

**TESTIMONY**

**of**

**PEGGY MARANAN**

**on behalf of**

**DIXIE ELECTRIC MEMBERSHIP CORPORATION**

**JANUARY 2022**

1     **I.     INTRODUCTION**

2     Q:     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION AT DIXIE  
3             ELECTRIC MEMBERSHIP CORPORATION (DEMCO).

4     A:     Peggy Maranan, 16262 Wax Road, Greenwell Springs, LA 70739-4964, Vice  
5             President, Finance.

6  
7     Q:     HOW LONG HAVE YOU HELD THE POSITION OF VICE PRESIDENT, FINANCE  
8             AT DEMCO?

9     A:     I began my employment with DEMCO as the Director of Finance in February 2021,  
10            and became Vice President, Finance in August 2021.

11  
12    Q:     PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL  
13            EXPERIENCE.

14    A:     Prior to working at DEMCO, I worked at Lee County Electric Cooperative, Inc.  
15            (LCEC, North Ft. Myers, FL) for twelve years as Manager, Financial Accounting.  
16            I received a B.S. in Accounting from DeSales University in Center Valley, PA and  
17            an MBA from Wilkes University in Wilkes-Barre, PA. I am a licensed CPA in the  
18            state of Florida. I received a doctorate degree in business administration (DBA) in  
19            2015 from Argosy University, Sarasota, FL. I also serve on the National Society  
20            of Accountants for Cooperatives (NSAC) Electric Cooperative Chapter (ECC)  
21            Board, currently serving as President. I am an author of accounting and finance  
22            articles in the NSAC industry publication "The Cooperative Accountant."

1    **II.     PURPOSE OF DIRECT TESTIMONY**

2    Q:    WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS  
3        PROCEEDING?

4    A:    I will present and explain the calculations which provide the basis for DEMCO's  
5        Emergency Interim Rate Relief request. My testimony will also provide the bases  
6        by which DEMCO calculated each of the extraordinary expenses that DEMCO's  
7        General Manager and CEO, Randy Pierce, identified in his testimony.  
8        Exhibit PM-1 illustrates the determination of DEMCO's Emergency Interim Rate  
9        relief request.

10  
11   **III. EXTRAORDINARY EXPENSES**

12   Q:    MR. PIERCE IDENTIFIED THE FOLLOWING EXTRAORDINARY EXPENSES  
13        THAT DEMCO EXPECTS TO INCUR IN 2022: (1) REIMBURSEMENTS TO  
14        CLOSE-OUT DISALLOWED FEMA CLAIM COSTS ASSOCIATED WITH  
15        HURRICANE KATRINA AND HURRICANE GUSTAV RESTORATION; (2)  
16        INTEREST COST IN CARRYING DEBT USED TO FUND HURRICANE IDA  
17        RESTORATION EFFORTS; (3) INTEREST COST IN CARRYING DEBT USED  
18        TO FUND WINTER STORM URI AND HURRICANE DELTA RESTORATION  
19        EFFORTS; (4) INTEREST COST IN CARRYING DEBT ASSOCIATED WITH  
20        MAINTAINING INCREASED SUPPLY LEVELS OF INVENTORY MATERIAL  
21        AMOUNTS DUE TO SUPPLY CHAIN SHORTAGES, LONGER INVENTORY  
22        MATERIAL ORDER LEAD TIMES, AND RECENT SUBSTANTIAL MATERIAL  
23        PRICE INCREASES; AND (5) DRAMATICALLY INCREASED COST OF RIGHT

1 OF WAY (ROW) CLEARING CREATED IN PART BY PANDEMIC LABOR  
2 SHORTAGES, INCLUDING BOTH CONTRACT AND HOURLY ROW CLEARING;  
3 AND (6) CONTRACT METER READING COST CREATED BY THE INABILITY  
4 TO ACQUIRE AND INSTALL SMART METERS DUE TO WORLDWIDE  
5 MICROCHIP SHORTAGES. WHO CALCULATED THE TOTAL COSTS  
6 ASSOCIATED WITH EACH OF THESE ITEMS?

7 A: I did.

8  
9 Q: WHAT IS THE TOTAL AMOUNT OF ALL OF THESE EXTRARDINARY COSTS?

10 A: I calculated the total amount of these extraordinary costs to be \$8,200,000.00.

11  
12 Q: CAN YOU PLEASE EXPLAIN HOW YOU CALCULATED EACH  
13 EXTRAORDINARY COST IN MORE DETAIL?

14 A: Yes, I will be happy to do so.

15  
16 Q: PLEASE EXPLAIN HOW YOU CALCULATED THE EXTRAORDINARY COST  
17 ASSOCIATED WITH DISALLOWED FEMA CLAIM COSTS ASSOCIATED WITH  
18 HURRICANE KATRINA AND HURRICANE GUSTAV.

19 A: DEMCO has been notified that approximately \$2.4 million in FEMA related  
20 reimbursements will need to be returned to FEMA in 2022. Of this amount  
21 approximately 60-70% of this reimbursement will be expense related and the  
22 remaining portion will be capitalized. An extraordinary expense of \$1,535,000 has  
23 been included in this filing as the amount of FEMA reimbursement that will be

1 expensed during 2022. An adjustment of \$9,272 has also been made to short term  
2 interest expense related to borrowing money to repay these reimbursement  
3 amounts to FEMA. Details of the estimated payment schedule and related short  
4 term interest expense can be found on Exhibit PM-2. Supporting documentation  
5 for the approximate \$2.4 million in related reimbursements and extraordinary  
6 expense of \$1,535,000 can be found in Appendix A.

7  
8 Q: PLEASE EXPLAIN HOW THE EXTRAORDINARY EXPENSES ASSOCIATED  
9 WITH SHORT TERM INTEREST EXPENSE ASSOCIATED WITH STORM  
10 RECOVERY FOR WINTER STORM URI, HURRICANE DELTA AND  
11 HURRICANE IDA WERE DETERMINED.

12 A: The monthly balances associated with total cost of storm restoration for each of  
13 the storms were determined along with estimated monthly reimbursements to be  
14 received during 2022. An estimated interest expense was calculated using the  
15 monthly balance and an estimated interest rate for borrowing in the range of 2.1%  
16 to 3.75%. The sum of the estimated monthly interest expenses determined the  
17 estimated annual interest expense for 2022. It is estimated that DEMCO will pay  
18 \$1,760,510 in interest expense during 2022 associated with these storm  
19 restoration costs. The total cost of storm restoration for each of these storms can  
20 be found on Exhibit PM-3. Supporting documentation for Hurricane Ida damage  
21 inventory estimates of \$65.0 million are included in Appendix B.

1 Q: PLEASE EXPLAIN HOW THE EXTRAORDINARY EXPENSE ASSOCIATED  
2 WITH MAINTAINING INCREASED SUPPLY LEVELS OF INVENTORY  
3 MATERIAL AMOUNTS WAS DETERMINED.

4 A: DEMCO has determined that it must maintain a higher-than-normal level of  
5 inventory items due to supply chain issues being experienced during the  
6 pandemic. It is estimated that DEMCO's inventory is \$1,500,000 higher than  
7 normal due to this situation. This increased level of inventory is being financed  
8 using short-term financing until the utility plant items are placed in service. The  
9 use of short-term financing increases the short-term interest expense paid to  
10 DEMCO's lenders. Exhibit PM-4 illustrates the estimated increase in short-term  
11 interest expense associated with maintaining a higher inventory level. Supporting  
12 document for the higher level of inventory can be found in Appendix C.

13  
14 Q: PLEASE EXPLAIN HOW THE EXTRAORDINARY EXPENSE RELATED TO  
15 RIGHT-OF-WAY (ROW) CLEARING COSTS ASSOCIATED WITH THE COVID  
16 PANDEMIC WERE DETERMINED.

17 A: DEMCO reviewed the level of expenses related to ROW clearing for the period  
18 2018 – 2022 (estimated). During 2019, DEMCO cleared approximately 640 miles  
19 of ROW at a total cost of approximately \$7.7 million. The average cost per mile  
20 for ROW clearing in 2019 was \$7,356. DEMCO estimates that the average cost  
21 per mile for ROW clearing in 2022 will be [REDACTED] per mile. Due to the extreme  
22 increase in the average cost per mile and DEMCO's need to meet its mortgage  
23 covenant, DEMCO is estimating that it will only clear approximately 650 miles of

1 ROW during 2022. It is estimated that DEMCO's ROW expense for 2022 will be  
2 \$11.3 million. This level of ROW expense represents an increase of \$3.6 million  
3 or 47% and results in an increase of only 1% in the number of miles cleared as  
4 compared to 2019. The increase in cost per mile for ROW clearing is directly  
5 related to the availability of labor and the increased cost of labor during the  
6 pandemic. Statistics related to historical and projected ROW costs can be found  
7 in Exhibit PM-5. Documentation supporting these calculations can be found in  
8 Appendix D.

9  
10 Q: PLEASE EXPLAIN HOW THE EXTRAORDINARY EXPENSES ASSOCIATED  
11 WITH CONTRACT METER READING WERE DETERMINED.

12 A: As part of LPSC Docket No. U-35359, DEMCO received authorization to continue  
13 the upgrade of its Automated Metering System (AMS). DEMCO's plan was to  
14 aggressively replace its failing metering infrastructure to avoid any extraordinary  
15 meter reading expenses. Supply chain issues have prevented DEMCO from  
16 actively being able to obtain a significant number of meters to date. In addition,  
17 the existing metering infrastructure continues to experience significant issues thus  
18 requiring DEMCO to deploy meter readers to collect billing information to produce  
19 accurate bills to its members. It is estimated that the use of meter readers will  
20 increase meter reading expenses by approximately \$1.3 million during 2022.  
21 Exhibit PM-6 illustrates the estimated increase in meter reading expense.  
22 Appendix E provides documentation to support these estimates.

1 Q. IS THERE ANY OTHER ITEM RELATED TO THE EXTRAORDINARY  
2 EXPENSES THAT YOU WOULD LIKE TO INCLUDE?

3 A. Yes. DEMCO is requesting that the Emergency Interim Rate Relief be sufficient  
4 to provide for a 1.40 TIER to allow it to meet its mortgage covenants. The  
5 Extraordinary Expenses as described above total approximately \$8.2 million. For  
6 DEMCO to meet the requested 1.40 TIER an additional \$3.3 million in margins is  
7 required. DEMCO believes that these margins should be considered as an  
8 Extraordinary Item as the need for these margins is due to the Extraordinary  
9 Expenses incurred.

10  
11 **IV. IMPACT ON DEBT COVENANTS**

12 Q: EXPLAIN DEMCO'S DEBT COVENANTS CONTAINED IN ITS JULY 1, 2020 RUS  
13 LOAN CONTRACT.

14 A: Generally speaking, DEMCO is required to maintain a times interest earned ratio  
15 (TIER) of 1.25 in order to comply with the terms of its loan. DEMCO filed the entire  
16 RUS loan contract with the Commission in Docket No. S-35631. The contract  
17 defines in more detail precisely how TIER is calculated.

18  
19 Q: WHAT ARE THE SPECIFIC TIER REQUIREMENTS CONTAINED IN THE RUS  
20 LOAN CONTRACT?

21 A: The TIER requirements are that DEMCO must maintain a 1.25 TIER by taking the  
22 average of the best two out of the last three years. In 2019, DEMCO obtained a  
23 TIER of 1.15. RUS agreed not to consider DEMCO's TIER in 2020 (which was



0.90) due to the pandemic. DEMCO's TIER in 2021 is estimated to be 0.32. This means that DEMCO must achieve a TIER in 2022 of at least 1.35 so that the average of its 2019 and 2022 TIER results is at least 1.25.

Q: WHAT WILL OCCUR IF DEMCO BREACHES ITS DEBT COVENANTS?

A: RUS may refuse to lend DEMCO any additional money, increase interest rates on any future borrowings, and could potentially take even more drastic actions. Like many other cooperatives, DEMCO is heavily debt capitalized and has no investors to turn to when borrowing is not an option. This could impact DEMCO's ability to continue to provide safe and reliable service to its members. It could impact DEMCO's ability to borrow emergency funds in the event of a storm. Even if DEMCO is able to continue borrowing, it is likely to incur a significantly increased cost of doing so. Without rate relief, additional pressure will be placed on DEMCO borrowing requirements and interest expense.

V. INTERIM RELIEF

Q: HOW IS DEMCO SEEKING TO HAVE THE RATE RELIEF IT IS REQUESTING APPLIED?

A: DEMCO is seeking interim rate relief in the form of a rate rider that would allow DEMCO to charge all members an additional 6.24 mills per kWh of electricity sold for the period March 1, 2022 until December 31, 2022.

Q: HOW DID YOU ARRIVE AT 6.24 MILLS PER KWH?

1 A: Based on DEMCO's estimated 2022 annual sales, this is the amount needed to  
2 generate approximately \$11,500,000 in additional revenue over the 10-month  
3 period from March to December 2022.

4  
5 Q: WHY IS DEMCO SEEKING INTERIM RATE RELIEF?

6 A: DEMCO must meet its debt covenants in 2022. By the time the Commission is  
7 able to fully assess DEMCO's Application for Emergency Rate Relief, it would be  
8 too late to help DEMCO achieve its TIER for 2022.

9  
10 Q: IS DEMCO PREPARED TO POST SECURITY TO GUARANTEE THAT ANY  
11 INTERIM RATE RELIEF ALLOWED BY THE COMMISSION IS RETURNED TO  
12 MEMBERS IF THE COMMISSION ULTIMATELY DISALLOWS RECOVERY OF  
13 THE EXTRAORDINARY COSTS SOUGHT BY DEMCO?

14 A: Yes, I have made arrangements with National Rural Utilities Cooperative Finance  
15 Corporation (CFC) to provide a letter of credit in the amount of any interim rate  
16 relief granted by the Commission in this matter.

17  
18  
19 **VI. TREATMENT OF PPP LOAN FORGIVENESS**

20 Q: DID DEMCO RECEIVE A PPP LOAN?

21 A: Yes, DEMCO applied for and received a PPP loan in the amount of \$5,389,464.60  
22 from the Small Business Administration (SBA).

1 Q: WILL DEMCO HAVE TO REPAY THE PPP LOAN?

2 A: No. DEMCO was notified on December 14, 2021 that the SBA approved  
3 forgiveness of the entire loan amount plus \$74,105.14 in interest.  
4

5 Q: WHY IS DEMCO SEEKING AUTHORITY TO RECOGNIZE THE PPP LOAN  
6 FORGIVENESS IN 2022?

7 A: DEMCO was advised by its accountants that it would be appropriate to look to  
8 directives from the Commission in determining when to recognize the forgiveness  
9 of the PPP loan in net margins. An order from the Commission instructing DEMCO  
10 to recognize forgiveness of the loan in 2022 will result in an approximately \$5.4  
11 million of additional net margins that DEMCO will be able to use in calculating its  
12 2022 TIER. Recognizing that loan forgiveness in 2022 avoids DEMCO having to  
13 seek an additional \$5.4 million in emergency rate relief.  
14

15 Q. DID YOU INCLUDE THE \$5.4 MILLION FORGIVENESS OF THE PPP LOAN IN  
16 THE CALCULATIONS ASSOCIATED WITH THIS EMERGENCY INTERIM RATE  
17 RELIEF REQUEST?

18 A. Yes, I did. The PPP loan is illustrated as a reduction in the Distribution –  
19 Maintenance Expense in the revenue determination calculations shown in Exhibit  
20 PM-1.  
21

22 Q: DOES THIS CONCLUDE YOUR PREFILED WRITTEN TESTIMONY?

23 A. Yes.

BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION  
DOCKET NO. U-

**AFFIDAVIT OF WITNESS**

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

*Peggy Maranan*

Peggy Maranan

Subscribed and sworn before

me this 18th day of

January 2022.

*Maria Lorenza Lively*  
My Commission expires

