

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER U-35359

DIXIE ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

Docket No. U-35359, In re: Application for Rate Increase, Renewal of Formula Rate Plan, and Certification of Advanced Metering System Upgrade.

(Decided at the December 16, 2020 Business and Executive Session.)

I. OVERVIEW

Dixie Electric Membership Corporation (“DEMCO”) is a Louisiana nonprofit cooperative organized and existing under the Electric Cooperative Act of the State of Louisiana with its main office located at 16262 Wax Road in Greenwell Springs, Louisiana 70739. DEMCO provides electric service to its members in the Parishes of Ascension, East Baton Rouge, East Feliciana, Livingston, St. Helena, Tangipahoa, and West Feliciana. DEMCO provides retail electric service to approximately 111,291 customers, including approximately 103,746 residential customers. DEMCO filed its *Application for Rate Increase, Renewal of Formula Rate Plan, and Certification of Advanced Metering System Upgrade* (“Application”) on August 15, 2019. Notice of DEMCO’s Application was timely published in the Commission’s Official Bulletin and Official Journals of the seven-parish DEMCO service area. No interventions were received. The Louisiana Public Service Commission (“LPSC” or “Commission”) retained outside consultant firm ReSolved Energy Consulting, LLC (“REC”), whose principal, Karl J. Nalepa, has worked on other recent DEMCO matters, including the most recent DEMCO FRP annual earnings reviews.

On September 30, 2019, Administrative Law Judge Steve Kabel conducted a status conference and subsequently issued a scheduling order. LPSC Staff and REC (collectively “Staff”) filed the Direct Testimony of Karl J. Nalepa on February 21, 2020. DEMCO filed Rebuttal Testimony by Michael R. Johnson and J. Gregory Johnson on June 2, 2020. Following discovery and filing of testimony, the parties engaged in extensive settlement discussions that ultimately resulted in a stipulation, which if adopted, would resolve all issues in this matter. DEMCO and Staff filed the *Unopposed Joint Motion Pursuant to Rule 57 to Accept Proposed Uncontested Stipulated Settlement* (“Joint Motion”) on November 20, 2020 seeking consideration of the stipulation at the next practicable Business and Executive Session (“B&E”). The matter was placed on the December 16, 2020 B&E Agenda and unanimously adopted.

II. COMMISSION AUTHORITY

The Commission exercises jurisdiction in this proceeding pursuant to Article IV, Section 21 of the Louisiana Constitution.

La. Const. Art. IV, Sec. 21 provides in pertinent part:

The Commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties, and perform other duties as provided by law.

III. BACKGROUND OF DEMCO'S FRP

The Commission addressed DEMCO's last full rate review and established DEMCO's initial FRP in Order No. U-30893 issued October 27, 2009. The initial FRP covered a four-year period, with test years ending on September 30, 2010, 2011, 2012, and 2013. On January 14, 2014, DEMCO submitted an application to the Commission seeking a four-year extension of its FRP and a modification to reset to a midpoint Times Interest Earned Ratio ("TIER") of 1.45 should the test year TIER fall below the 1.35 minimum or exceed the 1.55 maximum. Order No. U-33063-A dated September 4, 2014 authorized DEMCO's four-year FRP extension and modification to reset to a midpoint TIER with test years ending on September 30, 2014, 2015, 2016 and 2017.

The 2017 test year was the last year under DEMCO's most recent FRP. On April 11, 2018, DEMCO and Staff filed a *Joint Report on Dixie Electric Membership Corporation's Test Year 2016 and Test Year 2017 Formula Rate Plan Proceedings, Joint Stipulation Term Sheet and Motion for Entry of Order Accepting the Report and Term Sheet Pursuant To Rule 57* ("Joint Report"). The Joint Report was filed into both the 2016 FRP proceeding, Docket No. U-34344, and the 2017 FRP proceeding, Docket No. U-34717. In the Joint Report, DEMCO and Staff detailed the resolution of those proceedings and requested that the Commission accept the Joint Report and approve the uncontested stipulated settlement resolving all issues in the 2016 and 2017 FRP proceedings. Order Nos. U-34344 and U-34717 were issued on May 10, 2018 approving the settlement. The rates approved by Order Nos. U-34344 and U-34717 were to remain in effect until new rates are approved by the Commission.

In Order Nos. U-34344 and U-34717, the Commission required DEMCO to make a rate filing and/or request for extension of an FRP no later than September 1, 2018. The orders emphasize that the Commission would undertake a full rate review as part of that proceeding. Further, that the Commission would conduct a full review of DEMCO's Advanced Metering System ("AMS") including, but not be limited to, a determination of whether the program remains cost effective for DEMCO's customers, whether any changes are required including the method of cost recovery, and consideration of the establishment of performance parameters and/or annual cost caps, etc. On September 5, 2018, DEMCO filed a *Petition to Amend Commission Order Nos. U-34344 and U-34717*, specifically paragraphs 6, 7, and 8 which reference the September 1, 2018 rate filing deadline. DEMCO sought to modify the orders to allow for a 2018 calendar year-end as the test year for the rate proceeding and to have that filing due on May 15, 2019. DEMCO asserted that a calendar year-end would be more appropriate for the rate proceeding. In support of its motion, DEMCO asserted that a calendar year-end rate proceeding would align with DEMCO's audited financials which use a calendar year-end and would also better align with financial filings DEMCO makes to its lender, the Rural Utilities Service ("RUS"). Additionally, that the rates from Order Nos. U-34344 and U-34717 were only recently implemented.

Staff reviewed DEMCO's request for limited modification of Order Nos. U-34344 and U-34717 and found that the request had merit. During Staff's analysis of DEMCO's FRP over the last couple of years, Staff acknowledged that having a test year other than a calendar year is not the most desired result. A calendar year-end would eliminate the mismatch between the financials submitted to the Commission for rate review and those submitted to RUS. As 2017 was reviewed as the last test year, having a full calendar year for 2018 for the upcoming rate filing would permit the Commission to review the most recent full calendar year. The Commission authorized the extension in Order Nos. U-34344-A and U-34717-A dated October 19, 2018.

On April 10, 2019, DEMCO filed a *Motion to Amend Order No. U-34717-A* in Docket No. U-34717, and on April 11, 2019, DEMCO filed a *Motion to Amend Order No. U-34344-A* in Docket No. U-34344. In its motions, DEMCO stated that it needed additional time, until August 15, 2019, to prepare its filing as required by Commission Order Nos. U-34344-A and U-34717-A and that no harm or prejudice would come to DEMCO members as a result of the delay. The

Commission authorized the extension in Order Nos. U-34344-B and Order No. U-34717-B dated May 23, 2019.

IV. DEMCO'S REQUEST

In compliance with the deadline set forth in Order Nos. U-34344-B and U-34717-B, DEMCO filed its Application on August 15, 2019. DEMCO's Application seeks a rate increase with a revenue level based on a TIER of 1.45, additional revenues of \$3,856,660 to produce the 1.45 TIER, renewal of its FRP for a four-year period beginning with year-end 2020, certification of DEMCO's AMS upgrade, and recovery of expenses associated with the AMS upgrade through a rate rider.

The RUS which finances the substantial majority of DEMCO's loans requires that DEMCO maintain a minimum TIER of 1.25 as a default level for existing loans and for the approval of all new loans. DEMCO's Application includes a revenue requirement based on a TIER midpoint of 1.45, which would require additional revenues in the amount of \$3,856,660 (a 1.7% increase in revenue). DEMCO's pro forma 2018 Statement of Operations demonstrates margins of \$2,648,859 with a corresponding TIER level of 1.18. This is well below the RUS required default level of 1.25; therefore, DEMCO seeks the proposed increase to achieve a 1.45 TIER. DEMCO also requests a four-year extension of its FRP beginning with test year 2020, with a bandwidth lower limit of 1.35 and upper limit of 1.55 such that if DEMCO's earnings fall below 1.35 or above 1.55, DEMCO would prospectively adjust rates by resetting earnings to a midpoint of 1.45. If earnings remain within the bandwidth for a given test year, no change in rates would occur. The proposed FRP is nearly identical to the previous FRP. DEMCO's Application seeks to change the test year ending on September 30 to a test year ending December 31, and other related timing changes. DEMCO also proposes language to address extraordinary revenue similar to the existing FRP language regarding extraordinary expenses.

DEMCO's Application seeks certification of upgrades to its existing AMS system, which was installed over a four-year period beginning in 2007 and uses Power Line Carrier ("PLC") technology. The 10-plus year old technology is no longer state-of-the-art and DEMCO has been experiencing performance issues with its system. DEMCO outlines the need to replace the AMS and addresses the requirements of the Commission's General Order dated September 22, 2009 ("AMS/DR Order") on an item-by-item basis. DEMCO also outlines the selection process for its upgraded AMS system, the results of the various analyses employed to select the components and vendors for the upgrades, and the cost/benefit analysis. DEMCO solicited the services of an independent contractor to manage the AMS meter installations through a Request for Quotation ("RFQ") issued to six leading meter installation contractors. The prospective contractors provided quotes to install the advanced meters, based on the number and type of meters contained in the RFQ. DEMCO performed a quantitative analysis of the contractors' cost per meter and a qualitative analysis of how well the contractors met the requirements of the RFQ as well as the overall capabilities of the contractors. DEMCO narrowed the selection to two contractors – Texas Meter and Devices ("TMD") and Second Sight Systems. After interviews of the finalists, DEMCO selected TMD, who was judged to have the best quality and had the lowest overall cost to provide the installation services.

Regarding the selection of its AMS vendor, after an initial pilot in which three vendors were evaluated, DEMCO released a request for proposals ("RFP") to Sensus and Landis+Gyr. DEMCO developed a total cost of ownership, which consisted of cost information provided in the respective proposals, meter installation costs, and additional inputs. DEMCO also conducted a technical evaluation regarding the suitability of the Landis+Gyr and Sensus systems to the needs of DEMCO. Based on its quantitative and technical analysis, DEMCO selected Sensus as its AMS vendor.

DEMCO estimated the net benefits of the AMS upgrade using the AMI Business Planning Model that was developed by Katama Technologies Inc. (“KTI”), which DEMCO explains has been used by over 100 utilities. The model evaluated the costs of the program against savings in four distinct areas: reduced meter reading expense, reduction in delinquency write-offs, reduced service costs associated with disconnects/reconnects, and reduced overtime expense. DEMCO’s net savings calculation over 12 years of the proposed AMS system is \$3.04 million. DEMCO proposed to recover the estimated annual expenses associated with the AMS upgrade through a rider to its existing rates. DEMCO argued that the proposed rider will minimize the effect of the AMS-related costs on future FRP filings, since revenues collected in the rider will offset annual expenses incurred for the AMS program. Also, since the costs do not vary with usage, DEMCO argues that the use of a rider with a set monthly fee is better suited for recovery and will tend to minimize any over or under collection.

In support of the Application, DEMCO filed the testimonies of Randall C. Pierce, Michael R. Johnson, Kenneth S. Berrigan, and J. Gregory Johnson, including affidavits, exhibits and reports. Mr. Pierce, DEMCO CEO and General Manager, testified with regard to the management, DEMCO Board of Directors and media issues in the timeframe of his becoming CEO and General Manager in August 2018, as well as current happenings at DEMCO and its future plans. DEMCO witness Michael R. Johnson, DEMCO Vice President – Finance, testified with regard to the 2018 Pro Forma Statement of Operations, DEMCO’s need for rates that support its financial health including explanations of exhibits and data, the proposed FRP, each of the requirements contained in the AMS/DR Order for approval of the upgrade to DEMCO’s AMS, the proposed rider for the recovery of expenses associated with the installation of the AMS upgrade, and the methodology and results of the calculations used to develop the proposed AMS rider. Mr. Berrigan, Vice President of Planning and Financial Studies for BHA, Inc., testified regarding the revenue requirement analysis results. Mr. J. Gregory Johnson, President/CEO of KTI, testified regarding the existing DEMCO AMS, the process used to select the provider for future DEMCO AMS, cost/benefit analysis of the AMS upgrade, and other details regarding the AMS upgrade.

After serving one set of formal data requests on Staff to which Staff responded, DEMCO filed Rebuttal Testimony by Michael R. Johnson and J. Gregory Johnson on June 2, 2020 addressing each of the issues and recommendations raised in the Staff testimony filed February 21, 2020, discussed more fully in the section below. DEMCO provided clarifying information regarding its annualization of certain Allowance for Funds Used During Construction (“AFUDC”) and addressed other fees and expenses impacting its proposed revenue requirement increase. DEMCO responded to Staff’s position on FRP filing dates and timing, rate reset mechanics, and extraordinary revenue language. DEMCO provided testimony on its AMS customer education plan, cybersecurity and data privacy, proposed cost recovery methodology, and reporting requirements.

V. STAFF REVIEW AND RECOMMENDATION

Staff reviewed the Application and all supporting documentation, as well as relevant Commission orders. Staff issued three sets of formal data requests to which DEMCO responded. Staff also conducted numerous discussions with DEMCO regarding its Application. In the Direct Testimony of Karl J. Nalepa filed on February 21, 2020, Staff generally recognized DEMCO’s need for additional revenue, but proposed certain reductions in the revenue increase requested by DEMCO. Staff supported continuation of DEMCO’s FRP, but with some modifications to DEMCO’s proposal. Staff also supported certification of DEMCO’s AMS upgrade, but proposed additional conditions and reporting requirements relative to the AMS installations and supported cost recovery through DEMCO’s FRP rather than through a separate rate rider as requested by DEMCO.

With regard to the revenue increase, Staff recommended adjustments related to right of way (“ROW”) and mechanical tree-trimming which were based on DEMCO’s historical performance and spending in comparison to the amounts it requested in its Application. To help ensure that DEMCO is able to maintain its vegetation management practices consistent with its expense requests as modified by Staff’s recommended adjustments, Staff recommended that these expense amounts be dedicated to ROW clearing and mechanical tree-trimming. Dedicating these expense amounts for these vegetation management practices will help ensure DEMCO is able to meet its reliability needs and Commission standards. Staff also recommended an adjustment for annualization of (“AFUDC”) and other fees. Staff’s adjustments were a total reduction of \$1,988,800 to DEMCO’s requested revenue requirement, which would reduce its requested increase from 1.7% to 0.83%, concluding that to reach its desired TIER of 1.45, DEMCO should be allowed to increase revenues by \$1,868,880.

Regarding DEMCO’s proposed FRP extension, Staff recommended approval of DEMCO’s request to continue its FRP, but proposed certain changes to DEMCO’s as-filed request including changes to the filing dates, extraordinary revenue language, and rate reset provisions. Regarding DEMCO’s proposed AMS upgrade, Staff recommended that the proposed AMS upgrade be approved, but that the proposed AMS rider be denied, and the prudently-incurred AMS costs be recovered through DEMCO’s FRP. Additionally, that DEMCO be required file more frequent and detailed reports than those specified in the AMS/DR Order.

VI. STIPULATION

Following completion of discovery and filing testimony, the parties engaged in extensive settlement discussions that ultimately resulted in a stipulation. On November 20, 2020, DEMCO and Staff filed the Joint Motion requesting that the Commission accept the *Stipulated Settlement Term Sheet* (“Term Sheet”) that would resolve all issues in this matter. In support of this Joint Motion and Term Sheet, DEMCO and Staff submitted the testimony of Michael R. Johnson on behalf of DEMCO and the testimony of Karl J. Nalepa submitted on behalf of Staff. The Term Sheet resolves all issues in this proceeding, and if approved, DEMCO would be permitted a total increase in base rates of \$3,426,964, approximately 1.5%, to be effective with the first billing cycle following the issuance of a Commission order and approval of the final, revised tariffs. Additionally, DEMCO’s FRP would be renewed for a three-year period beginning with the 2021 test year with a test year-end aligning with the calendar year-end. Also, DEMCO’s AMS upgrades with an estimated total cost of \$9,587,976 would be certified and prudently-incurred AMS upgrade costs would be eligible for recovery in rates. The Joint Motion notes that DEMCO is seeking from the Commission in a separate proceeding, Docket No. S-35630, authorization to enter into a loan with CoBank to fund the costs of the AMS upgrades. The base rate increase in the Term Sheet includes the first year revenue requirement related to the AMS upgrades. Therefore, if approved, the rates and FRP established in this proceeding would provide the means for cost recovery of the AMS upgrades. The Term Sheet includes conditions and reporting that help to ensure that DEMCO will prudently manage the AMS upgrades.

As part of the settlement in this matter, DEMCO seeks to streamline its tariff to eliminate schedules that had few or no customers and to update its tariff consistent with its current power supply contract. Two of DEMCO’s existing residential rates varied by winter and summer months despite the fact that DEMCO’s power cost is substantially the same for the entire year under the current power supply contract. There was also a difference among DEMCO’s existing residential rate classes that resulted in some residential customers paying different amounts than others with nearly the same service. DEMCO also proposed an increase in its fixed customer charges to better align those costs with the fixed cost of providing service. The tariffs agreed to by DEMCO and Staff have streamlined the tariffs as requested by DEMCO and eliminate the variable rates that are no longer applicable; further, the tariffs allocate the rate increase fairly and in manner that better

aligns rates with cost of service. The net result will be slightly less than a 1% rate increase to all residential customers as a whole.

Staff and DEMCO expressed support for the Term Sheet as an equitable resolution to DEMCO's Application as it avoids further litigation and is a resolution that is fair, results in just and reasonable rates, and is in the public interest. The rates would permit DEMCO to continue to provide safe, reliable service; permit DEMCO to meet its debt obligations to its lenders by satisfying its RUS TIER requirements; and, provide Staff and the Commission with improved oversight procedures. The AMS upgrades are anticipated to provide net benefits to customers. Given the procedural posture of the proceeding and the fact that there are no intervenors, DEMCO and Staff requested that the Commission take this matter up pursuant to Rule 57 at the Commission's earliest practicable B&E, and approve the stipulation as being in the public interest.

VII. COMMISSION ACTION

The matter was placed on the Commission's December 16, 2020 B&E Agenda. On motion of Commissioner Skrmetta, seconded by Vice Chairman Greene, and unanimously adopted, the Commission voted to assert its original and primary jurisdiction and take the matter up pursuant to Rule 57.

After discussion and comments from Randy Pierce, General Manager and CEO of DEMCO, on motion of Vice Chairman Greene, seconded by Commissioner Skrmetta, and unanimously adopted, the Commission voted to accept the Proposed Uncontested Stipulated Settlement filed into the record on November 20, 2020 and further move in accordance with a request from DEMCO that the deadline for DEMCO to advise commercial customers who may benefit from switching to a different rate schedule imposed by General Orders dated November 2, 1987 and September 5, 1997 be extending to March 31, 2021. Further, DEMCO shall file a report with the Commission no later than June 30, 2021 advising the Commission of the action taken to notify commercial customers and the number of commercial customers that requested to switch to a different rate schedule.

THEREFORE IT IS ORDERED:

Rate Increase

1. DEMCO's Application for Rate Increase, Renewal of Formula Rate Plan, and Certification of Advanced Metering System Upgrade filed August 15, 2019 is approved, subject to the terms and conditions of this Order.
2. DEMCO is authorized increase base rates in the amount of \$3,426,964 effective with the first billing cycle following the completion of the following: 1) the issuance of this Order; 2) DEMCO's filing into the record of this proceeding a final, revised tariff and Rider Schedule FRP ("Rider FRP") consistent with this Order; and, 3) Staff's review and acceptance of the revised tariff and Rider FRP. The rate increase will be applied to DEMCO's rate classes as shown in the amended and redlined tariffs attached hereto as **Exhibit 1**.
3. The expenses set forth in the adjusted 2018 Statement of Operations pro-forma filed as Exhibit A.1 to the Application shall be used to set rates and for annual FRP filings, with the following adjustments: (a) allowable hourly ROW tree trimming expenses are reduced by \$326,401 from the amount of \$1,172,773 shown in Exhibit A.1 to the adjusted amount of \$846,372; (b) allowable mechanical ROW tree trimming expenses are reduced by \$1,012,197 from the amount of \$3,088,419 shown in Exhibit A.1 to the adjusted amount of \$2,076,222; (c) annual AMS acquisition and installation cost in the amount of \$814,235 shall be included. Additional annual revenue will be set at \$3,426,964 as outlined in Appendix 6 – Revised Proposal as submitted in support of DEMCO's Rebuttal Testimony.

4. Expenses for ROW tree trimming will be dedicated for that purpose and cannot be converted for other purposes. To the extent that DEMCO has expenditures less than or greater than 10% of the approved amount in a subsequent FRP test year of amended and renewed FRP, DEMCO shall provide a detailed explanation of the reason for the shortfall or excess spend.

Formula Rate Plan Renewal

5. DEMCO's Formula Rate Plan ("FRP"), as amended by this Order, is amended and renewed for a three-year period for the test years 2021, 2022, and 2023, which will coincide with calendar years 2021, 2022 and 2023. Attached hereto as **Exhibit 2** is the amended Rider FRP¹, which defines the procedure by which the rates in DEMCO's rate schedule may be periodically adjusted during the term of the amended and renewed FRP.
6. The major changes to the amended and renewed Rider FRP from the previous Rider FRP are as follows:
 - a. Changing the test year to a calendar year-end rather than ending on September 30, the annual FRP Report filing date from December 15 to May 15, the Staff and Intervenor filing date from April 1 to September 15, and the corresponding rate implementation date from May 1 to January 1;
 - b. Including language to address extraordinary revenues similar to existing language addressing extraordinary expenses; and,
 - c. Requiring advanced notice and corresponding review of such notice if DEMCO desires to address the ratemaking effects of extraordinary cost increases or decreases in base revenues or increases or decreases in expenses in the annual FRP proceeding.
7. 2021 will be the first test year for DEMCO's amended and renewed FRP ending on December 31, 2021. DEMCO will file its annual FRP Report on or before May 15 of the year following each test year as set forth in more detail in Rider FRP.
8. DEMCO's amended Rider FRP maintains the current TIER Bandwidth structure and a reset to the midpoint of 1.45. The Company has outstanding loans with the RUS, which require compliance with a minimum TIER of 1.25. The TIER Bandwidth shall be the range of values with a lower limit ("TIER Lower Band") equal to 1.35 and an upper limit ("TIER Upper Band") equal to 1.55.
9. The Company also has outstanding loans with the National Rural Utilities Finance Corporation ("CFC"). The CFC requires compliance with a minimum Modified Debt Service Coverage Ratio ("DSC") of 1.35. The Debt Service Coverage Ratio lower limit ("DSC Lower Limit") shall be equal to 1.40.
10. For each Test Year, the Total Rider FRP Revenue level shall be determined using the Revenue Redetermination Formula as set forth in Attachment D to the Rider FRP. If Total Rider FRP Revenue falls within the TIER Bandwidth, there is no change to revenue. If the CTIER is less than the TIER Lower Band (1.35), the Rider FRP Revenue level in effect for the test year shall be increased by 100% of the difference between CTIER and the Midpoint of the Bandwidth for TIER or 1.45. This increase amount is subject to a second test based on the CDSC. Increases in revenues levels will be made in accordance with Rider FRP to ensure that revenues are sufficient to meet the TIER Midpoint. If the CTIER exceeds the Upper Band (1.55), the Rider FRP Revenue level in effect for the test year shall be reduced by 100% of the difference between CTIER and the Midpoint of the Bandwidth for TIER (1.45). The Rider FRP Revenue shall not be reduced to an amount such that the CDSC shall be less than the DSC Lower Limit.

¹ Exhibit 2 shows the modifications from the most recent FRP to the amended FRP in redline.

11. Except as otherwise provided in Rider FRP and Rider Attachments A, B, C and D, annual FRP Reports shall rely exclusively on historic test year data on a per books basis.
12. The effect of the FRP rate change shall be computed based upon a percentage of base revenues for each ratepayer rather than on a per kWh basis.
13. Any adjustments to rates resulting from implementation of the amended Rider FRP and annual FRP reviews shall be effective on January 1 of the year following the annual FRP Report filing such that adjustments based on the 2021 test year will be effective January 1, 2023, adjustments based on the 2022 test year will be effective January 1, 2024, and adjustments based on the 2023 test year will be effective January 1, 2025.

Advanced Metering System Upgrade

14. The AMS upgrades proposed by DEMCO in its Application and testimony filed in this proceeding are in the public interest, serve the public convenience and necessity, and therefore are prudent in accordance with the Commission's General Order dated September 22, 2009, in Docket No. R-29213 consolidated with Docket No. R-29213 Sub. A (the "AMS/DR General Order"). DEMCO's Application estimates AMS upgrade costs are \$9,587,976. DEMCO will not seek recovery of costs associated with the AMS pilot program.
15. DEMCO intends to fund the up-front costs of AMS upgrade through a loan from CoBank and has filed for Commission approval to borrow the funds. The matter is currently docketed as Docket No. S-35630, Dixie Electric Membership Corporation, ex parte; *In re: Request for Letter of Non-Opposition for Loan and for Approval to Mortgage Assets*. That approval is contingent on the Commission's approval of the AMS upgrade in this proceeding. The rate adjustment that is the subject of this Order includes the revenue requirement necessary to service the debt at issue in Docket No. S-35630.
16. Prudently-incurred AMS upgrade costs are deemed eligible for recovery in rates consistent with general ratemaking principles. Costs that normally would be capitalized shall be capitalized and costs that normally would be expensed shall be expensed. In future rate filings (annual FRP Reports, requests for renewal or extension of its FRP, and any future rate filing that includes AMS upgrade costs) DEMCO will explicitly identify AMS upgrade costs. Eligibility of costs for recovery is not a presumption of prudence of those costs and all costs are subject to review for prudence. DEMCO shall include in all rate filings associated with the renewed and amended FRP adopted in this docket information sufficient to allow the Commission to review the prudence of AMS costs, including, at a minimum, any quarterly reports filed since the issuance of an Order in this proceeding (see paragraph 21) and any updates in the same format for the period between the most recent quarterly report and the test year-end.
17. DEMCO has an ongoing obligation to prudently install, manage and operate the AMS upgrades.
18. DEMCO may request appropriate cost recovery through its FRP, and in the absence of a FRP, through an appropriate base rate proceeding.
19. DEMCO's Application and corresponding cost/benefit analysis for the AMS upgrades is based on 100% participation. As with the prior AMS system, DEMCO will address member opt-out on a case-by-case basis after a customer education program. In the event that member opt-outs result in significant deviation from full participation, DEMCO is not precluded from applying to the LPSC for an "opt-out" charge at a later date.

20. The AMS upgrade is estimated to result in approximately \$3.0 million net present value benefit to members. The project will provide benefits to customers in four areas: reduced meter reading costs, reduction in delinquency write-offs, reduced member service costs associated with disconnects/reconnects and reduced overtime expenses. The AMS upgrade will also provide enhanced functionality, allowing more options for customers, such as access to 15-minute load data, remote security and outage monitoring, prepay metering, and potentially demand response programs.
21. DEMCO will file into the record of this proceeding quarterly reports during installation of AMS upgrades, beginning 90 days from the date of the issuance of this Order, containing all information required by the AMS/DR General Order. The initial report filed by DEMCO shall include a schedule for installation of the AMS upgrades and projected costs. Unless Staff advises DEMCO within 30 days after receipt of DEMCO's initial report that it objects to and/or requests further clarification regarding DEMCO's installation schedule, the schedule shall be considered approved. All subsequent quarterly reports will provide:
- a. A comparison of the approved schedule to the actual schedule with a discussion of the progress made in reaching project milestones and any schedule variances in terms of meeting the certified level of anticipated installations/deployment.
 - b. A comparison of the approved cost estimate to the actual costs with a discussion of any cost variances. Both costs to date and costs incurred during the previous quarter should be reported. For any variances greater than 10%, the report must explain in detail.
 - c. A discussion of any anticipated challenges or developments that may affect future deployment and any increases in costs or schedule delays that may be associated with such challenges or developments.
 - d. A forecast of costs to complete the AMS deployment as per the approved timeline.
 - d. A description of the work planned for the upcoming quarter.
 - e. A description of work necessary to return to schedule (if there is a schedule variance).
 - f. A description of any system testing activities in the prior quarter.
 - g. A description of the ongoing privacy and security measures taken by DEMCO and/or its contractors to secure customer data and information. The reports shall include any data or security breaches, whether successful or attempted.
22. In addition to the regular quarterly reports, DEMCO will provide to the Commission, in electronic format, an off-cycle report if at any point during the implementation timeframe there is a 15% deviation from the cumulative total of either meter installations or cost as scheduled or of the implementation timeline. These reports (which may be submitted by electronic mail) will be submitted to the Executive Secretary and all Commission Staff (including outside counsel/consultants) on the service list of this proceeding within 10 business days of the time that DEMCO becomes aware of the deviation. Off-cycle reports will include the cumulative number of meters installed to-date, cumulative investment made to-date, deviation amount from either installations or investment, an explanation of the deviation, and a plan for recovery. Within 60 days after installation of the AMS upgrades is complete, which is expected to take approximately two years, DEMCO will file a completion of installation report including the costs of completion, number of meters installed, installation schedule/timeline and other information as required in the quarterly reports pursuant to the AMS/DR Order. Subsequent to the filing of the completion of installation report, DEMCO shall file into the record of this proceeding bi-annual reports beginning six

months from the date of filing the completion of installation report for a period of five years to report on the operation of the AMS system.

23. DEMCO will thoroughly research the Demand Response options available, with the intention of implementing programs that would be a benefit to both DEMCO and the membership as a whole. Some examples of programs that DEMCO intends to research include a prepaid metering program, a home thermostat load control program, an electric water heater load control program, and programs designed to assist with load control on swimming pool pumps and heaters. DEMCO will thoroughly research all available options and submit a preliminary report based on existing data it has already collected within six months of the approval of this Order. Within one year after approval of this Order, DEMCO shall submit a more comprehensive report taking into account new data gained from advanced meter installations that includes but is not limited to the programs analyzed, cost/benefit analysis, and whether DEMCO plans to move forward with such programs.
24. DEMCO will actively monitor Docket No. R-35136, participate as may be appropriate, and comply with any rules or Orders adopted by the Commission as part of that docket. Nothing in this Order is intended to contradict with any requirements that may result from a Commission Order in Docket No. R-35136.
25. The 2020 deadline for DEMCO to advise commercial customers who may benefit from switching to a different rate schedule imposed by General Orders dated November 2, 1987 and September 5, 1997 is extended to March 31, 2021. Further, DEMCO shall file a report with the Commission no later than June 30, 2021 advising the Commission of the action taken to notify commercial customers and the number of commercial customers that requested to switch to a different rate schedule.
26. This settlement shall have no precedential effect in any future proceeding involving issues similar to those resolved herein and shall be without prejudice of the right of any party to take any position on any similar issues in future proceedings.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA
December 29, 2020



A handwritten signature in blue ink that reads "Brandon M. Frey" followed by a stylized flourish.

BRANDON M. FREY
SECRETARY

/S/ MIKE FRANCIS

DISTRICT IV

CHAIRMAN MIKE FRANCIS

/S/ CRAIG GREENE

DISTRICT II

VICE CHAIRMAN CRAIG GREENE

/S/ FOSTER L. CAMPBELL

DISTRICT V

COMMISSIONER FOSTER L. CAMPBELL

/S/ LAMBERT C. BOISSIERE, III

DISTRICT III

COMMISSIONER LAMBERT C. BOISSIERE, III

/S/ ERIC F. SKRMETTA

DISTRICT I

COMMISSIONER ERIC F. SKRMETTA