

B. Development of Monthly Charges

1. Production Capacity and Energy Charges

Production Capacity Service charges shall be a monthly charge applied to the member cooperative’s average monthly budgeted coincident peak (CP) demand. The Production Energy Charges shall be collected at the service point level with each kWh determinant being derived from revenue quality meters located at each of the service points. These service points are the demarcation points whereby 1803 EC makes wholesale transmission service for delivery to the member distribution cooperatives. The Service Point Level Charges are as follows:

Production Capacity Service Charges = Production Capacity Service Rate * Member Cooperative’s Average Monthly Budgeted CP kW

Base Energy Charges = Energy Rate * Member Cooperative kWh

Energy Adjustment Charges = Energy Adjustment Rate * Member Cooperative kWh

2. Transmission

Transmission Service Charges associated with MISO network service shall be a monthly charge applied to the member cooperative’s average monthly budgeted coincident peak demand as follows:

Transmission Service Charges = Transmission Service Rate * Member Cooperative’s Average Monthly Budgeted CP kW

Transmission Service Charges for service provided by CLECO under grandfathered agreements shall be assigned and recovered directly from each member in accordance with how the costs are incurred.

V. Recovery of Costs Prior to Initiating Provision of Power Supply Services

1803 EC anticipates initiating power supply services to members when member’s existing power supply contracts expire in 2025. During the preceding period, 1803 EC’s administrative, general and overhead costs shall be recovered from each member based on the allocation percentages reflected on Schedule 1.

VI. Payment Terms

Bills are due and payable in accordance with the terms reflected on the monthly invoice.

SCHEDULE 1

1803 ELECTRIC COOPERATIVE											
DEVELOPMENT OF ANNUAL ALLOCATION PERCENTAGES FOR 2021 - 2024											
Year	Beauregard		Claiborne		Northeast Louisiana		South Louisiana		Washington - St. Tammany		
	CP kW	kWh	CP kW	kWh	CP kW	kWh	CP kW	kWh	CP kW	kWh	
	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	
2026	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.43%	
2027	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.43%	
2028	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2029	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2030	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2031	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2032	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2033	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2034	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2035	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2036	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2037	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2038	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
2039	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2040	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2041	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2042	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2043	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.41%	
2044	35.84%	34.93%	13.70%	16.22%	7.27%	8.22%	11.04%	13.21%	32.15%	27.42%	
Average of Share of Peak Demand and Share of Energy for each Member											
	Beauregard		Claiborne		Northeast Louisiana		South Louisiana		Washington - St. Tammany		
Demand	35.84%		13.70%		7.27%		11.04%		32.15%		
Energy	34.93%		16.22%		8.22%		13.21%		27.43%		
Average	35.38%		14.96%		7.75%		12.12%		29.79%		

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

APPLICATION FOR APPROVAL OF)
FORMULA RATE PLAN AND APPROVAL)
OF MEMBER WHOLESALE POWER)
CONTRACTS)

DOCKET NO. _____

RECEIVED

FEB 03 2022

LA Public Service Commission

REDACTED VERSION



DIRECT TESTIMONY AND EXHIBITS

OF

BRIAN W. HOBBS

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

February 3, 2022

*Direct Testimony of Brian W. Hobbs
February 3, 2022*



1 I. INTRODUCTION

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 background.

8 A. In summary, I have a bachelor's degree from the University of Oklahoma and a Juris
9 Doctor degree from the Oklahoma City University School of Law. I am licensed and active
10 as a practicing attorney in Oklahoma and relevant clients include a number of rural electric
11 cooperatives, including both a wholesale power supply cooperative and a number of retail
12 distribution cooperatives. I have appeared before the Oklahoma Corporation Commission
13 as counsel of record in several proceedings. I spent forty (40) years employed by a
14 wholesale generation and transmission cooperative, serving twenty-one (21) member rural
15 electric cooperatives in Oklahoma and New Mexico. My employment there was in
16 increasing areas of responsibility, and I retired as the Vice President of Legal and Corporate
17 Services responsible for many areas of the organization. Most relevant to my testimony in
18 this matter is that I managed the organizations interactions with the Southwest Power Pool,
19 regulatory, environmental, safety and reliability compliance, revenue budgeting, wholesale
20 rates, transmission formulary rate, as well as other aspects of the organization. The
21 cooperative had twenty-one (21) distribution cooperative members, owned numerous
22 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 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 and the Louisiana
5 Public Service Commission in Docket No. U-35927.

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

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

8 **Q. What is the purpose of your testimony?**

9 A. My testimony describes the purpose, development, and application of the proposed initial
10 capitalization of 1803 and cost recovery that has been included in analysis of costs, rate
11 development and financial forecast of 1803.

12 **Q. Please describe 1803 Electric Cooperative?**

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

1 Board of Directors which includes two representatives from each of its Member
2 Cooperatives.

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

4 A. 1803 and its Member Cooperatives are seeking approval of the 1803 wholesale formula
5 rate, approval for recovery of 1803 capitalization plan and costs from the Member
6 Cooperatives, and approval for each Member Cooperative to pass through and recover such
7 1803 capitalization plan and costs.

8 **II. WHOLESALE FORMULA RATE**

9 **Q. What are the anticipated benefits of 1803 using a wholesale formula rate?**

10 A. Using a wholesale formula rate to recover costs from Member Cooperatives will enable
11 1803 to consistently maintain a sound financial position which is critical to successfully
12 managing performance assurances of its long-term power purchase agreements and to
13 provide access to financing requirements of 1803. Additionally, it will allow 1803 to
14 respond to unexpected events in a managed and reasonable manner while allowing 1803 to
15 minimize its annual margin requirements.

16 **Q. Are there benefits of a formula rate associated with 1803 cost of service to the Member
17 Cooperatives?**

18 A. Yes. While much of the power supply portfolio of power purchase agreements are fixed,
19 some costs escalate each year on a known schedule, and other costs, such as fuel for part
20 of the portfolio are variable. In addition, as a MISO market participant, 1803 will sell the
21 energy and ancillary services produced from its purchased power resources to the market
22 and will buy its load requirements from the market. Market prices for these products will
23 fluctuate. A formula tariff allows the rates to be charged by 1803 to be established for the

1 coming year based on a budget of these expected costs and revenues, more closely
2 matching the rate to expected net annual costs in each calendar year period.

3 **Q. Why are you providing testimony regarding the 1803 capitalization plan and costs?**

4 A. It is necessary to identify the costs associated with 1803 as the wholesale power supply
5 cooperative providing power supply, transmission services, market participant services,
6 energy management services and related services to its Member Cooperatives. This is to
7 ensure that when comparing expected wholesale electric power costs supplied by 1803 to
8 current or other potentially available supply methods that anticipated costs of 1803 are
9 identified and included in the analysis. To obtain the benefits of aggregation of power
10 supply of the Member Cooperatives, it is necessary for 1803 to incur costs prior to the
11 effective date of service to the Member Cooperatives of first quarter 2025 and to
12 appropriately capitalize 1803 sufficient to meet cash flow requirements once such service
13 does begin. Then of course beginning in 2025, 1803 will incur certain ongoing costs while
14 providing wholesale electric service to the Member Cooperatives.

15 III. 1803 CAPITALIZATION PLAN AND COSTS

16 **Q. What are the components of the 1803 capitalization plan and costs?**

17 A. It is helpful to look at the 1803 Costs in two time periods: (1) 1803 Costs incurred up to
18 the beginning of 2025, when 1803 will begin providing electric power to the Member
19 Cooperatives, as part of the development of 1803 as a new power supply cooperative in
20 Louisiana. Those costs include conducting the Request for Proposals for energy
21 management services, negotiating the agreements, cost of 1803 financing and the provision
22 of numerous letters of credit to various counterparties and MISO, consulting and legal
23 services, regulatory proceedings, providing prudent capitalization of 1803 and similar

1 costs; and (2) the cost of 1803 from early 2025 and forward when it is actually providing
2 all requirements electric services to its Member Cooperatives.

3 **Q. Please describe the 1803 Costs that are expected to be incurred in the time period up**
4 **through 2024, but prior to 1803 actually providing the electric power needs of the**
5 **Member Cooperatives?**

6 A. 1803 is incurring costs prior to beginning provision of electric service to its Member
7 Cooperatives in 2025. The types of costs include various consulting and legal fees
8 associated with developing, administering, and evaluating certain Request for Proposals,
9 drafting and negotiating agreements, preparing long-range forecasting, integrated resource
10 planning, negotiating loan related documents, the cost of such loan, assessing needs related
11 to MISO transmission and market participation, preparation for and participation in these
12 regulatory proceedings, staffing or contract labor, rent, utilities, insurance, office supplies
13 and similar costs. These budgeted costs are in the range of just under [REDACTED] million dollars
14 in 2022 to almost [REDACTED] million dollars in 2024. These budgeted costs for the years 2022
15 through 2024 total [REDACTED]
16 [REDACTED] (Exhibit HSPM Budget 1803 Costs and Exhibit HSPM DWH-2.0).

17 **Q. Please describe the initial capitalization plan for 1803?**

18 A. The initial capitalization plan for 1803 requires that the Member Cooperatives provide a
19 total of [REDACTED] during the period beginning August 1, 2022 and
20 ending December 31, 2024. This capitalization plan is necessary and prudent for 1803 to
21 meet its cash flow requirements, with some reasonable reserve, during the years of actual
22 operation and service to the Member Cooperatives. This initial capitalization plan also
23 allows the annual margin requirements of 1803 to be minimized significantly. The 1803

1 budget (Exhibit HSPM DWH-2.0) indicates the annual margin requirement to
2 be approximately [REDACTED] per year initially, and increasing over time, but may be
3 adjusted by the 1803 Board as required to meet needs and maintain a prudent and sound
4 financial position. The margin requirement is defined as no less than the higher of an
5 annual DSC of 1.25 or an operating margin equal to 0.25% of total operating expenses.
6 See Attachment A Tariff at page 2, Section B.1. (Attachment A Tariff is submitted
7 with the Testimony of David W. Hedrick in this matter.)

8 **Q. Why is the capitalization plan necessary and prudent?**

9 A. Beginning immediately in 2025, when 1803 begins providing wholesale power and
10 service to the Member Cooperatives, 1803 will be exposed to obligations related to
11 costs and expenses that will be due and payable. Examples include Midcontinent
12 Independent System Operator ("MISO") load settlement, transmission services, fuel
13 costs and other costs associated with power supply agreements, as well as
14 administration and overhead. Exhibit HSPM BWH-2.1 illustrates the estimated
15 projected daily cash flow requirements of 1803 for calendar year 2025, assuming the
16 capitalization plan is not adopted. During the first half of calendar year 2025, the
17 projected cash flow indicates 1803 would be in a [REDACTED] cash position
18 at the worst point and even through calendar year 2026 daily net cash position would be as
19 low as [REDACTED] leaving little margin for unexpected events or missing load forecast or
20 costs estimates.

21 **A. How does the [REDACTED] capitalization plan impact 1803 daily cash position?**

22 The [REDACTED] capitalization plan has significant positive impact as Exhibit HSPM
23 BWH-2.2 illustrates. With implementation of the capitalization plan, the lowest daily cash
position of 1803 during calendar year 2025 is estimated to be [REDACTED] providing dollars

1 for unexpected contingencies, missed forecasts and estimates as well as potential initial
2 fuel procurement for the tolling resource. The lowest daily cash position for calendar year
3 2026 with the capitalization plan is projected to be [REDACTED] establishing significant
4 capital available to 1803 for operating contingencies and reducing the need for annual
5 margin.

6 **Q. What is the cost impact to 1803 Member Cooperatives and their end-use member
7 consumers?**

8 A. Exhibit HSPM BWH-2.2 shows the projected cost of the [REDACTED] capitalization plan
9 as a cost per megawatt hour, a cost per kilowatt hour and a monthly cost by Member
10 Cooperative, if recovered in the three-year period August 1, 2022, through December 31,
11 2024. [REDACTED] cents per megawatt hour or [REDACTED] per kilowatt hour.
12 For an end-use member consumer using 1,200 kilowatt hours a month, the projected cost
13 of the Capitalization plan is about a [REDACTED] per month.

14 **Q. Please describe the 1803 Costs that are expected to be incurred in the time period
15 1803 is to provide the electric power needs of the Member Cooperatives?**

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

1 [REDACTED] in the last year of the period. (Exhibit HSPM
2 Budget 1803 Costs and Exhibit HSPM DWH-2.0).

3 **IV. CONCLUSION**

4 **Q. What is the cost impact of the 1803 Capitalization plan and Costs through 2024?**

5 A. Exhibit HSPM DWH-2.0 at page 2 of 4 illustrates the projected annual cost in total dollars
6 and cost in dollars per megawatt hour. As you can see the total cost of 1803 including the
7 cost of the capitalization plan, costs and a margin component is [REDACTED] per megawatt hour
8 in 2022, [REDACTED] in 2023, and [REDACTED] in 2024. For an end-use member consumer using 1,200
9 kilowatt hours a month, the projected cost of 1803 including capitalization plan, costs and
10 a margin component would be [REDACTED] per month in 2022 up to [REDACTED] per month in 2024.

11 **Q. Does this conclude your testimony?**

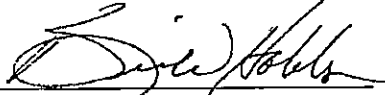
12 A. Yes, it does.

**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

APPLICATION FOR APPROVAL OF)
FORMULA RATE PLAN AND APPROVAL)
OF MEMBER WHOLESALE POWER) DOCKET NO. _____
CONTRACTS)


AFFIDAVIT OF WITNESS

I, Brian W. Hobbs, being duly sworn, deposes and states that the facts set forth in 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 3rd day of
February 2022.



Notary Public

Name of Notary and Notary/Bar Roll No.:

Anita Williams #116004341

BEFORE THE LOUISIANA PUBLIC SERVICE COMMISSION

RECEIVED

APPLICATION FOR APPROVAL OF)
FORMULA RATE PLAN AND APPROVAL)
OF MEMBER WHOLESALE POWER)
CONTRACTS)

FEB 03 2022

DOCKET NO. _____
LA Public Service Commission

DIRECT TESTIMONY AND EXHIBITS
1803 AND MEMBER WHOLESALE POWER CONTRACTS

OF

BRIAN W. HOBBS

ON BEHALF OF

1803 ELECTRIC COOPERATIVE, INC.

February 3, 2022



1 I. INTRODUCTION

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 background.

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

1 numerous power purchase agreements for gas fired, wind and solar generation facilities. I
2 worked to develop a replacement wholesale power contracts between the power supply
3 cooperative, my employer, and its member distribution cooperatives. I was heavily
4 engaged in working with four distribution cooperatives regarding termination of their long-
5 term wholesale contracts with an investor-owned utility, negotiating membership and
6 wholesale power contracts with the power supply cooperative, approval of such with the
7 New Mexico Public Regulation Commission, and transition from the legacy wholesale
8 provider to membership with, and power supply from, the power supply cooperative.

9 **Q. Have you previously testified before regulatory commissions?**

10 A. Yes. I have testified before the Oklahoma Corporation Commission and the Louisiana
11 Public Service Commission in Docket No. U-35927.

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

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

14 **Q. What is the purpose of your testimony?**

15 A. My testimony is to describe the wholesale power contract between 1803 EC and its
16 Member Cooperatives (the "WPC") Each, along with the First Amendment to each are
17 attached as HSPM Exhibit BWH WPC.

18 **Q. Please describe 1803 Electric Cooperative?**

19 A. 1803 EC is a not-for-profit generation and transmission electric cooperative corporation
20 organized in Louisiana by its five (5) member distribution cooperatives to supply and
21 deliver electric power, on a wholesale basis, to meet the requirements of the member
22 distribution cooperatives. 1803 EC's member distribution cooperatives are Beauregard
23 Electric Cooperative, Inc., Claiborne Electric Cooperative, Inc., Northeast Louisiana

1 Power Cooperative, Inc., South Louisiana Electric Cooperative Association and
2 Washington – St. Tammany Electric Cooperative, Inc. (“Member Cooperative[s]”). 1803
3 EC will serve its Member Cooperatives’ power requirements pursuant to long-term all-
4 requirements wholesale power contracts, the WPC. 1803 EC’s Member Cooperatives, in
5 turn, supply power on a retail basis to their member-owner consumers. 1803 EC is owned
6 entirely by its Member Cooperatives, which are the purchasers of the power 1803 EC sells.
7 1803 EC is governed by its Board of Directors which consists of two representatives from
8 each of its Member Cooperatives.

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

10 **A.** 1803 EC is, among other things, requesting approval of a wholesale formula tariff which
11 will provide for recovery of the costs associated with those power purchase agreements,
12 costs and revenues of 1803 EC participating in the Midcontinent Independent System
13 Operator (“MISO”) market on behalf of its Member Cooperatives, costs associated with
14 required transmission services and other associated costs. Testimony supporting the costs
15 and revenues mentioned above has been provided. 1803 and its Member Cooperatives are
16 seeking approval of the 1803 wholesale formula rate, approval for recovery of 1803
17 capitalization plan and costs from the Member Cooperatives, and approval for each
18 Member Cooperative to pass through and recover such 1803 capitalization plan and costs.
19 My testimony herein is specifically meant to provide a description of the WPC pursuant to
20 which 1803 EC will provide electric power and energy to its Member Cooperatives and
21 that frames the relationship between 1803 EC and each of the 1803 Member Cooperatives.

1 **Q. Why are you providing testimony regarding the 1803 EC Member Wholesale Power**
2 **Contract?**

3 A. The WPC is the foundation of the relationship between 1803 EC and its Member
4 Cooperatives. The WPC not only is the primary link between 1803 EC and its Members,
5 but also provides the critical source of revenue to allow 1803 EC to meet its financial and
6 contractual obligations to third parties. The WPC provides the basis of financial assurance
7 and creditworthiness to facilitate and support 1803 EC obtaining financing and entering
8 into long-term power supply contracts for the benefit of the Member Cooperatives.

9 **Q. What is the basis of the WPC between 1803 EC and the Member Cooperatives?**

10 A. First and foremost, the origination of the basic form of the WPC has its nexus in the
11 development of rural electric cooperatives pursuant to the Rural Electrification Act in 1936
12 which gave rise to rural electric cooperatives all over the nation. The Rural Electrification
13 Administration (REA, now the Rural Utilities Service (RUS) of the United States
14 Department of Agriculture) was established to provide low-cost funding, engineering
15 support and similar services to facilitate extending electric service in rural areas. At first,
16 these distribution cooperatives were purchasing power from the local investor-owned
17 utilities, but eventually, many of these retail distribution cooperatives needed to ensure
18 long-term term reliable power supply arrangements at reasonable cost and they began
19 working together within a broader region to form not for profit power supply cooperatives.
20 These power supply cooperatives would aggregate multiple cooperatives loads and other
21 requirements and provide a larger more efficient solution to power supply and transmission
22 needs of its member cooperatives. To finance the power supply cooperative, the REA (now
23 RUS) developed a form of wholesale power contract between the power supply cooperative

1 and its member distribution cooperatives that would provide the assurance that the Federal
2 Government, through the REA, needed to make loans to the power supply cooperatives.
3 Essentially the same form of contract is in use today, a bit modernized, and is the form of
4 contract used by 1803 EC.

5 **Q. Is this form, or similar forms, of wholesale power contracts typical between a power
6 supply cooperative and its member distribution cooperatives?**

7 A. Yes, very much so. I have reviewed the wholesale power contracts used by numerous
8 power supply cooperatives. They are typically based on this same original REA form of
9 contract. Some systems have made modifications, with RUS approval, to include a
10 provision colloquially called a “carve out.” These wholesale power contracts are all
11 requirements but for a provision that carves out some defined quantity, most usually five
12 percent (5%) of a distribution member cooperative’s electric power and energy
13 requirements and allows that member cooperative to supply that quantity other than by
14 purchasing from the power supply cooperative. Many, like the 1803 EC WPC, do not
15 include this carve out provision, however, the 1803 EC WPC does have a similar provision
16 related to the allocation of Federal hydropower for each of the Member Cooperatives.

17 **Q. What is the general structure of the 1803 Member WPC?**

18 A. The overarching construct of the WPC is that it is an all-requirements contract meaning
19 that during its term 1803 EC is obligated to provide all the electric power and energy that
20 a Member Cooperative shall require for the operation of its electric system and the Member
21 Cooperative shall purchase all of its required electric power and energy from 1803 EC.
22 The WPC with each Member Cooperative is in the same form, but for unique items such
23 as delivery point information, for each Member Cooperative.

1 Q. What are the components of the 1803 EC Member WPC?

2 A. In support of the all-requirements nature of the WPC, it provides that a Member
3 Cooperative can take no action, during its term, to reorganize, dissolve, merge or
4 consolidate with another retail electric supplier, purchase nor take delivery of electric
5 power and energy from another source, sell, lease, or transfer all or a substantial portion of
6 its assets, without obtaining the consent of 1803 EC and keeping the other Member
7 Cooperatives of 1803 EC whole and harmless from such actions. The intent of these
8 provisions is to ensure that long-term obligations undertaken by 1803 EC are not
9 abandoned and left stranded by any Member Cooperative of 1803 EC, placing a burden or
10 hardship on the remaining Member Cooperatives and their end-use consumer members.

11 Q. Does the WPC address other issues?

12 A. Yes, it sets forth that the electric power and energy is to be furnished is alternating current,
13 three phase, sixty cycle. It identifies the delivery points at which electric power and energy
14 to furnished including voltages and maximum rate of deliver at each point. It provides
15 each Member Cooperative shall furnish and maintain the necessary substation equipment
16 at each delivery point, that 1803 EC is to arrange for transmission of the electric power and
17 energy to the delivery points and make provision for metering. The agreement provides
18 for the establishment of the wholesale rate applicable to the WPC, approval of such rate
19 and future revisions or rates by the Board of Directors of 1803 EC, which is made up of
20 two representatives from each of the Member Cooperatives. Other more typical “boiler
21 plate” provisions are included such as invoicing and payment of bills, meter testing and
22 adjustment or correction, indemnification, and limitation of liability as between 1803 EC

1 and the Member Cooperatives, term of the WPC, how to amend the WPC, dispute
2 resolution, and governing law.

3 **Q. Are there other issues addressed by the WPC that are noteworthy?**

4 A. One other provision deals with hydro power allocations of the Member Cooperatives. Each
5 1803 EC Member Cooperative has a contract with the Southwestern Power Administration
6 (“SWPA”) pursuant to which the Member Cooperative has an allocation of federal
7 hydropower capacity and energy. The WPC provides that 1803 EC will aggregate those
8 and manage and administer those SWPA contracts with SWPA and in the Midcontinent
9 Independent System Operator (“MISO”) market. The WPC provides that each Member
10 Cooperative will be allocated a pro rata share of all costs and revenues derived from those
11 SWPA contracts. The Member Cooperatives’ pro rata shares shall be equal to its share of
12 the total of all the SWPA contracts aggregated, by component. So costs and revenues
13 associated with the capacity charge shall be allocated on the share of the total capacity, and
14 so on for energy, peaking energy, supplemental energy as reflected in each SWPA contract.

15 **Q. Has the WPC been accepted and effective in meeting its purpose?**

16 A. Yes, the Member Cooperatives that are currently RUS borrowers have submitted the WPC
17 to the RUS for approval. In response to RUS, 1803 EC and Member Cooperatives executed
18 a simple amendment to the WPC strengthening RUS collateral assignment rights (“First
19 Amendment to the Wholesale Power Contract”). We also have relied on the strength of
20 the WPC in negotiations with counter parties related to assurance that 1803 EC will have
21 access to a revenue stream to meet its obligations pursuant to the various power purchase
22 agreements. The term of WPC is at least as long as the terms of such power purchase

1 agreements. Potential 1803 EC lenders have also reviewed and will, at least in part, rely
2 on the WPC as security for financing 1803 EC.

3 **Q. Do you support that the 1803 EC wholesale power contracts between it and each of**
4 **its Member Cooperatives is appropriate, serves its intended purpose and is in the**
5 **public interest?**

6 A. Yes, the WPC is appropriate, serves its intended purpose, is consistent with the rural
7 electric cooperative industry and is in the public interest.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

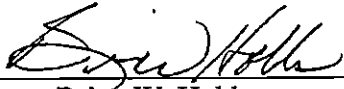
**BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION**

APPLICATION FOR APPROVAL OF)
FORMULA RATE PLAN AND APPROVAL)
OF MEMBER WHOLESALE POWER)
CONTRACTS)

DOCKET NO. _____

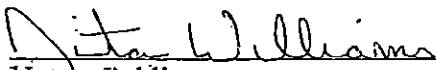
AFFIDAVIT OF WITNESS

I, Brian W. Hobbs, being duly sworn, deposes and states that the facts set forth in the Direct Testimony 1803 and Member Wholesale Power Contracts 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.



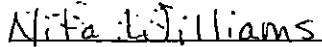
Brian W. Hobbs

Subscribed and sworn before
me this 3rd day of
February 2022.



Notary Public

Name of Notary and Notary/Bar Roll No.:

 #16004341
