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LA Public Service Commission

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MARIONNEAUX KANTROW, LLC

10202 JEFFERSON HWY, BUILDING C

BATON ROUGE, LOUISIANA 70809

(225) 769-7473

FAX (225) 757-1709

WWW.MKLAWLA.COM

KYLE C. MARIONNEAUX

kyle@mklawla.com

KARA B. KANTROW

kara@mklawla.com

JOHN N. GRINTON

john@mklawla.com

September 24, 2024

VIA HAND DELIVERY

Mr. Brandon Frey

Executive Secretary

Louisiana Public Service Commission

Galvez Building – 12th Floor

602 North 5th Street

Baton Rouge, Louisiana 70802

Re: Dixie Electric Membership Corporation; Application for Approval of (1) Formula Rate Plan, (2) Modifications to Standard Terms and Conditions and Associated Rate Schedules, and (3) Request for Interim Rate Relief (LPSC Docket No. U - _____)

Request for 15-day Intervention

Dear Secretary Frey:

Enclosed for filing is Dixie Electric Membership Corporation's ("DEMCO") Application for Approval of (1) Formula Rate Plan, (2) Modifications to Standard Terms and Conditions and Associated Rate Schedules, and (3) Request for Interim Rate Relief (the "Application").

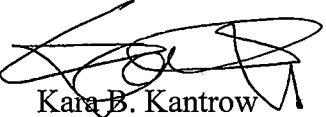
Please note that the Application includes two **CONFIDENTIAL** exhibits (Confidential Exhibit "CEB-1" and Confidential Exhibit "CEB-2"), which are being provided to you under seal pursuant to the provisions of the LPSC General Order dated August 31, 1992, and Rules 12.1 and 26 of the Commission's Rules of Practice and Procedure.

Hand

DEMCO respectfully request that this matter be given a **fifteen (15) day intervention** and published in the upcoming Commission's Official Bulletin (Bulletin No. 1333).

If any additional information is needed, please feel free to contact me. Thank you and kindest regards.

Sincerely,



Kara B. Kantrow

Enclosure: as stated

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

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LA Public Service Commission

DIXIE ELECTRIC MEMBERSHIP)
CORPORATION)
EX PARTE,)
APPLICATION FOR APPROVAL OF)
(1) FORMULA RATE PLAN,)
(2) MODIFICATIONS TO STANDARD)
TERMS AND CONDITIONS AND)
ASSOCIATED RATE SCHEDULES,)
AND (3) REQUEST FOR INTERIM)
RATE RELIEF)

DOCKET NO. U -

**APPLICATION FOR DIXIE ELECTRIC MEMBERSHIP CORPORATION FOR
APPROVAL OF (1) FORMULA RATE PLAN, (2) MODIFICATIONS TO STANDARD
TERMS AND CONDITIONS AND ASSOCIATED RATE SCHEDULES,
AND (3) REQUEST FOR INTERIM RATE RELIEF**

NOW BEFORE the Commission, through undersigned counsel, comes Dixie Electric Membership Corporation (“DEMCO” or the “Cooperative”), a Louisiana member-owned electric distribution cooperative organized and existing under the laws of the State of Louisiana and domiciled in East Baton Rouge Parish, Louisiana, who respectfully represents, in support of the Cooperative’s *Application for Approval of (1) Formula Rate Plan, (2) Modifications to Standard Terms and Conditions and Associated Rate Schedules, and (3) Request for Interim Rate Relief* (the “Application”), the following:

1.

The Louisiana Public Service Commission (the “Commission” or “LPSC”) exercises exclusive jurisdiction to regulate the rates and services of the Cooperative, pursuant to Article IV, Section 21, of the Louisiana Constitution. Further, La. R.S. 45:1163 provides in pertinent part:

A. (1) The Commission shall exercise all necessary power and authority over any street railway, gas, electric light, heat, power, waterworks, or other local public utility for the purpose of fixing and regulating the rates charged or to be charged by and service furnished by such public utilities.

Additionally, La. R.S. 45:1176 provides in pertinent part:

The commission...shall investigate the reasonableness and justness of all contracts, agreements and charges entered into or paid by such public utilities with or to other persons, whether affiliated with such public utilities or not...

2.

THE COOPERATIVE

DEMCO, which was incorporated in 1938, provides electric service to members in southeast Louisiana in the following seven parishes: Ascension, East Baton Rouge, East Feliciana, Livingston, St. Helena, West Feliciana, and Tangipahoa. The Cooperative owns and maintains throughout its service territory approximately 9,000 miles of distribution and transmission lines connecting 44 substations while serving approximately 119,000 meters and approximately 97,000 members. DEMCO has a peak load of approximately 690 megawatts, with sales primarily coming from residential and commercial members. DEMCO's main headquarters is in Greenwell Springs, Louisiana and the Cooperative has six branch offices located throughout its territory. By virtue of its cooperative business structure, DEMCO has no shareholders – the Cooperative is owned by the communities it serves.

A thirteen-member Board of Directors (the "Board") governs DEMCO and delegates management of the Cooperative's daily operations to Mr. Randall C. Pierce, DEMCO's Chief Executive Officer ("CEO") and General Manager ("GM"). The Board is elected by DEMCO's

members, which are the owners of the system *and* its ratepayers.

3.

The objectives of the Cooperative are to provide safe, reliable electric service, at rates that are just and reasonable, equitable, and economically sound. It is with these objectives in mind that the Cooperative files the Application; the requests made herein are in the public interest, in the best interest of the Cooperative, and most importantly, in the best interest of the members of the Cooperative.

4.

As way of background, the Cooperative's operations are funded by (i) electric rates paid by DEMCO's members¹, (ii) long-term debt borrowed from various lenders, (iii) member contributions in aid of construction, (iv) cash received from capital credits paid to DEMCO by other entities, and (v) short-term operating lines of credit. There are no other sources of funding available to the Cooperative. DEMCO, as a cooperative, is unique and different than an investor-owned utility, in that margins earned by the Cooperative accrue to the benefit of member-owners, including in the form of system improvements and improvements in the Cooperative's financial condition. While an investor-owned utility has a fiduciary obligation to maximize shareholder earnings, electric cooperatives like DEMCO do not have financial incentives to maximize "profits" or "earnings" on behalf of investors, but rather are focused 100% on advancing the interests of their members by providing safe and reliable service on a not-for-profit basis based on economically sound rates. Therefore, there is no conflict of interest between serving the needs of

¹ DEMCO's existing rate structure is dictated by a Commission approved formula rate plan pursuant to Commission Order No. U-35359, dated December 30, 2020.

investors and customers as there can be with an investor-owned utility; rather, the only obligation of an electric cooperative is to meet the needs of its members.

5.

As indicated in the Application and the supporting pre-filed direct testimonies and exhibits, DEMCO is struggling to meet its financial obligations. This struggle has degraded DEMCO's financial condition and currently jeopardizes its ability to maintain loan covenants with its various lenders. To prevent a further untenable financial situation, the Board, in conjunction with DEMCO's management and outside consultants, determined that a new, modernized formula rate plan ("FRP") must be implemented. Adopting the appropriate rate mechanism consistent with DEMCO's request herein is necessary for the Cooperative to maintain its financial integrity, meet its debt-service obligations, ensure that it can continue to provide the safe, reliable, and economically sound service that the Cooperative's members demand and deserve, and meet the growing capital investment obligations required by on-going and new Louisiana policies. And, while DEMCO, a cooperative, is different than the investor-owned utilities that operate in Louisiana, such a distinction does not change the fact that DEMCO is generally subject to the same regulatory obligations that the investor-owned utilities are required to comply with, and thus, DEMCO should be allowed to adopt an appropriate rate mechanism that reflects such obligations.

6.

A significant contributor to the determination of the revenue requirement for DEMCO (like other electric cooperatives) is the cashflow needed to fund plant additions, and whether it will be funded through cashflow generated from rates or borrowing from outside lenders. If DEMCO's rates are set too low, then it must rely more heavily on outside borrowing, which increases

exposure to interest rates and forces continued pressure on DEMCO's already eroding equity position (as indicated in the attached supporting pre-filed direct testimonies). Generating sufficient cash flow from rates to sustain equity provides a more balanced approach and ensures members (whether current or future) are adequately funding their respective portion of capital expenditures. Relying too heavily on debt to fund capital expenditures, that will be in place thirty or more years, creates an inequity in cost recovery between current and future members, and also requires DEMCO to allocate an increasingly higher percentage of capital to debt service than to more productive initiatives. The more equitable approach, as proposed by DEMCO in this instance, is to balance the source of funds used to invest in capital expenditures between cash generated from current rates and cash generated from debt funding. This ensures that both today's members and future members are paying equitably and fairly for their respective portion of the plant in service from which everyone receives service.

7.

As this Commission is aware, and as evident by the instant filing, DEMCO relies heavily on debt to finance its operations. DEMCO primarily utilizes three creditors for its short-term and long-term loans: (1) the Rural Utilities Service ("RUS"); (2) the National Rural Utilities Cooperative Finance Corporation ("CFC"); and (3) CoBank. DEMCO has historically struggled to meet the required financial covenants of its lenders. Unfortunately, as DEMCO's debt levels and financial risks increase, the Cooperative's financial flexibility decreases.

8.

DEMCO's rates do not currently generate sufficient margins. Factors as simple as the continuing effects of inflation, increases in wages, unforeseeable expenses, an emergency or

natural disaster, or other events that negatively affect the Cooperative's finances would immediately put the Cooperative's financial position at risk. The Cooperative's electric rates must produce sufficient margins not only to meet the minimal requirements identified by the Cooperative's debt covenants, but more importantly, to also provide sufficient cashflow for the unique operating requirements of DEMCO (a large and growing cooperative) so that the Cooperative's finances are stable and healthy. Importantly, as stated throughout, setting rates at an appropriate level will ensure DEMCO's interests are as aligned as possible with those of its members, which should be the goal of any member-owned organization, and would allow DEMCO to further support member-centered options such as energy efficiency, net metered generation, and demand response.

As evident from the pre-filed direct testimonies and associated exhibits/attachments, DEMCO's current financial operations are unsustainable; therefore, the rate relief requested herein is not only reasonable, just, and fair, but is also extremely necessary. The requests will (i) allow for the implementation of fair and necessary rates to the Cooperative's members, (ii) provide DEMCO with much needed revenue to improve the Cooperative's operating margins, (iii) allow the Cooperative to pay operating expenses, (iv) help fund capital additions, (v) develop and support a strategic plan that is in line with members' interests/goals, and (vi) produce coverage and equity levels consistent with financial objectives of both DEMCO and the Cooperative's lender requirements. It is important to note that DEMCO's financial difficulties are not due to excessive spending on its part, as DEMCO's discretionary spending is in-line with or below that of similarly-situated peers.

9.

THE COOPERATIVE'S EXISTING RATE STRUCTURE

DEMCO currently operates under a three-year Formula Rate Plan ("FRP") approved by Commission Order No. U-35359 dated December 30, 2020 (the "U-35359 FRP"). Pursuant to the U-35359 FRP, DEMCO filed its FRP Annual Report for the 2023 test year on May 15, 2024 (the last year under the Cooperative's current FRP), which is currently pending before the Commission and docketed as LPSC Docket No. U-37211, *In re: Formula Rate Plan Annual Report for 2023 Test Year filing* ("U-37211"). The U-35359 FRP applies to the 2021, 2022, and 2023 test years with rate adjustments effective as of January 1, 2023, January 1, 2024, and January 1, 2025. The adjusted test year calculations for DEMCO's most recent FRP filing resulted in a net loss of \$(787,260) and a TIER of .95 for 2023. The U-35359 FRP no longer serves the best interests of DEMCO or its members, and thus, is not in the public interest.

10.

WITNESSES, TESTIMONIES, AND EXHIBITS SUPPORTING THE APPLICATION

In support of the Application, DEMCO attaches to and makes part of the Application the following direct pre-filed testimonies and exhibits:

- Exhibit RCP: Direct Pre-Filed Testimony of Mr. Randall C. Pierce, DEMCO's CEO and GM;
- Exhibit CEB: Direct Pre-Filed Testimony and Exhibits of Mr. Craig E. Brown, Senior Project Manager of 1898 & Co., part of Burns & McDonnell Engineering Company, Inc. ("1898 & Co.");
 - CONFIDENTIAL Exhibit CEB-1: Test Year Revenue Requirements;
 - CONFIDENTIAL Exhibit CEB-2: Cost of Service Study;

- Exhibit CEB-3: Cost of Service Study Summary;
- Exhibit CEB-4: Summary of Rate Changes/Proposed Base Rates;
- Exhibit CEB-5: Typical Bill Comparison;
- Exhibit PAM: Direct Pre-Filed Testimony of Ms. Peggy A. Maranan, DEMCO's Chief Financial Officer;
- Exhibit JJA: Direct Pre-Filed Testimony of Mr. Jeffrey J. Andry, Jr., DEMCO's Chief Strategy & Regulatory Officer;
- Exhibit A: Proposed Formula Rate Plan Rider;
- Exhibit B: Existing Rate Schedules and Riders;
- Exhibit C: Proposed Rate Schedules (redlined version of Rate Schedules pursuant to Section 501(B)(2) of LPSC General Order 7/1/2019 (Docket No. R-34738)); and
- Exhibit D: Rate Change Filing Requirements Attachment pursuant to Section 201 of LPSC General Order 8/1/2024 (Docket No. R-35462).

The above supporting pre-filed direct testimonies and exhibits are sound and support the implementation of the Cooperative's requests herein. The new, modernized FRP, together with updates to DEMCO's rate schedules and tariffs will lead to a rate structure that is fair, just, and reasonable.

11.

As will be seen from the attached pre-filed direct testimonies and exhibits, the requests contained herein will allow DEMCO to, among other things: i) improve the Cooperative's financial condition in order to become fiscally stable; ii) reduce regulatory lag; iii) stabilize rates; iv) increase margins; v) maintain sufficient equity as a percentage of capitalization; vi) fund needed distribution and transmission plant additions with a greater percentage of internally generated cashflow; and vii) make appropriate updates to DEMCO's tariffs and rate schedules.

Further, the requests herein have been approved by the Board. The Board's role in approving the filing of the Application cannot be understated. The Board has the obligation to make decisions in the best interests of the Cooperative and its members, which includes ensuring the financial health of the Cooperative. DEMCO is about its people, not profits.

12.

NEW, MODERNIZED PROPOSED FORMULA RATE PLAN

As stated above, the U-35359 FRP expired with the filing of the most recent annual report filing (currently pending in U-37211; 2023 test year). DEMCO now requests the implementation of a new, modernized FRP Rider (see attached Exhibit A, proposed Rider FRP, the details of which are also outlined herein and in the attached pre-filed testimonies and exhibits). The proposed FRP is not only in the best interests of the Cooperative and its members, but also includes procedural enhancements to ensure DEMCO's financial health.

13.

While the details of the proposed FRP, and the mechanics of the same, are fully explained in the attached pre-filed direct testimonies (and the FRP Rider attached hereto as Exhibit A), DEMCO would like to highlight some of the unique provisions of the FRP, as indicated below:

Term

The proposed FRP calls for a four-year term and will include calendar years 2026, 2027, 2028, and 2029. The first rate implementation with the new FRP will be effective on July 1, 2026 (see below graph).

“FRP Quarterly Report”
DEMCO Quarterly Adjustment Notice Filings & Quarterly Adjustment Limitations

The proposed FRP includes quarterly FRP retail rate adjustment filings (entitled “FRP Quarterly Reports”) based on the Cooperative’s targeted metrics as defined in the FRP Rider with filing dates and rate implementation dates as indicated below²:

Quarter	CQTY End Date	Filed by Date	Rate Effective Date
1	March 31 st	May 25 th	July 1 st
2	June 30 th	August 25 th	October 1 st
3	September 30 th	November 25 th	January 1 st
4	December 31 st	February 25 th	April 1 st

The FRP Quarterly Report filings will provide the Commission with advance notice (approximately a month) that a quarterly rate adjustment will occur pursuant to the Commission-approved FRP. Quarterly adjustments will be based upon rolling-twelve-month historical actual financial results from DEMCO’s operations, with financial results reported in accordance with generally accepted accounting principles. For example, the first quarterly adjustment will be based on the rolling-twelve-month period ending March 31, 2026, filed with the Commission on May 25, 2026, with customer rate implementation effective July 1, 2026. Quarterly adjustments will be limited to rate increases (or decreases) based on members’ rates, less cost of power, of no more than 7.5% on a rolling-twelve-month period (as further detailed in Section 2.B.4 of the FRP Rider).

² “CQTY” defined as Calculated Quarterly Test Year (see Section 2.B.1 of the FRP Rider).

The purpose of 7.5% guardrail is to assist with rate stability; further, it is noteworthy that the Cooperative's portion of the total member rate (on which the 7.5% guardrail applies) has historically totaled less than half of the Cooperative's total retail rate to a member.

The main purposes of the quarterly rate adjustments (which can take the form of increases or decreases), are to (i) assist the Cooperative overcome the financial obstacles of regulatory lag (quarterly rate adjustments will reduce regulatory lag to only four months), (ii) allow the Cooperative to take meaningful strides towards achieving financial health, and (iii) ensure that DEMCO acts in the best interests of the Cooperative and its members.

"FRP Annual Report"
Annual Review and Reconciliation Report

In addition to the quarterly rate setting structure, an annual filing with the Commission will also occur simultaneously with the 4th Quarter FRP Quarterly Report (the "FRP Annual Report"), which will allow for the review and reconciliation of any over- and under-collections of the previous four FRP Quarterly Reports. Any applicable rate change resulting from the FRP Annual Report filing would be applied to base rates via the succeeding quarterly rate adjustment after Commission approval of the FRP Annual Report at a Commission Business & Executive Session.

Ratio and Bandwidth

As stated above, the proposed FRP will involve a calculated TIER ("CTIER")³ quarterly adjustment, with the first CTIER adjustment being based on the rolling-twelve-month period ending March 31, 2026, and then subsequently every three months thereafter through the end of

³ TIER measures the Cooperative's ability to meet its interest payments on its outstanding debt and will be the primary ratio utilized for each quarterly adjustment.

2029. DEMCO has proposed a CTIER bandwidth of 1.40-1.60 with a midpoint reset of 1.50. This means that any future adjustments would be made to correct DEMCO's CTIER level to the proposed midpoint of one point five zero (1.50) when the TIER level extends below the minimum level of one point four zero (1.40) or above the maximum level of one point six zero (1.60). If the TIER level falls within the bandwidth described, no adjustment will be made based on TIER alone. However, to ensure that DEMCO meets its financial obligations, to both its members and its lenders, DEMCO has also proposed two additional revenue checks involving (a) a threshold debt service coverage ratio and (b) a prescribed equity level (as detailed in the FRP Rider attached hereto).

14.

The implementation of the proposed FRP is in the best interest of DEMCO and its members as the resulting rates will be fair, just, and reasonable (not excessive), and it will provide a regular schedule for determining and adjusting DEMCO's revenue requirements while giving the Cooperative the ability to obtain short- and long-term debt funds from its lenders on a regular as-needed basis. This approach will allow DEMCO the ability to consistently maintain a sound financial position, which will in turn allow the Cooperative to make necessary system improvements and expansions and provide adequate and reliable service to its members. Accordingly, the FRP as proposed by DEMCO in the Application is in the public interest, and in the best interests of the Cooperative and its members.

15.

MODIFICATIONS TO STANDARD TERMS AND CONDITIONS/RATE SCHEDULES

DEMCO also proposes an increase to the Cooperative's monthly member service charges to recover the basic cost of connecting and maintaining service availability, all of which are supported and justified by a Cost of Service Study completed in July 2024. Additionally, DEMCO proposes updates/deletions to certain schedules within the Cooperative's Standard Terms and Conditions (*i.e.* rate schedules), which are also discussed in the attached pre-filed direct testimonies and illustrated in the accompanying exhibits/attachments. These proposed changes are further detailed in the attached pre-filed direct testimonies and exhibits and are being proposed with the intention to help DEMCO better meet its members' needs now and in the future.

16.

Further, pursuant to Section 201 of LPSC General Order 7/1/2019 (Docket No. R-34738), *In re: Proceeding to Establish Rules Regarding Electric Utility Tariff Filings and Related Review, Including Site Specific Rate Filings*, DEMCO hereby provides written notice to the Executive Secretary of the Commission of these proposed changes to its Tariff, for the reasons stated herein and in the attached pre-filed direct testimonies. Also, in compliance with LPSC General Order 7/1/2019 (Docket No. R-34738), DEMCO provides with this filing, attached as Exhibit B and Exhibit C respectively, a copy of DEMCO's existing Rate Schedule and Rate Riders and a redline version of the amended Rate Schedules and Rate Riders.

17.

COMPLIANCE WITH LPSC GENERAL ORDER NO. R-35462

Pursuant to Section 201 of LPSC General Order No. R-35462, *In Re: Rulemaking to Research and Evaluate Customer-Centered Options for all Electric Customer Classes as well as Other Regulatory Environments*, please see attached Exhibit “D.”

18.

INTERIM RATE RELIEF

DEMCO also reserves its right to seek rate relief on an interim basis given the immediacy of the financial relief needed. If interim rate relief is granted, DEMCO is prepared to post security to guarantee that any money ultimately determined by the Commission as not recoverable after a full and complete review of the instant application is returned to DEMCO’s members. The request to reserve the Cooperative’s rights for interim rate relief is in the public interest, is necessary to preserve the financial integrity of the Cooperative, and will ensure that adequate, safe, and reliable electric service is continued for DEMCO’s members. If requested, the interim rate relief would be needed immediately and no other alternatives would exist to meet the Cooperative’s need but for the instant requested interim rate relief. The details of the request for the reservation of interim rate relief is further discussed and provided in the attached pre-filed direct testimonies.

19.

SERVICE OF NOTICES AND PLEADINGS

DEMCO requests that notices, correspondence, and other communications concerning this matter be directed to the following persons:

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

Applicant requests that the foregoing individuals be placed on the Official Service List for this proceeding and respectfully requests that the Commission permit the designation of more than one person to be placed on the Official Service List.

20.

REQUEST FOR CONFIDENTIAL TREATMENT

Portions of DEMCO's evidence supporting the Application contain information considered by the Cooperative to be proprietary and confidential. Therefore, the Cooperative seeks protective treatment of those exhibits and items marked "Confidential" pursuant to Commission's General Order dated August 31, 1992, and Rule 12.1 of the Rules of Practice and Procedure of the Louisiana Public Service Commission and thus, shall be exempt from public disclosure.

21.

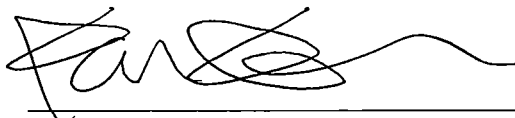
REQUEST FOR 15-DAY INTERVENTION PERIOD

DEMCO respectfully requests that Notice of this filing be published in the Commission's Official Bulletin, No. 1333, and interested parties be given **fifteen (15) days** to file any notice of intervention and/or protest.

WHEREFORE, Dixie Electric Membership Corporation, prays that after all appropriate hearings and considerations that the Application as is set forth herein, and in the testimonies and exhibits attached hereto and made part hereof, be granted, and for all other equitable relief. DEMCO also requests that this Application be given a **15-day intervention period** in the upcoming LPSC Bulletin (LPSC Bulletin No. 1333).

Respectfully submitted,

MARIONNEAUX KANTROW, LLC



Kyle C. Marionneaux (Bar Roll No. 25785)

Kara B. Kantrow (Bar Roll No. 31042)

John N. Grinton (Bar Roll No. 34571)

10202 Jefferson Highway, Building C

Baton Rouge, Louisiana 70809-3183

Telephone: (225) 769-7473

Facsimile: (225) 757-1709

Email: kyle@mklawla.com

kara@mklawla.com

john@mklawla.com

Counsel for Dixie Electric Membership Corporation