LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. ________________

SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

In re: Request for Increase in Base Rates

Direct Testimony of

Justin Proctor

on behalf of

Southwest Louisiana Electric Membership Corporation

December 28, 2023

TESTIMONY OF JUSTIN PROCTOR

ON BEHALF OF

SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORPORATION

I. BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.

A. My name is Justin Proctor. I am a Vice President and Managing Consultant for Guernsey. My business address is 5555 North Grand Boulevard, Oklahoma City, Oklahoma 73112.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have earned a Bachelor of Business Administration degree from Tarleton State University and an M.B.A. degree from West Texas A&M University.

Q. HAVE YOU APPEARED BEFORE ANY OTHER STATE COMMISSIONS?

A. Yes. I have testified before the New Mexico Public Regulation Commission. A listing of my testimonies is attached hereto as **APPENDIX 1**.

Q. WAS YOUR TESTIMONY PREPARED BY YOU OR ON YOUR BEHALF?

A. Yes.

Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to present and describe the methodology and results of a revenue requirement analysis and supporting cost of service study performed for Southwest Louisiana Electric Membership Corporation ("SLEMCO") to determine the adequacy of its present rate revenues. My testimony will focus on:

1. The development of SLEMCO's adjusted test year revenues and operating expenses;

2. The development of SLEMCO's revenue requirement;

3. The Cost of Service Study (COSS); and

4. Proposed Rates.

Q. WHO SUPPLIED THE BASIC DATA USED IN THE DEVELOPMENT OF THE COSS.

A. All data was supplied by the Cooperative. SLEMCO's management and staff also provided review and comments and participated in the establishment of various criteria to be utilized in the COSS.

Q. WHAT IS THE TEST YEAR USED IN THE COSS.

A. The test year is the twelve months ending December 31, 2022.

II. DEVELOPMENT OF ADJUSTED TEST YEAR REVENUES AND OPERATING EXPENSES

Q. PLEASE EXPLAIN THE DEVELOPMENT OF THE ADJUSTED TEST YEAR OPERATING REVENUES AND EXPENSES.

A. The adjusted operating revenues and expenses were determined by making adjustments to the test year expenses for known, measurable, and continuing changes. Please refer to Schedule A-1.0. Schedule A-1.0 reflects SLEMCO's Income Statement; including the:

- Actual Test Year – Column (a);
- Adjustments to the Test Year – Column (b);
- Adjusted Test Year (Actual Test Year Plus Adjustments) – Column (c);

- Weather Normalizing Adjustments – Column (d);
- Adjusted Test Year (Actual Test Year Plus Adjustments plus weather normalizing adjustments) – Column (e);
- Board Approved Revenue Change – Column (f); and
- Adjusted/Normalized Test Year With Rate Change (Actual Test Year Plus Adjustments plus weather normalizing adjustments Plus Board approved Revenue Change) – Column (g).

Adjustments described below correspond to adjustment amounts shown in the "Adjustments" – Column (b) and "Weather Normalizing Adjustments" – Column (d).

Q. PLEASE SUMMARIZE AND EXPLAIN THE ADJUSTMENTS TO THE TEST YEAR AS WELL AS ANY RECLASSIFICATIONS OF REVENUES AND EXPENSES.

A. The adjusted operating revenues and expenses were determined by making adjustments to the test year expenses for known, measurable, and continuing changes. Adjustments are made to the historical test year to restate revenues, operating expenses, and interest on long-term debt to reflect current rates and costs. Adjustments are summarized on Schedule A-2.0 and Schedule A-3.0.

Operating Revenue (Schedule A-4.0). Calculation of the adjusted test year revenue was developed by applying the existing rates to adjusted test year billing units.

SLEMCO's total kWh sold in 2022 exceeded historical kWh sold dating back as far as 1970. Test Year kWh sold surpassed SLEMCO's record kWh high sales by nearly 38 million kWh and average 2012 – 2021 kWh sold by over 120 million kWh. Using historical Heating Degree and Cooling Degree data, SLEMCO staff provided weather normalized sales data for residential and commercial classes. Test year sales were normalized reducing kWh sold by approximately 98 million kWh, from 2.6 billion to 2.5 billion kWh; thereby reducing Base Revenue by $5,618,554.

A revenue adjustment was made to restate the Power Cost Adjustment Clause (PCA) revenue based on the adjusted power cost. The adjusted PCA revenue (FCA and Non-Fuel PCA) reflects the full amount of PCA revenue SLEMCO is entitled to recover. The net reduction to the PCA revenue reflects a matching of power cost incurred and billed. Since the PCA revenue has been adjusted for a proper matching of power cost incurred and billed an adjustment has been made to remove the PCA (Over)/Under collection amount.

Unbilled revenues were also adjusted. The test year billing reflects a full twelve months of billing for all members. The accounting entry was removed to reflect the alignment of sales and billing in the test year period.

Purchased Power (Schedule A-5.0). SLEMCO currently purchases wholesale capacity and energy from Cleco Cajun LLC and the US Department of Energy, Southwest Power Administration. SLEMCO's purchased power contract with Cleco Cajun LLC expires on March 31, 2025. Adjusted Test Year purchased power expense reflects normalized purchases billed under projected rates under SLEMCO's wholesale purchased power arrangements set to begin upon expiration of the Cooperative's current wholesale power contracts. SLEMCO does not "mark up" or produce a margin on purchased power cost. Power cost is passed through to SLEMCO members "at cost". SLEMCO's rates have a PCA and the Cooperative reports to the Louisiana Public Service Commission (LPSC) the monthly balancing of power cost owed to or by SLEMCO members. The PCA factor as referred to in the cost of service and rate study, is the rate mechanism that flows through changes in the cost of power to members, ensuring that members do not pay more or less than the actual purchased power expense incurred by SLEMCO. The PCA was recalculated using the projected adjusted test year power cost and PCA revenues were restated.

Bad Debt Expense (Schedule A-6.0). An adjustment was made to include a normalized amount of bad debt expense. A bad debt ratio was computed based on a five-year average of net write-offs as percent of total revenue. An average bad debt ratio of 0.247499% was calculated based on actual historic revenues and net write-offs. The resulting ratio produced a bad debt expense of $663,152; greater than anticipated by SLEMCO staff. Instead of applying and thereby overstating the Cooperative's Adjusted Test Year bad debt expense, a lower budgeted bad debt expense of $360,000 was applied. The test year bad debt expense was $272,220; so the adjustment is $87,779.

Payroll (Schedule A-7.0). The adjustment to payroll expense totals $2,901,309. Payroll expense and adjustments are distributed to various expense accounts on Schedule A-3.1 Adjusted payroll was calculated based upon 267 full-time employees at 2023 wage levels with an average adjustment of 5.0% anticipated to become effective in January 2024. An average overtime ratio and payroll expensed ratio were developed on Schedule C-6.0 using historical values from 2017 through 2022. The Test Year ratio for overtime payroll to regular payroll of 9.4261% was applied to calculate total adjusted payroll. The six-year historical average for payroll expensed of 79.531% was then applied to calculate adjusted payroll expensed. Test year payrolls expensed by account and distribution of employee benefits adjustment by account is shown on Schedule A-3.1.

Employee Benefits (Schedules A-8.0 – A-8.5). Expenses associated with employee benefits were restated to 2023 levels. The Cooperative's portion of the adjusted test year amount for each benefit was computed. The Test Year benefits expense ratio of 80.0486% was applied to total adjusted benefits to calculate adjusted benefits expensed. The adjustment to employee benefits expensed is an increase of $1,389,827. Test year employee benefits expensed by account and distribution of employee benefits adjustment by account is shown on Schedule A-3.2.

The adjusted test year premium for medical insurance was computed by using the Cooperative's portion of the 2023 premium for each of the plans for the appropriate number of employees participating and adjusting for the NRECA stated increase in premiums beginning in January 2024. The premiums for life insurance and long-term disability as well as contribution to 401K plan and defined benefit plan were adjusted to reflect base Adjusted Test Year wages from which those expenses are calculated.

Rate Case Expense (Schedule A-9.0). An adjustment to recognize expense associated with development, filing and support of the rate case has been made. The estimated cost of $100,000 is intended to reflect cost of outside legal and consulting services through the Commission's decision and is based upon the prior experience of the attorneys and consultants assisting SLEMCO with this rate application. This amount is amortized over a 3-year period, resulting in an adjustment of $33,333.

Depreciation (Schedule A-10.0). Annual depreciation rates were applied to December 31, 2022 plant balances. The adjusted test year depreciation expense of $22,661,466 results in an adjustment of $588,214.

Property Taxes (Schedule A-11.0). Property taxes were adjusted by applying an effective tax rate to plant in service as of December 31, 2022. The adjusted property tax is $4,603,964 and results in an increase of $210,918. For purposes of allocating property tax expense in the cost of service model, this expense is reclassified from the O&M accounts to the property tax account on Schedule A-3.4.

Payroll Taxes (Schedules A-12.0 through A-12.3). Adjusted payroll-related taxes for FICA and Federal and State Unemployment were calculated by applying the applicable tax rate to adjusted wages subject to payroll taxes. The average payroll tax expense ratio of 80.049% (Schedule A-7.0) was applied to the total adjusted payroll taxes to calculate adjusted payroll taxes expensed. The adjustment is an increase to test year expense of $254,000. The test year expense by account and distribution of the adjustment by account is shown on Schedule A-3.3.

Interest on Long-Term Debt (Schedule A-13.0). The adjusted interest on long-term debt of $7,414,677 was calculated by applying the applicable interest rate to the principal outstanding as of December 31, 2022 plus the inclusion of $13,000,000 in additional RUS debt incurred after the test year. The adjustment increased interest on long-term debt expense by $1,764,150.

Adjustments to operating expenses are for payroll, employee benefits, payroll taxes, rate case, depreciation, and property taxes and interest. Expenses specific to staffing such as payroll, employee benefits, payroll taxes include wage levels for current and vacant positions as of January 2023.

After making adjustments to the test year, the adjusted test year revenues are $267,940,938 and adjusted operating expenses (excluding Interest and Other Deductions) are $262,636,366. The return for the adjusted test year is $5,304,572. When the adjusted test year Interest and Other Deductions of $8,078,845 are deducted from the return, the adjusted test year operating margin is ($2,774,273).

Q. ARE THE ADJUSTMENTS THAT HAVE BEEN MADE TO THE TEST YEAR RELATED TO ACTIVITIES THAT ARE KNOWN, MEASURABLE AND OF A CONTINUING NATURE?

A. Yes. The adjustments that have been made are intended to provide an accurate reflection of the Cooperative's revenues and expenses that should be recovered.

III. DEVELOPMENT OF REVENUE REQUIREMENT

Q. WHAT REVENUE REQUIREMENT IS SLEMCO PROPOSING?

A. The proposed revenue requirement is $281,221,854. An additional $13,280,916 in operating revenues is necessary to achieve this revenue requirement, representing a 4.96% increase over the adjusted test year revenue.

Q. HOW WAS THE PROPOSED REVENUE REQUIREMENT DETERMINED FOR SLEMCO.

A. The revenue requirement determination for SLEMCO is included in exhibit on Schedule A-1.0. Schedule A-1.0 indicates that SLEMCO generated an operating margin of ($2,774,273) and a net margin of ($1,938,073) based upon the adjusted Test Year period. The resulting coverage ratios are an Operating TIER of 0.63 and a (Net) TIER of 0.74. SLEMCO's current operations are unsustainable.

Q. HOW WAS SLEMCO's REVENUE REQUIREMENT DEVELOPED.

A. As a member-owned electric cooperative, SLEMCO's revenue requirement is a function of the margins and cash necessary to meet its financial obligations and objectives. These financial objectives are set in terms of the equity level, the cash general funds level, the capital credit retirement program and the coverage ratios required by SLEMCO's lenders. The Board of Directors must balance the Cooperative's financial objectives with potential rate impact on members. The Cooperative Board approved the proposed rate change which is sufficient to recover the adjusted test year level of expenses and provide margins which:

- Allows equity as a percent of total assets to initially hold near 50.00% with projected total system plant additions exceeding $30,000,000 per year over the next five years; below the projected amounts identified by SLEMCO staff.
- Hold cash reserves near Test Year levels of $20,000,000. This equates to approximately 30.00 days of cash or 3.23% of total utility plant in service.
- Return retained member patronage in the form of capital credits paid to members of approximately $1,000,000 annually. This amount only covers estimated retirement of estates on an annual basis and does not support a meaningful retirement of patronage capital to members.
- Maintain adequate Times Interest Earned Ratios (TIER) and Debt Service Coverage Ratios (DSC) and Modified Debt Service Coverage Ratios (MDSC) as required by SLEMCO's lenders, the Rural Utility Service and National Rural Utilities Cooperative Finance Corporation (CFC).

Q. DOES THE FINANCIAL ANALYSIS INDICATE THE PROPOSED REVENUE REQUIREMENT WILL ALLOW SLEMCO TO MOVE TOWARD THE COOPERATIVE'S FINANCIAL OBJECTIVES?

A. Yes, but only in the short-term. The supporting documents include:

- Growth Rate in Net Plant (Schedule D-1.0) shows the historical and projected plant additions. The desired plant additions for the next five years are projected to average approximately $47,900,000 per year. Cooperative plant additions are funded by a combination of cash general funds, cash received from member contributions in aid of construction and cash received from borrowing long-term debt.
- System Capitalization (Schedule D-2.0) shows the system capitalization and the equity as a percent of assets for the test year and the previous five years. The equity as a percent of assets was 53.52% in 2017 and fell to 52.64% in 2022. Equity is affected by the Cooperative's capital requirements and the sources of funds used for those plant additions – cash general funds, cash received from member contributions in aid of construction and cash received from borrowing long-term debt.
- Capital Credits Retired (Schedule D-4.0) shows the capital credits retired since 2012. SLEMCO has not maintained a regular general retirement of capital credits. Capital credits are the primary source of equity for cooperatives, and allocating and retiring capital credits are two of the practices that distinguish cooperatives from other businesses.
- Calculation of Desired General Funds (Schedule D-7.0) shows the calculation of desired general funds. The major components making up the annual operating general funds required total $245,397,405 for the test year. The estimated general funds at the end of the test year was $20,618,431 which was equivalent to 30.67 days of cash and 3.23% of plant. SLEMCO is not planning to change its level of cash general funds.

- Cash Revenue Requirement (Schedule D-8.0) is the development of the cash revenue requirement based on the Cooperative's financial goals and objectives. The schedule provides an estimate of the cash required to operate the system based on adjusted test year expenses and fund key cash requirements.[1] The "Development of the Cash-General Fund Level" shown on the schedule reflects the desired cash general funds of approximately 30.67 days; or $20,618,431. The "Cash Requirement" on Schedule D-8.0 shows the average annual plant additions for the next five years and the percent of plant financed with cash. This produces a cash funding requirement of $13,542,337 and may result in an erosion of equity due to projected growth in expenses, increased borrowing costs, and escalating growth in materials and supplies. Also shown is the cash requirement for capital credit payments. Principal payments on long-term debt for 2023 require cash of $9,077,119. The total annual cash requirement for all components is $34,019,904. The total annual cash produced from adjusted test year operations under existing rates is $20,477,567; which is the Adjusted Test Year operating margins; see Schedule A-1.0 and Depreciation Expense of $22,661,467 and Interest Income and Cash Capital Credits of $590,373. The total additional cash requirement as identified in the cash revenue requirement analysis is $13,542,337. Apart from the cash requirement as identified on Schedule D-8.0 (CASH REVENUE REQUIREMENT), SLEMCO must also maintain minimum coverage ratios as required by lenders. SLEMCO's proposed rate change is $13,280,916 and results in the following coverage ratios:

[1] Key cash requirements include annual operations and maintenance expenses (Schedule A-1.0), planned plant additions (Schedule D-1.0), maintaining a desired equity ratio (Schedule D-2.0), retiring capital credits to members (Schedule D-4.0), and maintaining a sufficient cash general funds reserve (Schedule D-7.0).

Ratio	Exist TY	Adjust TY	w/ Change	Min Req.
OTIER	1.93	0.63	2.42	1.10
TIER	2.19	0.74	2.53	1.25
DSC	2.40	1.71	2.51	1.25
MDSC	2.36	1.69	2.50	1.35

Absent any rate change, SLEMCO could be held to be in default of its loan covenants. The coverage ratios identified by cooperative lenders provide a metric for evaluating historical cooperative financial performance and are useful in financial planning. However, they also serve as a minimum requirement for financial performance as defined by the Cooperative's lenders. A cash revenue requirement that produces financial results that merely meet the minimum TIER and DSC metrics places a Cooperative at continual risk of default. Factors as simple as the continual effects of inflation, unforeseen expenses, an emergency or natural disaster, or other unanticipated event that affects the Cooperative's finances would immediately put the Cooperative at risk of not meeting its minimum debt covenants. Electric rates must produce sufficient margin, at a minimum, to meet the requirements identified by debt covenants, but rates must also produce sufficient cash for the unique operating requirements of the Cooperative.

Q. HOW DOES SLEMCO'S NON-OPERATING MARGINS AFFECT THE COOPERATIVE'S FINANCIALS?

A. SLEMCO's Test Year Non-Operating Margins totaled $1,427,981. SLEMCO's Adjusted Test Year Non-operating margins reflected 2023 budget amounts.

Q. ARE CAPITAL CREDITS INCLUDED IN SLEMCO'S NON-OPERATING MARGINS CASH PAYMENTS TO THE COOPERATIVE?

A. No. Capital Credits identified as Non-Operating Margins are an allocation of margins, not actual cash. They are not cash and cannot be considered as available funds. They are an allocation from the NRUCFC and CoBank. Cash payments to SLEMCO from such entities for the retirement of Capital Credits (Patronage Capital) were only $589,173.

Q. DO CAPITAL CREDITS INCLUDED IN SLEMCO'S NON-OPERATING MARGINS AFFECT THE COOPERATIVE'S CASH REVENUE REQUIREMENT?

A. No, since the capital credits are an allocation and not a payment of cash they cannot be recognized as a cash contribution to the revenue requirement. The amount of cash payments received from the retirement of capital credits are included as a cash contribution to the revenue requirement. The payments received from the retirement of capital credits are not identified on the Income Statement.

Q. DO CAPITAL CREDITS INCLUDED IN SLEMCO'S NON-OPERATING MARGINS AFFECT THE COVERAGE RATIOS?

A. Yes, they affect the TIER and DSC coverage ratio which are computed on the Cooperative's net margins. The TIER and DSC produce a higher ratio when compared to coverage ratios such as OTIER and ODSC, which only take into consideration the margins produced from operations. TIER and DSC may appear well above the lender's minimum coverage ratio due to "non-cash" capital credits while in fact, the Cooperative's financial position is poor due to actual operations.

Q. WAS THERE ADDITIONAL ANALYSIS PREPARED TO DETERMINE THE REASONABLENESS OF THE PROPOSED REVENUE REQUIREMENT?

A. Yes. In order to test the reasonableness of the proposed revenue requirement, a Ten-Year Financial Forecast modeling the Cooperative's current and anticipated operating conditions[2] was developed. The forecast projects growth in consumers, expenses and planned investment in system improvements. The forecast assists the Cooperative staff and Board in determining SLEMCO's revenue requirement based on the Cooperative's financial goals and objectives and debt covenants. The forecast also establishes how long the proposed rates will satisfy the Board defined financial goals and objectives and meet lender requirements before additional rate revenue is required. Furthermore, the forecast provides a means for the Cooperative to evaluate and/or reconsider its financial goals and objectives and modify them in order to mitigate the rate impact on members. Financial modeling supports the cash revenue requirement analysis but exhibits that SLEMCO's desired capital additions may not be sustainable under the 4.96% rate increase. The level of capital additions and the forecast borrowing costs cause the Cooperative's coverage ratios to quickly erode; signaling the need for either lower capital additions, lower operating costs or the need for additional rate revenue.

IV. <u>COST OF SERVICE STUDY</u>

Q. HAVE YOU PREPARED A COST OF SERVICE STUDY (COSS) FOR SLEMCO?

A. Yes.

Q. WHAT IS THE PURPOSE OF THE COSS?

A. The cost of service study assigns plant investment and operating expenses associated with providing service to customer classes. When the revenue requirement for the total system

[2] Refer to the summary of key financial metrics included on Schedule E-1.0.

has been identified, assignments of plant investment and operating expenses are used in assigning the total revenue requirement to the customer classes. I prepared a cost of service study based on the adjusted test year using generally accepted procedures and methodologies. The study used variations of three basic types of allocation factors – demand, customer, and energy allocation factors.

Q. HAS THE COST OF SERVICE BEEN PREPARED USING A COMMONLY ACCEPTED METHODOLOGY?

A. Yes. The cost of service has been developed in a manner consistent with the electric utility cost allocation manual sponsored by the National Association of Regulatory Utility Commissioners (NARUC). The same methodology has been used in the development of the cost of service for SLEMCO that has been accepted by regulatory authorities in Louisiana as well as other states.

Q. DESCRIBE THE RESULTS OF THE COSS?

A. With the cost of service study, the adjusted test year rate base, operating revenues under current rates, and operating expenses were identified for each rate class. While SLEMCO's overall adjusted test year Rate of Return on Rate Base (ROR) is 1.164, the study showed that class rates of return ranged from a deficit of (1.687%) to a positive ROR of 12.113%; notwithstanding Other and Contracts' ROR. The ROR is the return (operating revenues less operating expenses) divided by the rate base. Rate of return (ROR) is one way to evaluate interclass differentials in margins. A rate class producing a ROR equal to the system average ROR is neither providing nor receiving a rate subsidy from the other rates classes. The existing class rate of return for each rate class is identified on the Cost Allocation

Summary (Schedule H-1.0). The proposed class rate of return for each rate class is identified on the Cost Allocation Summary (Schedule H-2.0). Revenue deficiencies based on a rate of return of 4.079% and on a margin as percent of revenue of 3.736% were identified. These criteria showed class changes ranged from reductions of 13.780% to increases of 14.534% in order for each rate class to produce a uniform rate of return. The class rates of return and the class revenue deficiencies identify the extent of inter-class subsidies and serves as a guideline for the Cooperative's member-elected Board when determining rate-making decisions.

Q. HOW WAS THE PROPOSED REVENUE REQUIREMENT DETERMINED FOR EACH CLASS?

A. The revenue requirement for each class under the proposed rates was determined based on the following criteria:

(a) The cost of providing service to each class;

(b) The magnitude of the rate change indicated by the cost of service; and

(c) The impact of the proposed rate change upon the class.

Q. HOW HAVE THESE CRITERIA BEEN QUANTIFIED IN THE DEVELOPMENT OF THE RATES PROPOSED IN THIS FILING?

A. The proposed rates reflect SLEMCO's consideration of these criteria. The rate of return on rate base has been calculated for the total SLEMCO system and for each of the rate classes in the cost of service study to be used as a measure of each rate class' ability to recover costs in comparison with the total system. The proposed rates are generally designed to move the individual class rates of return closer to the system average. The relative rate of return provides a measure of how each class' rate of return changes under the proposed rates. The relative rate of return is calculated by dividing the class rate of return by the total system rate of return. A relative rate of return equal to one (1.00) would indicate the class and system rates of return are the same. Movement of the class' relative rates of return toward a value of one indicates a movement toward cost of service based rates. The following table summarizes the relative rate of return under existing rates for each rate class on Schedule H-1.0 and the relative rate of return under proposed rates as shown on Schedule H-2.0. As indicated by the table, the relative rates of return under proposed rates move closer to 1.000 for all classes, indicating that the proposed rates more closely reflect the cost of providing service.

Rate Class	Existing RROR	Proposed RROR
Residential	-0.500	0.500
Seasonal	10.357	3.687
Small Commercial	-1.449	0.785
Commercial Industrial	5.215	2.252
Industrial	10.406	4.011
Alon Ind	7.332	3.481
Contract	143.550	41.244
Other	17.000	6.110
Lighting	3.592	1.463
Total System	1.000	1.000

Q. DOES THE COST OF SERVICE STUDY PROVIDE OTHER INFORMATION FOR GUIDELINES TO BE CONSIDERED FOR DESIGNING MEMBER RATES?

A. Yes. As part of the cost allocation, cost components are tagged for each allocation factor and thus for the investment or expense allocated directly by the factor or by a subsequent total involving that factor. Cost components are identified for purchased power costs and for SLEMCO's wires costs. The purchased power cost components are generation capacity, and generation variable (energy and fuel) costs. SLEMCO's wires cost components are separated into demand and customer-related costs. These cost components, including a return component, are identified for each class and the unit cost is calculated based on the billing units available for the class. Refer to Schedule M-1.0

For example, the customer component of expense is $25.96 per month per meter for the Residential classes. For the Residential class, the current monthly Facility Charge ($12.00) is well below the actual monthly cost of connecting a customer and making available electric service for even a minimum-sized customer. The wires demand component for the same class is an additional $28.33 per month per meter. These cost components serve as guidelines for rate charges. Comparing the cost components with the rate charges identifies intra-class subsidies. Moving the billing rates closer to the cost of service is fair and equitable to all members and provides a more appropriate pricing signal. To the extent SLEMCO does not sufficiently recover its fixed costs in a fixed billing component, the Cooperative will continue to rely heavily on monthly consumption to recover its fixed costs.

V. BASE RATE INCREASE

A. GENERAL OVERVIEW CURRENT BASE RATES

Q. WHAT ARE THE BASIC OBJECTIVES OF THE PROPOSED RATES FOR EACH CLASS?

A. The basic objectives of the proposed rates are:

- Recover the cost of providing service;
- Reduce SLEMCO's reliance on monthly energy sales to recover costs and implement rates that are more cost-based primarily by:
  a) moving the customer charge closer to the identified customer-related cost component;
  b) moving the demand charge closer to the identified customer-related cost component, where applicable; and
- Reflect a consideration of the impact of the rate change on the members.

Q. WHAT ARE THE PROPOSED REVENUE CHANGES FOR EACH CLASS?

A. The total revenue impact of the proposed rate change for each rate class is shown below as well as on Schedule N-1.0.

	Adjusted Rev	Proposed Rev	Change - $	Change - %
Residential	$174,236,531	$182,861,441	$8,624,909	4.95%
Seasonal	11,161,964	11,664,282	502,318	4.50%
Small Comm	12,759,572	14,392,959	1,633,387	12.80%
Comm/Ind	28,226,164	29,510,326	1,284,162	4.55%
Industrial	8,387,780	8,723,410	335,630	4.00%

Alon Industrial	15,079,549	15,682,728	603,179	4.00%
Contract	5,547,916	5,560,778	12,863	0.23%
Lighting	5,643,295	5,928,061	284,767	5.05%
Subtotal	$261,042,770	$274,323,984	$13,281,214	5.09%
Other Revenue	6,898,168	6,898,168	0	0.00%
Total Revenue	$267,940,938	$281,222,152	$13,281,214	4.96%

Q. WHAT RATE CHANGES IS SLEMCO PROPOSING?

A. The Cooperative is proposing increases to all rate class fixed billing components such as Monthly Service Charges and Billing Demand Charges. Modifying the fixed billing components in the Cooperative's rates addresses intra-class rate subsidies which currently exist between low and high-use members. The movement of fixed charges toward cost of service also provides better stability in member billing and sales revenues. The incentive for the Cooperative to sell more kWhs is reduced and rates which more appropriately reflect cost causation benefit both the Cooperative and members.

Q. WHAT OTHER RATE CHANGES IS SLEMCO PROPOSING?

A. Energy charges will also change.

Q. ARE THERE ANY PROPOSED CHANGES TO THE POWER COST ADJUSTMENT (PCA) CLAUSE?

A. Yes. Currently, SLEMCO has a different Base Energy Adjustment for each rate whose current rate structure is an energy-only rate design. Additionally, for rates whose structure is a demand and energy rate, SLEMCO has a unique Base Energy Adjustment and Base Demand Adjustment. The proposed power cost adjustment clause will have one Base

Energy Adjustment for the remainder system, i.e., all rates except for the Contract rates (Kaplan and Roux) and loads exceeding 5 MW; specifically, Industrial Alon (a/k/a Delek). The PCA that is applicable to the remainder system classes has a proposed base cost of power of $0.074953 from which the PCA factor will be calculated. Power cost specifically for the Contract rates and Industrial > 5MW will be calculated on a monthly basis and directly passed through to the members.

Q. PLEASE DESCRIBE THE PROPOSED RATE FOR RESIDENTIAL?

A. The proposed rate for the residential class results in an overall increase to the class of 4.95%. The cost of service indicates that a much higher increase could be justified for this rate class. The proposed rate change moves the class closer to the actual cost of providing service but is intended to limit the impact on members.

The customer charge has been increased from $12.00 to $17.50 per month. The customer component of expense for the residential class as reflected on Schedule M-1.0, page 1 of 8, is $25.96 per month. The customer component of expense reflects SLEMCO's cost of having the service available before any energy is actually sold to the customer. Costs included in the customer component include the customer component of distribution line expense, a portion of the transformer expense, the meter and service drop expense, meter reading and customer records expense. The increase in the customer charge is necessary in order to more appropriately recover these costs.

The comparison of the existing and proposed residential rate is shown on Schedule O-2.0. As a result of the increase in the customer charge, billing statements with low usage see a higher percentage increase.

Q. WHAT ADDITIONAL BENEFIT DOES THE INCREASE IN THE CUSTOMER CHARGE PROVIDE?

A. The increase in the customer charge provides greater revenue stability for both SLEMCO and its members. Recovery of fixed customer-related costs in the fixed monthly charge reduces the potential negative impact on revenue from reductions in kWh sales caused by weather fluctuations. Member bills also fluctuate less in periods of high energy use.

Q. ARE THERE CHANGES TO OTHER MEMBER RATES?

A. Yes. Schedule O-1.0 summarizes the proposed rates for SLEMCO's other rates. Billing comparisons at representative consumption levels for each rate are shown on Schedule O-2.0 through O-12.0.

VII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. I reserve the right to supplement or amend my testimony as may be needed.

LOUISIANA PUBLIC SERVICE COMMISSION

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SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

IN RE: Application of Southwest Louisiana Electric Membership Corporation for Approval of Increase in Retail Rates

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AFFIDAVIT OF WITNESS

I, Justin Proctor, being duly sworn, depose that the Direct Testimony in the above referenced matter on behalf of Southwest Louisiana Electric Membership Corporation is true and correct to the best of my knowledge, information and belief.

Justin Proctor

JUSTIN PROCTOR

Subscribed and sworn before me this 28 day of December, 2023.

Tracy Neal

11/30/2025, # 05010885

Notary Public

My commission expires at death.

TRACY NEAL NOTARY # 05010885 EXP. 11/30/25 PUBLIC STATE OF OKLAHOMA

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. ____________

SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

IN RE: Application of Southwest Louisiana Electric Membership Corporation for Approval of Increase in Retail Rates

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APPENDIX 1
to Direct Testimony of Justin Proctor

List of Testimonies before the New Mexico Public Regulation Commission

Case No. 18-00383-UT – Socorro Electric Cooperative

Case No. 21-00318-UT – Jemez Electric Cooperative

List of Testimonies before the Louisiana Public Service Commission

Docket U-36992 – Northeast Louisiana Power Cooperative, Inc.'s Application for An Increase Rates, Including Interim Rates, and for the Establishment of an Emergency Reserve Fund filed October 9, 2023

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. ____________

SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORPORATION,
EX PARTE

IN RE: Application of Southwest Louisiana Electric Membership Corporation for Approval of Increase in Retail Rates

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The Schedules listed in the

Direct Testimony of Justin Proctor

are Highly Sensitive and Protected Materials

and are filed Confidentially under seal pursuant to Commission Rule 12.1.