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September 13, 2023

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BY HAND DELIVERY

Mr. Brandon Frey
Executive Secretary
Louisiana Public Service Commission
Galvez Building, 12th Floor
602 North Fifth Street
Baton Rouge, Louisiana 70802

Re: LPSC Docket No. U-36974, 1803 Electric Cooperative, Inc. – *Application for Approval of Calpine Capacity Purchase Agreement and for Cost Recovery*

Dear Secretary Frey:

On behalf of 1803 Electric Cooperative, Inc. ("1803"), please find enclosed the Application for Approval of Calpine Capacity Purchase Agreement and for Cost Recovery. The Application includes the following Direct Testimonies in Support:

- Direct Testimony of Kevin P. Suhanic
- Direct Testimony of Brian W. Hobbs
    - Includes Exhibit HSPM Exhibit BWH-1 (Calpine Capacity Purchase Agreement (Confidential Version Only)

1803 requests that notice of this Application be published in the Official Bulletin of the LPSC to be issued on Friday, September 15, 2023, with a 15-day intervention period.

We request that the following counsel be included on the Official Service List for this docket:

E23-

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Should you have any questions or issues, please contact me. Thank you and kindest regards.

Sincerely,

Kyle C. Marionneaux

Kyle C. Marionneaux
John N. Grinton

LOUISIANA PUBLIC SERVICE COMMISSION

1803 ELECTRIC COOPERATIVE, INC.) **DOCKET NO. U-36974**
EX PARTE)

In re: Application for Approval of Calpine Capacity Purchase Agreement and for Cost Recovery

NOW BEFORE the Louisiana Public Service Commission (the "LPSC" or "Commission") comes 1803 Electric Cooperative, Inc. ("1803"), a Louisiana not-for-profit electric cooperative organized and existing under the laws of the State of Louisiana and regulated by the LPSC, which hereby asserts and seeks approval and certification of a capacity purchase agreement ("Capacity Purchase Agreement") with Calpine Energy Services, LP ("Calpine"), as follows:

1803'S BACKGROUND

1.

1803 was incorporated on April 1, 2019 as a Louisiana electric cooperative organized pursuant to La. R.S. 12:401 *et seq.*, and is comprised of and governed by five (5) LPSC-regulated, member electric cooperatives, specifically Beauregard Electric Cooperative, Inc. ("BECi"), Claiborne Electric Cooperative, Inc. ("Claiborne"), Northeast Louisiana Power Cooperative, Inc. ("NELPCO"), South Louisiana Electric Cooperative Association ("SLECA"), and Washington-St. Tammany Electric Cooperative, Inc. ("WST") (referred to collectively as the "1803 Cooperatives").

2.

1803 is a power supply cooperative regulated as a public utility by the LPSC, as provided in LPSC Order No. S-35709 issued on July 2, 2021. 1803's power supply portfolio was approved by the Commission in LPSC Order U-35927, dated January 28, 2022. The relationship between 1803 and the 1803 Member Cooperatives is governed by a Wholesale Power Contract between 1803 and each of the 1803 Cooperatives, whereby, beginning in 2025, 1803 shall sell and deliver to the 1803 Cooperatives and the 1803 Cooperatives shall purchase and receive from 1803 all electric power and energy required by the 1803 Cooperatives. The Wholesale Power Agreements, along with 1803's Wholesale Rate Tariff, were approved by the LPSC in LPSC Order No. U-36268, dated August 9, 2022.

<u>1803'S NEED FOR ADDITIONAL POWER SUPPLY RESOURCES</u>

3.

1803 had previously identified a need for approximately 100 MW of additional capacity in the first five years of its power supply portfolio, as stated in the 1803 LPSC Certification Order issued January 28, 2022, in Docket No. U-35927.[1] It was also noted that this need would grow to approximately 350 MW in 2030.

4.

Thereafter, on August 31, 2022, the Federal Energy Regulatory Commission ("FERC") accepted the proposal of Midcontinent Independent System Operator ("MISO") to transition to a seasonal capacity construct. MISO's move to a seasonal capacity construct has caused an increased need for winter capacity for 1803.

5.

1803 is presently conducting an Integrated Resource Plan ("IRP") process in LPSC Docket No. I-36503 in accordance with the LPSC's General Order No. R-30021, dated April 18, 2012. The docket was initiated upon 1803's request to the LPSC dated July 29, 2022. In its Methodology and Data Assumptions filed in LPSC Docket No. I-36503, on August 28, 2022, 1803 identified anticipated 2025 capacity shortfalls in the summer and, more extensively, in the winter.[2] On

[1] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 27, paragraph 86. This Final Recommendation was approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.

[2] See Data Inputs and Assumptions for 1803 Electric Cooperative, Inc. filed in LPSC Docket No. I-36503 on August 26, 2022, p. 10.

January 12, 2023, 1803 conducted a Stakeholder Meeting in LPSC Docket No. I-36503, wherein it again discussed its upcoming capacity needs.

6.

As a result of the above, 1803 will have a need for additional capacity in 2025 and beyond, and those needs were consistently identified and made known in publicly available filings.

CALPINE'S RESOURCE AND EXISTING ENERGY PURCHASE

7.

Calpine, LP, a Wilmington, DE Corporation with its principal business office in Houston, TX, and a registered Louisiana office in Baton Rouge, LA, is presently contracted with 1803, and LPSC-approved such contract by LPSC Order U-35927 dated January 28, 2022, to provide electric energy to 1803 beginning in 2025 ("PPA"). This contracted energy purchase is pursuant to a physical heat rate call option for the purchase of 185 MWs of energy on a 7x16 basis for which 1803 will have the ability to exercise a daily option. The energy will be supplied by Calpine from the Pine Bluff Energy Center, a natural gas-fired cogeneration facility located in Pine Bluff, AR, with a term from June 1, 2025 to May 31, 2030.

CALPINE'S UNSOLICITED OFFER FOR THE PURCHASE OF CAPACITY

8.

In 1803's prior resource certification docket (U-35927), significant discussion was had regarding 1803's potential future purchase of capacity, as well as the merits of the same, from Calpine's Pine Bluff Energy Center, as follows:

> *Calpine*
>
> 77. The Calpine PPA, also referred to as the heat rate call option ("HRCO"), is an energy only contract for 185 MW of the Pine Bluff Energy Center, a natural gas-fired cogeneration facility located in Pine Bluff, AR.
> 78. In rebuttal testimony, 1803 asserted that the Calpine PPA could be backed by capacity should the Commission find it to be necessary. This would not add costs to the 1803 Portfolio, because the cost is covered in the economic analysis,

and is, in fact, lower than the forward capacity curve assumed by ACES in the analysis.

79. According to Mr. Painter, ACES did not select Calpine[3] in the RFP at the time because there were challenges with the transmission system, allowing only 60 MW to be deliverable to the grid, but upgrades in MISO that are scheduled to be completed in 2022, should alleviate those concerns.

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87. 1803 could purchase 185 MW of capacity from Calpine starting from 2025-2030; this is already accounted for in the economic analysis.[4]

The Final Recommendation of the Administrative Law Judge, adopted by the Commission in LPSC Order No. U-35927, further stated regarding a potential 1803 capacity purchase from the Calpine Pine Bluff Energy Center, as follows:

> Finally, the (Calpine) PPA provides a call option for purchase of 185 MW of energy from the Pine Bluff Energy Center in Arkansas, an existing resource with a demonstrated track record of performance, which will serve as back-up generation if needed. In addition, the Commission could require 1803 to purchase capacity along with the call option if it is concerned that 1803 has unmet capacity in the portfolio. Since the cost to acquire the (Calpine) capacity is lower than the cost of market capacity purchases assumed in the RFP, this will not add costs to the 1803 Portfolio, and could act as a hedge if market prices increase.[5]

9.

As was anticipated in LPSC Docket No. U-35927, the expected transmission upgrades alleviated transmission issues and increased the available capacity that Calpine could deliver to 1803 from the Pine Bluff Energy Center to 175 MWs. On April 5, 2023, Calpine made multiple unsolicited offers to 1803 from the Pine Bluff Energy Center. Included in the unsolicited offers made was a proposal to provide 175 MWs of capacity from the unit for a 10-year timeframe (June 1, 2025 to May 31, 2035). Additionally, Calpine has offered to provide 80 MWs of capacity for

[3] Given that 1803 did accept the Calpine energy proposal on ACES' recommendation in the 1803 2019 RFP, the statement that "ACES did not select Calpine in the RFP" and the context in which it is stated, is in clear reference to the capacity portion of Calpine's Pine Bluff Energy Center.

[4] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at pages 25-27, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.

[5] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 45, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto. Note that the cited paragraph erroneously identified the PPA discussed as the "Exelon" PPA. It is clear from the context and discussion that the reference was to Calpine, not Exelon.

the months of January, February, and March of 2025 and 175 MWs of capacity for the months of April and May 2025. As accompanying testimony will discuss, this provides benefits to 1803 and the 1803 Cooperatives.

1803'S 10-YEAR CAPACITY PURCHASE AGREEMENT WITH CALPINE IS IN THE PUBLIC INTEREST

10.

As stated above and in more detail in the accompanying testimonies, due to a variety of factors, the most prominent being MISO's switch to a seasonal capacity construct, 1803 does have a capacity need, most acutely in the winter season. The Calpine Capacity Purchase Agreement is for capacity only with no energy and provides a good fit for 1803's portfolio.

11.

The Capacity Purchase Agreement reduces risk over the 10-year term but does not carry the higher costs into the portfolio in later years. 1803 currently has only 20-year contracts and 5-year contracts. As discussed in the initial certification, diversity of contract renewal time is a benefit allowing 1803 access to new technologies and market opportunities without having to re-negotiate too large a position at any given time.

12.

The Calpine Capacity Purchase Agreement also still leaves room for competitive capacity offers to be accepted by 1803 in its current RFP but reduces the risk that 1803 will not find enough acceptable offers to meet its goals.

13.

As such, the Calpine Capacity Purchase Agreement serves the public convenience and necessity and is in the public interest, and, therefore, prudent in accordance with the 1983 General

Order.[6] 1803 is seeking specific approval of the terms, conditions, rights, remedies, and limitations set forth in the Calpine Capacity Purchase Agreement.

TESTIMONY AND CAPACITY PURCHASE AGREEMENT PROVIDED IN SUPPORT

14.

With this Application, 1803 submits the Direct Testimonies of Brian W. Hobbs and Kevin P. Suhanic, which testimonies are incorporated into this Application, with exhibits. The purpose of each witness' Direct Testimony is as follows:

- **Brian W. Hobbs** – Mr. Hobbs is the Chief Executive Officer of 1803 and discusses the process undertaken by 1803 in evaluating and negotiating the Calpine Capacity Purchase Agreement. Mr. Hobbs also discusses the objectives which 1803 desired to accomplish with the power supply options chosen and how the proposed options addressed each objective and resulted in what the 1803 Board of Directors feel is the best course of action for 1803 in fulfilling the power supply requirements of 1803 and the 1803 Cooperatives for 2025 and beyond, particularly meeting the objective of providing reliable service at the lowest reasonable cost.

- **Kevin P. Suhanic** – Mr. Suhanic, Vice President of Portfolio Strategy and Origination at ACES, addresses the evaluation of the Calpine offer, the fit of the Calpine Capacity Purchase Agreement in 1803's power supply portfolio, and the determination that the Calpine Capacity Purchase Agreement is in the best interest of 1803 members.

As required by the 1983 General Order, this Application and the supporting testimonies include the specific data that 1803 relied upon to justify its decision to enter into the Calpine Capacity Purchase Agreement, an itemized projection of total costs, and the proposed Capacity Purchase Agreement in its entirety, subject to appropriate redaction in the public version of the filing. The Edison Electric Institute ("EEI") Master Power Purchase and Sale Agreement Confirmation Letter between Calpine Energy Services, L.P. and 1803 Electric Cooperative, Inc., which is designated as Highly Sensitive Protected Materials ("HSPM"), is attached to the Direct

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[6] LPSC General Order dated September 20, 1983, *In re: In the Matter of the Expansion of Utility Power Plant; Proposed Certification of New Plant by the Louisiana Public Service Commission* as modified by LPSC General Order (Corrected), issued May 27, 2009, in Docket No. R-30517, *In re: Possible modifications to the September 20, 1983 General Order to allow: (1) for more expeditious certifications of limited-term resource procurements; and (2) an exception for annual and seasonal liquidated damages block energy purchases* (referred to herein collectively as the "1983 General Order").

Testimony of Mr. Hobbs as HSPM Exhibit BWH-1.

TRANSMISSION

15.

As stated further in the testimony of Mr. Suhanic, the 175 MWs of capacity contracted by 1803 through the Capacity Purchase Agreement is now fully deliverable in MISO South and will assist 1803 in being compliant with MISO's resource adequacy rules. The Capacity Purchase Agreement will provide capacity from the Pine Bluff Energy Center or other fully deliverable capacity in Zones 8 or 9, all of which are located in the MISO South region and qualifies as a MISO Capacity Resource. This fully deliverable capacity will help 1803 meet its MISO Resource Adequacy Requirements.

1803'S COMPLIANCE WITH LPSC ORDERS

16.

For the reasons discussed above and in detail in the accompanying testimonies, 1803's Capacity Purchase Agreement will serve the public convenience and necessity, is in the public interest, and is therefore prudent, and should be certified in accordance with the 1983 General Order.

17.

The Capacity Purchase Agreement also meets the LPSC's market-based mechanism requirements as established by its general orders, specifically including the MBM Order[7] and the Unsolicited Offer Order.[8] In sum, under these orders, as a supplement to the 1983 General Order, the LPSC established a general rule for electric utilities subject to the LPSC's jurisdiction to

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[7] LPSC General Order dated October 29, 2008, Docket No. R-26172, Subdocket C, *In re: Possible suspension of, or amendments to, the Commission's General Order dated November 3, 2006 (Market Based Mechanisms Order)* (referred to herein as the "MBM Order").

[8] LPSC General Order dated October 28, 2008, Docket No. R-30703, *In re: Consideration of procedures whereby jurisdictional electric utilities must provide the Commission Staff with notice of unsolicited offers, as well as their response to, and analysis of, unsolicited offers* (referred to herein as the "Unsolicited Offer Order").

employ a market-based mechanism to support the acquisition of generating capacity or purchase power contracts intended to serve LPSC-jurisdictional retail customers,[9] which market-based mechanism would under the general rule involve a Request for Proposal ("RFP") competitive solicitation process.[10] Outside of the general MBM rule, the LPSC identified multiple instances wherein an RFP process may not be in the public interest[11] and also provided that a utility may propose an alternative market-based mechanism or procedure if it can demonstrate that circumstances indicate that a formal RFP would not be in the public interest.[12]

18.

Relevant to this filing, included within the listed exemptions from an RFP process were contracts involving "resources that have been previously certified by Commission, but subsequently changing in status...."[13] The Calpine Capacity Purchase Agreement has the option to provide capacity from the same resource, Calpine's Pine Bluff Energy Center, from which 1803 will purchase energy only in the existing Calpine PPA previously certified by the Commission. Further, as cited to in paragraph 8 above, the capacity contracted for in the Calpine Capacity Purchase Agreement from Calpine's Pine Bluff Energy Center was previously identified by the Commission and its consultants as a future fit for 1803's power supply portfolio once transmission issues were resolved related to that capacity. Considering these circumstances, the Calpine Capacity Purchase Agreement should be exempt under the MBM Order from the RFP process.

19.

The LPSC has also, under the Unsolicited Offer Order, exempted from the MBM Order's RFP process some unsolicited offers. While the LPSC strongly encourages resource procurements

[9] MBM Order, Ordering Paragraph 1.
[10] MBM Order, Ordering Paragraph 3.
[11] MBM Order, Ordering Paragraph 2.
[12] MBM Order, Ordering Paragraph 3.
[13] MBM Order, Ordering Paragraph 2.g.

by jurisdictional electric utilities through the use of a structured and systematic competitive bidding process such as an RFP,[14] the LPSC also requires through the reporting requirements under the Unsolicited Offer Order that jurisdictional electric utilities analyze unsolicited offers received, including consideration of economic and reliability factors and make a determination of whether the unsolicited offer should be accepted or rejected.[15] The jurisdictional electric utility may also reject an unsolicited offer if, without valid reason by the bidder, the product offered is substantially similar to a product that utility is seeking to procure pursuant to a publicly noticed competitive process.[16] While 1803 presently has an active RFP in LPSC Docket No. X-36925, that RFP and docket was initiated on July 5, 2023, and then published on July 7, 2023. As stated in paragraph 9 above, the unsolicited offer here was provided by Calpine to 1803 on April 5, 2023, in advance of the initiation of the RFP. Thus, considering that the economic and reliability analysis conducted on the unsolicited offer accepted within the Capacity Purchase Agreement, as stated above and in more detail in the accompanying testimonies, and that 1803's prior resource certification docket (U-35927) identified the need and this specific resource as a likely candidate to satisfy such need, the Calpine Capacity Purchase Agreement should be considered exempt from an RFP process under the Unsolicited Order.

20.

Finally, 1803 further requests that the Calpine Capacity Purchase Agreement be considered exempt from an RFP process under the MBM Order under the general exemption wherein a utility may propose an alternative market-based mechanism or procedure if it can demonstrate that circumstances indicate that a formal RFP would not be in the public interest. As discussed further in the testimony of Mr. Suhanic, since 1803 received additional unsolicited offers in the same

[14] Unsolicited Offer Order, Ordering Paragraph (1).
[15] Unsolicited Offer Order, Ordering Paragraph (5).
[16] Unsolicited Offer Order, Ordering Paragraph (1).

timeframe by another electric generator, and because ACES was able to compare offers from other market brokers, 1803 had reliable information to determine thar the Calpine offer is highly competitive with the market. As stated in more detail in paragraphs 10-13 of this Application and in more detail in the accompanying testimonies, the acceptance of the Calpine unsolicited offer and the approval of the Capacity Purchase Agreement will reduce risks, without increasing anticipated costs, while still leaving room for competitive capacity offers to be accepted by 1803 in its current RFP.

21.

As a result of the above, for each and all of the exemptions stated, the Commission should find that 1803 has complied with the LPSC's general orders and requirements regarding market testing, to the extent applicable, with regard to the Calpine Capacity Purchase Agreement.

22.

The terms and pricing of the Capacity Purchase Agreement presented to the LPSC for certification and approval are fair and reasonable. Accordingly, the Capacity Purchase Agreement is consistent with the requirements of the 1983 General Order, the MBM Order, and the Unsolicited Offer Order.

REQUESTED RATEMAKING TREATMENT

23.

1803 seeks certification from the LPSC that the Capacity Purchase Agreement serves the public convenience and necessity, is in the public interest, and is, therefore, prudent in accordance with the 1983 General Order. Accordingly, payments by 1803 under the pricing and terms of the Capacity Purchase Agreement should be deemed eligible for recovery, subject to 1803's affirmative obligation to prudently manage the Capacity Purchase Agreement for the benefit of the 1803 Cooperatives and their members. The prudence of the management of the Capacity Purchase

Agreement and accuracy of the charges should be subject to review in appropriate concurrent or future 1803 rate proceedings and/or other proceedings.

REQUEST FOR TIMELY TREATMENT

24.

The LPSC has continually recognized the public interest in having resource certifications proceed in an efficient manner. In furtherance of that goal, 1803 requests that the period for interventions and protests to this Application be shortened to fifteen (15) days and that a scheduling conference be held the week of, or the week following, the close of the intervention period. 1803 further requests that the LPSC direct or establish a Procedural Schedule in accordance with the 120-day certification period set forth in the 1983 General Order, or such other efficient period as considered appropriate for timely treatment.

SERVICE AND NOTICES OF PLEADINGS

25.

1803 requests that all notices, pleadings, correspondence, and other communications in this docket should be directed to:

Kyle C. Marionneaux
John N. Grinton
Marionneaux Kantrow, LLC
10202 Jefferson Highway, Building C
Baton Rouge, Louisiana 70809-3183
Telephone: (225) 769-7473
Facsimile: (225) 757-1709
Email: kyle@mklawla.com
john@mklawla.com

1803 requests that the above and foregoing persons be placed on the Official Service List for this proceeding.

REQUEST FOR CONFIDENTIAL TREATMENT

26.

Portions of the supporting Direct Testimony and Exhibits contain information considered by 1803 to be proprietary and confidential. Disclosure of certain information may present an unreasonable risk of harm to 1803 and the 1803 Cooperatives, as well as Calpine as 1803's Capacity Purchase Agreement counterparty. Therefore, in the light of the sensitive nature of such information, 1803 has submitted two versions of the Application and the Direct Testimonies, with exhibits, one marked "Public Version" and the other marked "Highly Sensitive Protected Material" ("HSPM"). Although the confidential and sensitive information and documents included with the Application may be reviewed by appropriate representatives of LPSC Staff and intervenors pursuant to the terms and conditions of a suitable confidentiality agreement once such an agreement has been executed in this docket, this confidential information also is being provided pursuant to, and shall be exempt from public disclosure pursuant to, the LPSC's General Order dated August 31, 1992, and Rule 12.1 of the LPSC's Rules of Practice and Procedure.

PRAYER FOR RELIEF

WHEREFORE, applicant, 1803 Electric Cooperative, Inc. prays, for the reasons set forth above and in the Direct Testimonies of 1803's witnesses accompanying this Application, that the LPSC grant the following relief and issue such order(s), as follows:

1) finding that the Calpine Capacity Purchase Agreement serves the public convenience and necessity and is in the public interest, and therefore, prudent in accordance with the 1983 General Order;

2) approving the terms, conditions, rights, remedies, and limitations set forth in the Calpine Capacity Purchase Agreement;

3) finding that 1803 has complied with the LPSC's general orders and requirements regarding market testing, to the extent applicable;

4) declaring that all costs associated with the Calpine Capacity Purchase Agreement are

deemed eligible for rate recovery by 1803 subject to 1803's affirmative obligation to prudently manage the Capacity Purchase Agreement for the benefit of the 1803 Cooperatives and their members;

5) finding, as provided in the LPSC's Special Order No. 7-2000, dated March 22, 2000, that the confidential direct testimony, exhibits, and other materials referenced in the Application shall be exempt from public disclosure pursuant to the LPSC's General Order dated August 31. 1992 and Rule 12.1 of the LPSC's Rules of Practice and Procedure;

6) directing that the period for interventions and protests be shortened to fifteen (15) days and that, to the extent practical, that a scheduling conference be held the week of, or the week following, the close of the intervention period;

7) developing and implementing appropriate procedures to facilitate a Commission decision on 1803's Application consistent with the 120-day requirement in the 1983 General Order, or such other efficient period as considered appropriate for timely treatment; and

8) ordering such other general and equitable relief as to which 1803 may show itself so entitled.

Respectfully submitted,

MARIONNEAUX KANTROW, LLC

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Counsel for Applicant, 1803 Electric Cooperative, Inc.

LOUISIANA PUBLIC SERVICE COMMISSION

1803 ELECTRIC COOPERATIVE, INC.) EX PARTE)	DOCKET NO. U-______

In re: Application for Approval of Calpine Capacity Purchase Agreement and for Cost Recovery

DIRECT TESTIMONY AND EXHIBIT

OF

BRIAN W. HOBBS

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

September 12, 2023

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Brian W. Hobbs, and my business address is 10202 Jefferson Highway, Bldg. C, Baton Rouge, LA 70809-3183.

Q. By whom are you employed and what is your position?

A. I am employed by 1803 Electric Cooperative, Inc. ("1803"). I am employed as the Chief Executive Officer.

Q. Please summarize your educational and professional background.

A. I have a bachelor's degree from the University of Oklahoma and a Juris Doctor degree from the Oklahoma City University School of Law. I am a licensed attorney in Oklahoma. I practiced law for 5 years as a Partner with Pain Garland and Hobbs, LLP. During that time, relevant clients included several rural electric cooperatives, including two (2) wholesale power supply cooperatives and numerous retail distribution cooperatives. I have appeared before the Oklahoma Corporation Commission as counsel of record in various proceedings. Prior to my employment with 1803 and my private law practice, I spent forty (40) years employed by a wholesale generation and transmission cooperative, serving twenty-one (21) member rural electric distribution cooperatives in Oklahoma and New Mexico. My employment there was in increasing areas of responsibility, and I retired as the Vice President of Legal and Corporate Services responsible for many areas of the organization. Most relevant to my testimony in this matter is that I managed the organization's market and transmission interactions with the Southwest Power Pool ("SPP"), regulatory, environmental, safety and reliability compliance, revenue budgeting, wholesale rate, transmission formulary rate, as well as other aspects of the organization.

That generation and transmission cooperative had twenty-one (21) distribution cooperative members, owned numerous generation assets, including generation fueled by natural gas, coal, and solar, a 260 MW hydro allocation from the Southwest Power Administration, and numerous power purchase agreements for coal, hydro, gas-fired, wind, and solar generation. The cooperative also owned, operated and maintained over 3,500 miles of transmission line and more than 300 electric substations and switch stations.

Q. Have you previously testified before regulatory commissions?

A. Yes. I have testified before the Oklahoma Corporation Commission. I have also testified before the Louisiana Public Service Commission ("LPSC") on behalf of 1803, specifically in LPSC Dockets U-35927 and U-36268.

Q. On whose behalf are you testifying in this proceeding?

A. I am providing testimony on behalf of 1803 Electric Cooperative, Inc.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony will provide a general overview of 1803's need for additional capacity and the reasons for such need, will provide a brief description of the unsolicited offers, discuss the benefits of purchasing additional capacity as described herein, both long-term and during the initial transition year in which 1803 begins supplying the electric power and energy needs of the Member Cooperatives. Further my testimony is to support a finding by the LPSC that it serves the public convenience and necessity, is in the public interest, and is therefore prudent in accordance with the Commission's General Order dated September 21, 1983.

Q. Please describe 1803 Electric Cooperative.

A. 1803 is a not-for-profit generation and transmission electric cooperative corporation organized by its five (5) member distribution cooperatives to supply and deliver electric power, on a wholesale basis, to meet all the electric power requirements of the 1803 member distribution cooperatives. 1803's member distribution cooperatives are Beauregard Electric Cooperative, Inc., Claiborne Electric Cooperative, Inc., Northeast Louisiana Power Cooperative, Inc., South Louisiana Electric Cooperative Association, and Washington–St. Tammany Electric Cooperative, Inc. (Member Cooperative[s]). 1803 will serve its Member Cooperatives' power requirements pursuant to long-term all-requirements wholesale power contracts. 1803's Member Cooperatives, in turn, supply power on a retail basis to their member-owner end-use consumers. 1803 is owned entirely by its Member Cooperatives, which are the purchasers of the power 1803 sells. 1803 is governed by its Board of Directors which consists of two representatives from each of its Member Cooperatives.

Q. What is 1803 requesting in this proceeding as applicable to your testimony?

A. 1803 is, among other things, requesting approval of the capacity purchase agreement between 1803 and Calpine Energy Services, L.P. ("Calpine") wherein 1803 will purchase capacity only. The agreement is in the form of an industry standard Edison Electric Institute ("EEI") Master Power Purchase and Sale Agreement Confirmation Letter between Calpine and 1803 ("Capacity Purchase Agreement"), which is designated as Highly Sensitive Protected Materials ("HSPM") and is attached hereto as HSPM Exhibit BWH-1. Other 1803 requests are enumerated in the Application in this matter but include rate recovery of the costs associated with the Capacity Purchase Agreement and a finding that 1803 has complied with relevant LPSC orders and requirements.

III. GENERAL OVERVIEW OF THE CAPACITY NEED

Q. Please provide a general overview of the capacity need?

A. In the LPSC Docket U-35927, in which 1803 sought and obtained LPSC certification of a large portion of its future electric power supply needs, it was disclosed that 1803 would still have a shortfall, or additional need, for capacity. During those proceedings, which occurred almost two years ago, it was estimated that 1803 needed an additional 100 MW of capacity beginning in 2025 and growing thereafter.[1] Those estimates regarding capacity need have proven to be accurate. Additionally, approximately 1 year ago, the Midcontinent Independent System Operator ("MISO") adopted new rules for the 2023/2024 Planning Year and beyond regarding capacity accreditation and the obligation that Load Serving Entities (LSE) have to ensure capacity adequacy would be determined on a seasonal (four seasons consisting of summer, fall, winter, and spring) basis rather than on an annual summer peak basis as had been the case.[2]

This change increased 1803's need for additional capacity in three ways from the approximately 100 MW[3] previously identified. (1) 1803 and its Member Cooperatives' winter peak load is larger than its summer peak load. Therefore, with the MISO seasonal change, 1803 is required to supply a higher quantity of capacity to be compliant during the

[1] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at pages 25-27, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.

[2] On August 31, 2022, the Federal Energy Regulatory Commission ("FERC") accepted the proposal of Midcontinent Independent System Operator ("MISO") to transition to a seasonal capacity construct.

[3] The 100 MW need was beginning in 2025 and grew from that point forward. The 1803 power supply portfolio certified in Docket U-35927 included two resources that end in 2030 and those resources would have to be replaced at that time. As a result, the capacity need identified in Docket U-35927 increased to approximately 350 MW by 2030, without taking into account the impact of the MISO changes.

winter season. (2) MISO performs studies to calculate and set the planning reserve margin (PRM) required for resource adequacy. Prior to the seasonal change, the PRM was one value for the entire Planning Year. With the seasonal change, MISO now sets a PRM for each season. The Winter season more than doubled as compared to previous reserve requirements. (3) Finally, all the solar generation in the 1803 portfolio essentially lost all its capacity accreditation during the Winter season. So, combining the larger winter peak load, amplified by a much higher PRM than previously modeled, then coupled with a loss of accredited capacity from the solar generation, this change by MISO has had a significant impact on 1803's needs.

IV. UNSOLICITED OFFERS

Q. Please discuss the unsolicited offers 1803 received.

A. Mr. Kevin Suhanic's testimony, filed contemporaneously with mine in this proceeding, will describe the unsolicited offers in more detail, therefore I will not duplicate that here. Rather, I will discuss how those offers came about. Any entity that was a party to or followed the prior 1803 power supply portfolio certification, Docket U-35927, would be aware of the 1803 need for additional capacity. And any MISO participant would be aware of the adoption of the seasonal capacity construct and the general impact of that on resource requirements. Indeed, Calpine was not only a party to Docket U-35927 but had discussed 1803 purchasing capacity from Calpine. A capacity purchase at that time was not accepted, because it was limited (due to transmission issues) to a quantity that didn't materially solve 1803's needs.[4] Calpine was addressing those issues but did not yet have a solution in place. However, it was discussed that this could be a capacity resource for 1803 once those

[4] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 25 (Finding of Fact No. 79), approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.

transmission issues were resolved. In fact, the Final Recommendation of the Administrative Law Judge, which was adopted by the Commission in Docket U-35927, noted that a capacity purchase from Calpine could perhaps be required by the LPSC by stating:

> Finally, the (Calpine) PPA provides a call option for purchase of 185 MW of energy from the Pine Bluff Energy Center in Arkansas, an existing resource with a demonstrated track record of performance, which will serve as back-up generation if needed. In addition, the Commission could require 1803 to purchase capacity along with the call option if it is concerned that 1803 has unmet capacity in the portfolio. Since the cost to acquire the (Calpine) capacity is lower than the cost of market capacity purchases assumed in the RFP, this will not add costs to the 1803 Portfolio, and could act as a hedge if market prices increase.[5]

Turns out this was prescient. Even though the Commission has not "required" that 1803 enter into the Capacity Purchase Agreement, it is now prudent for 1803 to do so for all the reasons discussed herein and in the testimony of Mr. Suhanic. The necessary transmission upgrades were completed, and Calpine submitted to 1803 various unsolicited offers for capacity and/or energy as more fully described in Mr. Suhanic's testimony. For the reasons discussed in Mr. Suhanic's testimony, 1803 did not pursue the energy offers.

V. BENEFITS OF THE CAPACITY PURCHASE AGREEMENT

Q. **Please describe the objectives of 1803 as those relate to the Capacity Purchase Agreement?**

A. As is ALWAYS the case, 1803's objectives for any decision it makes are crystal clear. We exist to provide reliable electric power and energy to our Member Cooperatives at the lowest reasonable cost. This goal serves as the primary driver for all our actions.

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[5] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 45, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto. Note that the cited paragraph erroneously identified the PPA discussed as the "Exelon" PPA. It is clear from the context and discussion that the reference was to Calpine, not Exelon.

Q. How does the Capacity Purchase Agreement meet that primary goal of 1803?

A. In several ways related to both reliability and reasonable cost.

Q. How does the Capacity Purchase Agreement support reliability?

A. The Calpine Capacity Purchase Agreement contemplates that 1803 will purchase MISO zonal resource credits ("ZRCs") and that Calpine will supply either MISO Local Resource Zone ("LRZ") 8 or 9 ZRCs. MISO defines a ZRC as:

> a unit of deliverable Unforced Capacity qualified by MISO located in a specific Local Resource Zone and is the unit of measure for resources participating in the Planning Resource Auction. Market Participants who own Planning Resources must convert their Unforced Capacity into a ZRC by demonstrating deliverability to participate in the Planning Resource Auction (PRA). Market Participants can demonstrate deliverability via interconnection service or firm transmission service. **The ZRC product facilitates trading in the marketplace by providing certainty of the value and physical location (e.g., LRZ) of deliverable capacity to support bilateral contracting in the marketplace.**[6] (emphasis added)

ZRCs are fundamentally the mechanism by which capacity is bought and sold among MISO participants. The Capacity Purchase Agreement will generally be sourced, and qualified by MISO, as Zone 8 ZRC's supported by the physical Calpine generating plant located at Pine Bluff, Arkansas. Calpine does have the option of providing Zone 9 ZRC's which in turn would have to supported by physical MISO accredited capacity located in Zone 9. This ensures that the purchase is reliably backed by physical generating resources located either in LRZ 8 or 9. The Calpine generator located at Pine Bluff, Arkansas, is an existing power plant so there is no project development, construction, or interconnection risk. It is also important to note that a requirement of MISO to qualify a ZRC is that a Planning Resource (here a generation plant) must "demonstrate deliverability" so MISO ensures that a resource can be delivered to the transmission grid.

[6] *See* MISO website Help Center, Knowledge Base, KA-01128 *and see* MISO Business Practice Manuals, BPM 011 – Resource Adequacy.

It is important to note that the LPSC currently has Docket No. R-36263 *Consideration of Whether the Commission Should Adopt Minimum Physical Capacity Threshold Requirements for Load Serving Entities*, ongoing. It is anticipated that an Order from such document will likely contain some form of requirement that an LSE (such as 1803) must ensure that some portion, amount to be determined, of their capacity obligation must be sourced in one or more specified MISO LRZs. The likely LRZ candidates are MISO LRZ 8, 9, and 10 which are collectively known as MISO South, in which case the Capacity Purchase Agreement would be compliant and add to 1803's capacity resources in MISO South. Another way this Capacity Purchase Agreement supports reliability is that it fills a clear need of 1803 for capacity from MISO qualified Planning Resources, thereby reducing 1803's reliance on the MISO Planning Resource Auction to satisfy 1803's capacity requirements. This is important for reliability and cost risk.

Though 1803 currently has a Request for Proposals (RFP) docket open with the LPSC, Docket No. X-36925, the Capacity Purchase Agreement at issue here reduces 1803's reliance on the RFP to identify and provide its capacity needs. 1803 has a significant capacity need, specifically for the winter season. Other LSEs located in MISO South have the same need, primarily due to the change to the seasonal capacity construct. Due to the large demand for winter capacity, the available quantity and cost of capacity resources that will be bid into the 1803 RFP is uncertain. Procuring the Calpine capacity will help to alleviate this RFP risk. Acceptable RFP responses are further constrained by the need beginning in January of 2025. As discussed in more detail below, the Capacity Purchase Contract will serve to delay 1803's need for additional winter capacity to the winter period of December 2025 through February 2026, a full year delay giving more time to implement any successful RFP proposal.

Q. How does the Capacity Purchase Agreement support low reasonable cost power supply for the 1803 Member Cooperatives?

A. In addition to improving the reliability of 1803's power supply as discussed above, the Capacity Purchase Agreement provides price certainty, at an acceptable cost. 1803 uses ACES Power Marketing ("ACES") to provide relevant services. ACES provided all the economic and reliability evaluation of the initial 1803 power supply portfolio certified in Docket U-35927. 1803 uses ACES to develop and maintain a full 1803 portfolio model ("Model") looking at load obligations, power supply resources, transmission costs, market prices, fuel prices, and risk around each of those. This Model is updated each quarter to reflect the expected cost of wholesale power delivered to the 1803 Member Cooperatives and the anticipated risks regarding those prices increasing and decreasing within a 5% to 95% confidence interval. Where the 1803 power supply resources are short of the resources required to supply load, the Model establishes a "market cost" of supplying the shortfall. These market costs are developed via cost intelligence from multiple sources. Therefore, the Model is always reflecting the cost of supplying the full needs of the 1803 Member Cooperatives.

The Capacity Purchase Agreement is at a known and fixed price that is in line with costs that have already been modeled for this capacity need, and therefore doesn't increase the expected cost to the 1803 Member Cooperatives. The cost of the capacity is also in line with, or slightly less than, expected market costs as explained by Mr. Suhanic. As mentioned earlier, the demand for capacity in MISO South creates uncertainty regarding the capacity pricing that will be discovered in the open RFP. The Capacity Purchase Agreement decreases exposure to the uncertain prices that may come in response to the open 1803 RFP and fixes, at an acceptable price, some of that exposure. Additionally, it provides cost protection in another manner. Most of the existing 1803 power resources are contracted through 2045, but two are contracted through 2030 as mentioned above. This Capacity Purchase Agreement is through 2035, at a fixed price, and therefore adds more temporal diversity to the 1803 power supply portfolio. Having this diversity in contract termination dates reduces 1803's exposure to market forces that could increase 1803's cost.

VI. TRANSITION BENEFITS OF THE CAPACITY PURCHASE AGREEMENT

Q. Are there other benefits associated with the Capacity Purchase Agreement?

A. Yes, in an important way that I want to address. 1803 has a somewhat unique issue to resolve related to the transition of the 1803 Member Cooperatives from their current power supplier to 1803 supply during the first quarter of 2025. The current power supply contracts were executed prior to many of the current rules of participation in MISO. For example, the MISO planning year begins each June 1 and ends each May 31. I have already discussed above the relatively new season capacity construct. The 1803 Member Cooperative's current power supply contracts terminate at different times during the first quarter of 2025. Therefore, the obligation for 1803 to begin supplying power and energy, ensure capacity adequacy, and other MISO compliance issues begins at different times. 1803's obligation to serve one Member Cooperative begins on January 1, 2025 while the obligation to serve the other Member Cooperatives begins in late March 2025. Notice that none of these dates match up to the MISO Planning Year of June 1 through May 31, nor the seasonal capacity construct of Winter (December through February), Spring (March through May), Summer (June through August), and Fall (September through November). Calpine was willing to help 1803 address some of this transition timing issue by allowing us to shape an early purchase of capacity.

The core term of the Capacity Purchase Agreement is for a 175 MW purchase for a ten (10) year period beginning June 1, 2025, which aligns with beginning of the MISO Planning Year. However, after receiving the offers from Calpine last April 1803 sought to address this need and Calpine was open to negotiation on this subject. The Capacity Purchase Agreement also provides that 1803 will purchase 80 MWs for the period of January through March 2025, then increase to the full 175 MWs for April and May of 2025. This is not a standard market product but rather is shaped specifically to the unique transition needs of 1803 and at the same contract price. This addresses the capacity needs of 1803 for the first quarter of 2025 and a portion of the April and May 2025 capacity needs. This is a very real and significant benefit associated with the Capacity Purchase Agreement that may not be available from the RFP responses and likely not at a comparable cost due to the unique shape and the inherent conflict with typical MISO products matching up to the annual and seasonal resource planning periods.

VIII. CONCLUSION

Q. Do you believe that the Capacity Purchase Agreement serves the public convenience and necessity, is in the public interest, and is therefore prudent in accordance with the Commission's General Order dated September 21, 1983?

A. Yes, for all the reasons stated above in my testimony and the testimony of Mr. Suhanic.

Q. Does this conclude your testimony?

A. Yes, it does.

LOUISIANA PUBLIC SERVICE COMMISSION

1803 ELECTRIC COOPERATIVE, INC.) **DOCKET NO. U-______**
EX PARTE)

In re: Application for Approval of Calpine Capacity Purchase Agreement and for Cost Recovery

AFFIDAVIT OF WITNESS

I, Brian W. Hobbs, being duly sworn, depose

that the Direct Testimony and Exhibits in the

above referenced matter on behalf of

1803 Electric Cooperative, Inc.

are true and correct to the best of my knowledge, information, and belief.

Brian W. Hobbs

Subscribed and sworn before

me this 12th day of

September, 2023.

Kyle C. Marionneaux, La. Bar Roll No. 25785

<u>PUBLIC VERSION</u>

<u>PLACEHOLDER FOR</u>

<u>EXHIBIT BWH-1</u>

HIGHLY SENSITIVE
PROTECTED MATERIALS

ORIGINAL SUBMITTED
CONFIDENTIALLY UNDER RULE
12.1 OF THE LPSC'S RULES OF
PRACTICE AND PROCEDURE

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF 1803 ELECTRIC	)	DOCKET NO. U-______
COOPERATIVE, INC. FOR APPROVAL	)	
OF CALPINE CAPACITY PURCHASE	)	
AGREEMENT AND FOR COST RECOVERY	)	

DIRECT TESTIMONY

OF

KEVIN P. SUHANIC

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

PUBLIC VERSION

SEPTEMBER 12, 2023

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Kevin P. Suhanic and my business address is 4140 West 99th, Carmel, IN 46032. My current position is Vice President of Portfolio Strategy and Origination, Alliance for Cooperative Energy Services Power Marketing LLC ("ACES").

Q. HOW LONG HAVE YOU HELD THE POSITION OF VICE PRESIDENT OF PORTFOLIO STRATEGY AND ORIGINATION AT ACES?

A. I have held my current position since September of 2022. Prior to this role, I was Executive Director of Portfolio Strategy since April of 2019.

Q. WHAT ARE YOUR RESPONSIBILITIES AND DUTIES AS THE VICE PRESIDENT OF PORTFOLIO STRATEGY AND ORIGINATION AT ACES?

A. My areas of responsibilities and job duties include portfolio level strategy development and risk management, primarily for electric cooperatives, including power supply, delivery, fuel hedging, renewable strategy and a variety of strategic imperatives (e.g. ESG, long term financial planning, etc.). I also oversee all origination activity, which includes procurement of structured products, options, and longer term energy and capacity transactions, among other products. Also, I perform these services to utilities some of which are within the Midcontinent Independent System Operator ("MISO").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I received Bachelor of Business Administration and Master Business Administration degrees from the University of Notre Dame in 2004 and 2005, respectively.

Q. WHAT PROFESSIONAL CERTIFICATIONS DO YOU HOLD?

A. I am a Certified Public Accountant (inactive), in the State of Ohio. I hold the Series 3 certification administered by the Financial Industry Regulatory Authority for the Natural Futures Association.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY PUBLIC UTILITY REGULATORY COMMISSIONS?

A. Yes, I provided filed testimony in Federal Energy Regulatory Commission ("FERC") Docket No. EL18–122–001 Minden, Louisiana v. Southwestern Electric Power Company. I also provided testimony in the initial power supply certification docket U-35927 of 1803 Electric Cooperative, Inc. ("1803") before the Louisiana Public Service Commission ("Commission" or "LPSC").

Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

A. I have been in the energy industry for over 16 years. Prior to my current position at ACES, I held the position of Executive Director of Portfolio Strategy, Director of Portfolio Strategy, Director of Transmission Services, Manager of Transmission Services, Senior Financial Transmission Rights ("FTR") Modeler, and FTR Modeler.

Prior to joining ACES in April 2007, I spent approximately two (2) years as an auditor with an accounting firm that is now part of PricewaterhouseCoopers.

II. PURPOSE & SUMMARY OF DIRECT TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTFYING?

A. I am testifying before the LPSC on behalf of 1803, a member-owned electric cooperative consisting of five (5) member electric cooperatives ("Member Cooperatives"):

1. Beauregard Electric Cooperative, Inc.
2. Claiborne Electric Cooperative, Inc.
3. Northeast Louisiana Power Cooperative, Inc.

4. South Louisiana Electric Cooperative Association
5. Washington-St. Tammany Electric Cooperative, Inc.

The Member Cooperatives formed 1803 to combine their power needs and to seek power supply opportunities to fulfill the power needs for the Member Cooperatives upon the expiration of current full-requirements wholesale power supply contracts in 2025.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. In its Application, 1803 requests that the Commission approve 1803's agreement with Calpine, based upon an unsolicited offer presented by Calpine, finding that it serves the public convenience and necessity, is in the public interest, and is therefore prudent in accordance with the Commission's General Order dated September 21, 1983.

ACES assisted 1803 in evaluating Calpine's offer and another unsolicited offer. I led the evaluation of the offer by ACES. My Direct Testimony outlines the identification of this capacity in the initial U-35927 certification docket, analysis of capacity and energy position including costs and changes to risk in accepting this offer, market pricing relative to the unsolicited offer, and impact to the currently ongoing 1803 RFP, which commenced after the unsolicited offer was received, and the conclusions reached by 1803 as to the prudence of accepting this offer to bolster 1803's power supply plan to protect and benefit the members of 1803 with the provision of a reliable reasonable cost power supply.

III. IDENTIFICATION OF ADDITIONAL CAPACITY PURCHASE IN U-35927

Q. PLEASE EXPLAIN HOW THIS UNSOLICTED OFFER IS RELATED TO LPSC DOCKET U-35927?

A. In LPSC Order Number U-35927, Findings of Fact paragraphs 78 and 79[1] discuss 1803's willingness to add capacity to bolster the 1803 Heat Rate Call Option (HRCO) with Calpine and that the cost was accounted for in the analysis, but at the time of that filing deliverability of the capacity to the MISO grid was limited due to pending MISO upgrades. Those upgrades are now complete and make the capacity even more attractive to 1803 as any risk around those upgrades has been eliminated. Further into Order U-35927, Findings of Fact paragraph 89[2] concludes by finding "... that the Calpine capacity could result in cost savings and mitigation of those risks through 2030."

The Commission did not require 1803 to purchase this capacity at the time of certification of U-35927, and 1803 did not contract for such. In Order U-35927, Findings of Fact paragraphs 86, 87 and 88[3] discuss the unmet 100 MWs of capacity and 1803's plan to meet this in the future. The Calpine capacity offer fills this identified need as well. As such, this purchase of capacity fits directly into needs identified for 1803 in U-35927 and is even more attractive than it was at the time such purchase was offered as a requirement for certification by 1803 in U-35927.

IV. ANALYSIS OF OFFERS AND CAPACITY AND ENERGY POSITION

Q. WHO SUBMITTED THE UNSOLICITED OFFERS 1803 RECEIVED?

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[1] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 25, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.
[2] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 28, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.
[3] See Final Recommendation of the Administrative Law Judge in LPSC Docket Number U-35927 at page 27, approved by LPSC Order No. U-35927, dated January 28, 2022, and attached thereto.

A. 1803 received unsolicited offers from 2 counterparties. These counterparties were Calpine Energy Services and [redacted]. The offers were refined by both counterparties as 1803 requested more information on both proposals.

Q. CAN YOU SUMMARIZE THE UNSOLICITED OFFERS 1803 RECEIVED?

A. Both offers had two components: a capacity offer and a Heat Rate Call Option (HRCO) component. [redacted]

[redacted]

[redacted]

Q. HOW DID ACES BEGIN TO EVALUATE THESE OFFERS?

A. The analysis first started with considering 1803's energy position and the energy offers, and then looking at the capacity position, including the impacts of changes that have been made to the MISO Resource Adequacy Construct.

Q. HOW DID ACES ANALYZE 1803'S ENERGY POSITION?

A. 1803's energy position can be visualized on a monthly basis or as a typical day, Figures 1, 2 and 3 show the monthly and typical day positions that 1803 considers in quarterly risk management reviews.

Figure 1.

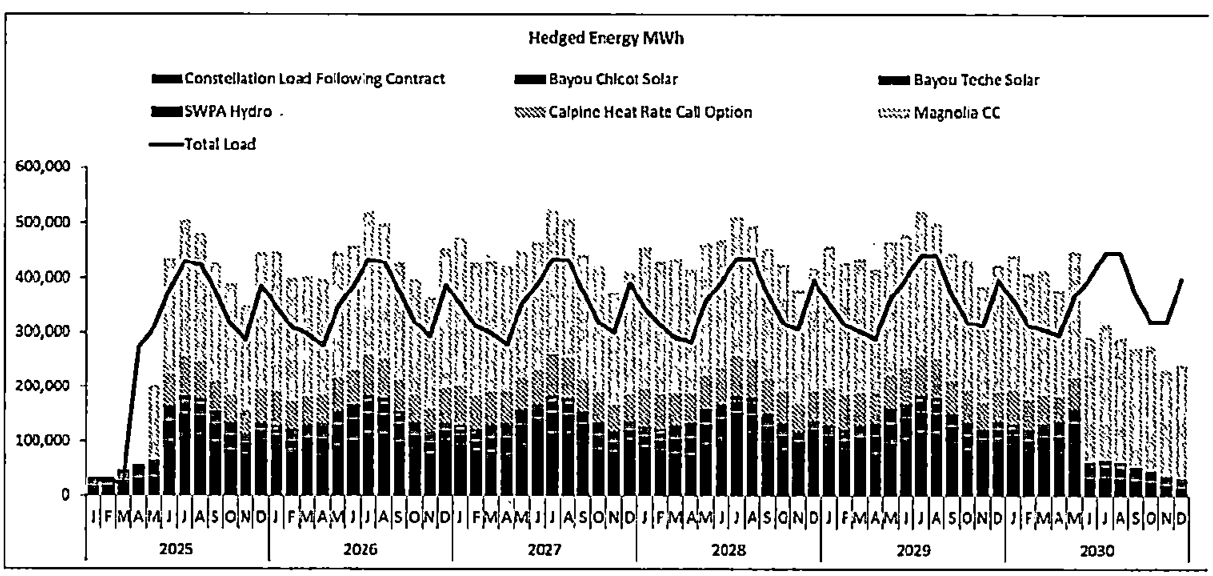


Figure 2.

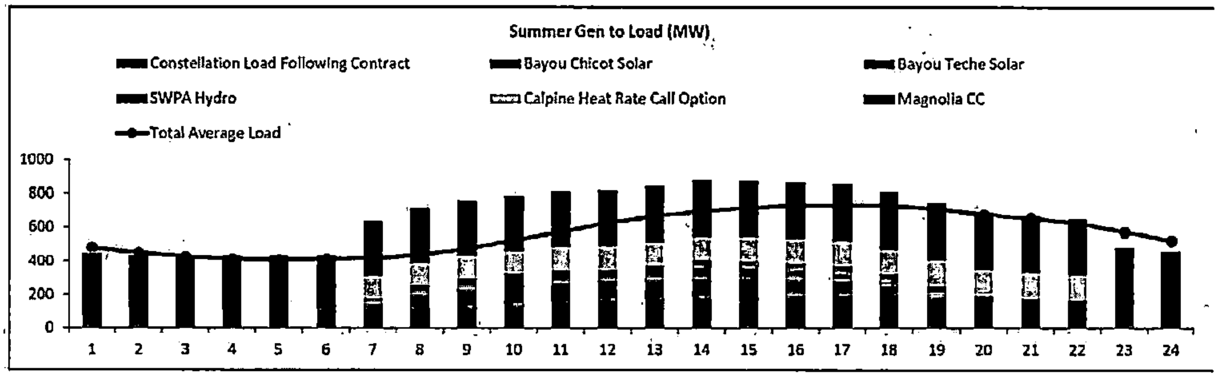
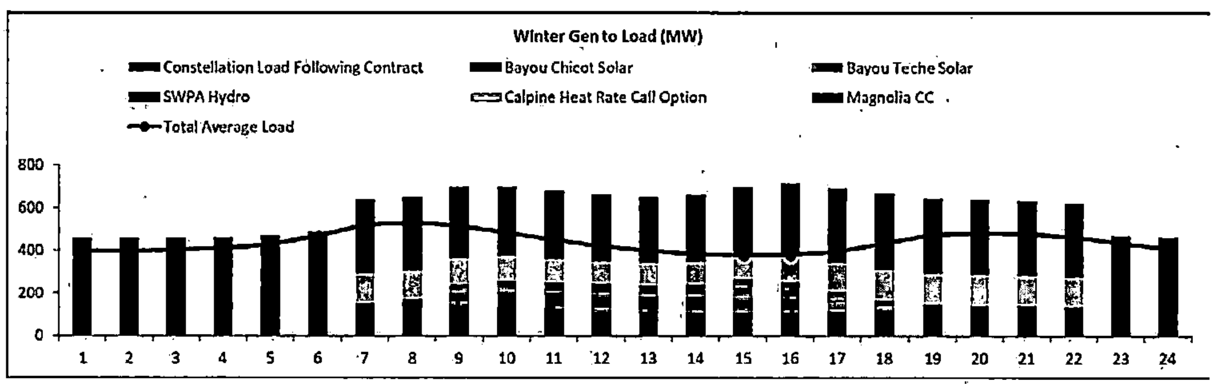


Figure 3.



Each of the three figures indicate 1803 does not have major energy needs before 2030 and need after 2030 is predicated on non-renewal of the Constellation partial requirements contract, which may or may not be offered by Constellation and regardless is a decision 1803 would consider in the future.

Q. HOW DID ACES ANALYZE THE UNSOLICATED OFFERS FIT WITH 1803'S ENERGY POSITION?

A. ACES reviewed forward gas prices at Henry Hub and On-Peak energy prices at Arkansas Hub to create a proxy market heat rate. Every year except 2032, the market heat rate was over 12.0 (in 2032 it was 11.4). The offers have heat rates of [redacted], indicating they will usually be producing large amounts of energy that 1803 will typically not need to serve load and would need to resell to a counterparty or MISO at an unknown price. This adds risk to 1803. In fact, the forward heat rates for every month are above 10 MMBtu/MWh until 2039 – indicating excess energy 1803 usually does not need during most periods.

Q. HOW DID ACES CONSIDER THE TERMINATION OF THE BAYOU GALION SOLAR PPA IN THIS ANALYSIS?

A. ACES starting point in the analysis (and reflected in all the figures) excluded Bayou Galion in its entirety.

Q. WHAT DID 1803 CONCLUDE REGARDING THE ENERGY OFFERS?

A. Due to the limited energy need and increase in risk to 1803, neither energy proposal was deemed prudent. Much like a certification proceeding, the first hurdle in selecting an unsolicited offer is need. 1803 does not have a significant need for energy products and as such determined the prudent course of action to protect ratepayers was to reject both HRCO offers in favor of the RFP process.

Q. WHAT WAS THE NEXT STEP IN EVALUATION OF THE UNSOLICITED OFFERS?

A. After 1803 determined not to pursue the energy offers, ACES next turned to evaluating the capacity offers. Due to a variety of factors, the most prominent being MISO's switch to a seasonal capacity construct, 1803 does have a capacity need, most acutely in the winter season. As these offers were for capacity only with no energy, the analysis could focus exclusively on fixed capacity costs and changes to total capacity charges with and without the unsolicited capacity offers. 1803's capacity position was shaped into quarterly volumes and costs based on current resources and expected market costs/revenues of market capacity shortages/excesses. The current portfolio was treated as the base case, and the [redacted] offers were each added individually to create four portfolio positions. The capacity costs of each of those positions were then calculated for the expected case (current forward projections) as well as high and low capacity market cost cases.

Q. HOW DID THOSE FOUR POTENTIAL POSITIONS COMPARE?

A. Figures 4, 5 and 6 show the costs of each portfolio as a distinct line in each graph, and each graph has consistent ranges to enable comparability. The underlying data and calculations are also included in the excel file accompanying this document.

Figure 4.

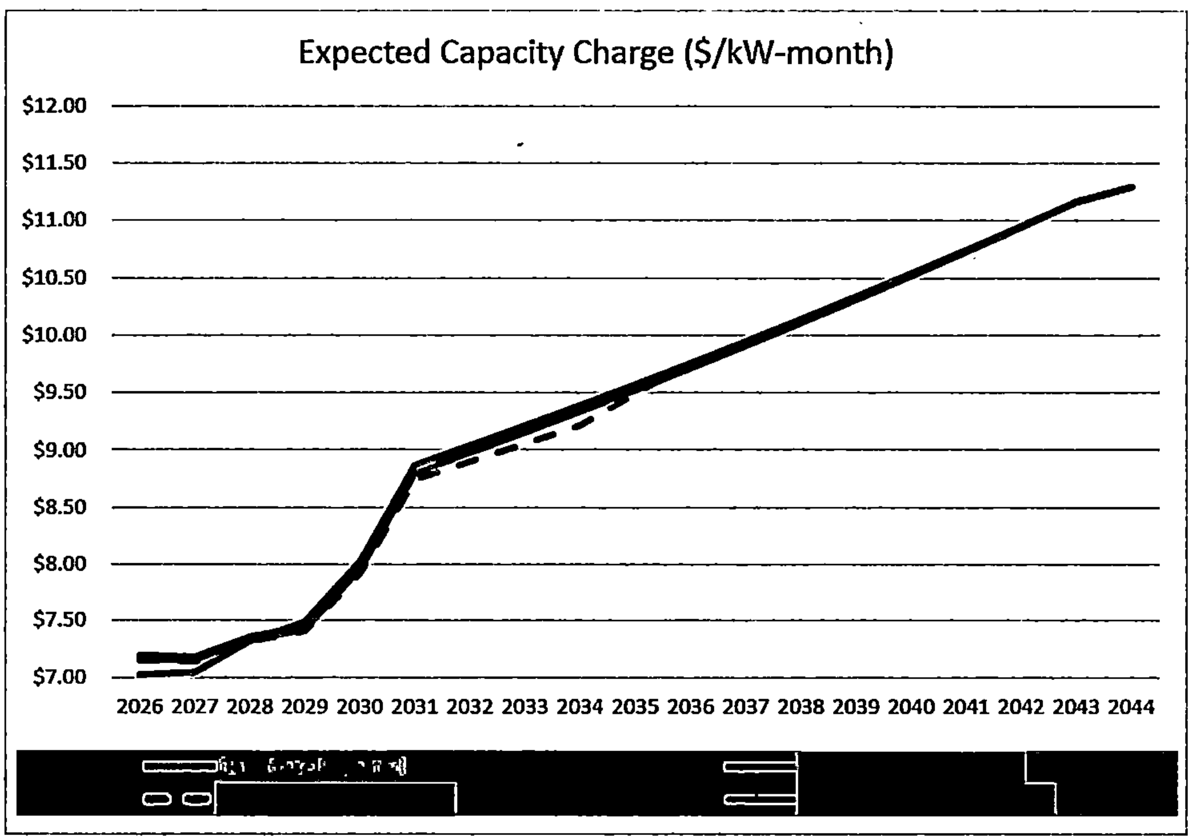


Figure 4 is one of the most important considerations, as these expected costs directly correlate to changes in 1803's costs, and in turn, rates. It should be noted the [redacted] year scenario values match the base case and the lines overlap from June 2030 onward, due to the expiration of the [redacted] purchase term. The same is true of the [redacted] scenario after June 2035, due to the expiration of the [redacted] purchase term.

The [redacted] offer increases expected costs, which would be locked in for [redacted] years. This does not appear attractive as a standalone analysis, however higher costs may be preferable if risk (and rate volatility) is reduced by a significant amount. The Calpine offers appear to be in line with forward market and cost expectations, so these merit consideration if they achieve even a minor risk reduction.

Figure 5.

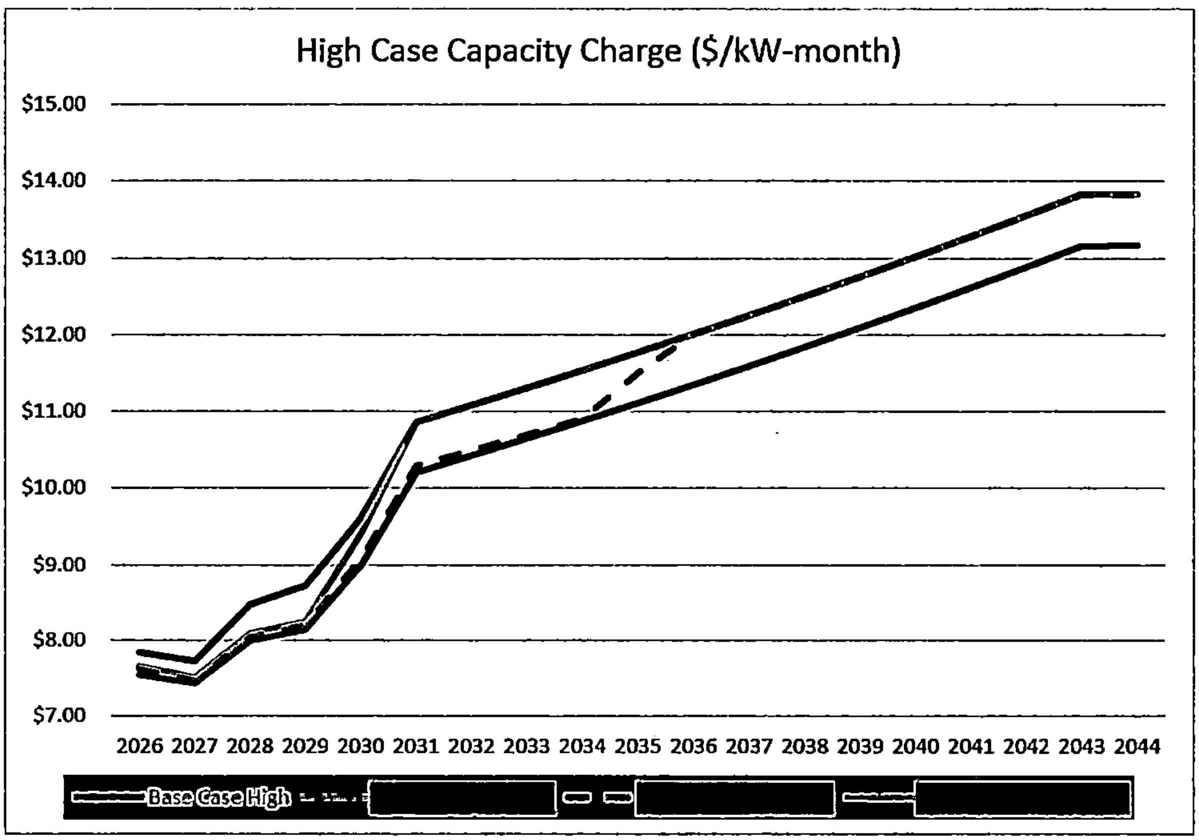
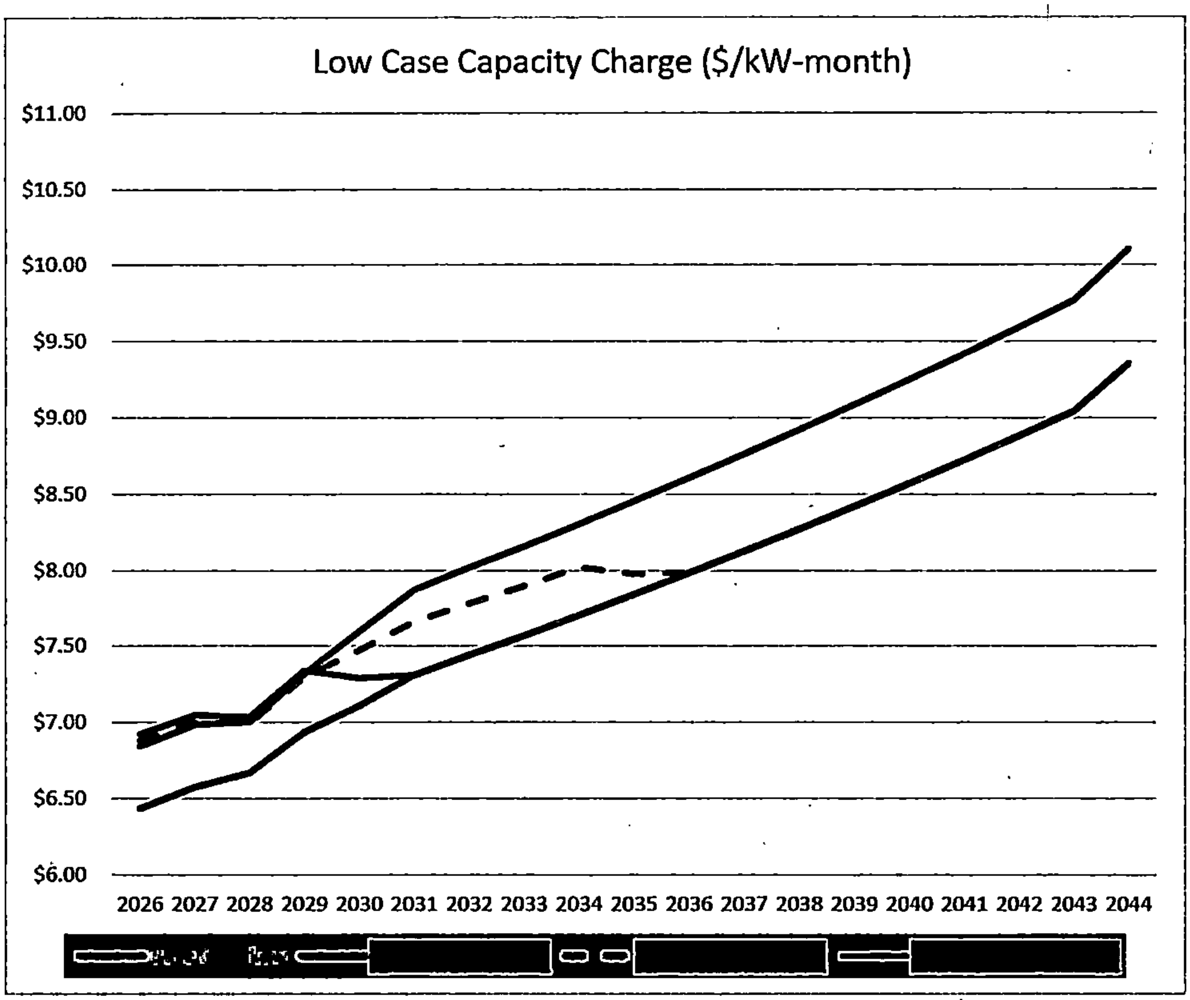


Figure 6.



Figures 5 and 6 show the results against the high and low cases. The results are intuitive that larger hedge positions are better when prices are high, and less ideal when prices are low. As a load serving entity, 1803 should weigh the relative change in these ranges to understand if they provide a risk reduction benefit, and how it compares to any change in expected cost. Figure 7 illustrates the difference between the high and low cases for each offer. A smaller range is preferable for a given expected cost level, otherwise 1803 must consider the two metrics together, weighing whether a given risk reduction is worth a higher overall expected cost, or not.

Figure 7.

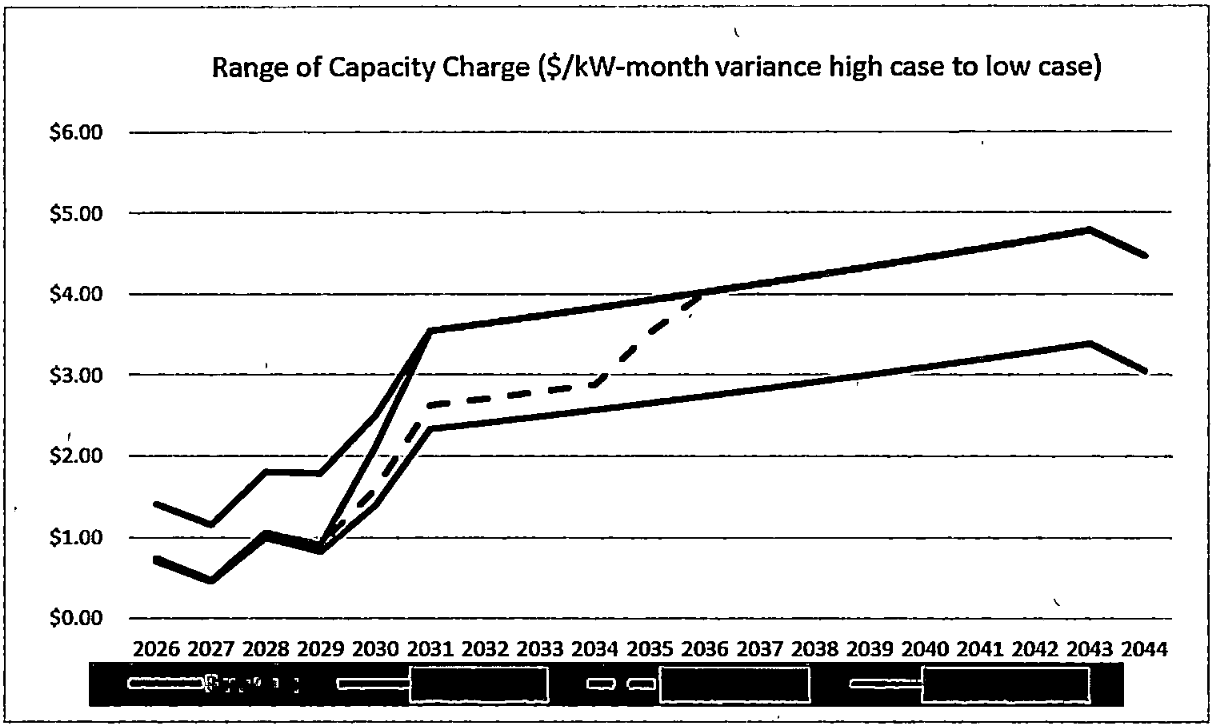


Figure 7 shows that yes, the [redacted] offer does reduce the risk, but as noted in Figure 4, it comes with a higher expected cost. The Calpine offers each reduce risk almost as well over the [redacted] and [redacted] year terms, but do not carry the higher costs into the portfolio in later years. The Calpine offers are superior in this way.

Q. IN WHAT OTHER WAY IS THE CALPINE OFFER SUPERIOR?

A. 1803 currently has only 20 year contracts and 5 year contracts. As discussed in the initial certification, diversity of contract renewal time is a benefit allowing 1803 access to new technologies and market opportunities without having to re-negotiate too large a position at any given time. An analogy would be investing consistently over time is less risky than only doing large lump sums sporadically.

Q. WHAT DID 1803 CONCLUDE REGARDING THE CAPACITY OFFERS?

A. Due to the reduced risk without cost increases, plus the tenor diversity, 1803 concluded the Calpine [redacted] offer appears the most attractive capacity offer. For completeness, ACES analyzed adding the [redacted] offer assuming the [redacted] Calpine offer was accepted, to test if there were any unforeseen benefits (expected cost reduction or lowered risk range.) The analysis showed there is no discernable benefit to adding the [redacted] offer to the [redacted] offer. Furthermore, as discussed in Section VI, taking only the best offer leaves significant volume open in the RFP, but reduces 1803's risk that the RFP will not result in sufficient interest to fully meet 1803's capacity need at competitive prices. As such, 1803 concluded that accepting the [redacted] capacity offer was prudent and in the best interests of 1803's members.

Q. WHAT ARE THE TOTAL ITEMIZED COSTS OF THE CAPACITY PURCHASE AGREEMENT?

A. The total costs are outlined in Figure 8.

Figure 8

[redacted]

V. MARKET PRICING RELATIVE TO THE UNSOLICITED OFFER

Q. DID 1803 CONSIDER ANY OTHER POINTS OF REFERENCE IN DECIDING TO ACCEPT THE CALPINE [redacted] CAPACITY OFFER?

A. Yes. 1803 utilizes ACES to model the portfolio on a quarterly basis. As there was no need for major energy additions to the portfolio, further review of the energy offers was not conducted. However, ACES did compare the offer to the expected forward capacity price projections in this model, in much the same way a forward curve was utilized in the docket U-35927 proceeding. The Calpine price is actually lower than forward projections used in that model, which are based on market inputs. This is the same conclusion 1803 reached in the initial certification and why 1803 offered to contract for the position at that time.

Additionally, the [redacted] offer itself is near the same range as Calpine, but higher over the term of the offer due to annual escalation, giving further credence to the attractiveness of the offer. Confidential offers seen from market brokers (not solicited by ACES or 1803) show higher prices than Calpine, although those offers are shorter term and may be in different areas of MISO South. As such, the Calpine offer is highly competitive with the market, or even slightly better than the market, based on external data sources.

VI. IMPACT TO 1803 CURRENT RFP

Q. HOW DOES CERTIFICATION OF THE CALPINE CAPACITY CONTRACT IMPACT THE CURRENT RFP?

A. Due to MISO rule changes, most notably the change to a seasonal construct and higher reserve margins required during the winter season, 1803 is seeking up to 434 MWs of winter capacity via an RFP. Prior to the market changes, 1803 anticipated having a need of around 100 MWs for this RFP. (This is consistent with the identified need for 116 MWs of summer capacity in the current RFP.)

434 MWs of capacity is a sizeable position, reducing that need by 175 MWs to 259 MWs still leaves a sufficient volume in the RFP process. In fact, there is a risk in the RFP process that 434 MWs of viable and economic offers might not be received, leaving 1803 short of its goals. Accepting the Calpine capacity contract partially mitigates these risks of a shortage of offers or much higher pricing in the RFP, while still having a robust market based procurement of the open position.

Q. ARE THERE ANY OTHER IMPACTS TO THE RFP DUE TO CERTIFICATION OF THE CALPINE CAPACITY CONTRACT?

A. It could be considered that with acceptance of the unsolicited offer, summer-only capacity offers will not be viable. However virtually all resources that provide winter capacity, which will still be the greatest need for 1803, also provide that capacity in the summer. So the fundamental engineering of resources makes this a moot point as summer-only capacity would have no value to 1803 once it meets its winter needs.

VII. CONCLUSIONS

Q. IN TOTALITY, WHAT DOES YOUR ANALYSIS CONCLUDE ABOUT THE UNSOLICITED CALPINE CAPACITY OFFER?

A. ACES's analysis shows there is a significant need for this capacity, and there will remain a need to be procured through the RFP process even if this offer is certified. The offer is for capacity only, which is 1803's need, and does not add excess energy to the portfolio. The pricing is competitive and the contract diversifies the tenor of 1803's contracts. It does not impact projected costs as it is priced slightly below forward projections used in 1803 forward modeling. As such, it seems very prudent for 1803 to accept the offer while simultaneously still seeking more capacity through the RFP.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF 1803 ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF CALPINE CAPACITY PURCHASE AGREEMENT AND FOR COST RECOVERY

DOCKET NO. U-______

AFFIDAVIT OF WITNESS

I, Kevin P. Suhanic, being duly sworn, depose

that the Direct Testimony in the

above referenced matter on behalf of

1803 Electric Cooperative, Inc.

are true and correct to the best of my knowledge, information and belief.

Kevin P. Suhanic

Kevin P. Suhanic

Subscribed and sworn before

me this 12th day of

September, 2023.

Kaitlin King

KAITLIN KING
Notary Public, State of Indiana
Hendricks County
Commission Number NP0722611
My Commission Expires
September 18, 2027
NOTARY PUBLIC SEAL INDIANA