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LA Public Service Commission

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF 1803 ELECTRIC) DOCKET NO. U-_____
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS)
AND FOR COST RECOVERY)

DIRECT TESTIMONY

OF

RYAN M. EVANS

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

PUBLIC VERSION

MARCH 17, 2021

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I. INTRODUCTION AND BACKGROUND

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

2 A. My name is Ryan M. Evans and my business address is 4140 West 99th, Carmel, IN 46032.
3 My current position is Executive Director of Credit, Alliance for Cooperative Energy
4 Services Power Marketing LLC (“ACES”).

5 Q. HOW LONG HAVE YOU HELD THE POSITION OF EXECUTIVE DIRECTOR OF
6 CREDIT AT ACES?

7 A. I have held my current position since April of 2020.

8 Q. WHAT ARE YOUR RESPONSIBILITIES AND DUTIES AS EXECUTIVE DIRECTOR
9 OF CREDIT AT ACES?

10 A. My areas of responsibilities and duties include but are not limited to directing ACES credit
11 activities in Regional Transmission Organization (“RTO”) and Independent System
12 Operator (“ISO”) markets, and bilateral markets. Specifically, I direct credit risk
13 compliance, work as a liaison to management and commercial operations on credit related
14 issues, supervising the counterparty credit review process, and reviewing credit support
15 arrangements to master agreements.

16 I have been a member of the International Energy Credit Association since January
17 2005. I am also an active member of the Electric Reliability Council of Texas and
18 Midcontinent Independent System Operator (“MISO”) stakeholder Credit Working
19 Groups.

20 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

21 A. I received a Bachelor of Science degree in Finance and Real Estate in 2004 from the Kelley
22 School of Business at Indiana University Bloomington.

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

3 A. No, I have not.

4 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

5 A. I have been in the energy industry for over 16 years. Prior to my current position, I have
6 held the position of Director of Credit and Manager of Credit at ACES.

7 Prior to joining ACES in May 2010, I spent more than 5 years at MISO in MISO's
8 credit services division, serving as a credit analyst and senior credit analyst.

9 At MISO, I was instrumental in implementing the newly developed credit policy
10 for the April 2005 launch of the MISO Market. My credit responsibilities at MISO included
11 credit worthiness assessments for market participants, credit policy enhancements, daily
12 collateral margining, design and implementation of internal credit system enhancements.

13 II. PURPOSE & SUMMARY OF DIRECT TESTIMONY

14 Q. ON WHOSE BEHALF ARE YOU TESTFYING?

15 A. I am testifying before the Louisiana Public Service Commission ("Commission or LPSC")
16 on behalf of 1803 Electric Cooperative, Inc. ("1803"), a member-owned electric
17 cooperative consisting of five (5) member electric cooperatives ("Member Cooperatives"):

- 18 1. Beauregard Electric Cooperative, Inc.
- 19 2. Claiborne Electric Cooperative, Inc.
- 20 3. Northeast Louisiana Power Cooperative, Inc.
- 21 4. South Louisiana Electric Cooperative Association
- 22 5. Washington-St. Tammany Electric Cooperative, Inc.

23 The Member Cooperatives have formed 1803 to combine their power needs and to
24 seek power supply opportunities to fulfill the power needs for the Member Cooperatives

1 upon the completion of current full-requirements wholesale power supply contracts in
2 2025.

3 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

4 A. In its Application, 1803 requests that the Commission issue a decision, supported by the
5 evidence, that 1803's RFP, and resultant power supply plan in accordance with established
6 Commission processes is compliant with applicable Commission Orders and established
7 RFP processes, and is prudent and is in the public interest.

8 ACES assisted 1803 in administering its RFP and power supply portfolio selection.
9 The Direct Testimonies of Jason M. Painter, Kevin P. Suhanic, Derek D. Waite, and Patrick
10 J. McGuire on behalf of 1803 address, in greater detail, ACES' assistance to 1803 with
11 regard to the establishment of a power supply plan, pending Commission approval, for
12 when 1803's current full-requirements wholesale power supply contracts expire in 2025.

13 My Direct Testimony addresses ACES' support to 1803's Application to the
14 Commission. Specifically, in section III, as part of an overall assessment of power supply
15 resource offers, attributes, and other criteria defined by 1803's Board in 1803's RFP, I
16 discuss how ACES evaluated and assessed each RFP respondent's creditworthiness.

17 **III. REVIEW OF CREDITWORTHINESS PROCESS USED IN EVALUATING**
18 **RFP RESPONSES**

19 Q. WHAT FACTORS DID ACES' PPA EVALUATION TEAM EVALUATE AND WEIGH
20 IN ASSESSING RESPONSES SUBMITTED IN 1803'S RFP?

1 A. The Board of Directors of 1803 (“Board”), comprised of the General Managers of each for
2 the five (5) Member Cooperatives, independently defined and identified ten (10) RFP
3 criteria expressed in order of relative importance, to meet 1803’s power supply goals:

- 4 1. Reliably serving load at the lowest reasonable cost;
- 5
- 6 2. Minimize the Potential volatility and market risk associated with 1803’s rates;
- 7
- 8 3. Minimize cost Exposure to future environmental regulations and unknown
9 environmental mitigation and/or clean-up costs;
- 10
- 11 4. Minimize Exposure to future cost increases passed through to 1803;
- 12
- 13 5. 1803 prefers fixed price contracts over cost based contracts;
- 14
- 15 6. 1803 prefers a longer-term contract length, all else being equal;
- 16
- 17 7. Desirable Counterparty creditworthiness;
- 18
- 19 8. Desired contract terms (outlined in Appendix E of the RFP);
- 20
- 21 9. Renewable generation attributes; and
- 22
- 23 10. The location of resources near load or in the same MISO Zone 9 and the state
24 of Louisiana.¹

25 Q. WHERE DID COUNTERPARTY CREDITWORTHINESS RANK IN THE LIST OF
26 RFP EVALUATON CRITERIA?

27 A. As can be observed from the list above, “Desirable Counterparty creditworthiness” ranked
28 seventh in the list of criteria. ACES did not influence in any way 1803’s Board selection
29 criteria or rank ordering, which was independently developed by 1803’s Board.

¹ Please see 1803’s long-term RFP at pages 34-35: <https://aces-wpengine.netdna-ssl.com/wp-content/uploads/2020/02/FINAL-1803-Informational-Filing-Containing-Final-2019-Request-for-Proposals-for-Long-Term-Capacity-and-Energy-Resources.pdf>.

1 Q. HOW DID THE ACES' PPA EVALUATION TEAM ASSESS THE
2 CREDITWORTHINESS OF BIDDERS?

3 A. ACES' PPA Evaluation Team Consisted of a Contract Evaluation Team and the Credit
4 Evaluation Team. With regard to the Credit Evaluation Team, I was the central team
5 Member. This group reviewed the creditworthiness of the bidders as outlined in Section
6 4.12 of 1803's RFP.²

7 ACES requested audited financials from the bidders, or the bidder's parent
8 guarantor. If audited financial did exist, the Credit Evaluation Team proceeded with
9 analyzing bidder's financials through our credit scoring model, as outlined in section 4.12
10 and figure 4 of 1803's RFP.³

11 Q. WHAT CREDIT APPROACH DID ACES' PPA EVALUATION TEAM USE TO
12 ASSESS THE CREDITWORTHINESS OF BIDDERS?

13 A. ACES' PPA Evaluation Team approaches creditworthiness in terms of several parameters
14 that comprise a credit-scoring model. Credit scoring is comprised of performance,
15 leverage, and liquidity metrics, and qualitative considerations such as business model risk,
16 credit ratings, peer comparisons, and forward-looking liquidity analysis.

17 If the RFP bidder was unable to provided 1803 and ACES with audited financial
18 history, ACES was unable to make a creditworthiness determination. If we were unable to
19 make a creditworthiness determination, we made a recommendation to 1803 that it not
20 extend unsecured credit to the bidder.

² <https://aces-wpengine.netdna-ssl.com/wp-content/uploads/2020/02/FINAL-1803-Informational-Filing-Containing-Final-2019-Request-for-Proposals-for-Long-Term-Capacity-and-Energy-Resources.pdf> (last accessed on 2/27/21).

³ *Id.*

1 As ACES' PPA Evaluation team and 1803 moved into the PPA negotiation process,
2 the results from the credit scoring model set the baseline for 1803's willingness to transact
3 on an unsecured or secured basis with the bidder. I will note that no bidders were
4 eliminated from the RFP process because of the creditworthiness determination process.

5 Q. HOW DID ACES ASSESS CREDIT SUPPORT NEEDED FROM BIDDERS AND
6 ASSESS REASONABLENESS OF BIDDERS' REQUESTS FOR CREDIT SUPPORT?

7 A. ACES' PPA Evaluation Team found it important to educate the Bidders and potential
8 counterparties on the credit strengths of 1803.

9 In some cases, RFP Bidders were also working with their lenders to get them
10 comfortable with their project and 1803. Ratings agencies, such as Standard & Poor's and
11 Moody's note that electric cooperatives' credit ratings are highly dependent on the quality
12 of revenue derived from member distribution cooperatives.

13 As part of that process ACES explained that the quality of 1803's revenues will be
14 tied closely to their rates, cost recovery and ultimately the Wholesale Power Agreement
15 between 1803 and its members, which all require LPSC approval. Indeed, ACES has
16 noted to potential counterparties that while 1803 may be a new entity, the 1803 Member
17 Cooperatives are not new entities, and they have decades of history with their retail
18 customers.

19 ACES' PPA Evaluation Team did share the 1803 Wholesale Power Agreement
20 between 1803 and each member distribution cooperative with the bidders; ACES also
21 fielded inquiries from potential counterparties and provide responses.

1 ACES' PPA Evaluation Team shared 1803's Bylaws with the bidders. Three (3)
2 years of audit financials for each of the 1803 Member Cooperatives were provided to the
3 bidders.

4 Q. HOW DID THE PPA EVALUATION TEAM ASSESS THE CREDITWORTHINESS OF
5 BIDDERS?

6 A. From a credit risk perspective, ACES' Credit Evaluation Team evaluated credit issues to
7 develop as much protection for 1803 while limiting the obligations for 1803 to post secured
8 credit. ACES' Credit Evaluation Team sought to only extend unsecured credit to entities
9 that were deemed creditworthy by the scoring model.

10 Consistent with this approach, due to the execution risk of four (4) new, to be
11 developed projects, 1803 sought and obtained security applicable during the projects
12 development phase to mitigate risk that a developed project might not reach commercial
13 fruition.

14 Q. PLEASE ELABORATE. WHY WAS IT IMPORTANT FOR 1803 TO ONLY EXTEND
15 UNSECURED CREDIT TO ENTITIES THAT WERE DEEMED CREDITWORTHY BY
16 THE SCORING MODEL?

17 A. Following this process, as outlined above, would ensure that non-creditworthy entities are
18 required to post up-front security, ensuring that posted security was of the highest quality.
19 That is, that posted security was in the form of cash or a bank letter of credit from a financial
20 institution with a healthy financial position and strong credit ratings, and developing credit
21 triggers that require collateral to be posted in the event that creditworthiness deteriorates.

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION OF 1803 ELECTRIC)
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS) DOCKET NO. _____
AND FOR COST RECOVERY)

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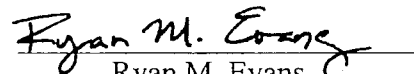
I, Ryan M. Evans, being duly sworn, depose

that the Direct Testimony in the

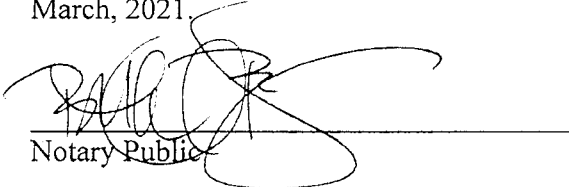
above referenced matter on behalf of

1803 Electric Cooperative, Inc.

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

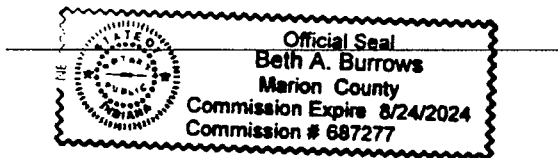

Ryan M. Evans

Subscribed and sworn before
me this 15th day of
March, 2021.



Notary Public

Name of Notary and Notary/Bar Roll No.:



1803-1803
MAR 17 2021
LA Public Service Commission

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

**IN RE: APPLICATION OF 1803 ELECTRIC) DOCKET NO. U-_____
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS)
AND FOR COST RECOVERY)**

**DIRECT TESTIMONY
OF
JASON M. PAINTER
ON BEHALF OF
1803 ELECTRIC COOPERATIVE, INC.**

PUBLIC VERSION

MARCH 17, 2021

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I. INTRODUCTION AND BACKGROUND

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

2 A. My name is Jason M. Painter and my business address is 4140 West 99th, Carmel, IN
3 46032. My current position is Vice President, Portfolio Management and Strategy,
4 Alliance for Cooperative Energy Services Power Marketing LLC ("ACES").

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

7 A. I have held my current position since September 2015.

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

10 A. In this role, I manage teams focused on long-term power supply portfolio planning and risk
11 management strategies, as well as short-term power supply procurement.

12 My areas of responsibility include resource planning, portfolio management,
13 portfolio analytics and performance, transmission rights, capacity markets, and the power
14 trading and scheduling services performed out of ACES' West Regional Trading Center.

15 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

16 A. I received a Bachelor of Science degree in Finance in 2000 from the Kelley School of
17 Business at Indiana University Bloomington and a Master of Business Administration
18 degree in 2011 from the Krannert School of Management at Purdue University.

19 I am also currently enrolled in Harvard University's Business Analytics Program,
20 a joint program offered through the Harvard Business School and other Harvard
21 departments, for which I expect to obtain a certificate in 2022.

22

1 Q. WHAT PROFESSIONAL CERTIFICATIONS DO YOU HOLD?

2 A. I hold the Series 3 certification administered by the Financial Industry Regulatory
3 Authority for the Natural Futures Association.

4 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE.

5 A. I have been in the energy industry for over 20 years and have worked in various functional
6 areas at ACES, including energy trading, asset management, congestion analysis and
7 management.

8 I joined ACES in December of 2000. Since that time, I have gained broad
9 experience in power markets, specifically related to the Midcontinent Independent System
10 Operator, Inc. ("MISO") power supply operations, integrated resource planning,
11 conducting Requests for Proposals ("RFPs"), power and fuel hedging strategies, financial
12 and physical transmission constructs, risk management, capacity markets and regulatory
13 impacts on markets. Prior to my current role, I was the Executive Director of Portfolio
14 Strategy at ACES.

15 Prior to joining the Portfolio Strategy team in 2011, I directed ACES' Transmission
16 department that focuses on Regional Transmission Organization ("RTO") and Independent
17 System Operator ("ISO") energy markets, transmission congestion, and financial
18 transmission rights.

19 I began my career at ACES as a real-time power trader for the Midwest, Southwest
20 and Eastern markets and then was a term power trader for the Electric Reliability Council
21 of Texas and Southwest Power Pool RTO/ISO markets.

22 Prior to joining ACES, I worked as a Credit Analyst for a regional commercial
23 bank.

II. PURPOSE & SUMMARY OF DIRECT TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying before the Louisiana Public Service Commission (“Commission” or “LPSC”) on behalf of 1803 Electric Cooperative, Inc. (“1803”) for which, ACES has been engaged to assist 1803 in seeking power supply opportunities (via administration of an RFP under the rules set forth in the MBM order) to fulfill the power supply requirements upon the completion of their current wholesale power supply contracts in early 2025.

Q. PLEASE BRIEFLY DESCRIBE 1803.

A. Incorporated on April 1, 2019, 1803 is a Louisiana electric cooperative organized as 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 have formed 1803 to combine their power needs and to jointly seek power supply opportunities to fulfill the power needs for the Member Cooperatives upon the completion of their current full-requirements wholesale power supply contracts in 2025. The Direct Testimony of 1803 witness Charles Hill, General Manager of Washington-St. Tammany Electric Cooperative and President of 1803 provides greater background as to 1803’s origins and objectives.

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1 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

2 A. In its Application, 1803 requests that the Commission issue a decision, supported by the
3 evidence, that 1803's RFP, and resultant power supply plan in accordance with established
4 Commission processes is compliant with applicable Commission Orders and, is prudent
5 and is in the public interest. ACES, as the Administrator of 1803's RFP, played an integral
6 role in assisting 1803 to plan for the period after its Members Cooperative's current power
7 supply arrangements expire.

8 Accordingly, my Direct Testimony support's 1803's Application to the Commission in the
9 following areas:

- 10 • First, I provide an overview of ACES' role in supporting 1803's power supply RFP.
- 11 • Second, I support a finding by the Commission that 1803's RFP and resultant power
12 supply plan complies with applicable Commission orders.
- 13 • Third, I support 1803's request that its selected Power Purchase Agreements
14 ("PPAs") are in the public interest and should be approved by the Commission.
- 15 • Finally, my Direct Testimony requests a timely order from the Commission to
16 ensure that the selected generating resources behind the Power Purchase
17 Agreements in 1803's resource plan can reach commercial fruition upon the
18 completion of the five Member Cooperatives' current full-requirements wholesale
19 power supply contracts in early 2025.

20 **III. ACES' ASSISTANCE TO 1803**

21 Q. WHAT WAS ACES' ROLE IN ASSISTING 1803 DEVELOP ITS RFP AND LONG-
22 TERM POWER SUPPLY PLAN?

1 A. Through 1803, the Member Cooperatives have explored available power supply solutions
2 and conducted an RFP in accordance with the Commission's established RFP processes.
3 On February 14, 2020 in Commission Docket No. X-35283, 1803 submitted¹ an
4 Informational Filing Containing Final 2019 Request for Proposals for Long-Term Power
5 Purchase Contracts and/or Generating Capacity. In my role as Vice President, Portfolio
6 Management and Strategy, I oversaw the process culminating in 1803's issuance of a Long-
7 Term RFP to facilitate replacing, at expiration, the existing full-requirements wholesale
8 power supply contracts of 1803's Member Cooperatives with new capacity and energy
9 supply arrangements.

10 Among other functions, my role, as the Vice President overseeing the teams
11 responsible for assisting 1803, has been to help write the RFP document; direct and approve
12 the creation of internal non-disclosure documents; participate in 1803's January 2020 RFP
13 technical conference; answer RFP questions; review the work of the Analysis Team;²
14 participate in all meetings with Commission Staff and Consultants; present at 1803 Board
15 Meetings and Weekly Executive Committee Meetings, as requested; observe the Process
16 Control Team;³ participate in PPA negotiations; and meet with Commissioners and
17 Commission Staff to explain the 1803 RFP approach and results.

18 Q. WHAT FACTORS DID 1803 WEIGH IN ASSESSING THE BEST RESPONSES TO
19 MEETING MEMBER COOPERATIVE GOALS?

¹ <https://lpscpubvalence.lpsc.louisiana.gov/portal/PSC/ViewFile?fileId=UllseOQjAGs%3d> (last accessed February 1, 2021).

² The Direct testimonies of Mr. Kevin P. Suhanic, Mr. Derek D. Waite and Mr. Patrick J. McGuire elaborate on the activities of ACES' teams in the course of managing 1803's RFP and power supply solicitation.

³ Please see the Direct Testimony of Stephen J. Zwilling, filed on behalf of 1803, in this proceeding.

1 A. The Board of Directors of 1803 (“Board”), comprised of two board members for each of
2 the five Member Cooperatives, independently defined and identified the following criteria,
3 expressed in order of relative importance, to meet 1803’s power supply goals:

- 4 1. Reliably serving load at the lowest reasonable cost;
- 5
- 6 2. Minimize the potential volatility and market risk associated with 1803’s rates;
- 7
- 8 3. Minimize cost exposure to future environmental regulations and unknown
9 environmental mitigation and/or clean-up costs;
- 10
- 11 4. Minimize exposure to future cost increases passed through to 1803;
- 12
- 13 5. 1803 prefers fixed price contracts over cost based contracts;
- 14
- 15 6. 1803 prefers a longer-term contract length, all else being equal;
- 16
- 17 7. Desirable counterparty creditworthiness;
- 18
- 19 8. Desired contract terms (outlined in Appendix E of the RFP);
- 20
- 21 9. Renewable generation attributes; and
- 22
- 23 10. The location of resources near load or in the same MISO Zone 9 and the state
24 of Louisiana⁴

25 Q. HOW DOES 1803’S PORTFOLIO SELECTION MEET THE ENUMERATED BOARD-
26 SPECIFIED CRITERIA?

27 A. The selected portfolio meets each of 1803 Board’s portfolio selection criteria in the
28 following manner:

29 **1. Reliably serving load at the lowest reasonable cost.**

- 30 • The portfolio selected was the lowest cost option by ■■■ relative to available
31 full requirements alternatives and approaching ■■■ lower than available

⁴ See 1803’s long-term RFP at pages 34-35: <https://aces-wpengine.netdna-ssl.com/wp-content/uploads/2020/02/FINAL-1803-Informational-Filing-Containing-Final-2019-Request-for-Proposals-for-Long-Term-Capacity-and-Energy-Resources.pdf> (last accessed March 3, 2021)

1 full requirement alternatives when considering and accounting for the
2 potential impact of a carbon emissions tax on future portfolio costs.

3 [REDACTED]s

4 [REDACTED]

5 [REDACTED]

6 [REDACTED] Furthermore, additional savings can be
7 obtained starting in 2030 and future years when some PPA's expire and the
8 existing trajectory of solar PV and/or battery storage resource cost decreases
9 were to continue. Please see the Direct Testimony of Patrick J. Maguire for
10 further details on this point.

- 11 • 1803's selected portfolio for the 2025-2044 period contains [REDACTED] MW
12 (nameplate) of new, in-state generation capacity. Additionally, due to the
13 CCGT PPA being signed for [REDACTED] MW of a 709 MW total plant, an
14 additional [REDACTED] MW of clean, highly efficient CCGT generation will be
15 available to the MISO grid in Zone 9. There is a total of [REDACTED] MW of new
16 state resources being constructed between 1803 PPAs and the additional
17 [REDACTED] MW of merchant generation discussed above. Comparatively, 1803's
18 expected 2025 summer forecasted peak load is [REDACTED] MW ([REDACTED] MW on a
19 MISO reliability requirement with reserves basis). In addition, 1803 has
20 selected a PPA for [REDACTED] MW of existing generation and a load following
21 partial requirements contract for [REDACTED]% of energy and capacity requirements
22 in MISO Zone 9.

- 1 • This generation supporting the PPAs also includes a significant investment
2 in generator interconnection facilities and network transmissions upgrades
3 in the State of Louisiana, over [REDACTED] at current MISO cost estimates.
- 4 • Additionally, due to 1803's PPA with the Magnolia CCGT, [REDACTED] MW of
5 clean, highly efficient and reliable CCGT will be available to the MISO grid
6 in Zone 9 in proximity to the MISO Amite South load pocket to further
7 enhance reliability of that region. Please see the Direct Testimony of Eric
8 P. Laverty for further details on this point.
- 9 • 1803's selected portfolio also contains a separate PPA for [REDACTED] MW of
10 additional existing CCGT resources to back up the solar generation for 5
11 years. All portfolio contracts with the exception of the [REDACTED] MW PPA have
12 committed to providing Zone 9 firm capacity, totaling [REDACTED] of 1803's
13 projected MISO Resource Adequacy requirement in the 2025/2026
14 planning year.
- 15 • As a MISO market participant, 1803 would adhere to all applicable MISO
16 Resource Adequacy rules including any potential changes to the MISO rules
17 as a result of recent winter events across the country.
- 18 • Finally, 1803 is willing to participate in the LPSC Integrated Resource
19 Planning ("IRP") docket after certification, if the Commission were to
20 require.
- 21 • In summary, 1803 has added significant reliability to the state while
22 providing the consumers a \$[REDACTED]/MWh wholesale rate in 2026 with increased
23 cost certainty over the life of the portfolio.

2. Minimize the potential volatility and market risk associated with 1803's rates.

- As described in the Direct Testimony of Kevin P. Suhanic, each of the eight (8) final portfolios were assessed for risk along several metrics utilizing a Monte-Carlo simulation of future power and natural gas prices along with varying levels of 1803 load demand. The portfolio selected had the second lowest PVRR increase with high natural gas prices due to the diversity of the PPAs in the portfolio, second only to Portfolio 8 which did not have any natural gas resources. The solar contracts are for a fixed price for ■■■-years without annual price escalations. The ■■-year contract for ■■% of the load requirements of 1803 will be at a fixed price upon LPSC certification and approval, including MISO energy, capacity, ancillary services, energy management services and other MISO costs.
- The selected portfolio also exhibits the lowest price exposure to future natural gas prices except for the “■■■■■■■■■■” Portfolio 8. Additionally, 1803, prior to 2025, will evaluate a natural gas hedging program for additional cost certainty, subject to LPSC approval. Given the recent winter weather events, 1803’s hedging program would be contemplated to include intra-month natural gas price protection. Additionally, 1803 plans to contract for firm transportation on natural gas delivery for the ■■■ MW share of the ■■■ MW CCGT.
- In 2026, the portfolio selected represents the reliably attainable highest percentage of energy costs hedged at a fixed price due to the solar and partial requirements contracts. Contracts indexed to natural gas prices do

1 not count as an energy hedge in this measure because the natural gas and
2 therefore the power price is not hedged or fixed.

- 3 • Given the highly efficient ■■■ MMBtu/MWh heat rate on the CCGT PPA,
4 low-cost solar PV PPAs and the fixed price ■■■% partial requirements
5 contract, the portfolio has minimal risk exposure to spot MISO power
6 prices. Additional protection was considered with a highly efficient ■■■
7 MW ■■■/MMBtu/MWh CCGT PPA. If extended, lower than normal
8 temperatures were forecasted in any prospective winter, 1803 would direct
9 its energy manager to review procuring incremental fixed price power
10 purchases that cover the winter months or weeks at the prevailing market
11 price to provide further MISO price and wholesale rate stability, if
12 necessary. In the event that hydrogen is a commercial option to burn at the
13 CCGT this would be an option if natural gas is not available for ■■■% of the
14 plant. There are also hedging instruments tied to temperature that could be
15 considered and utilized to protect against rate volatility in the portfolio if
16 deemed prudent in the future and approved by the LPSC.

- 17 • The ■■■% partial requirements PPA is a Firm product with Liquidated
18 damages and therefore does not have specific unit forced outage risk.
- 19 • In future years, it is expected that 1803 will evaluate the risk mitigation
20 potential and cost of unit outage insurance on the ■■■ MW CCGT.
- 21 • The location of the portfolio resources is diversified across the state with
22 the largest PPA being in the load pocket. The ■■■% partial requirements PPA
23 will be delivered to the 1803 load zone Locational Marginal Pricing

1 (“LMP”) and therefore has no transmission congestion risk. The diversity
2 of location along with the MISO-allocated congestion Auction Revenue
3 Rights (“ARRs”) that 1803 will be eligible for will help mitigate
4 transmission congestion risk. 1803 and/or its future energy manager would
5 also expect to participate in the MISO Financial Transmission Rights
6 Auction each month and year to further mitigate this risk.

- 7 • As previously noted, 1803’s selected portfolio has █% of 2026 MISO
8 Resource Adequacy requirements contracted for at a fixed price in Zone 9.
- 9 • To mitigate the risk of construction delays, 1803 has staggered the start of
10 the PPAs between the months of January and June of 2025 with the load
11 increasing from January to the full load by the end of March. In the RFP
12 process and as detailed in the Direct Testimony of Derek D. Waite, 1803
13 prioritized projects that were in more advanced stages of development,
14 including such factors as having already secured land rights, secured OEM
15 contracts, and applied to the MISO generator interconnection queue, and
16 provided further priority if advanced into later stages or completion of the
17 MISO generator interconnection process.
- 18 • The solar resources contracted by 1803 are expected to be in operation by
19 the end of 2023 even though their PPAs with 1803 do not start until 2025
20 so they will have ample time to work through challenges. If 1803 becomes
21 aware that the CCGT could be delayed past the summer of 2025, 1803
22 contemplates that it would likely seek LPSC approval to purchase up to █
23 MW of replacement firm energy and capacity until the resource is on-line.

1 There is a robust wholesale market in MISO South as evidenced by the
2 number of RFP responses received by 1803. The Direct Testimonies of
3 Derek D. Waite and Stephen J. Zwilling address the robustness of the MISO
4 South market.

- 5 • In summary, in addition to a portfolio diversified from risks across time,
6 fuel, technology, execution, suppliers, location, outage firmness, and
7 environmental risk, 1803 would look to develop a comprehensive risk
8 management framework that helps mitigate risks on an on-going portfolio
9 management basis with an experienced energy manager and necessary
10 approvals from the LPSC.

11 **3. Minimize cost exposure to future environmental regulations and unknown**
12 **environmental mitigation and/or clean-up costs.**

- 13 • The portfolio contains minimal exposure to potential carbon regulation and
14 carbon pricing and provides a clean, highly efficient CCGT with the ability
15 to burn ■■■% Hydrogen, three (3) solar PV PPAs at fixed prices for ■■■ years
16 located across the state, and a fixed price partial requirement contract with
17 no environmental risk.
- 18 • This portfolio would help accelerate the de-carbonization path of the
19 utilities in the state. Without environmental clean-up risk associated with
20 coal and nuclear facilities, the portfolio is well-positioned to mitigate future
21 environmental risk.

22 **4. Minimize Exposure to future cost increases passed through to 1803.**

- 23 • All three (3) 20-year solar PV contracts totaling ■■■ MW of nameplate
24 capacity are at fixed prices with no escalation. Additionally, the ■■■% partial

requirements will be at a fixed price upon LPSC certification of this application.

5. 1803 prefers fixed price contracts over cost based contracts.

- Four (4) of the six (6) PPA's that 1803 selected are at a single fixed price for all attributes with no annual escalation. The ■■■ MW CCGT PPA also has a fixed capacity charge for the 5-year period.
- The ■■■ MW CCGT PPA has a fixed capacity charge that escalates at ■■■% annually.
- Based upon this portfolio, and upon the contracting arrangements, 1803 has minimal risk of unknown future capacity costs.

6. 1803 prefers a longer-term contract length, all else being equal.

- 1803 has executed four (4) ■■■-year PPAs totaling ■■■ MW of nameplate capacity. Including 1803's existing Southwestern Power Administration hydroelectric allocation, 1803's portfolio will have ■■■ MW of nameplate capacity through 2044. 1803 also selected two (2) 5-year contracts as the 1803 Board decided they wanted to have some future flexibility to take advantage of developing technologies as they mature, such as battery storage.

7. Desirable counterparty creditworthiness.

- The 1803 PPA Evaluation evaluated the creditworthiness of Bidders using a modeled approach supported by quantitative and qualitative analysis.
- The creditworthiness evaluation helped to set the baseline for negotiating credit protections within the PPAs. PPA credit protections pursued were in

1 line with industry standards, which include but are not limited to,
2 transacting on an unsecured basis with creditworthy entities, ensuring
3 security requirements are of the highest quality, developing trigger events
4 should creditworthiness deteriorate over time, and requiring security during
5 risker construction phases of projects. Further, contracting with five
6 separate entities, helps reduce counterparty concentration risk. Please see
7 the Direct Testimony of Ryan M. Evans for additional detail.

8 **8. Desired contract terms (outlined in Appendix E of the RFP).**

- 9 • The 1803 PPA negotiation team used Appendix E of the RFP for guidance
10 related to certain specific provisions of the PPA for initial drafting and
11 negotiations. That Appendix E set forth desired language related to:
12 Governing Law; Payment Terms; Force Majeure; Representations and
13 Warranties of the parties; and Confidentiality. Because the PPAs are
14 negotiated agreements, the specific language related to these provisions was
15 not included verbatim in the PPAs; however, each of these areas are
16 addressed consistent with, and in substantial the same form as, the
17 Appendix E.

18 **9. Renewable generation attributes.**

- 19 • With PPAs for ■■■ MW (nameplate rating) of solar PV supply, 1803 will
20 supply ■■ percent of its energy from ■■■■ sources. Additionally, if
21 Green Hydrogen, as a fuel, becomes a viable power generation alternative
22 to natural gas in the future, 1803 will be able to burn Green Hydrogen fuel
23 for up to ■■% of its ■■■ MW CCGT PPA.

- Accordingly, if [REDACTED] is commercially achieved in the future, over 50% of the energy consumed by 1803 could be carbon free. Furthermore, the 1803 Board also desires to retain the flexibility to add additional resources in 2030 and beyond. Solar PV and battery storage are potential options that would further decrease the carbon intensity of the portfolio and could further lower costs relative to the current projections, and the battery storage would provide additional reliability if solar generation penetration became too high in the state in the future.

10. The location of resources near load or in the same MISO Zone 9 and the state of Louisiana.⁵

- Through the execution of four PPAs in 1803's portfolio and subject to LPSC approval, 1803 will be causing [REDACTED] MW of new generation to be constructed in the state including a [REDACTED] MW clean, highly efficient CCGT ([REDACTED]% share) on the interface of the Amite South load pocket.
- The [REDACTED]% partial requirements contract PPA is obligated to supply capacity to 1803 in Zone 9 up to the then Local Clearing Requirement of Zone 9 in applicable MISO capacity market delivery planning years. The only contracted-for PPA that is out of state is the [REDACTED] MW CCGT in Arkansas, MISO Zone 8, for a [REDACTED] year term.

⁵See 1803's long-term RFP at pages 34-35: <https://aces-wpengine.netdna-ssl.com/wp-content/uploads/2020/02/FINAL-1803-Informational-Filing-Containing-Final-2019-Request-for-Proposals-for-Long-Term-Capacity-and-Energy-Resources.pdf> (last accessed March 2, 2021).

1 **IV. 1803'S PEITITON & COMPLIANCE WITH COMMISSION RULES**

2 Q. PLEASE DESCRIBE WHY TIMELY APPROVAL OF 1803'S APPLICATION IS IN
3 THE PUBLIC INTEREST.

4 A. Pending Commission approval of its Application, 1803 will begin serving the energy and
5 capacity obligations of 1803's Members with new power supply resources selected
6 pursuant to the Board criteria noted in my Direct Testimony above. 1803, on behalf of its
7 Member Cooperatives, seeks Commission approval of its power supply plan in advance of
8 the expiration of the Member Cooperatives' current full-requirements wholesale power
9 supply contracts in early 2025.

10 The respective dates by which 1803's selected resources would begin serving its
11 Member Cooperatives are: Northeast Louisiana Electric Power Cooperative on January 1,
12 2025; Beauregard Electric Cooperative, and South Louisiana Electric Cooperative
13 Association on March 28, 2025; and, on April 1, 2025, for Claiborne Electric Cooperative
14 and Washington-St. Tammany Electric Cooperative.

15 Q. IS 1803 SUBJECT TO THE COMMISSION'S JURISDICTION?

16 A. Yes. 1803 is a jurisdictional electric cooperative seeking to add PPA-based generation
17 resources to its portfolio. 1803 is subject to the Commission's September 20, 1983 General
18 Order ("1983 General Order")⁶ and the Commission's 2008 Market-Based Mechanism
19 ("MBM") Order⁷ which requires jurisdictional utilities to employ a market-based
20 mechanism to support purchase power contracts intended to serve retail customers.

⁶ In re: "In the Matter of the Expansion of Utility Power Plant; Proposed Certification of New Plant by the Louisiana Public Service Commission, dated September 20, 1983 (1983 General Order).

⁷ LPSC General Order R-26172, Sub Docket C, dated October 29, 2008, *In re: Possible suspension of, or amendments to, the Commission's General Order dated November 3, 2006 (Market Based Mechanisms Order) to make the process more efficient and to consider allowing the use of on-line auctions for competitive procurement.*

1 Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE COMMISSION'S 1983
2 GENERAL ORDER AND ITS RELEVANCE TO THE APPLICATION SUBMITTED
3 BY 1803 IN THIS PROCEEDING.

4 A. As is relevant to this docket, the Commission's 1983 General Order provides that:

5 No electric public utility subject to the jurisdiction of the Commission shall commence
6 any on site construction activity or enter into any contract for construction or
7 conversion of electric generating facilities or contract for the purchase of capacity or
8 electric power, other than emergency or economy power purchases, without first having
9 applied to the Commission for a certification that the public convenience and necessity
10 would be served through completion of such project or confection of such contract.
11 Feasibility and engineering studies, site acquisition and related activities preliminary
12 to a determination of the desirability or need for plant construction or conversion on
13 purchase power contracts are exempted from this requirement.⁸

14 Pursuant to the 1983 Order, when a utility seeks to acquire or build capacity resources, it
15 is required to make a formal filing with the Commission including its detailed planning
16 information.

17 Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE COMMISSION'S MBM
18 ORDER AND ITS RELEVANCE TO THE PETITION SUBMITTED BY 1803 IN THIS
19 PROCEEDING.

20 A. On April 10, 2002, the Commission issued an order which developed a MBM process to
21 evaluate proposals to construct or acquire generating capacity. In that order, the
22 Commission directed that the MBM process should be an RFP competitive solicitation
23 process. The use of the MBM supplemented the Commission's September 20, 1983
24 General Order that required a public utility seeking to construct or convert an electric

⁸ 1983 General Order at Paragraph 1.

1 generating facility or enter into a purchase power contract to obtain a certificate of public
2 convenience and necessity from the Commission.

3 The MBM Order, updated in 2004, 2006, 2007 and 2008, generally requires the use
4 of a formal competitive solicitation process (i.e., an RFP process) for the acquisition of
5 power supply resources, although some acquisitions may be exempt from the requirements
6 of the MBM Order.

7 Q. PLEASE CONTINUE WITH YOUR SUMMARY OF THE COMMISSION'S MBM
8 ORDER.

9 A. The 2008 MBM Order requires that Commission jurisdictional utilities must employ a
10 competitive solicitation process, i.e., an MBM process, to support the acquisition of
11 generating capacity or purchase power contracts intended to serve jurisdictional retail
12 customers.

13 Apart from certain generating investments or contracts that do not require the
14 formal use of an MBM process⁹, in pertinent part, the Commission's MBM Order states as
15 follows:

16 8. In order to implement the market-based mechanism for capacity investments or
17 purchase power contracts, the utility is required to submit an informational filing
18 with the Commission containing but not limited to the following items:

19 a. A description of the utility's proposed capacity addition including timing,
20 amount and type;

21 b. In the case that the electric utility's proposal is to construct generating
22 capacity or to acquire (through contract, asset purchase or other means) an
23 existing capacity resource (that is owned by the utility or an affiliated retail
24 regulated utility) that is not part of the electric utility's LPSC-jurisdiction
25 regulated operations, the filing shall describe the plan and the resource(s),
26 including a detailed estimate of the resource's cost, revenue requirement
27 impacts and support for that cost estimate. The cost and revenue
28 requirement data may be submitted subject to appropriate confidentiality

⁹ See 2008 MBM Order at page 8, Ordering paragraph 2, for a list of exemptions.

1 protection. Absent a Commission waiver, such acquisition(s) shall be priced
2 no higher than the cost of service associated with the asset(s). This is not
3 intended to preclude Commission approval of a formula rate or alternative
4 regulatory plan for the utility.

5 c. Supporting information and documentation justifying the amount of
6 capacity need and the proposed resources to be acquired;

7 d. Supporting information and documentation justifying the type of
8 resources which the electric utility proposes or expects to construct and/or
9 acquire; along with resource alternatives considered but rejected.

10 e. The utility's proposed schedule for conducting and completing its RFP
11 process and resource acquisition process. This would include the anticipated
12 schedule for undertaking and completing any proposed power plant
13 construction. This proposed schedule for conducting the RFP shall include
14 adequate time for Staff review and discovery.

15 f. A description of the methods and criteria that the utility intends to use to
16 evaluate RFP bid responses;

17 g. A description of any requirement or preferences regarding transmission
18 arrangements and deliverability of the power supply to the utility's
19 customers, including a description of how the utility intends to incorporate
20 transmission issues into its bid evaluation process.

21 h. A description of the methods and safeguards the utility will use to protect
22 the confidentiality of bids and bidder information and to ensure such
23 information is not improperly used by the utility or its affiliates nor provided
24 to a utility's merchant affiliate.

25 i. If the utility's RFP permits affiliate bids, a description of the methods and
26 safeguards the utility will use to ensure the utility's merchant affiliate bid
27 receives no preferential treatment, preferential access to information or
28 unfair or improper advantage. This submission would include all existing
29 codes of conduct (internal or approved by a regulatory agency) governing
30 such bids and contracts.

31 j. A draft purchase power agreement or a description of key contract
32 elements;

33 k. A draft RFP solicitation document; and

34 l. A draft or sample confidentiality agreement.

35 Q. DOES 1803'S COMPLETED RFP, SELECTED POWER SUPPLY ARRANGEMENTS
36 AND ITS FILING IN THIS DOCKET COMPLY WITH THE MBM ORDER?

37 A. Yes. Through the Direct Testimonies of Kevin P. Suhanic, Derek D. Waite, and Patrick J.
38 Maguire, Stephen J. Zwilling, and Ryan M. Evans, my testimony above, 1803's
39 Application demonstrates compliance with the 2008 MBM Order. Accordingly, for the

1 reasons listed above in my Direct Testimony, and as testified to by other witnesses for
2 1803, Commission approval of 1803's Application and request is consistent with the
3 Commission's MBM Order. Second, it is prudent and in the public interest for the
4 Commission to approve 1803's RFP and long-term power supply plan in a timely fashion.

5 Q. IN YOUR OPINION, IS THE APPROVAL OF 1803'S PPA'S IN THE PUBLIC
6 INTEREST?

7 A. Yes. I reach this conclusion based on my Direct Testimony herein, the testimony of 1803's
8 witnesses and 1803's Application. In particular, in selecting a power supply portfolio that
9 optimally meets 1803's Board criteria that I note above in section III., 1803's selected
10 portfolio will provide 1803 with reliable, efficient, diverse, and competitively-priced
11 purchased power to provide to the 1803 Member Cooperatives for the power needs of the
12 1803 Cooperatives starting in 2025.

13 The selected resources, including a new, highly efficient CCGT, will substantially
14 contribute to MISO reliability due to their location within the MISO South region, and, in
15 particular, MISO Zone 9. The 1803 Portfolio is also best aligned with the 1803 Board's
16 portfolio selection criteria outlined in Section III above and represents the greatest savings
17 to customers while exhibiting lower risk and having the best decarbonization potential.

18 Further, the 1803 Portfolio's additional strengths include diversity of
19 counterparties, diversity of technology types, and allowing for some future flexibility in a
20 decade as newer technologies mature, and represents a substantial investment in Louisiana.

21 Thus, it is my opinion that it is appropriate that the PPA's submitted in 1803's
22 application for approval of the Magnolia, Bayou Galion, Bayou Chicot, Bayou Teche,

1 Exelon and Calpine resources be approved as in the public interest and in compliance with
2 applicable Commission rules.

3 **V. RELATED ISSUES & CONCLUSION**

4 Q. WILL 1803'S SELECTED POWER SUPPLY ARRANGEMENTS, IF APPROVED BY
5 THE COMMISSION, ENSURE THAT 1803 WILL BE COMPLIANT WITH MISO
6 RESOURCE ADEQUACY RULES?

7 A. Yes. Due to the completion of the existing full-requirements wholesale power supply
8 contracts of the Member Cooperatives, 1803 has secured approximately [REDACTED] MW of
9 resources including a reserve margin. The selected resources will be located in the MISO
10 region and, not only will the resources ensure that the Member Cooperatives' load and
11 MISO reserve requirement are met, but the resources will substantially contribute to MISO
12 resource adequacy.

13 As noted above, as a MISO market participant, 1803 would adhere to all applicable
14 MISO Resource Adequacy rules including any potential changes to the MISO rules as a
15 result of recent winter events across the country. The Direct Testimony of Mr. Eric
16 Laverty, P.E., ACES' Vice President of Regulatory & Reliability Services, on behalf of
17 1803, addresses how 1803's selected portfolio supports and enhances MISO RA
18 compliance.

19 Q. YOUR TESTIMONY REQUESTS A TIMELY ORDER FROM THE COMMISSION.
20 CAN YOU ELABORATE ON THAT REQUEST?

21 A. Yes. Within the procedural timelines provided for in Commission proceedings, 1803
22 requests a timely Commission Order approving its RFP to enable its contracted resources

1 requiring facility and interconnection construction to each reach commercial availability
2 and operation by early 2025.

3 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

4 A. Yes, it does.

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION OF 1803 ELECTRIC)
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS) DOCKET NO. _____
AND FOR COST RECOVERY)

AFFIDAVIT OF WITNESS

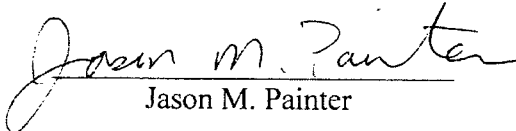
I, Jason M. Painter, being duly sworn, depose

that the Direct Testimony in the

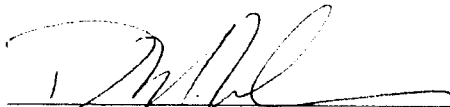
above referenced matter on behalf of

1803 Electric Cooperative, Inc.

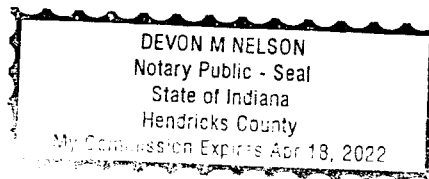
are true and correct to the best of my knowledge, information and belief.


Jason M. Painter

Subscribed and sworn before
me this 16 day of
March, 2021.



Notary Public



Name of Notary and Notary/Bar Roll No.:

DEVON M. NELSON 0651985

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

RECEIVED
MAR 17 2021
LA Public Service Commission

IN RE: APPLICATION OF 1803 ELECTRIC) DOCKET NO. U-
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS)
AND FOR COST RECOVERY)

DIRECT TESTIMONY AND EXHIBITS

OF

BRIAN W. HOBBS

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

Public Version

March 17, 2021

*Direct Testimony of Brian. W. Hobbs
March 17, 2021*

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EXHIBITS:

Exhibit BWH-1



Exhibit BWH-2

Exhibit BWH-3

1 **I. INTRODUCTION AND BACKGROUND**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Brian W. Hobbs, and my business address is P.O. Box 158, 111 Southwest
4 Second Street, Anadarko, OK 73005.

5 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

6 A. I am a partner in the law firm of Pain Garland and Hobbs, LLP.

7 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL
8 BACKGROUND.

9 A. I have a bachelor's degree from the University of Oklahoma and a Juris Doctor degree
10 from the Oklahoma City University School of Law. I am licensed and active as a practicing
11 attorney in Oklahoma and relevant clients include several rural electric cooperatives,
12 including a wholesale power supply cooperative and a number of retail distribution
13 cooperatives. I have appeared before the Oklahoma Corporation Commission as counsel
14 of record in a number of proceedings. I spent forty (40) years employed by a wholesale
15 generation and transmission cooperative, serving twenty-one (21) member rural electric
16 cooperatives in Oklahoma and New Mexico. My employment there was in increasing areas
17 of responsibility and I retired as the Vice President of Legal and Corporate Services
18 responsible for many areas of the organization. Most relevant to my testimony in this
19 matter is that I managed the organization's interactions with the Southwest Power Pool,
20 regulatory, environmental, safety and reliability compliance, revenue budgeting, wholesale
21 rate, transmission formulary rate, as well as other aspects of the organization. The
22 cooperative had twenty-one (21) distribution cooperative members, owned numerous
23 generation assets, including natural gas, coal, and solar facilities, and had a hydro allocation

1 from the Southwest Power Administration and numerous power purchase agreements for
2 hydro, gas fired, wind and solar generation facilities.

3 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS?

4 A. Yes. I have testified before the Oklahoma Corporation Commission.

5 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

6 A. I am providing testimony on behalf of 1803 Electric Cooperative, Inc. ("1803").

7 **II. PURPOSE AND SUMMARY OF TESTIMONY**

8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

9 A. My testimony describes the purpose, development, and application of the proposed budget
10 of 1803.

11 Q. PLEASE DESCRIBE 1803 ELECTRIC COOPERATIVE.

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

1 Q. WHAT IS 1803 REQUESTING IN THIS PROCEEDING AS APPLICABLE TO YOUR
2 TESTIMONY?

3 A. 1803 is, among other things, requesting approval of the 1803 portfolio of power purchase
4 agreements, which will provide the capacity and energy resources to serve the electric
5 power and energy requirements of the Member Cooperatives, approval of the recovery of
6 the costs associated with those power purchase agreements, costs and revenues of 1803
7 participation in the Midcontinent Independent System Operator ("MISO") market on
8 behalf of its Member Cooperatives, costs associated with required transmission services
9 and other associated costs. Testimony supporting the costs and revenues mentioned above
10 will be provided by others. My testimony is specifically meant to provide the budgeted
11 expenses associated with the formation, operation, overhead and administration of 1803
12 ("1803 Costs") which is included in the overall cost analysis associated with 1803 services
13 to its Member Cooperatives.

14 Q. WHY ARE YOU PROVIDING TESTIMONY REGARDING THE 1803 COSTS?

15 A. It is necessary to identify the costs associated with 1803 as the wholesale power supply
16 cooperative providing power supply, transmission services, market participant services,
17 energy management services and related services to its Member Cooperatives. This is to
18 ensure that when comparing expected wholesale electric power costs supplied by 1803 to
19 current or other potentially available supply methods that all costs of 1803 are identified
20 and included in the analysis.

1 Q. ARE YOU SEEKING APPROVAL OF THE 1803 COSTS?

2 A. While not specifically seeking approval of the 1803 Costs as budgeted, it is of value to
3 identify those costs specifically to facilitate an understanding of the nature, inclusiveness,
4 and relative impact of the 1803 Costs on the overall 1803 cost of service.

5 **III. GENERAL OVERVIEW OF 1803 Costs**

6 Q. PLEASE PROVIDE A GENERAL OVERVIEW OF 1803 COSTS?

7 A. 1803 Costs cover two time periods: (1) 1803 Costs incurred up to the beginning of 2025,
8 when 1803 will begin providing electric power to the Member Cooperatives, as part of the
9 development of 1803 as a new power supply cooperative in Louisiana. Those costs include
10 conducting the Request for Proposals for power purchase agreements, negotiating the
11 power purchase agreements, development of the contractual relationship between 1803 and
12 the Member Cooperatives in the form of the 1803 Member Wholesale Power Contracts,
13 consulting and legal services, regulatory proceedings, and other similar costs; and (2) the
14 cost of 1803 from early 2025 and forward when it is actually providing all requirements
15 electric power services to its Member Cooperatives.

16 **IV. 1803 COSTS PRIOR TO 2025**

17 Q. PLEASE DESCRIBE THE 1803 COSTS THAT ARE EXPECTED TO BE INCURRED
18 IN THE TIME PERIOD PRIOR TO 2025 AND PRIOR TO 1803 PROVIDING THE
19 ELECTRIC POWER NEEDS OF THE MEMBER COOPERATIVES IN MORE
20 DETAIL.

21 A. 1803 is, and will continue, incurring costs prior to beginning provision of electric service
22 to its Member Cooperatives in 2025. The types of costs include various consulting and
23 legal fees associated with developing, administering, and evaluating the Request for
24 Proposals, drafting and negotiating power purchase agreements, developing and analysis

1 of the wholesale tariff, drafting and negotiating the wholesale power agreement between
2 1803 and its Member Cooperatives, preparing long-range forecast, negotiating loan related
3 documents, the cost of such loan, assessing needs related to MISO transmission and market
4 participation, preparation for and participation in these regulatory proceedings, staffing or
5 contract labor, rent, utilities, insurance, office supplies and other similar costs. These
6 budgeted costs are in the range of [REDACTED]
7 [REDACTED] a year in 2024. These budgeted costs for the years 2021 through 2024 total [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 Q. HOW ARE THESE COSTS ACCOUNTED FOR IN THE ECONOMIC ANALYSIS
11 RELATED TO 1803?

12 A. This will be covered in the Direct Testimony of Mr. Kevin P. Suhanic on behalf of 1803,
13 but essentially, the ACES cost analysis only covers the time that 1803 is actually providing
14 electric service, so beginning in 2025. These pre-electric service costs were spread over
15 the first four years of electric service for analysis purposes to ensure that the costs were
16 considered in the analysis. However, to be clear, these costs will be recovered as they are
17 incurred, not deferred until the period beginning 2025. This means that the actual cost of
18 service for the first few years of electric service is overstated in the ACES analysis, but the
19 impact is minimal as these pre-2025 costs are very small compared to the total cost of
20 service. 1803 will seek approval of its wholesale tariff applicable to the Member
21 Cooperatives and the timing of the recovery of these pre-2025 costs will be reflected
22 accurately in the tariff.

V. 1803 COSTS 2025 THROUGH 2044

Q. PLEASE DESCRIBE THE 1803 COSTS THAT ARE EXPECTED TO BE INCURRED IN THE TIME PERIOD 1803 IS TO PROVIDE THE ELECTRIC POWER NEEDS OF THE MEMBER COOPERATIVES?

A. The costs have been budgeted for the first year of service, 2025, and then forecast for the next twenty (20) years. The costs include 1803 administration costs such as salaries, rent, utilities, office supplies, training and travel, MISO and NRECA (National Rural Electric Cooperative Association) member fees, legal, compliance, audit, consulting fees, fees to prepare load forecasts, integrated resource plans, cost of financing and provision of MISO and counter party performance assurances. The costs are approximately [REDACTED] in the first year then escalate over the next twenty (20) years to about [REDACTED] in the last year of the period. (Exhibit BWH-1, Line 34).

Q. HOW ARE THESE ON-GOING COSTS OF 1803 ACCOUNTED FOR IN THE ECONOMIC ANALYSIS RELATED TO 1803?

A. Beginning in 2025 and for the term of the 1803 Member wholesale power contracts, the budgeted costs of 1803 are included in the total annual cost of service calculations and projections which will be the subject of another proceeding. These costs are included in the portfolio analysis conducted by ACES as well, as testified by Mr. Suhanic.

Q. HOW WERE THESE ANNUAL COSTS OF 1803 DURING THE OPERATIONAL PERIOD DERIVED?

A. It will be helpful to look at these budgeted costs in three categories. The first category I will call *1803 Administrative Costs*, which includes salaries, office rental, utilities, supplies, insurance and legal, audit and compliance services and consulting. The second

1 category is *Debt*, which includes the cost of a revolving line of credit and the costs
2 associated with the issuance and maintenance of letters of credit issued on behalf of MISO
3 and power purchase counter parties for performance assurance. The third category is
4 *Energy Management Services*, which includes MISO market participation, fuel and fuel
5 transportation procurement, periodic preparation of integrated resource plan, policy
6 development around trading, trading controls, counter party credit monitoring and analysis,
7 emissions strategy, market participation, hedging, transmission congestion rights, market
8 settlement and reporting, among others.

9 **VI. 1803 ADMINISTRATION COSTS**

10 Q. HOW MUCH IS THE FIRST CATEGORY OF COSTS, 1803 ADMINISTRATION, AND
11 HOW WAS IT DERIVED?

12 A. The 1803 Administrative Costs include four (4) staff to be employed by 1803 including an
13 employee benefits adder of fifty percent (50%). It is anticipated that as 2025 approaches,
14 1803 will assess the economics and prudence of hiring staff or contracting some or most
15 of these services. The salary estimates were derived from experience in the industry, and a
16 review of similar positions at other similar cooperatives. The next costs are for office space
17 rent, utilities, office supplies, liability insurance, consulting, legal services, audit, employee
18 travel and training, MISO and NRECA fees. Rent was established from a web search of
19 rental properties offering the approximate office square feet in the eastern part of Baton
20 Rouge, Louisiana in the area near the confluence of Interstates 10 and 12 and Highway 61.
21 I included twelve different office buildings, currently with appropriate space for rent. The
22 average was Fifteen Dollars Ninety-nine Cents (\$15.99) per square foot. I used Sixteen
23 Dollars (\$16) per square foot in the budget. (Exhibit BWH-2). I talked to a tenant of similar
24 size space in the area to obtain utilities estimates. The total cost of the 1803 Administrative

1 category is [REDACTED]
2 [REDACTED] in the first year and escalates to [REDACTED]
3 [REDACTED] in 2044. (Exhibit BWH-
4 1, Line 15).

5 **VII. 1803 COST OF DEBT**

6 Q. HOW MUCH IS THE SECOND CATEGORY OF COSTS, DEBT, AND HOW WAS IT
7 DERIVED?

8 A. Total debt cost is a function of four components. The first component is cost of obtaining
9 and maintaining an adequate revolving line of credit. 1803 has obtained proposals from
10 two lenders, very familiar with the electric cooperative industry. 1803 has elected to use
11 the lowest cost provider. The annual cost associated with the revolving line of credit has
12 been included in the budget.

13 The second component is day-to-day operational cash flow needs of 1803. The cost of
14 drawing down operational cash flow necessary for one month is included in the budget.
15 However, I note that 1803 has contracted to manage cash flow such that this cash flow
16 requirement will be reduced or not required, so anticipate that this cost is overstated in the
17 budget.

18 The third component is the necessity of posting a letter of credit with MISO as performance
19 assurance for participation as a member. MISO has a worksheet available to calculate the
20 amount of assurance based on the activities of the MISO participant, which we completed
21 and confirmed with MISO. The cost of issuing and maintaining that letter of credit is
22 included.

23 The fourth and final component is the cost of issuing letters of credit as performance
24 assurance related to power purchase agreements. I have included in that cost, all actual

1 required letters of credit, and potential letters of credit in the event of a triggering event, so
2 again expect that the budget cost is overstated. The total cost of Debt is [REDACTED]
3 [REDACTED] in 2025 and escalates to [REDACTED]
4 [REDACTED] in 2045.

5 Because the majority of the supply portfolio power purchase agreements are long term, the
6 obligation and potential obligation for security performance declines over time, however,
7 I simply escalated the highest obligation, which is in 2025, for twenty (20) years, so again
8 believe this amount to be overstated as we look further out in time. (Exhibit BWH-1, Line
9 22). The cost of Debt was derived from the lowest cost lender of the two potential lenders
10 reasonably available to 1803.

11 **VIII. 1803 COST OF ENERGY MANAGEMENT SERVICES**

12 Q. HOW MUCH IS THE THIRD CATEGORY OF COSTS, ENERGY MANAGEMENT
13 SERVICES, AND HOW WAS IT DERIVED?

14 A. Energy Management Services are made up of several services and include, a suite of energy
15 management services, meter data management services, procurement of fuel and fuel
16 transportation, preparation and maintenance of a load forecast, as well as preparation and
17 maintenance of an integrated resource plan. I used my own knowledge of costs for these
18 services to initially budget then tested that budget with other parties that supply these
19 services in the industry, in the MISO South region. By far, the largest component is what I
20 identified as the suite of energy management services (see Exhibit BWH-3 for a list of
21 those services) which is approximately seventy-six percent (76%) of the total cost for this
22 category.

23 For this suite of energy management services, I discussed the desired energy
24 management services with four known electric industry providers, who have experience in

1 the MISO South. The budgeted amount is at approximately the seventieth percentile of the
2 estimated costs, so well above the average estimate for these services. The total cost
3 budgeted for the category of Energy Management Services is [REDACTED]
4 [REDACTED] in 2025 and escalating to [REDACTED]
5 [REDACTED] in 2045.
6 (Exhibit BWH-1, Line 31).

7 **IX. CONCLUSION**

8 Q. DO YOU BELIEVE THAT 1803'S BUDGET ADEQUATELY ACCOUNTS FOR
9 EXPECTED COSTS?

10 A. Yes, and as stated above, it is likely overstated in a few significant areas.

11 Q. HAVE YOU ANALYZED THE IMPACT OF AN ERROR IN THESE 1803 BUDGETED
12 COSTS?

13 A. Yes. In 2026, the first full calendar year of 1803's operation, the cost of 1803's budgeted
14 items is approximately one dollar and six cents (\$1.06) per megawatt hour sold to 1803's
15 Member Cooperatives. That is approximately two percent (2%) of the cost. Even if the
16 actual cost were fifty percent (50%) higher than budget, the impact would be an additional
17 fifty-three cents per megawatt hour. As stated above, it is more likely the budget is
18 overstated, but if not, the impact on the overall cost is small.

19 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.
21

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION OF 1803 ELECTRIC)
COOPERATIVE, INC. FOR APPROVAL)
OF POWER PURCHASE AGREEMENTS) DOCKET NO. _____
AND FOR COST RECOVERY)

AFFIDAVIT OF WITNESS


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

that the Direct Testimony in the

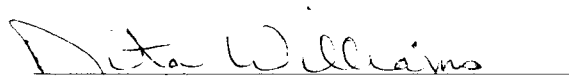
above referenced matter on behalf of

1803 Electric Cooperative, Inc.

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


Brian W. Hobbs

Subscribed and sworn before
me this 15th day of
March, 2021.


Notary Public

Name of Notary and Notary/Bar Roll No.:

Nita Williams #160041341

EXHIBIT BWH-1

HIGHLY SENSITIVE
PROTECTED MATERIALS

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

Exhibit BWH-2

Commercial Office Space for Rent

Source: www.commercialcafe.com

Location	\$/Sq Ft/Yr
Sherwood Plaza	\$ 15.00
III United Plaza	\$ 22.00
Lakeland Park	\$ 12.86
4451 Bluebonnet	\$ 22.00
CB&I Plaza	\$ 20.00
S Sherwood Forest	\$ 13.00
Sherwood Oaks	\$ 16.00
S Sherwood Forest	\$ 19.00
Sunray Ave	\$ 9.85
Cedar Park	\$ 10.50
Jefferson Highway	\$ 17.71
Goodwood Blvd	\$ 14.00
avg/sq ft.	\$ 15.99

Energy Management Services

Trading, Credit, Counterparty Controls, Risk Management

Credit

Credit Analysis and Counterparty
Monitoring
Credit Exposure Monitor and Manage
Credit Negotiations
Credit Reports
MISO Credit Monitoring Services

Contracts

Master Agreement Negotiations
REC and Emissions Agreements
Contract Monitoring and Negotiations
Contract Evaluations
MISO Membership Application and Agreements

Trading Controls

Trade Capture and Validation
Trading Authority Monitoring and
Reporting
Forward Curve Reporting
Mark-to-Market Valuation and Reporting
Reporting of Trade Transactions

Risk Management

RM Policy Development
RM Education and Training

Regulatory and Market

State Regulatory Participation
MISO Development Participation
FERC Order 741 Documentation and Certification for Market Participation
Dodd Frank Physical and Financial Trade Compliance

Portfolio Management and Development

Portfolio Strategy, Analysis and Management
Origination
Emissions and Renewable Strategy and Management
Portfolio and Risk Modeling and Analysis

Portfolio Operational Management

Portfolio Market Management
Reporting
Load Forecasting
Load Following
Optimization Strategy and Modeling
Real Time Monitoring
Physical Transmission Management Scheduling and e-Tagging
MISO Meter Agent Services

Natural Gas or other Fuels

Financial Trading for Hedging Purposes

Transmission Risk Management

Financial Transmission Right (FTR) Evaluation and Hedging
Transmission Locational Pricing Analysis

Settlements and Reporting

Power and Transmission Settlement, Reporting
MISO Market and Transmission Settlement, Reporting
Energy Imbalance Settlement, Reporting
Cost Allocation Modeling and Analysis
FERC EQR Reporting
Metering, Meter Agent Services, Related Communications