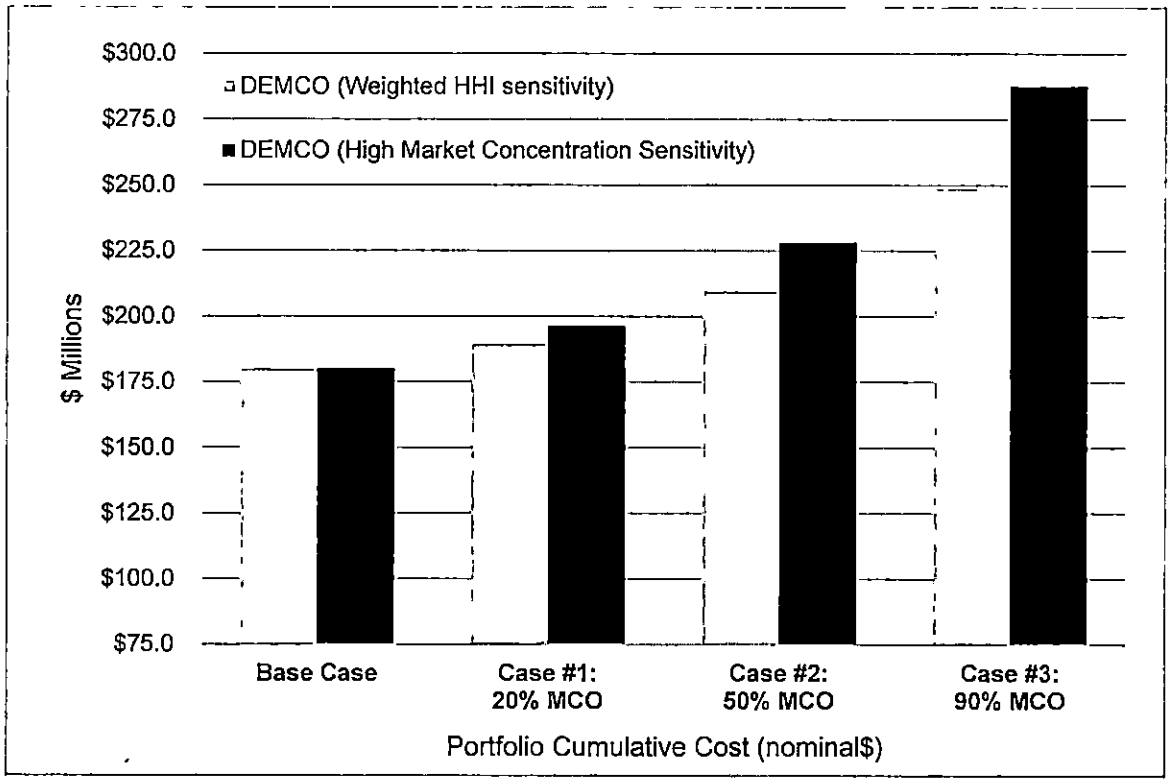
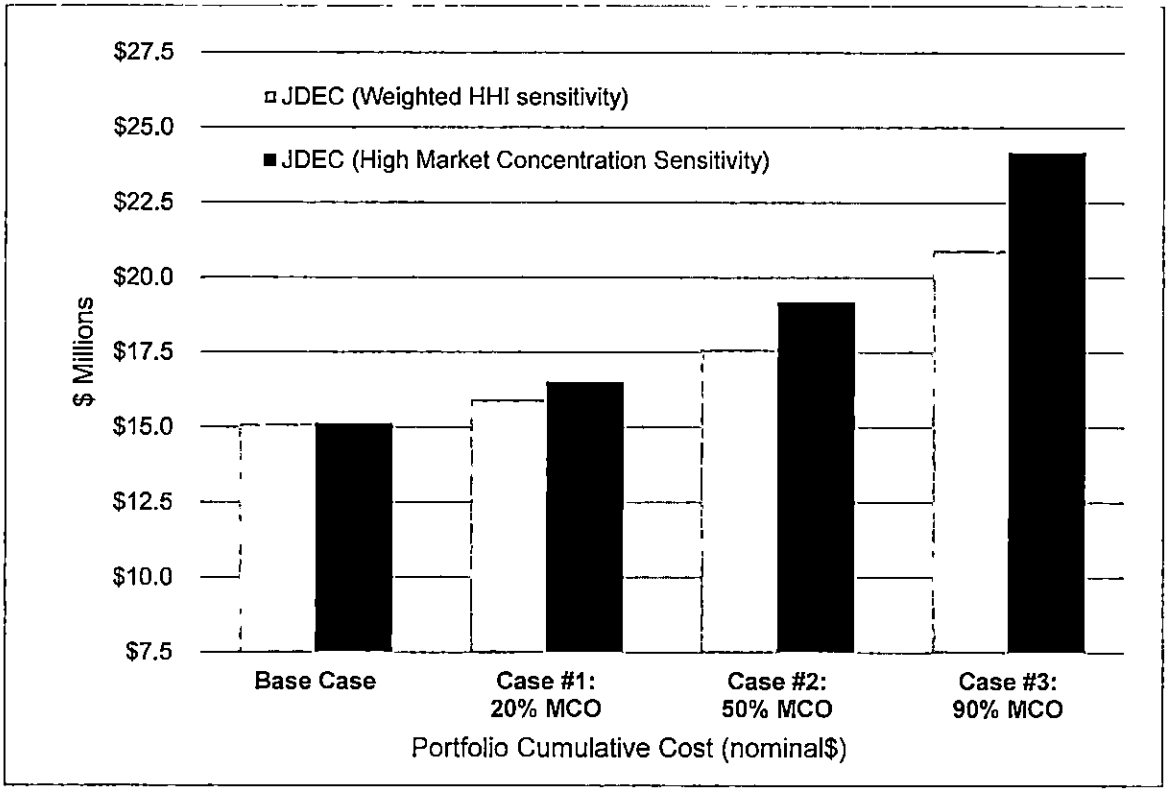


Figure 2: JDEC Portfolio Cost (2025 – 2033)



As can be seen in the above figures, a 20% MCO increases costs for DEMCO on an cumulative basis by approximately $10 - $16 million (5.3% - 9.1%), while a 50% MCO increases costs by approximately $30 - $48 million (17% - 27%) over the base case, and a 90% MCO increases costs by approximately $69 - $108 million (38% - 60%) over the base case.[11] For JDEC, a 20% MCO increases costs on a cumulative basis by approximately $800,000 - $1.4 million (5.3% - 9.1%), while a 50% MCO increases costs by approximately $2.4 – $4.1 million (17% - 27%) over the base case, and a 90% MCO increases costs by approximately $5.8 - $9.0 million (38% - 60%) over the base case.[12]

In the scenario where an MCO is imposed and because of seller market power, both DEMCO and JDEC have to build a generation resource at a cost equal to the MISO Net CONE value, the increased cost to DEMCO customers is estimated to be $202 million on a cumulative basis over the forecast period and the increased cost to JDEC customers is estimated to be $17 million over the forecast period.

V. CONCLUSION

An MCO imposed on the LSEs in Louisiana is expected to increase costs, even when MISO Zone 9 is forecasted to have a substantial capacity surplus, as show in our analysis. It is reasonable to assume that if a shortage in the region occurs due to

11 2024-2033.
12 2025-2033.

unexpected unit retirements, these costs will be far higher, and DEMCO and JDEC ratepayers will be responsible for paying these costs. Under a just and reasonable standard, there must be some expectation that benefits commensurate with these costs would accrue to customers. In fact, there is no basis to assume that there is a reliability concern in MISO Zone 9 or MISO South, and both of these regions are expected to have a significant surplus of capacity over the next 10+ years, through 2033. With this surplus of capacity, there is no justification for any projected cost increases.