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April 5, 2019

Ms. Melanie Sandoval  
Bureau Chief of Records Management  
Public Regulation Commission  
1120 Paseo de Peralta, Room 418  
Santa Fe, New Mexico 87504-1269

Case No. 18-00383-UT; In the Matter of the  
Filing of Advice Notice No. 69 by Socorro  
Electric Cooperative, Inc. (SEC)

Dear Ms. Sandoval:

We enclose for filing the original and six copies each of the Second Supplemental Direct Testimony of Justin W. Proctor in support of The Socorro Electric Cooperative, Inc.'s rate filing and Certificate of Service. Kindly forward an endorsed copy of each in the enclosed self-addressed, stamped envelope. Please feel free to contact us should you have any questions. Thank you for your attention to this matter.

Very truly yours,

WIGGINS, WILLIAMS & WIGGINS  
A Professional Corporation

By   
Christie Griego  
Paralegal

CAG:me

Enclosures

cc: Service List

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF THE FILING )  
OF ADVICE NOTICE NO. 69 )  
BY SOCORRO ELECTRIC )  
COOPERATIVE, INC. )  
)  
SOCORRO ELECTRIC )  
COOPERATIVE, INC., )  
)  
Applicant. )  
\_\_\_\_\_ )**

**Case No. 18-00383-UT**

**SECOND SUPPLEMENTAL DIRECT TESTIMONY**

**OF**

**JUSTIN W. PROCTOR  
C. H. GUERNSEY & COMPANY**

**ON BEHALF OF**

**THE SOCORRO ELECTRIC COOPERATIVE, INC.**

**April 5, 2019**

1 **Q. STATE YOUR NAME FOR THE RECORD PLEASE.**

2 **A.** Justin Proctor.

3 **Q. HAVE YOU PREVIOUSLY SUBMITTED PREPARED TESTIMONY IN**  
4 **THIS CASE?**

5 **A.** Yes. My initial prepared testimony was filed on December 3, 2018 and my  
6 supplemental testimony was submitted on March 22, 2019.

7 **Q. WHAT WAS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

8 **A.** The purpose of this supplemental testimony is to address the issues identified in  
9 the NMPRC's Hearing Examiner's April 1, 2019 Order Requiring Additional  
10 Supplemental Testimony.

11 **Q. WHAT METHOD DID SEC USE TO CALCULATE ITS REVENUE**  
12 **REQUIREMENT? DEBT SERVICE COVERAGE APPROACH, TIER**  
13 **METHOD OR SOMETHING ELSE.**

14 **A.** SEC did not use a debt service coverage approach or the TIER method. SEC  
15 calculated its revenue requirement based on the cash margins required to meet the  
16 Board defined financial goals and objectives as exhibited on Schedule D-9.0 and  
17 as previously testified to in Joseph Herrera's March 22, 2019 supplemental  
18 testimony at page 3, line 10 through page 6, line 18.

Supplemental Direct Testimony of Justin W. Proctor; Case No. 18-00383-UT

1           The resulting cash revenue requirement based on these goals and  
2 objectives is \$1,250,032. The Board approved rate change of \$1,249,993 enables  
3 SEC to meet its financial goals and objectives as expressed in SEC Board Policy  
4 No. 312.

5           Coverage ratios are financial metrics useful for monitoring financial  
6 performance but do not take into consideration the specific financial condition of  
7 the cooperative or its financial goals and objectives. As noted in both Exhibits 2  
8 and 3, state regulatory commissions and lenders may provide guidelines for  
9 proposed revenue changes, but each cooperative is different. Exhibit 2, Pg 24  
10 states; “The TIER allowed for Distribution Coops is usually set at 2.0, but can be  
11 higher or lower when warranted by the utility’s financial condition.” NRUCFC in  
12 Exhibit 3 concedes “...an optimal TIER is seldom known.” For this reason, SEC  
13 calculated its revenue requirement based on the required cash margins to meet  
14 financial goals and objectives as I detail above.

15 **Q. IF SEC USED THE TIER METHOD:**  
16 **WHAT TIER RATIO DID SEC USE? OPERATING TIER OR**  
17 **SOMETHING ELSE.**

18 A. SEC did not use the TIER method to calculate the revenue requirement.

1 **Q. WHAT TIER LEVEL DID SEC USE AND WHY? (FOR EXAMPLE, 1.2,**  
2 **1.5, 2.0. OR SOMETHING ELSE?)**

3 A. SEC did not use the TIER method to calculate the revenue requirement. As  
4 exhibited on Schedule D-9.0, the revenue requirement was based on SEC's cash  
5 requirement to meet its financial goals and objectives.

6 **Q. SET FORTH, BY GENERAL COMPONENT AND AMOUNT,**  
7 **CALCULATION OF SEC'S REVENUE REQUIREMENT. FOR**  
8 **EXAMPLE, SEE EXHIBIT 1 AT 3 -19 (EXAMPLE) AND EXHIBIT 2, P 25.**

9 A. SEC did not rely on the TIER method to calculate the revenue requirement.  
10 However, the components of the revenue requirement as depicted on Schedule A-  
11 1.0 are reflected in SEC Exhibit 5 in a fashion similar to that shown in Exhibit 2,  
12 Pg. 25.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.



<u>Revenue Requirement</u>		<u>Amount</u>
O&M Expenses	\$	19,168,128
Plus Depreciation Expense		2,396,141
Taxes other Than Income Taxes		631,787
Interest on Long Term Debt & Other		2,095,084
Interest on Short Term Debt		2,828
Non-Utility Expenses		
Margin Required		2,976,957
Total Revenue Requirement	\$	<u>27,270,925</u>
Less: Other Operating Revenue		
Non-Utility Revenues, including Interest Income	\$	726,920
Patronage Capital Credits from Lenders (& G&T)		590,389
Revenue Required from Rates for Service	\$	<u><u>25,953,616</u></u>

*Data from Schedule A-1.0*

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF THE FILING OF )  
ADVICE NOTICE NO. 69 BY SOCORRO )  
ELECTRIC COOPERATIVE, INC. ) Case No. 18-00383-UT  
)  
SOCORRO ELECTRIC COOPERATIVE, )  
INC., APPLICANT )**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the Second Supplemental Direct Testimony of Justin W. Proctor in support of The Socorro Electric Cooperative, Inc.'s rate filing and this Certificate of Service were served on April 5, 2019, as indicated below, to the following:

***Via Email to:***

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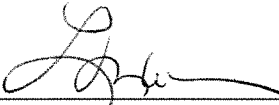
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