EXHIBIT PED-1
TESTIMONY
PAUL DECHARIO

BEFORE THE PUBLC SERVICE COMMISSION

OF THE STATE OF LOUISIANA

LPSC Docket No. _______

Application of Jefferson Davis Electric Cooperative, Inc.)
(JDEC) requesting approval of Initial Revenue Adjustment,
approval of Formula Rate Plan, continuation and modification
of Storm Rider, modification to Tariff, and request for
Interim Rate Relief pursuant to _______________)

PREFILED DIRECT TESTIMONY
OF
PAUL E. DECHARIO
ON BEHALF OF
JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC.

May 31, 2024

Summary of Testimony

Mr. DeChario's prefiled direct testimony supports Jefferson Davis Electric Cooperative's (JDEC) proposed initial revenue adjustment, approval of Formula Rate Plan, and continuation and modification of the Storm Rider based on the adjusted test year ended December 31, 2023. Mr. DeChario sponsors the following Exhibits:

Exhibit A: Cash Requirement and Revenue Requirement
Exhibit B: Test Year Adjustments
Exhibit G: Rider Formula Rate Plan
Exhibit H: Rider Emergency Rate Relief (Storm Rider)
Exhibit PED-2: Curriculum Vitae

PREFILED DIRECT TESTIMONY
OF
PAUL E. DECHARIO

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I. INTRODUCTION AND STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address?

A. My name is Paul E. DeChario. My business address is 20701 Cooperative Way, Dulles, VA 20166.

Q. What is your present occupation?

A. I am employed as Senior Regulatory Accountant of Utility Pricing, Policy & Analytics at the National Rural Utilities Cooperative Finance Corporation (CFC).

Q. What is CFC?

A. CFC was incorporated as a private, not-for-profit cooperative association under the laws of the District of Columbia in April 1969. The principal purpose of CFC is to provide its members with a dependable source of low-cost capital and state-of-the-art financial products and services. CFC provides its members with a source of financing to supplement the loan programs from the Rural Utilities Service (RUS) of the United States Department of Agriculture. CFC will also lend 100% of the loan requirement for those members electing not to borrow from the RUS. CFC is owned by and makes loans primarily to its rural utility system members to enable them to acquire, construct and operate electric distribution, generation, transmission and related facilities, as well as access to emergency lines of credit so power can be restored quickly after natural disasters. CFC has approximately 900 members, including 831 distribution and 62 generation and transmission cooperatives operating in 49 states and four U.S. territories.[1]

[1] JDEC is a member of CFC and has long- and short-term loans from CFC totaling approximately $202,880,994 outstanding as of December 31, 2023.

Q. What are your duties in your current position?

A. My principal roles are to provide technical regulatory accounting support to the staff of CFC's Utility Pricing, Policy & Analytics team as well as the cooperative community at large, prepare cost of service studies and rate design, and present the results of those studies to the management and Boards of the requesting cooperatives.

Q. Please describe your educational background.

A. I received the degree of Bachelor of Science in Business Administration with a concentration in accounting and a minor in computer science from North Adams State College in North Adams, Massachusetts in 1988.

Q. Please describe your professional experience?

A. I have over 35 years of experience in the utility industry, providing rate and regulatory services to gas, water, wastewater and electric utilities. In my current role, I provide Federal and state regulatory expertise and solutions to CFC members and internal stakeholders, focusing on developing revenue requirements, rate design and cost of service studies, regulatory, operational and managerial consulting services, and assisting team members with performing these functions for our membership. Additionally, I advise CFC and its members on emerging regulatory accounting issues and regulatory initiatives.

Prior to joining CFC in December 2018, I was employed by the Federal Energy Regulatory Commission (FERC) from 2014 through 2018 as an Accountant in the Office of Enforcement, Division of Audits and Accounting, Regulatory Accounting Branch. During my tenure at the FERC, I drafted FERC orders regarding individual electric utilities requests for accounting approval for transfers of assets, provided the Office of Energy Market Regulation with draft orders regarding FERC accounting regulations and policies in a variety of accounting matters, including analysis of formula rates and formula rate true-ups. I also participated in audits of regulated investor-owned electric utilities, providing expertise in regulatory accounting, construction work in progress and Federal taxation of public utilities as well as other FERC accounting guidance and rulemakings. Prior to FERC, from 2009 through 2014 I worked for Pepco Holdings, Inc., the parent company of PEPCO, which provides electric distribution service to Washington DC and parts of Maryland, working in the Cost of Service and the Regulatory Affairs departments. From 1991 through 2009, I was employed as a regulatory accountant at Carlstedt, Jackson, Nixon and Wilson, CPAS (CJNW), a public accounting firm located in Clearwater, Florida, the last four of those years as a Partner. During my tenure, I provided income tax services for regulated utilities, provided general and regulatory accounting guidance, prepared regulatory compliance filings and developed rate studies and rate exhibits for over 100 privately-owned water and wastewater utilities in Florida, North Carolina and Connecticut, and testified before the Florida Public Service Commission in rate proceedings and Commission workshops. A more comprehensive history of my experience is contained in Exhibit PED-2.

Q. Do you hold any professional certifications?

A. Yes. I am a Certified Public Accountant with an active license to practice in the State of Alabama since 1996. Exhibit PED-2 provides more detailed information on my professional experience.

Q. Please summarize your experience testifying before regulatory bodies and courts on utility-related matters.

A. During my tenure at FERC, I was assigned to the Commission's advisory staff and, therefore, was precluded from testifying in evidentiary proceedings before FERC Administrative Law Judges. While at CJNW, I prepared pre-filed direct testimony and rebuttal testimony for several utilities for the utility partner. In addition, I prepared pre-filed direct testimony, rebuttal testimony, provided oral testimony in the KW Resort Utilities rate filing (2007), and participated in a Florida Public Service Commission depreciation workshop to update Florida depreciation rules for water and wastewater utilities.

Q. Have you conducted cost of service studies and developed rates for electric cooperatives?

A. Yes, since being employed by CFC, I have conducted approximately 40 regulatory engagements for electric cooperative members including, among other areas of consultancy, revenue requirement studies, cost of service studies and rate design.

II. PURPOSE OF TESTIMONY

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is threefold. The first is to present and describe the methodology and results of a cash flow and revenue requirement analysis performed for Jefferson Davis Electric Cooperative, Inc., (JDEC) to determine the adequacy of its present rate revenues. The revenue requirement analysis was based upon an adjusted

2023 Test Year, and was conducted to determine whether JDEC's existing revenues were sufficient to enable it to meet its minimum requirements for Modified Operating Debt Service Coverage (MDSC), and further what MDSC level would be required to generate sufficient cash flow to allow JDEC to maintain its equity at reasonable levels going forward and to meet its financial obligations.

The second purpose of my testimony is to provide comments concerning the Formula Rate Plan (FRP) of JDEC. I will discuss the methodology of the FRP, the basis for the proposed yearly FRP revenue adjustment, reasons why the FRP will benefit JDEC and the financial problems that can result if JDEC does not have a systematic approach, such as an FRP, to meeting its revenue requirements. I will also describe the proposed JDEC FRP Tariff and its contents.

Finally, I will provide comments concerning the updated Rider Emergency Rate Relief (Storm Rider), and the continuing need for this rate relief.

III. SUMMARY OF FINDINGS

Q. Please provide a summary of your findings in conducting the revenue requirement analysis for JDEC.

A. The revenue requirement determination for JDEC is included in Exhibit A – Cash Requirement Study and Revenue Requirement. Exhibit A – Cash Requirement Study and Revenue Requirement (Schedule 1) indicates that JDEC generated 2023 operating margins of ($-790,843) based upon an unadjusted Test Year and ($-7,227,649) based upon an adjusted test year, which resulted in a MDSC of -1.49 based upon a total Margin of ($-6,543,848). The Test Year MDSC is significantly less than the mortgage default level of 1.35 required by JDEC's principal lender, CFC. As a result, a revenue increase of $7,192,467 is required to achieve a desired MDSC level of 1.90. The increase amount of $7,192,467 equates on a system basis to approximately 29.81 mills per kWh. A MDSC of 1.90 will bring JDEC to "breakeven" on operating margins of ($-35,182).

Q. What test year was utilized for this application?

A. The 2023 calendar year was utilized as the Test Year. In Docket No. U-36082, the Commission ordered that on or before May 31, 2024, JDEC shall file adjusted financial results based upon a test year for the twelve months ending December 31, 2023 using the Modified Debt Service Coverage methodology (FRP methodology), and also submit a Cash Requirements study (emergency relief methodology).

Q. When were base rates last established for JDEC?

A. JDEC base rates were last changed in Docket No. U-34646 based upon a test year ending December 31, 2016. Those rates went into effect for service rendered after October 12, 2018.

Q. What were the sources of your data and information?

A. All data, information, adjustments and existing rate Exhibits were obtained from the books and records of JDEC. JDEC Management and Staff also provided review and comments and participated in the establishment of various criteria to be utilized in the revenue analysis and proposed rate design phases.

The rate increase and Exhibits were approved by the JDEC Board of Directors on May 16, 2024.

Q. Were the determinations in the sponsored Exhibits made by you or under your direct supervision?

A. Yes, they were.

IV. EXHIBIT A: CASH REQUIREMENT AND REVENUE REQUIREMENT

Q. Please describe Exhibit A, Schedule 1, entitled "Cash Requirement Study".

A. Exhibit A-1, Test Year Operating Statement, presents an unadjusted Test Year operating statements for the years ending December 31, 2020 through 2023 from the records of JDEC as well as the various adjustments made to the Test Year financial data and the resulting adjusted Test Year results. Exhibit A-1 also indicates the results of the adjusted operating statement for the Test Year. It indicates JDEC had adjusted Test Year operating margins of ($-7,227,649) and a corresponding MDSC level of -1.49. Exhibit B-1 presents the adjustments that were made to the Test Year revenues and expenses, respectively, together with the basis for the adjustments. The adjustments were identified by the FRP methodology, and JDEC staff provided the adjustment support information. Exhibit A-1 also presents the Cash Requirement including the revenue requirement, which proposes $648,619 of Total Margins at 1.90 MDSC.

Q. Please describe Exhibit A, Schedule 2 entitled "Revenue Requirement".

A. Exhibit A-2 is a determination of the annual revenue required by JDEC during the adjusted Test Year to meet the proposed minimum MDSC requirement of 1.90. Exhibit A-2 indicates the Adjusted Cost of Operation and the return on rate base provided by a 1.90 MDSC. Exhibit B-2 indicates the adjustments made to the test year Exhibit A-2 for return on rate base. The return on rate base is an important metric. It provides the return of member capital and long-term debt that finances the assets used in the provision of electric service to members, provide coverage of interest payments on long-term debt and return on member capital to fund future investment in utility infrastructure.

Q. Please define Debt Service Coverage (DSC), and explain the difference between Operating DSC, Modified DSC and Total DSC.

A. DSC is a ratio that measures a borrower's ability to meet its debt service obligations, both principal and interest. It is calculated as the sum of margins plus an add-back depreciation expense deducted in the development of margins, plus an add-back interest on long-term debt deducted in the development of margins divided by debt service (principal and interest) payments.

Operating DSC (ODSC) uses only operating margins in the DSC calculation and excludes non-operating margins from consideration. As such, it is the most conservative method of calculating DSC, and excludes non-operating results because there is no assurance of achieving similar non-operating results year over year.

Modified DSC (MDSC) considers operating margins and any non-operating margins that were received as cash, such as interest income or the cash portion of any capital credits that may have been allocated.

Total DSC (TDSC) considers total margins, including operating margins plus all non-operating margins, regardless of whether they represent actual cash available to the Cooperative.

Q. Why is achieving an adequate MDSC level important?

A. JDEC's mortgage with CFC, its principal lender, stipulates that JDEC must maintain an average MDSC of not less than 1.35 for two of every three consecutive years in order to remain eligible to borrow new loan funds and avoid defaulting on its existing loans. As an electric cooperative, JDEC's main source of capital is long term loan funds. It is therefore critical that JDEC have access to long-term loan funds on a regular basis in order to finance the system improvements and additions needed to extend service to new consumers and maintain adequate and reliable service to existing consumers. For the purpose of determining the revenue requirement, JDEC does not believe it would be prudent to set a financial goal based upon the default minimum MDSC level of 1.35 since it is the bare minimum requirement.

Q. Please discuss the use of a requested MDSC of 1.90.

A. An MDSC of 1.90 improves the existing operating margins, even though it will yield a negative operating margin of ($-35,182) and, after removal of non-cash patronage dividends (discussed previously) of $647,207, provides break-even total margins of $1,412.

Break-even margins implies that JDEC can, at best, pay all of its current bills and long-term debt service, and should be the minimum earnings allowed to enable to allow JDEC to continue to operate as a going concern. Break-even does not provide the working capital necessary to respond to changing prices in the marketplace or to increased weather activity compared to the prices and weather activity experienced during the test year, severe storms notwithstanding.

V. EXHIBIT B: TEST YEAR ADJUSTMENTS

Q. Please describe Exhibit B, entitled "Test Year Adjustments," and the schedules contained therein.

A. Schedule 1 of the Exhibit B, Test year adjustments are adjustments made to the historic (2023) test year for known and measurable activities affecting the rate effective period (2024) or for rate-making adjustments as provided for in the Jefferson Davis Formula Rate Plan.

Schedule 2 provides the adjustments used in the determination of the revenue requirement for the recovery of the cost of providing service at the proposed MDSC of 1.90. Also presented are the adjustments to rate base used to calculate the rate of return on rate base, based upon Jefferson Davis proposed operating income at 1.90 MDSC.

Q. Please describe Adjustment 1 of Exhibit B, Schedule 1, "Remove Storm Rider from Base Revenue."

A. The Emergency Rate Relief Rider (a/k/a Storm Rider) approved in LPSC Docket No. U-36082 recovers a portion of the interest on the short-term debt and additional operating expenses incurred as a result of Hurricane Laura in 2020. Neither the short-term interest cost nor the amount of short-term indebtedness incurred are included in the calculation of the MDSC or in base rate recoveries. Therefore, it is appropriate to exclude the recoveries related to the Storm Rider from base rate revenue in the development of the base rate revenue requirement.

Q. Please describe Adjustment 2 of Exhibit B, Schedule 1, "Adjust Cost of Power for Power Provided by FEMA Generators."

A. At present, five substations are not connected to JDEC's source of power supply while repairs to the damage caused by Hurricane Laura continues. The five substations are connected to generators (FEMA generators) to provide the 42,820,209 kWh to the 1,890 customers connected to those substations. The fuel for these FEMA generators will ultimately be paid for by FEMA reimbursement, so this energy supplied by the FEMA generators is presently provided at no cost to JDEC's customers. JDEC anticipates that all substations will be interconnected with JDEC's system by June 2025. The customers' consumption patterns are not expected to change as a result of this transparent change in the source of power provided to them.

This adjustment is necessary in the development of the revenue requirement, which is based on the normal cost of operation during the rate effective period. This proforma adjustment will represent the annual cost of power on an on-going basis. In the Formula Rate Plan adjustments, the revenue recovered for the cost of power is removed from total revenue in the determination of base rate revenue.

JDEC recovers the cost of power currently through its Fuel Cost Adjustment Clause (per S.C. No. 88-CA-1719) and Power Adjustment Clause (per LPSC Letter 03/01/19).

While the revenue requirement amount includes the total cost of power in normal operations, only the actual cost of power is recovered in billing based on the cost of power billed by LA Generating, LLC/Cleco Cajun LLC (LaGen/Cleco Cajun) through the Fuel Adjustment Clause and the Power Adjustment Clause.

As shown in the adjustment calculation, the average cost of power purchased from LA Generating, LLC/Cleco Cajun LLC is developed by dividing the total actual cost of power by the total kWh purchased from LA Generating, LLC/Cleco Cajun LLC. The total average cost of power of $0.08675 per kWh is then multiplied by the total 42,820,209 kWh generated by the FEMA generators and delivered to customers, resulting in a calculated additional purchased power cost of $3,714,575.77 if the customers had received power from LA Generating, LLC/Cleco Cajun LLC, as they will be by June 2025.

Q. Please describe Adjustment 3 of Exhibit B, Schedule 1, "Charitable Contributions Exclusions."

A. Investor-owned utilities generally must exclude charitable contributions, political contributions and similar charges from rates charged to their customers; these costs are considered to be shareholder costs. Cooperatives are unique in that the customer, the shareholder, the owner and the member are all the same person. Additionally, among the seven internationally recognized Cooperative Principles include Concern for Community defined as "Cooperatives give back to their communities, providing jobs and services to co-op members and their families. They make meaningful economic and social contributions to their communities with a focus on sustainable development." These local charitable contributions are provided to the community in the spirit of the Cooperative Principles.

Pursuant to the Formula Rate Plan, and despite its disagreement in principle with the adjustment, JDEC removed $24,904.24 in charitable contributions from expense recovery in the revenue requirement calculation.

Q. Please describe Adjustment 4 of Exhibit B, Schedule 1, "Annualized Depreciation Expense."

A. Among the adjustments required in the Formula Rate Plan is an adjustment to annualize December depreciation expense based on the presumption that average monthly depreciation in the rate-effective period will be at least the amount of depreciation taken on assets in service during December. During December 2023, JDEC's auditors increased depreciation expense by $185,305. This adjusted total annual depreciation expense, not just December depreciation expense and its inclusion, would cause the annualized depreciation expense to be unreasonably high. Therefore, the 1/12th of the audit adjustment is added to the depreciation expense actually recorded to yield a December adjusted depreciation expense of $162,589.27, which annualizes to adjusted annual depreciation expense during the rate-effective period of $1,951,071.23. This represents a $202,395.65 increase in depreciation expense from the historic 2023 actual annual depreciation expense.

Q. Please describe Adjustment 5 of Exhibit B, Schedule 1, "Annualized Long-Term Debt Service Payments."

A. Another adjustment required in the Formula Rate Plan is an adjustment to annualize the fourth quarter interest payment based on the presumption that average quarterly payment of interest during the rate-effective period will be at least the amount paid on long-term debt during the fourth quarter. Fourth quarter interest billed for long-term debt was $266,451. Annualization yields an annual interest on long-term debt of $1,065,804, which is ($-7,331) less than the amount of interest recorded on JDEC's books for 2023, and the interest on long-term debt is adjusted accordingly.

Q. Please describe Adjustment 6 of Exhibit B, Schedule 1, "Annualized Interest Income."

A. The Formula Rate Plan requires an adjustment to annualize interest income based on the presumption that average monthly interest income in the rate-effective period will be at least the amount of interest income received during December. December 2023 interest income was $2,683,70. Annualization yields an annual interest income during the rate effective period of $32,204.40, which is $685.70 more than the amount recorded on JDEC's books during 2023, and the adjustment is made accordingly.

Q. Please describe Adjustment 7 of Exhibit B, Schedule 1, "Additional Revenue Requirement."

A. Adjustment 7 is presented for informational purposes only. It is not an adjustment per se, but a calculation of the mills per kWh for the $7,192,466.91 total adjustment to the revenue requirement.

Q. Please describe the adjustments of Exhibit B, Schedule 2, "Rate Base Adjustments."

A. While cooperatives are precluded from using rate base in the development of rates by Rule, Return on Rate Base is an important metric in determining the financial health of a utility. The adjustments in Exhibit B, Schedule 2 show the adjusted rate base to compare with the adjusted results of operation during the test year.

Q. Please describe Adjustment 8 of Exhibit B, Schedule 2, "Additional Plant In Service."

A. Adjustment 8 adds plant to be placed into service in 2024, including $34,870 in Distribution Plant not related to storm repairs and $17,500 in improvements to Structures.

Q. Please describe Adjustment 9 of Exhibit B, Schedule 2, "Accumulated Depreciation."

A. Adjustment 9 adds the amount of the depreciation expense adjustment calculated in Schedule B-1, Adjustment 4 to accumulated depreciation to reflect the impact of the adjustment to depreciation expense in accumulated depreciation.

Q. Please describe Adjustment 10 of Exhibit B, Schedule 2, "Working Capital."

A. Adjustment 10 decreases the amount of the Allowance for Working Capital included in the determination of Rate Base due to the reductions in Administrative and General expenses calculated in Schedule B-1, Adjustment 3.

Q. Please describe Adjustment 11 of Exhibit B, Schedule 2, "Other Deferred Debits."

A. Adjustment 11 removes accumulated non-plant FEMA reimbursable costs from the determination of rate base.

VI. EXHIBIT G: RIDER FORMULA RATE PLAN

Q. What is the purpose of the Formula Rate Plan (FRP) exhibits in Exhibit G that JDEC is proposing?

A. After much delay due to the COVID pandemic, JDEC filed the final FRP pursuant to Docket No. U-34676 (Issued October 12, 2018) on May 9, 2023 for the test year ended December 31, 2022, the last in the three-year cycle adjusting 2016 base rates. Proposed new base rates, based on a test year ending December 31, 2023, are included in this filing. There are no results presently available for 2024, so it would be premature to file a FRP at this time; however, certain updates have been made to the model, and the model itself is presented for approval for the upcoming proposed three-year cycle. JDEC is requesting approval to continue the FRP for test years 2024, 2025 and 2026, to be filed in 2025, 2026 and 2027.

Q. Did you update the FRP that JDEC is proposing to adopt?

A. Yes. The model had minor updates to correct typographical errors, and the calculation of the MDSC was updated to match the method CFC uses to calculate this metric.

Q. Please comment on the general methodology of the FRP.

A. I believe the methodology of the proposed FRP is straight forward and will be effective in aiding JDEC in maintaining its financial requirements for its MDSC on a consistent basis. The plan calls for yearly Commission reviews of submitted JDEC financial information for an adjusted Test Year, with resulting appropriate revenue adjustments in the form of a rider applied to all kWh sales. The need for a revenue adjustment would be based upon whether the MDSC for the adjusted Test Year falls within a designated range, or bandwidth, with a minimum level of 1.80, a maximum level of 2.00. and a midpoint of 1.90. If the FRP determines that MDSC would be lower than 1.80 for a given Test Year period, rates would be adjusted upward to produce margins sufficient for an MDSC at the midpoint level of 1.90. If the FRP determines that MDSC would be above 2.00 for a given Test Year period, rates would be adjusted downward to achieve the midpoint MDSC of 1.90. No revenue adjustment would be made if the Test Year MDSC fell within the bandwidth.

The midpoint MDSC level in the plan is 1.90 and would provide margins consistent with the Revenue Requirement Analysis discussed earlier. This MDSC level, along with the proposed MDSC bandwidth, will allow JDEC some flexibility in operations from year to year. I also believe the plan represents a revenue requirement approach between JDEC and the Commission that JDEC's long term debt lenders will find assuring in today's lending environment.

Q. Without regular access to long term debt funds what type of financial problems may JDEC experience?

A. Without access to long-term funds, but with a continuing need for such funds, JDEC may have to take action in two different areas. First, JDEC may have to cut expenses in an attempt to maximize its available cash flow and improve its MDSC ratio while awaiting long-term funding. Unfortunately, the predominant expense area which is typically reduced in this situation is right-of-way maintenance. Reduction of right-of-way expenses may be somewhat effective in the short term in reducing current expense levels, but its effects are felt for years in the future in the form of increased losses, greater safety hazards and decreased reliability of service.

Another course of action which becomes necessary when long-term funds are not available is the use of JDEC's line of credit to fund capital improvements. Such action results in the expansion of the normal line of credit limits and when the expanded limits are reached serious cash flow problems generally occur. Moreover, the interest rate charged for line of credit funds is typically higher than that charged for regular long term loan funds. Once the required financial criteria are met, JDEC receives loan funds and reduces the line of credit balance to normal levels, which makes the line of credit available for normal use.

Q. Why do you believe a regular plan for revenue requirement determination and adjustment such as the proposed FRP is desirable for JDEC?

A. A regular plan for determining and adjusting JDEC's revenue requirements such as the FRP proposed in this application would give JDEC the ability to obtain long term debt funds from its lenders on a regular, as needed basis. Not having such a plan in place, as is the present situation, may produce undesirable results to JDEC and its owner/ratepayers. The undesired results may include reduced right-of-way expenditures, which will be more costly at a later date and result in reliability issues. The implementation of future significant revenue increases every several years would place a greater burden on the members to budget and allocate their income. Finally, without an implemented plan, JDEC's lenders would not have the regular financial assurances they require for the provision of long-term debt funds on a regular basis.

Q. After assisting in developing the proposed FRP for JDEC, do you believe the plan would adequately address JDEC's requirements for consistent satisfactory financial results, mainly adequate MDSC levels, in the future?

A. Yes, I do. While there is no assurance of any level of revenues or margins, I believe the FRP as proposed would allow JDEC to adjust revenues in relatively small amounts on a yearly basis to consistently achieve MDSC levels which are satisfactory to its lenders of long-term debt. The satisfactory MDSC level each year would give JDEC's lenders adequate assurance of JDEC's ability to amortize existing and new loans. Thus, JDEC could obtain new long-term funds when needed without placing undesired pressures on its line of credit or having to cut needed expenses in an attempt to meet minimum MDSC levels.

Q. Is the proposed FRP included in the instant filing?

A. Yes, the proposed FRP is included as Exhibit G – Formula Rate Plan.

Q. Please describe the mechanics of the FRP.

A. Exhibit G – Formula Rate Plan outlines the procedure by which JDEC base rates may be periodically adjusted by percentage amounts to achieve revenue levels that will satisfy the MDSC criterion. Specifically, Exhibit G – Formula Rate Plan describes the requirements for Annual Filing and Review (Section 2.B.), the Filing Date (Section 2.B.1), the Review Period (Section 2.B.2) and the Resolution of Disputed Issues (Section 16 2.B.3).

The Filing Date proposed in the instant case is May 15 of each filing year, with the first filing year being 2025, for the test year ending December 31, 2024. The proposed Review Period for Commission Staff and any associated parties is May 15 through August 7 of the filing year, followed by a 15-day review period during which JDEC can review any corrections and/or adjustments proposed by Staff, and work with Staff to resolve any differences. Any required rate adjustments that are indicated by the FRP would become effective with JDEC's first billing cycle for the month of October of the filing year.

Section 2.C covers the Annual Redetermination of Rate Adjustments. Section 2.C.1 is a Definition of Terms such as (a) Test Year, (b) Calculated Debt Service Coverage Ratio (CDSC), (c) Bandwidth for Modified Debt Service Coverage Ratio, and (d) Midpoint for

Modified Debt Service Coverage Ratio. The FRP defines Test Year as the twelve-month period ending December 31 immediately preceding the respective filing year. The MDSC utilized in the FRP will be the MDSC discussed earlier in this testimony. The MDSC bandwidth is defined as the range of values with a lower limit (Lower Band) of 1.80 and an upper limit (Upper Band) of 2.00. The midpoint MDSC is defined as 1.90. Section 2.C.2, Rider FRP Revenue Level, states the method for determining appropriate revenue levels under the FRP. There would be no revenue change if the MDSC falls within the FRP bandwidth. Revenues would be adjusted upward to the midpoint MDSC if the MDSC falls below the lower limit of the FRP bandwidth, or downward to the midpoint MDSC if the MDSC exceeds the upper limit of the FRP bandwidth. Sections 2.C.3 and 2.C.4 cover the Rider FRP Revenue Allocation and the Rider FRP Rate Changes by Tariff, indicate the rate Exhibits to which the FRP will apply, and state that any required FRP revenue change would be allocated to each applicable rate Exhibit H based upon an equal percentage of applicable base rate revenue.

Section 3 contains Provisions for Other Rate Changes including No Base Rate Change (Section 3.A), Extraordinary Cost Changes (Section 3.B), and Special Rate Filings Section 3.C). Section 3 precludes any rate adjustments during the term of the FRP except as provided for by the FRP. However, JDEC or the Commission may seek to adjust rates in response to extraordinary changes in cost or base revenues exceeding $1 million that may occur. Additionally, JDEC may propose new rates or changes to existing rates to address competitive or other business needs.

Section 4 provides the Effective Date and Term of the plan and indicates that the FRP shall continue in effect for three years, with FRP Annual Report Filings due on or before May 15 of 2025, 2026 and 2027, for Test Years ending December 31, 2024, 2025 and 2026, respectively.

The FRP also specifies and includes Schedules A through E. Schedule A will indicate FRP rate changes by tariff, for the current year and for each prior year of the FRP. The current year rate change will come from Schedule D, and the prior year rate changes will be taken from the respective FRP submittals for those years. Schedule B will be a JDEC Operating Statement for the Test Year Period, and will include the Actual Test Year, several pro-forma adjustments to the Test Year, and the Adjusted Test Year results. Schedule B will also indicate the Calculated MDSC ratio. Data on Schedule B for JDEC operating statement will be taken from JDEC's CFC Form 7 reports. Data used on Schedule B to calculate MDSC will be taken from the operating statement data as well as correspondence from its lenders regarding principal payments on long-term debt. Pro-forma adjustments on Schedule B will be taken from Schedule C. Schedule C will provide the calculation of the ratemaking adjustments that will be made to the Test Year data, as follows:

1. An adjustment for over/under collection of the fuel and power cost during the Test Year period. Data for this adjustment will come from the applicable PCA calculation reports that JDEC submits to the Commission each month.

2. An adjustment to annualize the Test Year principal and interest payments on long-term loans based upon the actual fourth-quarter debt service payment. Data

for this adjustment will come from the applicable invoices provided by JDEC's lenders.

3. An adjustment to annualize Test Year depreciation expense based upon the last month of the Test Year. Data for this adjustment will come from the RUS Form 7 report for December of the Test Year.

4. An adjustment to annualize interest income based upon the last month of the Test Year. Data for this adjustment will come from the RUS Form 7 for March of the Test Year.

5. An adjustment to annualize Test Year revenues based upon the prior year FRP rate change, as applicable. Data for this adjustment will be taken from Attachment E.

6,7,8. Adjustments made as needed to exclude from the Adjusted Test Year Operating Statement such items as Fines and Penalties, Charitable Contributions, Political Contributions, and Lobbying expenses. Data for these adjustments will come from JDEC records.

Schedule D will indicate the Rider FRP Revenue Calculation Formula, and will comprise the following sections:

Section 1- Bandwidth Check will compare the calculated MDSC for the Adjusted Test Year to the MDSC bandwidth to determine whether the base rates should be increased, decreased, or remain the same. The calculated MDSC will come from

Section 2 – Rider FRP Rate Reduction will determine the amount by which base rates should be reduced in the event that the calculated MDSC is greater than the upper limit of the DSC bandwidth.

Section 3 – Rider FRP Rate Increase will determine the amount by which base rates should be increased in the event that the calculated MDSC is less than the lower limit of the DSC bandwidth.

Section 4 – Total Rider FRP Revenue indicates the total change in the Test Year revenue requirement by adding the FRP rate change, if any, from Section 2 or 3 to any Extraordinary Cost/Revenue Change that may be required for the Test Year period. Data on an Extraordinary Cost/Revenue Change would be taken from JDEC records.

Section 5 – Current Year Rider FRP Percentage indicates the percentage by which the Test Year base revenues will be adjusted, based upon the result of Section 4 and Test Year Base Revenues as determined on Attachment E.

Schedule E will indicate the Rider FRP Base Revenue Determination for the Test Year. Base Revenues are defined as total Test Year rate revenues exclusive of (a) revenues recovered through JDEC's Power Cost Adjustment Clause, and (b) revenues collected through any FRP rate changes that applied during the Test Year. Data required for this calculation will be taken from the monthly Form 7 reports, the monthly PCA calculation reports, Attachment A, and JDEC's billing records.

Attachment F will indicate the Test Year 1 Statement of Operations by Month, and will be the source of the "Per Books" Test Year revenue and expense data used on Attachment B.

Q. Please explain the reasons for selecting the dates and time periods defined in the FRP for the test year, filing date and review period.

A. The dates and time periods defined in the FRP for the Test Year, Filing Date and Review Period were selected to ensure that any rate change resulting from the FRP would go into effect during a period of relatively low usage, such as the spring or fall, when members' bills are typically lower, to minimize the impact of a rate change on the bills. Given the time needed for the Commission to review and approve this FRP application, and the subsequent time needed for preparation and review of the initial FRP report, we believed that the fall represents the earliest practicable opportunity to initiate an FRP rate adjustment. Therefore, the FRP was prepared based upon dates and time periods that would result in an initial FRP rate adjustment effective with the October billing cycles.

Q. Do you believe the FRP is in the best interests of JDEC's members/owners?

A. Yes. Under the FRP, JDEC and its members/owners will have the ability to consistently maintain a sound financial position which would allow for access to long term debt funds when needed. With access to long term debt funds, needed improvements and expansions could be made to the system that would provide adequate service and reliability levels for all members. Finally, the yearly revenue adjustments, if required, will be relatively small in magnitude, which JDEC's member/owners should find easier to budget and manage.

VII. EXHIBIT H: RIDER EMERGENCY RATE RELIEF (STORM RIDER)

Q. Please explain the decrease which is being proposed for the JDEC Storm Rider in Exhibit H – Rider Emergency Relief (Storm Rider).

A. In Order No. U-36642 (Issued February 16, 2023), JDEC was authorized to apply a Storm Rider amount of $11.82 mills per kWh to all kWh used during the month. Of that total rider amount, $5.65 mills are to be directed to CFC as partial and good faith interest payments on JDEC's Equity Line of Credit (ELOC) loan. The remaining $6.17 mills was directed to compensating JDEC for the added cost of storm related operating activities, such as refueling of FEMA generators and maintenance of the same. At the time of the ELOC loan in 2020 the interest rate on the ELOC was 2.00%. Effective January 1, 2023, the interest rate increased to 5.65%. Because the current cost of operations is now being recovered in the proposed increase in revenue in the current cost of service study, $6.17 mills are no longer required, and JDEC proposes to reduce the total storm rider from $11.82 mills per kWh to $5.65 mills per kWh approved for direction to CFC in Order No. U-36642.

Q. Please describe attached Schedules 1, 2, 3 and 4 to this Exhibit.

A. Schedule 1 contains Sections A through C. Section A indicates the existing approved storm rider line-item charge amount as per Order U-36642 of $11.82 mills per kWh and the breakdown of the rider amount of $5.65 mills per kWh for good faith interest payments to CFC on the ELOC and $6.17 mills per kWh for JDEC's use in operating its system and providing service.

Section B indicates the proposed decrease in the storm rider, reducing the storm rider from its present $11.82 mills per kWh to $5.65 mills per kWh, which is the portion related to the good-faith interest payments to CFC.

Section C indicates the total amount of the ($-1,487,832) revenue reduction to be produced by the removal of the $6.17 mills per kWh from the Storm Rider rate.

In 2023, JDEC received $2,850,271 less the ($-1,487,832) reduction for removal of operations cost recovery yielding a net Short-Term interest recovery dedicated to CFC of $1,362,439.

Schedule 2 indicates the determination of JDEC's twelve-month kWh sales for the period ending December 2023 that was utilized in Section C.

Schedule 3 summarizes the quarterly short-term principal balances, ending interest rate, and interest cost from Schedule 4.

Schedule 4 provides the interest rate, balances during the period, the dates the principal balance and interest rate was in effect and the related number of days, and the periodic interest cost.

Attachment 1 titled CFC Short-Term Debt Invoices includes copies of CFC invoices for each quarter of 2021. The ELOC is Loan ID LA 0195104001 and is summarized on Schedule 4.

Q. Do you believe this request for a decrease in the JDEC Storm Rider of $6.17 mills per kWh, with retention of the original $5.65 mills per kWh for interest payments on the CFC ELOC, is reasonable and in the best interests of JDEC and its members?

A. Yes. Recovery of interest on short-term debt is not included in recoveries in base rates and is not included in the MDSC calculation. Absent the Storm Rider, there is no recovery mechanism. The Storm Rider will sunset once FEMA recoveries for the short-term debt and related interest are received. At present, it is necessary in order to maintain the ability to receive short-term debt to pay for continuing storm-related repairs.

Q. Does this conclude your testimony?

A. Yes

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF LOUISIANA

LPSC Docket No. _______

Application of Jefferson Davis Electric Cooperative, Inc.	**)**
(JDEC) requesting approval of Initial Revenue Adjustment,	**)**
approval of Formula Rate Plan, continuation and modification	**)**
of Storm Rider, modification to Tariff, and request for	**)**
Interim Rate Relief pursuant to _______________	**)**

AFFIDAVIT OF PAUL E. DECHARIO

State of Virginia)
Loudon County)

Paul E. DeChario, being first duly sworn on his oath, states:

1. My name is Paul E. DeChario. I work in Dulles, Virginia, and I am employed by the National Rural Utilities Cooperative Finance Corporation as a Senior Regulatory Accountant of Utility Pricing, Policy and Analytics.
2. Attached hereto and made a part hereof for all purposes in my testimony on behalf of Jefferson Davis Electric Cooperative, Inc. consisting of twenty nine (29) pages, having been prepared in written form for introduction into evidence in the above-captioned proceeding.
3. I have knowledge of the matters set forth therein. Paul E. DeChario being duly sworn, deposes and says that the statements contained in the foregoing prepared testimony and the exhibits attached hereto are true and accurate to the best of his knowledge, information and belief, and that such prepared testimony constitutes his sworn testimony in this proceeding.

Paul E. DeChario

Sworn to and ascribed before me this the 22 day of May, 2024

Notary Public

My Commission Expires: 9/30/2025

JOHN S BLACKBURN
NOTARY PUBLIC
REG # 7209304
MY COMMISSION EXPIRES 9/30/2025
COMMONWEALTH OF VIRGINIA