

BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NO. U-17735 (COOPERATIVE RATE RESTRUCTURING)-C

LOUISIANA PUBLIC SERVICE COMMISSION,  
EX PARTE

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In re: A General Examination of the rates and charges assessed by Cajun Electric Power Cooperative, Inc. to its member distribution cooperatives. Cooperatives -- Beauguard Electric Cooperative, Inc., Claiborne Electric Cooperative, Inc., Concordia Electric Cooperative, Inc., Dixie Electric Membership Corporation, Jefferson Davis Electric Cooperative, Inc., Northeast Louisiana Power Cooperative, Inc., Point Coupee Electric Membership Corporation, South Louisiana Electric Cooperative Association, Southwest Louisiana Electric Membership Corporation, Valley Electric Membership Corporation, and Washington-St. Tammany Electric Cooperative, Inc. have petitioned the Commission to (1) Approve its decision to enter into a power purchase agreement with Louisiana Generating, LLC and (2) to authorize the Restructuring and Allocation of rates to be implemented when Louisiana Generating, LLC acquires the assets of Cajun Electric Power Cooperative, Inc.

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(Decided at Open Session held May 17, 2000)

**I. PROCEDURAL BACKGROUND**

This Order addresses the second set of rate restructuring applications filed by the electric distribution cooperatives. The Commission recently approved, subject to certain conditions and modifications, the filings made by Southwest Louisiana Electric Membership Corporation ("SLEMCO"), Concordia Electric Cooperative, Inc. ("Concordia"), and Pointe Coupee Electric Membership Corporation ("Pointe Coupee"). The eight filings remaining for Commission action are those of Claiborne Electric Cooperative, Inc. ("Claiborne"), Dixie Electric Membership Corporation ("Dixie"), Jefferson Davis Electric Cooperative, Inc. ("Jefferson Davis"), Northeast Louisiana Power Cooperative, Inc. ("Northeast"), South Louisiana Electric Cooperative Association ("SLECA"), Valley Electric Membership Corporation ("Valley"), and Washington-St. Tammany Electric Cooperative, Inc. ("WST").

In January and March 2000, the Commission issued Orders approving the elections by the eleven Cajun member distribution cooperatives of the purchase power contracts with Louisiana Generating, L.L.C. ("Generating") [Order No. U-17735-N (January 19, 2000) and

Order No. U-17735 (Cooperative Rate Restructuring) (March 24, 2000).] In these Orders, the Commission approved the use of an automatic adjustment clause for recovery of the Generating purchased power costs. To implement this clause, the Commission noted that it would be necessary to adjust the cooperatives' overall revenue requirements and rate designs. The Commission directed the cooperatives to make filings addressing these issues. In a January, 2000 Minute Entry, the Commission also permitted the cooperatives to seek rate adjustments in connection with the Cajun settlement and change in power suppliers. The Commission stated that these filings would be considered on an expedited basis.

Pursuant to the Commission's Orders, each of the eleven distribution cooperatives filed applications seeking to (1) redesign rates to create a power cost adjustment clause for the recovery of the Generating purchased power costs; and (2) remove the Cajun power costs from existing base rates and eliminate the fuel clause. The cooperatives have also sought rate adjustments to permit them to recover certain costs in their distribution rates.

The applications of the eight remaining cooperatives were submitted to Special Counsel and the Commission's consultants, Kennedy & Associates, for review and analysis. Multiple data requests were issued to the cooperatives, and responses were reviewed and analyzed. The cooperatives also participated in several technical conferences and meetings, at which additional information was provided. The cooperatives submitted pre-filed testimony in support of their applications. Notice of the filings was published, and the proofs of publication are filed with the Commission.<sup>1</sup> There were no interventions or objections to the applications.

On May 8 and 9, 2000, a hearing was held on the applications of the eight cooperatives. The hearing with respect to Claiborne was limited to the proposed power cost adjustment clause, with Claiborne proffering the supplemental portion of its application addressing base revenue relief. The hearing was held before the Honorable Eve Kahao Gonzalez, who was appointed Hearing Examiner in this proceeding. At the hearing, the cooperatives presented testimony supporting their applications. Their witnesses were subject to

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<sup>1</sup> Notice of Claiborne's initial filing was published timely. Claiborne submitted a revised filing on April 27, 2000, notice of which was not published timely.

cross-examination by Special Counsel. No other party sought to examine the witnesses, and no party stated an objection at the hearing.

At the May 8, 2000 Business & Executive Meeting, Valley and Claiborne requested that the Commission defer consideration of their applications. This request was granted, and the merits of their applications will not be addressed in this Order.

## **II. ANALYSIS OF THE APPLICATIONS**

The applications filed by the six cooperatives contain three components. First, the Commission is asked to approve a power cost adjustment clause for the recovery of the Generating purchased power costs. Second, the Commission is requested to confirm that all Cajun purchased power costs were properly removed from rates. Third, the cooperatives seek to adjust their base rates to recover certain expenses, principally relating to system improvements, right-of-way maintenance, and employee costs.

Subject to certain reporting requirements and a two-year moratorium on base rate applications by the cooperatives, Special Counsel recommended approval of the filings made by Beauregard, Jefferson Davis, Northeast, SLECA, and WST. With regard to Dixie, Special Counsel recommended that the Commission place a 2.3 mill cap on its base revenue adjustment and impose the same two-year moratorium. Because the Commission already has approved the Generating power costs, any cap should apply only to base revenues. The base rate moratorium does not apply to the disposition of the Cajun settlement funds. The Commission finds these recommendations reasonable, and they are approved.

### **A. Power Cost Adjustment Clause**

All six cooperatives propose the same form of power cost adjustment clause ("PCA") for recovery of the Generating power costs. The mechanism was explained in detail in the testimony of the cooperatives' expert witness, Mr. Roger Comeaux of Brooks-Harbour and Associates, Inc. Mr. Comeaux's analysis was verified by the Commission's consultants.

As Mr. Comeaux testified, the PCA is designed to recover the purchased power costs charged to the cooperatives by Generating. A portion of the Generating costs will be recovered in base rates. This is similar, although not identical, to the current structure for

recovery of the Cajun costs, in which the Cajun demand charges are recovered in base rates, and the fuel costs are recovered through the existing fuel clause. In the PCA, although the majority of the Generating demand charges will be recovered in base rates, a portion will be recovered through the PCA. Nevertheless, as Mr. Comeaux testified, the forms are relatively consistent, and the proposed structure will help avoid customer confusion and allow the cooperatives to alleviate the expense of reformatting their billing systems.

The PCA is comprised of two components. The first is a base component ("NFPA"), which consists of non-fuel power costs. The NFPA will be determined annually in December for the following twelve-month period. A monthly variance adjustment is calculated between the actual non-fuel power costs and the amount of such costs recovered in previous periods. Any cumulative variance is recovered over a twelve-month period. By using a twelve-month average, consumers will not experience the large monthly variations in their bills that otherwise would be caused by the demand ratchet in the Generating contract.

The second component provides for recovery of the fuel-related costs ("FCA"). The FCA is determined monthly based upon current monthly fuel costs and includes a monthly true-up mechanism. This component mirrors the cooperatives' existing fuel cost adjustment clause.

Mr. Comeaux submitted detailed calculations supporting the proposed PCA. For each cooperative, Mr. Comeaux determined the average non-fuel component of the cooperative's total power cost during 1999. The average non-fuel component is the amount to be included in base rates and forms the base amount to be specified in the PCA. Mr. Comeaux also calculated for each cooperative the projected total amount to be included in the PCA. These calculations support Mr. Comeaux's conclusion that the relative billing structure will remain consistent after the PCA is implemented. In future years, any increases in the Generating costs, whether demand or fuel, will be recovered through the PCA.

The six cooperatives seek to maintain certain, specified incentive rates under the existing fuel adjustment clause. The particular incentive rates are those previously offered by Cajun that Generating agreed to maintain. Generating will bill these rates separately, and a fuel

cost adjustment will be determined for application to these loads. The total power cost of these incentive rates will be subtracted from the total Generating power bill (which will be simple to verify as the incentive rates are separate items on the Generating bill), and only the net amount will be used to calculate the PCA. In this way, the cooperatives' standard offer customers are protected against any harm resulting from billing for incentive rates.

Because a portion of the Generating demand charges will be recovered in the PCA, the Commission must approve an exception to its General Orders of November 6, 1997 and June 27, 1985, which limit automatic adjustment clauses to the recovery of fuel costs. The Commission previously determined that it would permit the requested exceptions as part of the Cajun bankruptcy settlement. [Order No. U-17735-N at pp. 9-10 (January 19, 2000).] However, the particular format of the PCA had to be submitted to the Commission for review and approval before the clause would be implemented. The Commission will now approve the particular form of the PCA and affirm the exceptions to its General Orders needed to implement the PCA.

We note that the PCA for the six cooperatives differs from the PCA approved for SLEMCO, Concordia, and Pointe Coupee. For these three cooperatives, the PCA will recover all of the Generating demand costs. The advantage of this methodology was the unbundling of rates on customer bills, which may help prepare consumers for changes in the electric industry. However, as we noted, there are reasonable alternative designs for a power cost adjustment clause, and the Commission did not limit the cooperatives to one particular form.

As stated in Order No. U-17735-N, the Commission retains jurisdiction to review the cooperatives' PCAs periodically to ensure that the cooperatives' costs comply with the Generating contracts and that their overall rates do not permit the over-collection of costs. The Commission also reserves the right to modify the PCA to accommodate changes in the market and electric industry. The cooperatives each acknowledged the Commission's continuing jurisdiction in these matters.

The Commission approves the PCA proposed by the six cooperatives. The PCA is an appropriately-designed mechanism for recovery of the Generating purchased power costs. The particular structure of the PCA will help alleviate fluctuations in the billings for the

Generating demand charges. By maintaining a similar structure to current bills, customers should not suffer confusion from the conversion to the PCA.

**B. Removal of Cajun Charges**

As part of the change in power suppliers, the Commission previously ordered the cooperatives to eliminate all Cajun charges from their rates. [Order No. U-17735-N.] The Commission's consultant verified that the six cooperatives have removed all of the Cajun power costs from their base rates. The cooperatives submitted detailed workpapers reflecting removal of these costs. For their standard offer customers, the cooperatives also have eliminated the existing fuel clause through which all Cajun fuel costs were recovered. The incentive customers will be billed through an FCA, but no Cajun costs remain. Thus, in accordance with the Commission's directive, all Cajun costs have been removed from rates.

**C. Rate Adjustment Proposals**

In January, 2000, the Commission issued a Minute Entry stating that it would consider applications by the cooperatives for rate adjustments sought in connection with the Cajun settlement and the change in power suppliers. Pursuant to the Minute Entry, the six cooperatives submitted proposals to retain different levels of costs in their distribution rates.

The Cajun bankruptcy involved a five-year proceeding that taxed the resources of the cooperatives. As a result, the cooperatives were unable to undertake various maintenance projects, system upgrades, and right-of-way projects needed to ensure reliable service to customers. Additionally, many of the cooperatives have lost linemen and other field personnel to neighboring investor-owned utilities that offer higher wages. The cooperatives seek funds to undertake their deferred projects and to bring spending levels to the amounts necessary to provide reliable service into the future, retain their experienced employees, and eliminate the need for rate increases.

**1. Rate Proposals Approved**

The Commission will approve the rate proposals made by Beauregard, Northeast, SLECA, Washington-St. Tammany, and Jefferson Davis, subject to certain reporting requirements and a two-year moratorium on applications by these cooperatives for increases in

their base rates. These cooperatives have demonstrated satisfactorily a financial need for the relief requested. Further, the requests are for relatively modest adjustments to base revenues. For Beauregard, Northeast, SLECA, and Washington-St. Tammany, there is little revenue impact from these requests. Each of these four cooperatives is receiving a decrease in its power costs from Generating, and any base revenue relief will be largely offset by the power cost decrease. While Jefferson Davis will experience a greater impact, nearly 50% of the revenue increase is associated with the Generating power costs, on which Jefferson Davis earns no margin and that were previously approved by the Commission. The amount of the base revenue relief proposed is small and, in fact, is the least dollar amount requested by any of the cooperatives. Finally, all five cooperatives committed to a minimum rate moratorium on base rate filings of eighteen months to two years, which promotes the rate stability that the Commission seeks in this proceeding.

The Commission will require each of these cooperatives to report annually their plant addition expenses and to report immediately any single expenditure in excess of \$300,000. All reports should be sent to the Commission's Executive Secretary and the Commissioners, as well as filed with the Commission. The cooperatives also are required to make a one-time report reflecting implementation of the wage increases discussed in their filings. These are the same reporting requirements imposed on SLEMCO, Concordia, and Pointe Coupee. In addition, the Commission orders a two-year moratorium for these cooperatives during which time the cooperatives may not file applications for base rate increases. In each case, the General Manager committed to an eighteen month moratorium but believed the commitment could be longer. Thus, we will order a two-year moratorium to further our commitment to stable rates. This moratorium does not apply to the disposition of the Cajun settlement funds.

The cost justification for the relief requested by each cooperative is set forth below. To summarize, each cooperative has proposed appropriate uses for the funds requested and has demonstrated that it will not over earn if the rate relief is granted. The majority of the funds are to be used to pay for needed system improvements, including the financing of the long-term debt needed to fund these projects, right-of-way/tree-trimming costs, and needed increases

in wages and salaries. All five cooperatives have committed to report annually their plant addition expenses and to report immediately any single expenditure in excess of \$300,000. All will make a one-time report detailing implementation of their wage and salary increases. Each cooperative committed further that none of the funds will be used to pay increased board fees, travel, membership, and other, similar expenses. Given the financial support for the request, the proposed use of the funds for costs that will enhance the quality and reliability of service, and the reporting requirement and other conditions agreed to by the cooperatives, the Commission finds the requests reasonable and will approve them under the terms set forth in this Order.

**a. Beauregard**

Beauregard seeks to retain \$486,000 of its \$908,255 power cost decrease. The remainder of the power cost decrease will be flowed through to residential customers, who will experience a slight decrease in their bills compared to current rates. The company projects that the overall impact of the proposal will result in bills to average residential customers that are 5.43% less than the bills experienced under the rates in effect last summer.

In support of its proposal, Beauregard submitted detailed financial data, including a revenue requirement analysis, audited financial statements, RUS Form 7s, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. Beauregard also responded to multiple data requests and made its consultant available to answer questions and provide further information. All of the data submitted by Beauregard was placed into the record at the May 8, 2000 hearing. Beauregard submitted pre-filed testimony from its expert, Mr. Roger Comeaux, and from its General Manager, Mr. Mike Piggot. The company's witnesses were cross examined by Special Counsel at the hearing.

Beauregard's 1999 TIER was 1.01. If the Commission approves Beauregard's application, its TIER is projected to be 1.15, which is below the minimum level that the cooperatives generally must maintain under their mortgage obligations. However, all of Beauregard's long-term debt is held by the National Rural Utilities Cooperative Finance Association ("CFC"), which does not impose a minimum TIER requirement. The CFC, rather,

relies on the cooperative's Debt Service Coverage ("DSC") ratios, and Beaugard's projected ratio of 1.51 satisfies the CFC's minimum DSC requirement of 1.25.

Beaugard's revenue analysis is based on its 1999 actual revenues and expenses, adjusted for certain known and measurable changes. The adjustments were conservative and included removing the Cajun power costs and bankruptcy expenses, and annualizing interest expense associated with loans drawn down during 1999.

Mr. Comeaux also presented a cash flow analysis for Beaugard. The Commission notes that cash flow does not alone govern the level at which rates are set. Rather, the Commission will examine a cooperative's overall financial condition, including its TIER, DSC, equity level, cost of service, and revenue analysis. Cash flow may be considered as a part of this analysis.

In Beaugard's case, the cash flow analysis indicated a cash shortfall without the rate retention. The company's cash requirements included principle payments on long-term debt and the funding of additional capital projects using 30% equity funds and the remainder with debt. The additional capital projects are for system improvements and extensions. The cash shortfall projected by Mr. Comeaux (\$486,568) is approximately equal to the requested rate retention amount.

Mr. Mike Piggot, Beaugard's General Manager, provided prefiled and oral testimony at the hearing in support of the company's rate request. Mr. Piggot testified that the rate retention would assist the company in addressing several problem areas. First, Mr. Piggot testified that Beaugard's wages and salaries have fallen behind those paid by its competitors, and Beaugard recently lost two skilled linemen to competing utilities. Second, Beaugard has deferred needed maintenance on its plant. Mr. Piggot testified that the funds requested would enable Beaugard to undertake needed system improvements and address reliability issues. Mr. Piggot provided detailed testimony on the capital projects Beaugard intends to undertake, which include the construction of a 69 KV line, replacement of one substation that is overloaded, construction of tower lines, replacement of copper wire, and other upgrades. All of these projects will increase the reliability experienced by customers.

In 1999, Beauregard reported a loss of approximately \$398,000. This loss was caused by increased spending on maintenance and construction. During the Cajun bankruptcy, the company deferred substantial maintenance and plant expenses. In 1999, the company began attempting to address the more acute repairs needed on its system. Beauregard also experienced a 5% increase in its load during 1998 and 1999. The increased growth, while eventually good for the cooperative, requires the initial expenses of extending lines, meters, and any necessary feeders and substations needed to serve the new customers, costs which may be recovered only over time.

Subject to the reporting and moratorium requirements previously discussed, the Commission approves Beauregard's proposal. The funds that the company seeks to retain will benefit consumers by increasing the reliability of Beauregard's system. The cooperative's fiscal data supports the financial need for the funds requested. Mr. Piggot testified that the requested rate retention will help the company avoid future rate increases, and he committed that the company could submit to a base rate moratorium of eighteen months or longer. Finally, even with the retention, customers will receive decreases in their bills.

**b. Northeast**

Northeast anticipates a power cost decrease of \$380,756. The company seeks to retain this amount plus an additional \$55,235. The overall billing impact of the relief requested is small (0.49%). When compared to the summer 1999 bills, Northeast's customers will experience a bill decrease of 5.37%. Northeast currently enjoys one of the lowest residential rates among all eleven cooperatives and low rates compared to all utilities statewide. This will not change under the company's proposal.

In support of its proposal, Northeast submitted detailed financial data, including a revenue requirement analysis, audited financial statements, RUS Form 7s, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. Northeast also responded to multiple data requests and made its consultant available to answer questions and provide further information. All of the data submitted by Northeast was placed into the record at the May 8, 2000 hearing. Northeast sponsored pre-filed

testimony from its expert, Mr. Roger Comeaux, and its General Manager, Mr. John Tucker. The company's witnesses were cross examined by Special Counsel at the hearing.

Mr. Comeaux submitted a revenue requirement analysis for Northeast. The company's revenue requirements were based on a 1999 test year adjusted for certain known and measurable changes. The Commission's consultant verified that all Cajun bankruptcy expenses were removed from the test year.

Northeast's 1999 TIER was 0.63, which is substantially below the 1.50 minimum required by the RUS. However, the TIER was influenced heavily by a one-time extraordinary expense that will not recur in the future. Northeast's operating TIER for 1999, which excludes this item, was 2.29. The company estimates that, if its proposal is approved, its TIER will be 2.15. Mr. Comeaux also presented a cash flow analysis projecting a cash shortfall of \$436,847 without the rate retention.

Mr. Tucker submitted testimony regarding the cost-saving measures that the cooperative has undertaken in the past few years. These include aggressive management of insurance costs, the use of rebuilt equipment in areas where reliability is of somewhat lesser concern, and detailed analyses of transformers to match the equipment to the particular load being served. Northeast also plans to participate in the joint purchasing program being considered by ALEC and NRECA.

Northeast provided detailed information concerning the proposed use of the funds requested. The company plans to hire an additional right-of-way crew to help it achieve a four-year tree trimming cycle. As Mr. Tucker testified, an adequate tree trimming program is essential to providing reliable service. The company also seeks to increase its salaries and wages in order to attract and retain qualified personnel. Northeast recently lost six linemen to neighboring utilities, five of which were from one area, causing a severe problem for repair needs in that area. Finally, the company is planning to undertake needed maintenance and improvements on its system, including the replacement of a great deal of cracked copper lines, and a portion of the funds will help pay for these projects. The particular maintenance projects are detailed in the company's construction work plan, which is a part of the record.

Subject to the reporting and moratorium requirements discussed previously, the Commission approves Northeast's proposal. The company plans to use the funds to attract and retain qualified personnel, including lineman, and to undertake deferred maintenance projects that will enhance the reliability experienced by Northeast's customers. Mr. Tucker testified that the retention will permit the company to avoid future rate increases, and he committed that the company could refrain from seeking rate relief for a minimum eighteen months and likely longer. Accordingly, the proposal will be approved

c. **SLECA**

SLECA anticipates a power cost decrease of \$267,533. The company seeks to retain \$440,000 in base revenues. The net effect of these changes is an increase of \$172,447 in the company's revenue requirements. The billing result of this change is small (0.89%). The company projects that the overall impact of the proposal will result in bills to average residential customers that are 3.86% less than the bills experienced under the rates in effect last summer. SLECA's rates are the lowest among the cooperatives and are among the lowest rates statewide, including in relation to much larger investor-owned utilities and municipal systems. This will not change under SLECA's proposal.

In support of its proposal, SLECA submitted detailed financial data, including a revenue requirement analysis with detailed supporting information, audited financial statements, RUS Form 7s, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. SLECA also responded to multiple data requests and made both its consultant and internal staff available to the Commission's consultants to answer questions and provide further information. All of the data submitted by SLECA was placed into the record at the May 8, 2000 hearing. SLECA submitted pre-filed testimony from its expert, Mr. Roger Comeaux, and its General Manager, Mr. Mike Guidry. The company's witnesses were cross examined by Special Counsel at the hearing.

In 1999, SLECA experienced TIER of 2.42. If the proposal is accepted, SLECA anticipates that its TIER will be 2.12. If no relief is granted, the company projects a TIER of 1.58.

SLECA calculated its revenue requirements using a 1999 test year, adjusted for known and measurable changes. The adjustments included removing the expenses associated with the Cajun power costs and bankruptcy and adding the increased costs needed to retain an additional right-of-way crew, upgrade the dispatch system, implement a salary increase to workers, cover other employee expenses, and undertake needed capital improvements and plant additions. Mr. Guidry also submitted a list of additional plant improvements that the cooperative intends to make as funds permit. The cost of these plant additions was not included in the test year revenue requirements, although they underscore the need for the relief sought. Mr. Comeaux also presented a cash flow analysis for the company that indicated a cash shortfall without the rate retention. The projected cash shortfall (\$416,579) is approximately equal to the requested retention amount.

SLECA currently operates under a Section 12 workout with the RUS. Mr. Guidry testified that the workout was undertaken in the early 1990s, prior to the time that Cajun filed bankruptcy. At that time, Cajun's power costs were extremely high, and the RUS offered to permit the cooperatives to defer their interest payments in order to lessen the overall rate to customers. SLECA took advantage of this program, which helped the company maintain low rates to its customers. However, the deferred interest payments must be made, and the company has already resumed payment. There are some deferred interest funds remaining in the company's accounts, which cause the company's financial condition to be somewhat over-stated.

Mr. Mike Guidry provided prefiled and oral testimony at the hearing in support of the company's request. Mr. Guidry testified that the funds would assist the company in addressing several problem areas. According to Mr. Guidry, SLECA's wages and salaries have fallen behind those paid by its competitors, and the company has lost five skilled linemen in the last several months because of its inability to pay competitive wages. The company has attempted to alleviate somewhat the wage disparity through no-cost programs designed to improve employee morale. For example, employees now work eighty hours over the course of nine days, and have every second Friday off from work. However, as a practical matter, the company must pay more competitive wages if it is to attract and retain qualified personnel.

The requested funds also will permit the company to undertake needed maintenance and upgrades on its system and to employ a second right-of-way crew. SLECA submitted a detailed list of its planned system improvements, which list was placed into the record in this case. The improvements include the replacement and repair of a number of under-water lines (many of SLECS's lines cross or are under water) and the replacement of poles on the Greenwood transmission line, which is badly in need of repair.

Mr. Guidry also testified regarding the cost-saving measures that the company has undertaken. These measures include a replacement and management program for the company's vehicles, management of insurance costs, implementation of a right-of-way and line maintenance program that lowered line losses from 8.6% to 5.2%, installation of automated meter reading in remote areas, installation of turtles in remote power lines that detect and report outages in remote areas so that they may be corrected during normal business hours, and reduction of the number of employees through technology systems. SLECA intends to continue managing its costs, including participating in the joint purchasing program previously discussed.

Subject to the reporting and moratorium requirements discussed previously, the Commission approves SLECA's proposal. The company plans to use the funds to attract and retain qualified personnel, including lineman, and to undertake deferred maintenance projects that will enhance the reliability experienced by SLECA's customers. Mr. Guidry testified that the retention will permit the company to avoid future rate increases, and he committed that the company could refrain from seeking rate relief for a minimum eighteen months and likely longer. The billing impact of the proposal is small and thereby provides an opportunity to address service issues without a material impact on rates. Accordingly, the proposal will be approved.

**d. Washington-St. Tammany**

Washington-St. Tammany ("WST") anticipates a reduction in its power costs of \$458,689. The company proposes to retain \$461,000 in base revenues. The proposed retention will have a negligible impact (0.02%) on WST's current revenues and rates. The company projects that summer residential bills under the current proposal will be 4.76% less than last year.

In support of its proposal, WST submitted detailed financial data, including a revenue requirement analysis, audited financial statements, RUS Form 7s, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. WST also responded to multiple data requests and made its consultant available to answer questions and provide further information. All of the data submitted by WST was placed into the record at the May 8, 2000 hearing. WST submitted pre-filed testimony from its expert, Mr. Roger Comeaux, and General Manager, Mr. Ernest Jakins. The company's witnesses were cross examined by Special Counsel at the hearing.

In 1999, WST experienced a TIER of 1.48. Under its proposal, the company projects a TIER of 1.42. Without any relief, the company's TIER is projected to be 1.31.

WST's revenue analysis is based upon a 1999 actual test year, adjusted for known and measurable changes. The adjustments included removal of the Cajun power costs and bankruptcy expenses, both of which are non-recurring, and the removal of interest expense associated with short-term debt that was converted this year to long-term debt. The test year also was adjusted to reflect a salary increase for workers, increased health insurance costs, and additional interest expense for long-term borrowing and plant additions. Mr. Comeaux also presented a cash flow analysis for the company that indicated a cash shortfall without the rate retention. Cash requirements included principal payments and the funding of additional capital projects using 37% equity funds (\$3.6 million). The projected cash shortfall (\$458,689) is approximately equal to the requested retention amount.

WST has a negative equity ratio of -2.4%. This results largely from its bankruptcy proceeding, which ended in 1992. A negative equity ratio means that the value of the company's plant-in-service is less than its outstanding debt obligations. WST's negative equity position is of obvious concern, and the company has been working to improve its equity level. Mr. Jakins testified that the company's equity level has risen over the past several years from a negative 18%-20% to a negative 2.4%. This reflects improvement in the company's overall financial condition. However, the company must continue to address its equity position.

WST planned use of the funds includes a payroll increase. This increase is needed to fund the wage increases called for under the company's union contract. The company also plans to use the funds to pay for needed improvements to its distribution system. These improvements are detailed in the construction work plan submitted in this proceeding. The system improvements will help increase the reliability experienced by customers. The company plans to fund a portion of the improvements with the revenue increase in order to avoid exacerbating its negative equity position.

Subject to the reporting and rate moratorium requirements discussed previously, the Commission, approves WST's proposal. The company plans to use the funds to attract and retain qualified personnel, including lineman, and to undertake plant addition projects that will enhance the reliability experienced by WST's customers. The relief requested also will help WST, over the long term, to raise its equity to a positive level, which is important to the cooperative's financial viability. Mr. Jakins testified that the retention will permit the company to avoid future rate increases, and he committed that the company could refrain from seeking rate relief for a minimum eighteen months and likely longer. Accordingly, we will approve WST's application.

**e. Jefferson Davis**

Jefferson Davis anticipates a power cost increase of approximately \$376,857. This increase is due to the facilities charge required under the Generating contract. Jefferson Davis's system is rural, and the company takes power from a thirty-five mile transmission line. Because of the lengthy transmission line, Jefferson Davis pays the highest facilities charge of any of the eleven cooperatives. This is a cost that was formerly absorbed by Cajun. Although Jefferson Davis selected the lowest cost contract option made available by Generating (the twenty-five year Form A contract), the facilities charge causes an overall increase in the company's power costs.

Jefferson Davis seeks to retain \$394,0000 in its base revenues. In dollars, this is the least amount requested by any cooperative and is lower than the amount requested by

Northeast, which is a similarly sized cooperative. In terms of millage, the amount requested is 2.1 mills, which is almost identical to Northeast's request.

Special Counsel recommended approval of Jefferson Davis's application. We note that Mr. Baudino was concerned with the overall impact of the proposal and suggested that the Commission impose alternative caps of 1.75% or 2.3 mills, based on the retention levels approved recently. However, as Mr. Baudino recognized in his testimony, the Commission should examine the amount requested in relation to the effect on base revenues as well as the overall rate impact. A cooperative should not be penalized solely because it is receiving a power cost increase, particularly when the cooperative – as did Jefferson Davis – explored the market and selected the least cost option available, and the Commission approved this choice. Moreover, Jefferson Davis requested less than the 2.3 mill alternative cap recommended by Mr. Baudino, which moots the need for the millage cap. Under these circumstances, we agree with Special Counsel's recommendation and will approve Jefferson's Davis's application.

In support of its proposal, Jefferson Davis submitted detailed financial data, including a revenue requirement analysis, audited financial statements, RUS Form 7s, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. Jefferson Davis also responded to multiple data requests and made both its consultants and internal staff available to the Commission's consultants to answer questions and provide further information. All of the non-confidential data submitted by Jefferson Davis was placed into the record at the May 9, 2000 hearing. Jefferson Davis submitted pre-filed testimony from its expert, Mr. Roger Comeaux, and its General Manager, Mr. Michael Heinan. The company's witnesses were cross examined by Special Counsel at the hearing.

In 1999, Jefferson Davis earned a TIER of 1.04. Under its proposal, the company's TIER is projected to be 1.51, which is slightly above the minimum default level required under the company's mortgage obligations. If no relief is granted, the company projects a TIER of 1.04. The company has a 40% equity ratio.

Jefferson Davis calculated its revenue requirements using a 1999 test year, adjusted for known and measurable changes. The adjustments include removing the Cajun

power costs and bankruptcy expenses from test year expenses. The adjustments also included the increased costs associated with adding one right-of-way crew, a payroll increase, increased insurance premiums, and increased debt service. Mr. Comeaux's cash flow analysis projected a cash shortfall of \$429,579, if no retention is approved.

The largest single expense for which Jefferson Davis seeks recovery is the planned payroll increase. Mr. Heinan testified that the company has been unable to provide full cost-of-living increases since 1992. Although employees have received raises periodically, the raises have been less than the annual cost-of-living adjustment reflected in the Consumer Price Index. As a result, the company's wages are not competitive, and three linemen were recently lost to a neighboring utility that pays better wages. Mr. Heinan anticipates additional personnel losses unless a pay raise is awarded. The company proposes to increase wages by 18.6%, which is the equivalent of implementing a full cost of living increase in salaries from 1992 to today. In other words, the amounts to be paid are the actual 1992 salaries, adjusted for annual cost-of-living increases as published in the CPI. Mr. Comeaux submitted workpapers supporting this calculation.

Like a number of the other cooperatives, Jefferson Davis has fallen behind in its right-of-way maintenance, which consists principally of tree trimming. The company proposes to hire one additional right-of-way crew so that it can achieve a four-year trim cycle. This will improve the reliability experienced by Jefferson Davis's customers.

Mr. Heinan also testified regarding the cost saving measures undertaken by the cooperative. Cost-saving measures include increasing from ten to twelve years the rollover of fleet vehicles, performing pole inspections with in-house crews, reducing the number of non-essential employees, entering into a shared service arrangement for radio facilities, managing insurance costs, and focusing on the system maintenance needed to upgrade reliability, which decreases outage time and the attendant loss of revenues. Jefferson Davis is pursuing the joint purchasing program under consideration by ALEC and NRECA.

Mr. Heinan testified that, if its proposal is accepted, the company could commit to a base rate moratorium of at least eighteen months, if not longer. This is consistent with the rate

stability that is one goal of this proceeding. By contrast, if a 1.75% cap is applied, the company would be forced to seek an immediate rate increase from the Commission. Given that much of Jefferson Davis's increased costs are for power (which are pass-through costs on which the company earns no margin), the relatively modest adjustment to base revenues, and the rate stability to be achieved under its proposal, the Commission finds the company's proposal reasonable, and it will be approved, subject to the reporting and moratorium requirements discussed previously.

## **2. Rate Proposal Approved Subject to Cap**

For the proposal submitted by Dixie, the Commission finds it appropriate to place a cap on the level of relief approved. Although Dixie's financial condition supports some relief, the rate impact of its proposal is larger than the Commission believes should be approved in the context of an expedited proceeding when a full prudence review cannot be undertaken. Accordingly, the Commission will impose a cap of 2.3 mills on the base revenue increase requested by Dixie. This cap provides some relief to Dixie and will help the cooperative provide better service to its customers while, at the same time, permitting only modest changes in the rates.

Dixie anticipates a power cost increase from Generating of \$807,215. In addition, Dixie sought to retain in base revenues \$4,012,000. The cumulative effect of these costs would have increased the current bill as well as the bill experienced by customers in the summer of 1999. The cap imposed by the Commission ensures customers do not experience this billing issue.

In support of its proposal, Dixie submitted detailed financial data, including a revenue requirement analysis, audited financial statements, RUS Form 7s, a cost of service study, a calculation of the Generating rate, a detailed billing analysis, and supporting workpapers for the company's calculations. Dixie also responded to data requests and made both its consultants available to answer questions and provide further information. All of the non-confidential data submitted by Dixie was placed into the record at the May 9, 2000 hearing. Dixie submitted pre-filed testimony from its expert, Mr. Roger Comeaux, and its General

Manager, Mr. Henry Locklar. The company's witnesses were cross examined by Special Counsel at the hearing.

In 1999, Dixie experienced a TIER of 0.9, which indicates that the cooperative had negative margins and was unable to cover its interest expense. Under its proposal, Dixie projects a TIER of 1.0. This TIER meets Dixie's current obligation to the RUS. Without the requested relief, Dixie projects its TIER to be 0.61. The RUS recently denied a lien accommodation requested by Dixie to permit the company to convert a short-term line of credit to long-term debt. The reason for the denial was Dixie's failure to maintain a 1.0 TIER. Dixie's equity ratio is approximately 16%.

Dixie provided a revenue requirement analysis using a 1999 test year, adjusted for known and measurable changes. The test year adjustments included removing the Cajun power costs and bankruptcy expenses from the test year. The test year expenses were adjusted to add certain employee costs, including a payroll increase, health insurance premium increase, and increased pension costs. Expenses also were adjusted to reflect additional long-term debt borrowing and the removal of short term interest expenses associated with a line of credit being converted to long-term debt.<sup>2</sup>

Mr. Comeaux also presented a cash flow analysis indicating a cash shortfall (\$12.2 million) without the rate retention. Cash requirements included principle payments and the funding of additional capital projects. The cash flow analysis assumed that Dixie would finance 100% of its new planned capital projects from equity and not issue any additional debt.<sup>3</sup> Additional spending for capital projects was estimated to be \$18.2 million and was based on a 3-year average of projected plant additions from Dixie's construction work plan.

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<sup>2</sup> Special Counsel's recommendation takes into account the effect on the test year expenses resulting from the denial of the lien accommodation.

<sup>3</sup> Mr. Comeaux's cash flow analysis underscores the concern with using a cash flow analysis to set rates. The analysis assumed 100% equity financing of Dixie's capital improvements, a proposal that does not reflect the manner in which plant is financed and, consequently, overstated Dixie's financial needs. Indeed, Dixie requested to retain only a fraction of the amount Mr. Comeaux's cash flow analysis suggests is required. Our approval here is based on an analysis of the company's TIER, DSC, test year revenue requirements, and overall financial condition, which independently support the approved relief.

Dixie currently operates under a Section 12 workout with the RUS. The workout began in 1991. Among other things, the workout permitted the deferral of interest payments from 1991-1995, followed by a deferral of principal payments from 1996-2000. During the ten-year period from 1991-2000, Dixie's TIER requirement is 1.0. The TIER requirement rises to 1.25 in 2001.

Dixie plans to use the funds approved by the Commission to fund a wage increase and other employee expenses, and for debt service. The majority of the funds are allocated for debt service. For the funds allocated for the wage increase, Mr. Locklar testified that Dixie recently lost three linemen and three electrical technicians because it was unable to pay competitive wages. The pay increase is necessary to curb the loss of employees and restore Dixie's work force to an adequate level. The majority of the payroll increase is required under Dixie's contract with its union.

Dixie needs to convert approximately \$31.6 million in short-term borrowings to long-term debt. During the Cajun bankruptcy, Dixie did not have access to long-term borrowings and was forced to fund its plant addition expenses with a short-term line of credit. This line has now been depleted and is no longer available, even for Dixie's short-term debt needs, including the timely payment of its power bill (which due to the lag in collections often must be financed with short-term borrowing). Because Dixie failed to meet its 1.0 TIER requirement in 1999, the RUS denied Dixie's request for the lien accommodation required to convert the line of credit to long-term debt. Dixie continues to work with the RUS and anticipates that it will successfully resolve the matter.

Mr. Locklar testified regarding the cost saving measures undertaken by Dixie. These include a load management program that saves the company approximately \$1.5 million annually, additional load management at the company's headquarters, the repricing of older short-term debt to long-term at a more favorable interest rates, the use of contract labor for right-of-way work, management of insurance costs, and outsourcing the company's billing. Dixie has the same number of employees that it had in 1985, despite the doubling of its

customers. The company plans to continue finding ways to cut costs, including participating in the joint purchasing programs under consideration by ALEC and NRECA.

Dixie's revenue requirements analysis supports the financial need for the relief requested. However, as our consultant testified, the Commission should be conservative regarding the base revenue adjustments approved in the context of this proceeding. Although the Staff reviewed a great deal of financial data from the cooperatives, because the proceeding was expedited, the Staff was unable to conduct the detailed prudence review that is normally undertaken in a rate case. As a result, Mr. Baudino recommended that the Commission implement only conservative changes in this proceeding. We agree with this recommendation.

Of the two, alternative caps suggested by Mr. Baudino, the Commission will impose the 2.3 mill cap on the base revenue relief approved for Dixie. The 2.3 mill cap will lower the retention level by over \$1 million to \$2,981,924 and will lower the billing impact of the Company's request.<sup>4</sup> Indeed, the rates to the average residential customers will decline by approximately 0.77% from the levels experienced last summer. Even under the cap, subject to a modest redesign, Dixie's rates will remain at or below those of its nearest competitor, Entergy. Dixie will be required to design its rates to ensure that the residential rates remain competitive with those offered by Entergy and to submit the rate design to the Commission's consultant for review.

The 2.3 mill cap is sufficient to meet Dixie's revenue needs for at least the next two years. This is an important factor in the context of this proceeding. The Commission opened this proceeding to consider the cooperatives' rate restructuring proposals contemporaneously with the change in their power supplier. To avoid multiple rate changes, we chose to take the opportunity to address the cooperatives' base revenue needs at the same time that rates were being redesigned to implement the Generating power costs. However, this was a policy choice by the Commission, and we are under no obligation to afford any particular level

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<sup>4</sup> The 1.75% cap would permit the retention of \$1,621,794 and would have a correspondingly smaller billing impact. However, the 1.75% cap will not adequately address Dixie's financial needs, particularly the conversion of the short term line of credit to long-term debt.

of relief. Thus, the Commission's decision whether to grant relief will take into account the rate stability that will be achieved if an adjustment is approved.

At the hearing, Special Counsel addressed in detail Dixie's ability to submit to a rate moratorium if the 2.3 mill cap were imposed. Mr. Locklar testified unequivocally that Dixie could commit to an eighteen to twenty-four month moratorium under this cap. Based on his discussions with the RUS, Mr. Locklar believes that the RUS will grant the lien accommodation if the company achieves a 1.0 TIER this year, and the company can undertake sufficient cost-cutting measures to achieve a 1.0 TIER, if the 2.3 mill cap is imposed. Mr. Locklar's willingness to commit the company to a moratorium underscores his belief in the company's ability to achieve the necessary TIER.

Another factor for the Commission to consider in this proceeding is Dixie's ability to continue to provide competitive rates. Both Messrs. Locklar and Comeaux testified that Dixie's average rates will remain competitive with the rates offered by Entergy, Dixie's principal competitor. Mr. Locklar stated that maintaining competitive rates is important to Dixie and that rate disparity with a competitor is undesirable. Dixie will be required to design its rates to ensure that they remain competitive.

The Commission will permit Dixie to implement a 2.3 mill adjustment in its base revenues, subject to a redesign of rates to ensure that the residential rates remain competitive with those offered by Entergy. The company plans to use the funds to attract and retain qualified personnel and for needed debt service. Mr. Locklar testified that the funds will permit the company to avoid future rate increases, and he committed that the company could refrain from seeking rate relief for a period of eighteen months to two years. The Commission will require, as part of its approval, a two-year moratorium, on any base revenue relief requested by Dixie (exclusive of the disposition of the interest escrow funds).

### **3. Deferral of Decisions Regarding Valley and Claiborne**

Both Valley and Claiborne requested adjustments to their base revenues, in addition to the implementation of a PCA for recovery of their power costs. Special Counsel addressed these requests in the Report of Special Counsel. Both Valley and Claiborne

subsequently requested that the Commission defer consideration of their proposals, including both the base revenue proposal and the implementation of the PCA. The Commission will defer the applications of Valley and Claiborne for consideration at the Commission's next Business and Executive Meeting.

### **III. CONCLUSION**

1. Upon motion Commissioner Field, seconded by Commissioner Sittig, and unanimously adopted, the Commission approves the Power Cost Adjustment clause proposed by Beauregard, Dixie, Jefferson Davis, Northeast, SLECA, and WST for the recovery of the Generating purchased power cost. The Commission also reserves the right to examine the Power Cost Adjustment clause periodically to ensure that the cooperatives' cost comply with the terms of the Generating contracts and that their overall rates do not permit the over-collection of costs. The Commission reserves the option to modify the recovery mechanism anytime it deems appropriate to accommodate changes in the market and electric industry. The Commission finds that each of these cooperatives has removed the Cajun purchased power cost from base rates and the existing fuel clause. The Commission will permit the cooperatives to maintain a fuel clause for the rates to their incentive customers.

2. Upon motion of Commissioner Blossman, seconded by Commissioner Sittig, with Commissioners Dixon and Field concurring, and Commission Owen dissenting, the Commission will accept the recommendations made by Special Counsel regarding the base revenue applications submitted by Beauregard, Dixie, Jefferson Davis, Northeast, SLECA, and WST. Specifically, the Commission will approve the proposal of Beauregard to retain \$486,000 in its base revenues; of Jefferson Davis to retain \$394,000 in its base revenues; of Northeast to retain \$435,991 in its base revenues; SLECA to retain \$440,000 in its base revenues; and, Washington-St. Tammany to retain \$461,000 in its base revenues. The Commission will impose a cap of 2.3 mills, or \$2,981,924, on the base revenue application of Dixie and will require that Dixie redesign its rates to ensure that the residential rates remain competitive with those of Entergy. Dixie must submit its rate design to the Commission's consultant, Mr. Richard Baudino, within fifteen (15) days from the date of this Order. Each of the base revenue

applications is approved subject to the reporting requirements set forth in this Order and a two-year moratorium on the filing of a base revenue application by the cooperatives. The moratorium does not apply to the Commission's disposition of the Cajun settlement funds.

Commissioner Owen dissents from this ruling, stating that: in recent years, including this one, this Commission has dramatically reduced electric rates for the customers of the investor owned utilities we regulate. This Order raises the rates of the rural residents, while we are lowering rates for city dwellers. This is wrong. Electric rates should be going down, not up, and I cannot support this unfair discrimination.

3. Upon motion of Commissioner Sittig, seconded by Commissioner Dixon, and unanimously adopted, the Commission will defer the applications of Claiborne and Valley until the June Business & Executive Meeting. These two cooperatives are authorized to retain their existing fuel clause in place during this period of time.

4. This Order is effective immediately.

**BY ORDER OF THE COMMISSION  
BATON ROUGE, LOUISIANA  
September 8, 2000**

/S/ IRMA MUSE DIXON  
IRMA MUSE DIXON, CHAIRMAN  
DISTRICT III

/S/ JAMES M. FIELD  
JAMES M. FIELD, VICE-CHAIRMAN  
DISTRICT II

DON OWEN (DISSENTS)  
DON OWEN, COMMISSIONER  
DISTRICT V

/S/ DALE SITTIG  
C. DALE SITTIG, COMMISSIONER  
DISTRICT IV

/S/ JACK "JAY" A. BLOSSMAN, JR.  
JACK "JAY" A. BLOSSMAN, JR., COMMISSIONER  
DISTRICT I

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SECRETARY  
LAWRENCE C. ST. BLANC