BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

DOCKET NO. U-37341

In Re: Application for Increase of Base Rates, Interim Rate Relief, Tariff Modification and Establishment of a Formula Rate Plan and Emergency Reserve Fund

DIRECT TESTIMONY

OF

REBECCA PAYNE

on behalf of

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

July30, 2024

EXHIBIT "C"

LPSC DOCKET NO. U-

TESTIMONY

of

REBECCA A. PAYNE

On behalf of

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

APPLICATION FOR INCREASE OF BASE RATES, INTERIM RATE RELIE, TARIFF MODIFICTION AND ESTABLISHMENT OF A FORMULA RATE PLAN AND EMERGENCY RESERVE FUND

July 30, 2024

PRE-FILED DIRECT TESTIMONY OF REBECCA PAYNE
ON BEHLAF OF
POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.

A. My name is Rebecca A. Payne. I am a Vice President and Managing Consultant for C. H. Guernsey and Company (Guernsey). My business address is 5555 North Grand Boulevard, Oklahoma City, Oklahoma 73112-5507.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have earned a Bachelor of Science in Business degree and an M.B.A from Oklahoma City University. I have been employed by C. H. Guernsey & Company from 1999-2004, and since 2005. My primary area of responsibility is rate analysis and cost of service work for electric distribution cooperatives. Exhibit RAP-1 is my resume.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS?

A. Yes. I have testified before the Arizona Corporation Commission, the Arkansas Public Service Commission, Louisiana Public Service Commission and the Wyoming Public Service Commission.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

A. I am testifying on behalf of Pointe Coupee Electric Membership Corporation. ("PCE or the "Cooperative").

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will provide the following:

a. A discussion of PCE's objectives in this filing and an overview of the rate filing package;
b. A discussion of the development of the revenue requirement for PCE;
c. A discussion of the development of the financial adjustments found in Section A of the rate filing package;
d. A discussion of the cost of service schedules in Section G-M;
e. A discussion of the rate design and the impact on members;
f. A discussion of the proposed formula rate plan rider;
g. A description of the proposed tariff changes;
h. A discussion of the interim rate adjustment and impact on bills.

Q. WERE THE SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECTION?

A. Yes.

Q. WHO SUPPLIED THE DATA USED IN DEVELOPING THE SCHEDULES THAT YOU ARE SPONSORING?

A. PCE supplied the data.

II. PCE OBJECTIVES AND OVERVIEW OF RATE FILING

Q. WHAT ARE PCE'S OBJECTIVES IN THIS FILING?

A. PCE's objectives in this filing are:

a. Increase the revenue requirement by an amount sufficient to improve the Cooperative's financial condition. The proposed rate change will increase the Cooperative's margins and allow PCE to fund plant additions from internally generated margins to maintain equity and to increase the general funds level;
b. Ensure margins are sufficient exceed the lender's minimum financial ratios;
c. Implement a formula rate plan rider to be effective twelve months after effective date of initial rate change; and
d. Modify the individual rate schedules to more accurately reflect the cost of providing service.

Q. HAS THE BOARD OF DIRECTORS OF PCE APPROVED THE FILING OF THIS RATE APPLICATION?

A. Yes. The PCE Board of Directors determined it was necessary to seek a rate adjustment at its meeting on July 10, 2024, approved the filing of this rate application and directed its Staff to proceed with preparing the formal application.

Q. WHAT IS THE TEST YEAR IN THIS RATE FILING?

A. The test year is the twelve months ending December 31, 2023.

III. DEVELOPMENT OF REVENUE REQUIREMENT

Q. WHAT REVENUE REQUIREMENT IS PCE PROPOSING?

A. The proposed revenue requirement is $32,129,557. An additional $3,928,234 in operating revenues is necessary to achieve this revenue requirement, representing a 13.93% increase over the adjusted test year revenue.

Q. HOW WAS THE PROPOSED REVENUE REQUIREMENT DETERMINED?

A. As a member owned electric cooperative, PCE's revenue requirement is a function of the margins and cash necessary to meet its financial objectives and obligations. These financial objectives and obligations are set in terms of the equity level, the cash general funds level and the coverage ratios required by the Cooperative's lenders. Through PCE's application, it seeks to approval for a rate increase and billing rate components in this filing to meet the following financial objectives and obligations:

- Maintain the equity as a percent of capitalization around 35% while making necessary capital expenditures to ensure system reliability and safety
- Maintain adequate financial coverage ratios as required by the Cooperative's lenders, the National Rural Utility Cooperative Finance Corporation (CFC), Rural Utility Service (RUS) and CoBank
- Increase cash general funds to 30 days of operating expenses
- Implement a formula rate rider to provide stability in the Cooperative's operating margins.

Q. PLEASE PROVIDE A SUMMARY OF YOUR FINDINGS IN CONDUCTING THE REVENUE REQUIREMENT.

A. Schedule A-1.0 indicates that PCE generated an operating deficit of ($1,234,772) in the Test Year. The Adjusted Test Year operating margin is a deficit of ($1,254,653). The Modified DSC coverage ratio in the adjusted test year is 0.69 and the Operating TIER is 0.13. PCEs current financial position does not generate adequate margins to even meet its minimum financial obligations as established by its lenders, much less meet the financial objectives established to provide safe and reliable service and equitable treatment of members.

Q. DOES THE FINANCIAL ANALYSIS INDICATE THE PROPOSED REVENUE REQUIREMENT WILL ALLOW THE COOPERATIVE TO MOVE TOWARD THE COOPERATIVE'S FINANCIAL OBJECTIVES AND OBLIGATIONS?

A. Yes, the supporting documents include:

- Schedule D-1.0 (GROWTH RATE IN NET PLANT) shows the historical and projected plant additions. The plant additions for the next five years are projected to average approximately $6,273,000 per year, net member contributions in aid of construction. Cooperative plant additions are funded by a combination of cash general funds, cash received from member contributions in aid of construction and cash received from borrowing long-term debt. The plant additions are based on the Cooperative's most recent construction work plan as described in the testimony of Myron Lambert.

- Schedule D-2.0 (SYSTEM CAPITALIZATION) shows the system capitalization and the equity as a percent of assets for the test year and the previous five years. The equity as a percent of assets was 44.03% in 2018 and fell to 33.23% in 2023. Equity is affected by the Cooperative's capital requirements and the sources of funds used for those plant additions – cash general funds, cash received from member contributions in aid of construction and cash received from borrowing long-term debt.

- Schedule D-5.0 (CALCULATION OF DESIRED GENERAL FUNDS) shows the calculation of desired general funds. The major components making up the annual operating general funds required total approximately $26.5 million for the test year. The estimated general funds at the end of the test year were ($97,341). The non-existent cash general funds require PCE to depend on costly line of credit for monthly operations and in the event of emergencies.

- Schedule D-6.0 (CASH REVENUE REQUIREMENT) is the development of the cash revenue requirement based on the Cooperative's financial objectives and obligations. The schedule demonstrates the cash required to operate the system based on adjusted test year expenses and to fund key cash requirements. Key cash requirements include annual operations and maintenance expenses (Schedule A-1.0), planned plant additions (Schedule D-1.0), maintaining the equity ratio and preventing further degradation of its equity ratio (Schedule D-2.0), and building a cash general funds reserve (Schedule D-5.0).

The "Development of the Cash-General Fund Level" shown on the schedule reflects the desired cash general funds of 30 days, or $2,181,773 which results in an annual cash need of $759,705 to achieve the target over three years. The "Cash Requirement" shows the average annual plant additions for the next five

years and the percent of plant financed with cash. This produces a cash funding requirement of $2,195,483 and will result in stabilizing equity in this snapshot view. Principal payments on long-term debt for 2023 require cash of $1,742,452. The total annual cash requirement for all components (grow cash reserves, fund plant additions with 35% cash and make principal payments) is $4,697,639. The total annual cash produced from adjusted test year operations under existing rates is $769,406 which is the sum of the Adjusted Test Year operating deficit, Depreciation Expense and Interest Income and Cash Capital Credits. The total additional cash requirement as identified in the cash revenue requirement analysis is $3,928,234.

In addition to the cash requirement as identified on Schedule D-6.0, PCE must also maintain minimum coverage ratios as required by its lenders.

Q. IS IT APPROPRIATE TO DETERMINE THE REVENUE REQUIREMENT BASED ON THE CASH NEEDED TO MEET THE FINANCIAL OBJECTIVES AND OBLIGATIONS RATHER THAN BY DETERMINATION OF A FAIR VALUE AND RATE OF RETURN METHODOLOGY?

A. Since electric cooperatives such as PCE are not for profit member-owned utilities, there is no requirement to provide a return on equity for stockholders, but not for profit does not mean that a cooperative can operate without margins. Therefore, a calculation of an appropriate return on rate base including a return on equity for stockholders is not as meaningful as for an investor-owned utility. However, like a regulated investor-owned utility, the Cooperative must meet the same regulatory requirements and expectations of reliability. While cooperatives are concerned primarily with the recovery of the costs of providing service and keeping rates to members as low as reasonably possible, the basic business best practices still apply – they must have sufficient revenue to pay its bills and pay its lenders while improving its system. The revenue requirement for a cooperative is driven more by the level of plant additions, maintaining an appropriate equity, maintaining a reasonable cash level, making debt service payments and retirement of capital credits. All of these drivers require a certain level of cash on hand. Therefore, for a cooperative, the margin and cash requirements are what really determine the overall revenue requirement. The requested rates will provide PCE an operating margin of $3,344,302, an operating times interest earned ration of 2.86 and a modified debt service coverage of 1.93. These levels are consistent with both PCE's financial objectives and its financial obligations. The financial ratios are a result of the required cash needed to fund the objectives and are not used to set the necessary revenue requirement.

Q. DID YOU TAKE INTO CONSIDERATION THE FINANCIAL RATIOS THAT WERE ESTABLISHED BY OTHER RECENTLY APPROVED LPSC RATE CASES?

A. No, I did not as it is not appropriate to use the same financial ratio target to determine the revenue requirement of different systems. The unique operating characteristics of electric cooperatives, such as line density, equity, capital requirements and financial goals and objectives can vary substantially. Applying a "one-size fits all" approach does not capture the uniqueness of each cooperative's current position and needs and cannot be used to compare the appropriateness of one electric cooperative's revenue requirement versus another. Using a coverage ratio for determining the reasonableness of the revenue requirement is fundamentally flawed and is not consistent with the methodology that cooperatives across the nation use to determine an appropriate revenue requirement.

Q. WHY IS IT NECESSARY TO HAVE COVERAGE RATIOS THAT ARE WELL ABOVE LENDER MINIMUMS?

A. As discussed in the testimony of Amanda McDuff, PCE operated under a Formula Rate Plan ("FRP") for 6 of the last 7 years. Despite the protections afforded from an FRP, PCE has continued to fail to meet all its lender key financial coverage ratios in the last three years. PC Electric failed to meet its covenants in 2023 and absent any rate change, PCE could soon be held in default of its loan covenants in 2024 as well. As already stated, it is the cash needs that should determine the revenue requirement and the resultant TIER and MDSC are merely the fallout coverage ratios of the cash needs. A cash revenue requirement that produces financial results that merely meet the minimum metrics places a cooperative at continual risk of default. Meaning, establishing a revenue requirement that merely produces revenue to meet an artificially low coverage ratio requirement places PCE in a perpetual state of near-default performance and/or minimizes the cooperative's ability to invest in infrastructure as is identified in this analysis. Electric rates must produce sufficient margin, at a minimum, to meet the requirements identified by debt covenants, but rates must also produce sufficient cash for the unique operating requirements of the cooperative. Said differently, there are major differences in what the lenders may set as the minimum requirements to ensure that a borrower, in this case PCE, is financially able to repay its debts, and what is necessary to be set in a rate proceeding to insure the overall financial health of the utility.

Q. EXPLAIN THE NEED TO INCREASE THE GENERAL FUNDS LEVEL TO 30 DAYS OF EXPENSES.

A. As discussed in the testimony of Amanda McDuff, PCE currently relies heavily on their line of credit to cover daily operating expenses. The timing of when cash is received and when expenses need to be paid are not aligned. The line of credit has been used to bridge the mismatch in timing. Increasing the general funds level reduces the Cooperative's dependence on the line of credit to cover operating expenses, reducing higher costs due to elevated interest rates.

Q. WHAT IS THE REASON FOR ESTABLISHING A FINANCIAL OBJECTIVE TO MAINTAIN THE EQUITY POSITION?

A. There is an objective to balance the source of cash, cash generated from operations or cash obtained from long-term debt, used to invest in plant to create a more equitable cost-sharing amongst all members. Balancing the source of funds used to invest in capital expenditures between cash generated from current rates with cash generated from long-term debt funding ensures that both today's members and tomorrow's members are paying for a portion of the plant in service from which everyone is receiving service.

Q. HOW WAS THE PROPOSED REVENUE REQUIREMENT DETERMINED FOR EACH CLASS?

A. The revenue requirement for each class under the proposed rates was determined based on the following criteria:

(a) The cost of providing service to each class;

(b) The magnitude of the rate change indicated by the cost of service; and

(c) The impact of the proposed rate change upon the class.

Q. HOW HAVE THESE CRITERIA BEEN QUANTIFIED IN THE DEVELOPMENT OF THE RATES PROPOSED IN THIS FILING?

A. The rates proposed in the filing reflect PCE's consideration of these criteria. The rate of return on rate base has been calculated for the total PCE system and for each of the rate classes in the cost of service study to be used as a measure of each rate class's ability to recover costs in comparison with the total system. The proposed rates are generally designed to move the individual class rates of return closer to the system average. The relative rate of return provides a measure of how each class's rate of return changes under the proposed rates. The relative rate of return is calculated by dividing the class rate of return by the total system rate of return. A relative rate of return equal to one (1) would indicate the class and system rates of return are the same. Movement of the class's relative rates of return toward a value of one indicates a movement toward cost of service-based rates. The following table summarizes the relative rate of return under existing rates for each rate class on Schedule C-1.0 and the relative rate of return under proposed rates as shown on Schedule C-2.0.

Rate Class	Existing RROR	Proposed RROR
Residential	-5.743	0.467
General Service	-9.154	0.119
Large Power	36.619	3.949
Gins	3.603	1.020
Water/Sewer	-9.533	0.071
HLF Incentive	93.868	9.614
Lighting	6.939	0.890
Total System	1.000	1.000

As indicated by the table, the relative rates of return under proposed rates move closer to 1.000 for all classes, indicating that the proposed rates more closely reflect the cost of providing service.

IV. FINANCIAL ADJUSTMENTS

Q. WHAT IS THE TEST YEAR IN THIS PROCEEDING?

A. The test year is the twelve months December 31, 2023.

Q. PLEASE EXPLAIN SECTION A.

A. Schedule A-1.0 is the Income Statement for the test year showing:

- Actual Test Year,
- Adjustments to the Test Year,
- Adjusted Test Year (Actual Test Year Plus Adjustments),
- Requested Revenue Change, and
- Adjusted Test Year With Rate Change (Adjusted Test Year Plus Requested Revenue Change.

Adjustments described below correspond to adjustment amounts shown in the "Adjustments" column.

Q. PLEASE EXPLAIN ADJUSTMENTS SHOWN ON SCHEDULE A-1.0.

A. Adjustments are summarized on Schedule A-2.0. Schedules A-3.0 through A-3.3 show adjustments listed by specific O&M accounts while Schedules A-4.0 through A-14.0 show the development of the adjustments. I will explain the various adjustments by referring first to the category in which the adjustment is made, then identify the supporting A schedule where the adjustment is set forth and then provide a discussion of the adjustment, including reference to applicable supporting schedules included with this rate filing.

<u>**Operating Revenue (Schedule A-4.0)**</u>. Calculation of revenue shown on this schedule is developed on Schedule F-4.0. Schedule F-4.0 calculates the revenue by applying the existing rates to adjusted test year billing units. The billing units are found on schedules on F-1.0-F-3.0.

A revenue adjustment was made to restate the PCA revenue based on the adjusted power cost (Schedule G-2.0). The adjusted PCA revenue reflects the full amount of PCA revenue PCE is entitled to recover. The PCA revenue adjustment is ($836,840). The adjustment to the PCA revenue reflects a matching of power cost incurred and billed.

Since the PCA revenue has been adjusted for a proper matching of power cost incurred and billed an adjustment has been made to remove the PCA over collection amount.

The net effect of the adjustments described above is a reduction in total revenue of $377,344.

Purchased Power (Schedule A-5.0). A detailed calculation of the adjusted test year purchased power expense is provided on Schedule G-2.0. Adjustments to the test year were made to reflect a reduction in fuel charges. The adjustment to purchased power is a reduction of $979,970.

Bad Debt Expense (Schedule A-6.0). An adjustment was made to include a normalized amount of bad debt expense. A bad debt ratio was computed based on a four-year average of net write-offs as percent of total revenue. The computed bad debt ratio of 0.1066% was applied to the adjusted test year revenue to develop the adjusted test year expense of $30,073. The test year bad debt expense was $39,638 so the adjustment is ($9,566).

Payroll (Schedule A-7.0). The adjustment to payroll expense totals $142,522. Payroll expense and adjustments are distributed to various expense accounts on Schedule A-3.1 Adjusted payroll was calculated based upon 36 full-time employees at anticipated 2025 wage levels. An average overtime ratio and payroll expensed ratio were developed on Scheduled C-6.0 using historical values from 2018 through 2023. The average ratio for overtime payroll to regular payroll of 14.823% was applied to calculate total adjusted payroll. The 2023 payroll expensed of 70.239%, which is more reflective of anticipated expense levels than the average, was then applied to calculate adjusted payroll expensed.

Employee Benefits (Schedules A-8.0). An escalation factor of 10% was applied to test year benefits. The result is an increase in Employee Benefits expensed of $163,597.

Rate Case Expense (Schedule A-9.0). An adjustment to recognize expense associated with development, filing and support of the rate case has been made. The estimated cost of $100,000 is intended to reflect cost of outside legal and consulting services through the Commission's decision and is based upon the prior experience of the attorneys and consultants assisting PCE with this rate application. This amount is amortized over a 3-year period, resulting in an adjustment of $33,333.

Depreciation (Schedule A-10.0). Annual depreciation rates were applied to December 31, 2023 adjusted plant balances. The adjusted test year depreciation expense of $1,718,784 results in an adjustment of ($175,737).

Property Taxes (Schedule A-11.0). Property taxes were adjusted by applying an effective tax rate to plant is service as of 12/31/23. The adjusted property tax is $385,581 and results in an adjustment of $19,280.

Payroll Taxes (Schedules A-12.0 through A-12.3). Adjusted payroll-related taxes for FICA and Federal and State Unemployment were calculated by applying the applicable tax rate to adjusted wages subject to payroll taxes. The payroll tax expense ratio of 81.775% (Schedule C-7.0) was applied to the total adjusted payroll taxes to calculate adjusted payroll taxes expensed. The adjustment is an increase to test year expense of $22,160. The test year expense by account and distribution of the adjustment by account is shown on Schedule A-3.3.

Interest on Long-Term Debt (Schedule A-13.0). The adjusted interest on long-term debt of $1,437,590 was calculated by applying the applicable interest rate to the principal outstanding as of 12/31/2023 plus the inclusion of $6 million in additional RUS debt to be incurred after the test year. The adjustment increased interest on long-term debt expense by $554,403.

Interest – Other (Schedule A-14.0). The line of credit balance was restated to reflect an average balance of $1.5 million at the current average interest rate of 7.25%. The result is a decrease to Interest-Other of $380,625.

Q. ARE THE ADJUSTMENTS THAT HAVE BEEN MADE TO THE TEST YEAR RELATED TO ACTIVITIES THAT ARE KNOWN, MEASURABLE AND OF A CONTINUING NATURE?

A. Yes. The adjustments that have been made are intended to provide an accurate reflection of the Cooperative's revenues and expenses that should be recovered.

Q. WHAT IS THE OVERALL IMPACT OF THE ADJUSTMENTS MADE TO THE TEST YEAR?

A. The overall impact of the revenue and expense adjustments is to reduce the operating margin by $19,881 as reflected in column (b) of Schedule A-1.0. The adjusted test year Operating TIER is 0.13 and the MDSC is 0.69.

V. COST OF SERVICE STUDY

Q. WHAT IS THE PURPOSE OF THE COST OF SERVICE STUDY?

A. The cost of service study assigns the plant investment, operating expenses and revenue associated with providing service to each customer class. When the total system revenue requirement has been identified, the assignment of plant investment and operating expenses to each class provides the basis for assigning the revenue requirement to each class. The assignment of the class revenue requirement is generally done based on the class's contribution to the system's overall return or margin. The cost of service study identifies the revenue deficiencies and subsidies that exist between rate classes.

In addition to determining the cost of providing service and the appropriate revenue requirement for each class, the cost of service study also provides important information with regard to the unbundled cost components that comprise the cost to serve. These unbundled cost components can be used to develop rate designs, which more accurately reflect the cost causation, giving the consumer a better price signal with regard to the cost of electric service.

Q. HAS THE COST OF SERVICE BEEN PREPARED USING A COMMONLY ACCEPTED METHODOLOGY?

A. Yes. The cost of service has been developed in a manner consistent with the electric utility cost allocation manual sponsored by the National Association of Regulatory Utility Commissioners (NARUC). The same methodology has been used in the development of the cost of service for PC Electric that has been accepted by the LPSC and regulatory authorities in other states.

Q. PLEASE DESCRIBE THE GENERAL PROCESS INVOLVED IN THE ALLOCATION OF PLANT INVESTMENT AND EXPENSES TO THE VARIOUS CUSTOMER CLASSES.

A. The plant investment and operating expenses are first separated into functional categories such as Transmission Plant, Distribution Plant, Distribution Operations expenses, Customer Accounting Expenses, etc. These plant investment and operating expenses are further classified according to the unbundled cost component that is appropriate. This allows the identification of the make-up of the costs that are being incurred such as

Transmission-Demand, Substation-Demand, Purchased Power-Capacity, Purchased Power-Energy, Meter Reading etc.

If a plant investment amount or operating expense can be identified as directly assignable to a particular rate class, then a direct assignment of the investment or expense is made to that class. For all other plant investment and expense amounts that are not directly assignable, an allocation factor based on demand, energy, or number of customers is developed to assign a portion of that investment and expense to the various rate classes. These allocation factors vary based on the type of investment or expense being allocated. For example, Transmission plant is considered as totally demand related, therefore the allocation factor used to assign Transmission plant is the twelve month sum of the demand for those classes utilizing the Transmission system. The energy component of purchased power is allocated using an allocation factor based on each class's kWh purchased from the wholesale supplier. Meter reading expenses are considered a customer related cost and are allocated based on a customer allocation factor.

Composite allocation factors are also created as subtotals of various plant accounts and expenses are made within the cost of service study. These composite allocation factors are used to allocate other related plant and expense items. For example, Account 583 -Overhead Line Expense is allocated by a subtotal of Account 364/365 - Overhead Line Investment, ensuring that the expense is assigned to the same classes as the investment.

Q. DESCRIBE THE RESULTS OF THE COSS?

A. With the cost of service study, the adjusted test year rate base, operating revenues under current rates, and operating expenses were identified for each rate class. While PCE's overall adjusted test year Rate of Return on Rate Base ("ROR") is 0.604%, the study showed that class rates of return ranged from a deficit of (5.529%) to a positive return of 53.727%. The ROR is the return (operating revenues less operating expenses) divided by the rate base. ROR is one way to evaluate relative class margins and interclass subsidies. A rate class producing a ROR equal to the system average ROR is neither providing nor receiving a rate subsidy from the other rates classes. The existing class rate of return for each rate class is identified on the Cost Allocation Summary (Schedule H-1.0). The proposed class rate of return for each rate class is identified on the Cost Allocation Summary (Schedule H-2.0). Revenue deficiencies based on a uniform rate of return of 8.227636% and on a margin as percent of revenue of 8.321248% were identified. These criteria show required class changes range from reductions of 22.790% to increases of 34.361% for each rate class to produce a uniform rate of return. Although, cost justified, the magnitude of the identified required changes is not attainable in a single rate change, but rather serve as a guideline for the Cooperative when determining rate-making decisions. To reduce inter-class subsidies, rate changes should result in class movement towards a relative rate of return of 1.0.

Q. DOES THE COST OF SERVICE STUDY PROVIDE OTHER INFORMATION FOR GUIDELINES TO BE CONSIDERED FOR DESIGNING MEMBER RATES?

A. Yes. As part of the cost allocation, cost components are tagged for each allocation factor and thus for the investment or expense allocated directly by the factor or by a subsequent total involving that factor. Cost components are identified for purchased power costs and for PCE's distribution costs. The purchased power cost components are generation capacity, and generation variable (energy and fuel) costs. PCE's distribution cost components are separated into demand and customer-related costs. These cost components, including a return component, are identified for each class and the unit cost is calculated based on the billing units available for the class. Schedule M-1.0 shows the unbundled cost components of the cost of service study on a per-unit basis. For example, the customer component of expense is $52.37 per month per meter for the Residential class. To the extent the rates are not set at the identified cost, intra-class subsidies occur. Moving the billing rates closer to the cost of service is fair and equitable to all members and provides a more appropriate pricing signal. To the extent PCE does not sufficiently recover its fixed costs in a fixed billing component, the Cooperative will continue to heavily rely on monthly consumption to recover its fixed costs.

VI. RATE DESIGN AND IMPACT ON CUSTOMERS

Q. WHAT ARE THE BASIC OBJECTIVES OF THE PROPOSED RATES FOR EACH CLASS?

A. The basic objectives of the proposed rates are:

- Recover the cost of providing service;
- Increase the monthly service charges;
- Reflect necessary changes due to a new wholesale power contract;
- Reflect a consideration of the impact of the rate change on the member;
- Implement a Formula Rate Plan Rider.

Q. WHAT ARE THE PROPOSED REVENUE CHANGES FOR EACH CLASS?

A. The total revenue impact of the proposed rate change for each rate class is shown below:

	Adjusted Rev	Proposed Rev	Change - $	Change - %
Residential	$14,702,038	$16,934,885	$2,232,847	15.19%
Camp/Temp	696,556	811,422	114,866	16.49%
General Service	3,661,739	4,247,695	585,956	16.00%
Large Power	3,678,584	4,092,594	414,010	11.25%
Cotton Gin	184,700	210,449	25,749	13.94%

Water/Sewer	279,026	323,543	44,517	15.95%
HLF-Incentive	3,807,108	4,237,726	430,618	11.31%
Lighting	709,610	785,654	76,044	10.72%
Subtotal	$27,719,361	$31,641,485	$3,922,124	14.15%
Other Revenue	481,962	487,812	5,850	1.21%
Total Revenue	$28,201,323	$32,129,297	$3,927,974	13.93%

Schedule N-1.0 shows the proposed rate change for each rate class.

Q. ARE THERE ANY PROPOSED CHANGES TO THE POWER COST ADJUSTMENT (PCA) CLAUSE?

A. Yes. The existing PCA is made up of two components – a Fuel Cost Adjustment and Power Cost adjustment. The proposed power cost adjustment clause will be computed and applied as a single factor applied to all kWh sold. It will be computed on the difference between the average cost per kWh sold of the total purchased power costs incurred by PCE and the base cost of power of $0.08027/kWh sold.

Q. PLEASE DESCRIBE THE PROPOSED RATE FOR RESIDENTIAL.

A. The proposed rate for the residential class results in an overall increase to the class of 15.19%. The cost of service indicates that a much higher increase could be justified for this rate class. The proposed rate change moves the class closer to the actual cost of providing service but is intended to limit the impact on members.

The service charge has been increased from $10.00 to $15.00 per month for single-phase and from $14.00 to $19.00 for three-phase. The customer component of expense for the residential class as reflected on Schedule M-1.0, page 1 of 4, is $52.37 per month. The customer component of expense reflects PCE's cost of having the service available before any energy is actually sold to the customer. Costs included in the customer component include the customer component of distribution line expense, a portion of the transformer expense, the meter and service drop expense, meter reading and customer records expense. The increase in the customer charge is necessary to more appropriately recover these costs.

The comparison of the existing and proposed residential rate is shown on Schedule O-2.0. As a result of the increase in the service charge, billing statements with low usage see a higher percentage increase.

Q. WHAT ADDITIONAL BENEFIT DOES THE INCREASE IN THE CUSTOMER CHARGE PROVIDE?

A. The increase in the customer charge provides greater revenue stability for PCE. Recovery of fixed customer-related costs in the fixed monthly charge reduces the potential negative impact on revenue from reductions in kWh sales caused by energy efficiency initiatives and weather fluctuations.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE CAMPS AND TEMPORARY SERVICE CLASS.

A. The proposed rate increase is 16.49%. The service charge has been increased from $15.00 to $20.00 per month, and the energy charge is the same as the residential energy charge.

The comparison of the existing and proposed camps and temporary service rate is shown on Schedule O-3.0.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE GENERAL SERVICE CLASS.

A. The proposed rate increase is 16.0%. The service charge has been increased from $12.00 to $17.00 per month for single-phase and from $15.00 to $20.00 for three-phase.

The comparison of the existing and proposed general service rate is shown on Schedule O-4.0.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE LARGE POWER CLASS.

A. An increase of 11.18% is proposed for the Large General Service class. Although the cost of service does not indicate an increase is required for this class, this change results in achieving the objective of moving classes toward a 1.0 relative rate of return. Increases have been made in the demand charges to move cost recovery closer to identified costs. Additionally, the proposed rates redefine the billing kW to be determined based on the annual ratchet rather than the previous summer ratchet to better align with the upcoming change in wholesale power cost provider.

The comparison of the existing and proposed large power rate is shown on Schedule O-5.0.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE COTTON GIN CLASS.

A. The proposed rate increase is 13.94%. The name of this tariff will change from Cotton Gin to Seasonal Agricultural. It was necessary to re-design the rate structure to address the changes in the wholesale power contract. The new wholesale power contract will no longer have a specified summer pricing signal, so it is necessary to remove the on-peak demand component of the retail rate. The proposed rate has one non-coincident demand charge to recover both wholesale demand costs and PCE distribution costs.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE MUNICIPAL WATER PLANT, DRAINAGE & SEWER GENERAL SERVICE CLASS.

A. The proposed rate increase is 15.95%. The service charge has been increased from $10.00 to $15.00 per month for single-phase and from $15.00 to $20.00 for three-phase. The comparison of the existing and proposed commercial and industrial rate is shown on Schedule O-6.0.

Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR THE HIGH LOAD FACTOR CUSTOMER INCENTIVE CLASS.

A. The proposed rate increase is 11.32%. It was necessary to modify the rate structure of the High Load Factor Customer Incentive rate due to changes in wholesale power pricing signals. PCE's current wholesale provider provided an incentive rate for which PCE's retail rate reflected. This incentive will not be available from the new wholesale power provider. The proposed rate is designed with more hours use blocks to continue to offer a better rate for higher load factor loads.

The existing High Load Factor Customer Incentive class will be replaced by a new Extra Large Power Service tariff.

Q. PLEASE DESCRIBE THE PROPOSED STREET LIGHTING AND SECURITY LIGHTING RATES.

A. The proposed increase for the lighting rates is 10.72%. PCE is proposing to close the current MV an HPS lighting sizes and types and replace them with an LED equivalent light size. Comparison of existing and proposed lighting billing is provided on Schedule O-7.0.

Q. WHAT OTHER TARIFF CHANGES IS THE COOPERATIVE PROPOSING?

A. The cooperative is proposing to eliminate the Large Power Service – Time of Day, Extra Large Power Service Time of Day, Extra Large Power Service – Schools and Natural Gas Compression service.

Q. ARE THEY ANY CONSUMERS SERVED UNDER THE TARIFFS THAT WILL BE ELEMINATED?

A. No, there are currently no members taking service under any of these tariffs.

Q. IS PCE SEEKING IMPLEMENTATION OF AN UPDATED FORMUAL RATE PLAN ADDER (FRP)?

A. Yes. PCE is seeking approval to re-establish its formula rate plan rider.

Q. PLEASE DESCRIBE THE NEED FOR THE FORMULA RATE PLAN RIDER.

A. The formula rate rider is a mechanism for PCE to maintain margin stability in order meet minimum lender financial coverage ratio requirements and to meet the additional criteria for the following revenue requirement items:

- Maintain an adequate general funds level
- Maintain equity
- Fund necessary capital expenditure

The implementation of the formula rate plan rider with the proposed bandwidths should ensure that PCE remains above the minimum prescribed coverage ratios. Being in default of the mortgage covenants makes the process of obtaining funding more burdensome and can reduce the timeliness of accessing the funds. In addition, it can increase the cost of borrowing, which ultimately is a cost borne by PCE's member/consumers. Setting a revenue requirement that provides an MDSC ratio equal

the lender minimum does not produce enough margins to allow PCE to build an adequate general funds level and maintain equity.

Q. WHAT IS THE PROPSED MDSC BANDWIDTH FOR THE FRP?

A. The formula rate plan rider establishes an acceptable bandwidth for a Modified Debt Service Coverage (MDSC) ratio to be maintained. The ratios are set at a level adequate to provide financial stability and reliable service. The proposed bandwidth will be a lower MDSC limit of 1.8.0 and an upper MDSC limit of 2.0, with a midpoint of 1.90 with a secondary OTIER minimum of 1.65. The proposed rates produce an MDSC of 1.93, so the proposed bandwidth has been adjusted to reflect the MDSC that will move PCE towards the desired financial objectives.

Q. PLEASE DESCRIBE THE CHANGES TO THE NON-RECURRING CHARGES.

A. Schedule N-5.0 shows the proposed changes to the Non-Recurring charges. The only fee with a proposed change is the Service Charge for Security Light Installations. The proposed fee of $60 is the same as the connect/reconnect fee. The impact is to increase other revenue by $3,250.

Q. ARE THERE ANY OTHER TARIFF CHANGES THE COOPERATIVE IS PROPOSING?

A. Yes, the Cooperative is proposing an Emergency Reserve Fund Rider. The monies collected from the rider would be recorded as a regulatory asset rather than revenue. When an event occurs, such as a storm, that requires funds for system restoration, the cooperative can use the rider funds rather than having to access high cost line of credit for immediate cash needs. The Emergency Reserve Rider will fund the regulatory asset to achieve a balance of $1.1 million, which is equivalent to about 15 days of operating cash. The rider will be recovered on a per consumer basis with the objective to reach the $1.1

million balance over a three-year period. Based on the number of test-year consumers the monthly rider charge pre consumer will be $2.90 until the target balance is achieved.

Q. DOES THE REQUESTED REVENUE CHANGE INCLUDE THE FUNDS THAT WILL BE COLLECTED TO ESTABLISH THE EMERGENCY RESERVE FUND?

A. No, it does not. The collection of monies to fund the Emergency Reserve Fund are not part of the base rates and will not be accounted for as revenue; therefore, the rider funds are not included in any of the revenue collections, nor do they contribute to the Cooperative's margins. Although not recovered in base rates, the Emergency Reserve Fund Rider will appear as a charge of $2.90 on member's bills until the fund reaches the approved balance and is included on the bill impact schedules found in Section O of the Cost of Service Study (Exhibit 3) and the Summary of Rate Change Impact with Phases (Exhibit 2). While the Emergency Reserve Fund is not included in the Residential Rate Impact Form for the Interim Rate Impact, it is included in the final and total forms. (Exhibit 4).

Q. PCE IS REQUESTING AN INTERIM RATE ADJUSTTMENT. PLEASE EXPLAIN HOW THE INTERIM RATES WILL BE RECOVERED AND THE BILL IMPACTS.

A. Yes, as described in the testimony of Mr. Lambert and Ms. McDuff, PCE is requesting to recover sixty percent of the revenue adjustment from immediate interim relief. The amount of the total rate increase of $3,927,857 to be collected in interim rate relief will be 2,356,714. PCE is proposing to recover the interim rate relief as a percentage of adjusted test year base rate revenue and FRP Revenue. Schedule F-4.0 shows the development of revenue from base rates to be $9,148,636 and FRP revenue to be $668,404. The interim rate relief percentage applied to members' bills will be 24.01%

calculated as follows: (Total Rate Adjustment x .60) / (Base Rate Revenue + FRP Revenue) or ($3,927,857 x .60) / ($9,148,636 + $668,404).

Exhibit 4 contains the bill impacts for the two phases of the rate adjustment – phase 1 reflecting the impact with the interim rate adjustment and phase 2 reflecting the impact with the final rate adjustment.

A residential consumer with monthly consumption of 1000 kWh would expect to see an increase is $10.94 in Phase 1 and an increase of $11.30 in Phase 2.

Q. DO YOU HAVE ADDITIONAL DOCUMENTATION TO SUPPORT THIS FILING?

A. Yes. I have attached the following documentation:

RP Exhibit 1	Resume – Rebecca Payne	
RP Exhibit 2	Summary of Rate Change Impact with Phases	
RP Exhibit 3	Cost of Service Study	HSPM
RP Exhibit 4	Residential Rate Impact Form	

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

POINTE COUPEE ELECTRIC MEMBERSHIP CORPORATION, EX PARTE

DOCKET NO.____ ____

In Re: Application for Increase of Base Rates, Interim Rate Relief, Tariff Modification and Establishment of a Formula Rate Plan and Emergency Reserve Fund

AFFIDAVIT OF WITNESS

REBECCA A. PAYNE

I, Rebecca A. Payne, being duly sworn, depose that the Direct Testimony in the above referenced matter on behalf of Pointe Coupee Electric Membership Corporation, is true and correct to the best of my knowledge, information and belief.

KATHLEEN TANKSLEY
NOTARY PUBLIC
COMM # 04000797
EXPIRES 1-28-2028
STATE OF OKLAHOMA

Rebecca Payne

Rebecca A. Payne

Subscribed and sworn before me this 30 day of July, 2024.

Kathleen Tanksley

Notary Public

My commission expires: 1-28-28

#04000797