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October 6, 2020

VIA HAND DELIVERY

Mr. Brandon M. Frey
Executive Secretary
Louisiana Public Service Commission
602 N. 5th Street, 12th Floor
Galvez Building
Baton Rouge, Louisiana 70802

RECEIVED

OCT 06 2020

LA Public Service Commission

Re: Cleco Power LLC and Southwestern Electric Power Company, ex parte. In re: Joint Application of Cleco Power LLC and Southwestern Electric Power Company for: (I) Authorization to Close the Oxbow Mine; (II) Authorization to Include and Defer Certain Accelerated Mine Closing Costs in Fuel and Related Ratemaking Treatments; and (III) Expedited Treatment

Dear Mr. Frey:

Enclosed on behalf of Cleco Power LLC and Southwestern Electric Power Company (collectively, the "Applicants") are one (1) original and four (4) copies of the captioned Joint Application.

Further enclosed, in a sealed envelope marked "Confidential," are five (5) copies of Exhibit MAB-3 to the Direct Testimony of Mark A. Becker and Exhibit JRC-4 to the Direct Testimony of J. Robert Cleghorn. Pursuant to Rule 12.1 of the Commission's Rules of Practices and Procedures, the Applicants are filing these Exhibits under seal as confidential, privileged, proprietary, and competitively sensitive information, for the Commission's confidential review.

Thank you for your understanding and consideration.

Respectfully submitted,

Daniel T. Pancamo

Enclosures
DTP/lls

cc: Bobby S. Gilliam (Wilkinson, Carmody & Gillian)
Jonathan P. McCartney (Wilkinson, Carmody & Gillian)
Nathan G. Huntwork (Phelps Dunbar, L.L.P.)
Richard E. Matheny (Phelps Dunbar, L.L.P.)

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OCT 06 2020

LA Public Service Commission

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO.: U- 35753

**JOINT APPLICATION OF CLECO POWER LLC AND SOUTHWESTERN ELECTRIC
POWER COMPANY FOR: (I) AUTHORIZATION TO CLOSE THE OXBOW MINE;
(II) AUTHORIZATION TO INCLUDE AND DEFER CERTAIN ACCELERATED MINE
CLOSING COSTS IN FUEL AND RELATED RATEMAKING TREATMENTS; AND
(III) EXPEDITED TREATMENT**

I. INTRODUCTION

In accordance with Order No. U-30975, dated September 30, 2009 (the “2009 Order”), Cleco Power LLC (“Cleco Power”) and Southwestern Electric Power Company (“SWEPCO”) (collectively, the “Applicants”), hereby file this Joint Application, and request that the Louisiana Public Service Commission (the “Commission,” or “LPSC”): (i) determine that it is prudent, based on economic, environmental, operational, and other factors, to permanently cease mining operations at the Oxbow Mine (as hereinafter defined); (ii) permit the Applicants to close the Mines (as hereinafter defined); (iii) permit the ratemaking treatment of the expenses associated with the cessation of mining at the Oxbow Mine and the closure of the Mines, including a deferral of the costs resulting from the accelerated depreciation and amortization of the assets used to operate the Mines; and (iv) authorize expedited treatment. Cleco Power and SWEPCO are both public utilities within the meaning of Louisiana Revised Statutes 45:1161, and are subject to the jurisdiction of and regulation by the Commission as to retail rates and service.

Pursuant to Ordering Paragraph 7(d) of the 2009 Order, the Applicants committed to continue the operation of the Dolet Hills Power Station (“DHPS”) and the Mines “in order that they will be used and useful and in the public interest through at least 2026.” However, Ordering Paragraph 7(d) further provides that the Applicants “shall not be precluded from applying to the

Commission for a shortening of the time requirement, based upon such continued operation no longer being prudent, considering economic, environmental, operational or other similar factors ...” As described more fully in this Application and in the testimonial exhibits hereto, the Applicants submit that continued operation of the Mines is no longer in the public interest, and accordingly are making the requests described in the foregoing paragraph.

Continued operation of the Dolet Hills and Oxbow Mines (collectively, the “Mines”) is no longer beneficial to Louisiana ratepayers from either an operational or an economic standpoint, as the economically recoverable mine reserves have been depleted, and current economic conditions, specifically including the reduced price of natural gas and increased customer demand for renewable energy, warrant closure of the Mines. By closing the Oxbow Mine in 2021, SWEPCO customers will benefit from up to \$180 million in estimated fuel savings. Further, as described below, in Cleco Power’s most-recent Integrated Resource Plan, dated August 30, 2019, Cleco Power projected an aggregate fuel savings of \$355.4 million that would result from the retirement of DHPS, over a 20-year study period 2019-2038. Using the same values provided in that analysis, the projected aggregate fuel savings from 2022-2036 would be \$315 million. To mitigate any increase in costs that ratepayers may bear as a result of the closure of the Mines, the Applicants request that the Commission authorize a deferral, which will be recovered through the Applicants’ respective Louisiana fuel adjustment clauses (“FAC”). SWEPCO is requesting a recovery period of five (5) years, beginning in January 2022. Cleco Power is requesting a recovery period of twenty (20) years, beginning in January 2022. The cost recovery terms are different for the respective companies, as SWEPCO recovers costs in three different state jurisdictions, whereas Cleco Power recovers costs in one jurisdiction, but the resulting customer impacts are similar and minimal. As more fully set forth below and in the testimony accompanying this Application, the

Applicants are seeking expedited treatment of this Application, so that the benefits of lower fuel costs can be secured before the seasonal operation period of summer 2021, for the benefit of Cleco Power and SWEPCO customers.

II. DESCRIPTION OF THE APPLICANTS

A. Cleco Power LLC

Cleco Power is an investor-owned, regulated electric public utility that generates, transmits, distributes, purchases, and sells electricity in portions of north, central, south-central and southeast Louisiana. Through its multiple generating sources and fuels, Cleco Power serves approximately 291,000 retail and wholesale customers. Cleco Power is a direct subsidiary of Cleco Power Corporate Holdings LLC, a Louisiana Limited Liability Company. Its principal place of business and mailing address is 2030 Donahue Ferry Road, Pineville, Louisiana 71360.

B. Southwestern Electric Power Company

A subsidiary of American Electric Power Company (“AEP”), SWEPCO is a vertically-integrated public utility that serves 535,000 retail and wholesale customers in Louisiana, Arkansas, and Texas, of which approximately 240,000 are in Louisiana. Through self-owned generation, over 5,000 miles of transmission lines, about 25,000 miles of distribution power lines included in its distribution facilities, and power purchase and transmission agreements, SWEPCO has served Louisiana customers for over 100 years. Its principal place of business and mailing address is 428 Travis Street, Shreveport, Louisiana 71101.

III. RETIREMENT OF THE MINES IS IN THE PUBLIC INTEREST

A. The Dolet Hills Power Station and the Dolet Hills and Oxbow Mines

Located in DeSoto Parish, Louisiana, the Dolet Hills Power Station (“DHPS”) is a lignite-fired generating plant jointly owned by Cleco Power, SWEPCO, and two minority owners, which

has provided Louisiana customers with over 35 years of reliable baseload electricity fueled by reasonably-priced lignite. DHPS is operated by Cleco Power, subject to direction and approval from the Dolet Hills Executive Committee, which is comprised of four members from Cleco Power and SWEPCO. DHPS is fueled by lignite from the Mines and delivered by the Mine Operator, the Dolet Hills Lignite Company (“DHLC”). DHLC, an affiliate of SWEPCO, replaced the Dolet Hills Mining Venture (“DHMV”) and was contracted by Cleco Power and SWEPCO to operate the Mines pursuant to the Lignite Mining Agreement (“LMA”)¹, submitted in conjunction with and discussed in the Direct Testimony of SWEPCO witness Michael A. Baird as Exhibit MB-1. Pursuant to the LMA, the DHLC delivers quantities of lignite to the DHPS on a monthly basis in amounts approximately equal to the amount of lignite to be used that month.

In the 2009 Order, the Commission unanimously approved the acquisition of the Red River Lignite Mine, now known as the “Oxbow Mine”. As discussed by SWEPCO Witnesses Dennis J. Meyer and Brian Bond, prior to that date, Cleco Power and SWEPCO, acting through the Dolet Hills Executive Committee, had carefully monitored and assessed the output from the Dolet Hills Mine (which had been in operation since 1985). The Dolet Hills Executive Committee determined that an additional fuel source for DHPS was needed. After receiving authorization from the Commission in 2009, DHLC continued mining operations in the Dolet Hills Mine and as well taking over the existing mining operations at the Oxbow Mine for the benefit of ratepayers.

While continuing to evaluate plans and monitoring costs of production, the Dolet Hills Executive Committee determined that the costs to uncover and produce lignite from the Dolet Hills Mine increased in correlation with the depth of overburden, or the material covering the lignite

¹ These operational arrangements, including the terms, provisions, and mechanics of the LMA, were authorized by the Commission in a series of orders (see Order No. U-21453, U-20925 (SC) and U-22092, Subdocket G, issued May 31, 2001; Order No. U-29797, issued December 4, 2007; and Order No. U-30975, issued September 30, 2009 (collectively, the “Dolet Hills Orders”).

fuel. As described in greater detail by SWEPCO Witnesses Brian Bond and Dennis J. Meyer, the Dolet Hills Executive Committee concluded that from an operational standpoint, it was in the best interest of Cleco Power and SWEPCO customers to shift operations to the Oxbow Mine.

As further discussed by SWEPCO Witnesses Brian Bond and Dennis J. Meyer, beginning in 2015 and 2016, the Oxbow Mine sustained heavy rainfall and the Red River experienced two 100-year flood events. In 2017, Tropical Storm Cindy and Hurricane Harvey caused further flooding, prompting DHLC to declare a Force Majeure event from August 18, 2017, through December 18, 2017. Only two months later, in February 2018, DHLC declared a second Force Majeure event, as heavy rain approximating 71.51 inches limited its ability to mine and deliver lignite to DHPS. After considering these unusual weather patterns, the instability in the overburden, difficult and onerous mining conditions, and the market price of lignite, the Dolet Hills Executive Committee opted to limit costs for the benefit of customers by decreasing the number of dragline excavators in operation, and operating DHPS on a seasonal basis. The DHPS seasonal dispatch period is June-September, and seasonal dispatch began in 2019.

As described in the testimony of SWEPCO Witnesses Mike A. Baird, Mark A. Becker, Brian Bond, and Dennis J. Meyer and Cleco Power Witness J. Robert Cleghorn, SWEPCO and Cleco Power have determined that it is economically and operationally necessary to cease mining operations at the Oxbow Mine and to close the Mines for the benefit of ratepayers. After advising the LPSC, lignite production ceased on May 15, 2020.

B. Economic Benefits of Retirement in 2021

While the Mines have supplied cost-effective lignite with which to power DHPS and supply reliable, baseload electricity to ratepayers, economic analyses reveal that operation of the Mines until 2026 as contemplated by the 2009 Order is no longer prudent. SWEPCO Witness Mark

A. Becker performed a Capability, Demand, and Reserve (“CDR”) analysis and reviewed commodity price forecasts, which demonstrate that it would be more cost-effective—and therefore, beneficial to ratepayers—to retire the Mines in 2021, rather than 2026. Similarly, as described by Cleco Power Witness, J. Robert Cleghorn, Cleco Power’s 2019 Integrated Resource Plan projects that the retirement of DHPS will result in substantial fuel cost savings for its customers.

i. SWEPCO’s resource expansion plan and commodity pricing forecast results

As stated in detail in the Direct Testimony of SWEPCO Witness Mark A. Becker, after the Mines are closed, SWEPCO will need to implement a resource expansion plan with a mix of resources consistent with the Preferred Plan stated in its Integrated Resource Plan (“IRP”) to meet the reserve capacity requirements of the Southwest Power Pool (“SPP”).² Any reserve capacity plan, whether implemented in 2021 or 2026, will incur the same costs, as it will include the same combination of cost-effective energy efficiency programs, conservation voltage reduction, and wind resources to meet the 206 MW reserve capacity deficit associated with the closure of the Mines.

More importantly, however, a comparison of commodity pricing forecasts reveals that the closure of the Mines in 2021 will result in savings of up to \$180 million for the benefit of ratepayers. SWEPCO Witness Mark A. Becker confirms that this result is true under an analysis of the two retirement scenarios utilizing the most likely prices for commodities in 2021, and the anticipated prices for commodities when natural gas prices and the SPP market energy prices are higher, otherwise referred to as the “Base” band and “High” band forecasts, respectively. Under

² SWEPCO’s IRP compliance was recently approved in Order I-34715 on May 27, 2020.

either commodity pricing forecast, SWEPCO ratepayers will experience savings up to \$180 million if the Mines are closed by December 31, 2021.

ii. Cleco Power's 2019 IRP.

Cleco Power identified DHPS as a resource potentially meriting retirement as described in Cleco Power's most-recent Integrated Resource Plan, dated August 30, 2019, filed in Docket No. I-34694 (the "2019 IRP").³ In the 2019 IRP, Cleco Power provided an estimate of the cost savings to the customers that would result from an early retirement of Dolet Hills. That estimate utilized a twenty-year study period 2019-2038. Over the twenty-year study period, Cleco Power projected a total fuel cost savings (on a net present value basis, discounted at 6.99%) of \$355.4 million. As noted above, using the same values provided in that analysis, the projected aggregate fuel savings from 2022-2036 would be \$315 million.

As economic analyses performed by the Applicants confirm that it would be more economic to close the Mines in 2021, it is no longer prudent nor in the best interest of Louisiana ratepayers for the Mines to continue in operation until 2026.

IV. RATEMAKING TREATMENT OF RETIREMENT COSTS, INCLUDING ARO AND ARC

By retiring the Mines in 2021, the long-term asset costs that will be billed as fuel to Cleco Power and SWEPCO pursuant to the LMA will increase, and correspondingly increase their respective Louisiana FAC cost per kWh. To counteract the effects of these increases on ratepayers, Cleco Power and SWEPCO, through Cleco Power Witness J. Robert Cleghorn and SWEPCO Witness Michael A. Baird, propose a deferral of the Louisiana jurisdictional amount (estimated as

³ Docket No. I-34693, Cleco Power LLC, ex parte. *In re: Request to Initiate 2017 Integrated Resource Planning Pursuant to the General Order (corrected) issued April 20, 2012.* Cleco Power's 2019 IRP was approved by the Commission as compliant pursuant to Order No. I-34693, issued February 27, 2020.

\$136 million and \$36 million, respectively) for the four months of June through September 2021. Additionally, beginning in January 2022, SWEPCO requests that it be allowed to recover these fuel deferrals over the next five (5) years through its Louisiana FAC. Cleco Power requests that it be authorized to defer and recover these fuel costs over twenty (20) years, beginning in January 2022, through its Louisiana jurisdiction FAC.

As currently projected, the Applicants will incur long-term asset costs equal to \$319,106,000. SWEPCO's share of these costs is approximately 40.324%, or \$128,389,000, and Cleco Power's share of these aforementioned costs is approximately 50%, equal to \$159,553.00. If no deferral is authorized in conjunction with the authorization to retire the Mines in 2021, costs that previously would have been recovered over a seventeen (17) year period will now be recovered over two (2) years, to the material detriment of Cleco Power and SWEPCO ratepayers.

The increase attributable to the Dolet Hills fuel expense will be reflected in the calculation of the Applicants' respective monthly FAC charges, as prescribed by General Order No. U-21497, dated November 6, 1997, and as specifically authorized by the Dolet Hills Orders. However, to minimize the impact on ratepayers, Cleco Power and SWEPCO each request authorization to create a deferred fuel regulatory asset for each Applicant's respective LPSC-jurisdictional share of such costs, and will amortize such amounts as described above and in the testimony of SWEPCO witness Michael A. Baird and Cleco Power witness J. Robert Cleghorn. As explained by SWEPCO witness Michael A. Baird, by doing so, SWEPCO's Louisiana fuel factor is estimated to increase .33% in 2021 and .90% in 2022, and limit the rate shock that would otherwise result. Similarly, Cleco Power witness J. Robert Cleghorn elaborates that doing so will result in an estimated monthly fuel cost increase of \$1.4 million.


V. CONCLUSION

Based on the foregoing reasons and as more fully explained in the Testimonies accompanying this Application, by closing the Oxbow Mine in 2021, Cleco Power and SWEPCO's Louisiana ratepayers will experience savings of up to \$315 million and \$180 million, respectively.

WHEREFORE, pursuant to Order No. U-30975, dated September 16, 2009, Cleco Power and SWEPCO respectfully request that the Commission determine that the December 31, 2021, closure of the Mines is prudent based on economic, environmental, operation, and other factors, is in the best interest of Louisiana ratepayers, and approve the same; and issue an Order authorizing the ratemaking treatment of the expenses associated with closure of the Mines.

Respectfully submitted,

WILKINSON, CARMODY & GILLIAM



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