

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)

HEARING
Volume II

Tuesday, June 25, 2019

9:00 a.m.

PERA Building
 1120 Paseo De Peralta
 Santa Fe, New Mexico 87501

BEFORE HEARING EXAMINER CAROLYN R. GLICK

REPORTED BY: ALLISON ASH-HOYMAN
 NEW MEXICO CCR #18 - CCRR No. 137
 CUMBRE COURT REPORTING, INC.
 2019 Galisteo, Suite A-1
 Santa Fe, New Mexico 87505

Page 275

1 A P P E A R A N C E S
 2
 3
 4 For the Applicant:
 5 LORNA M. WIGGINS
 6 PATRICIA G. WILLIAMS
 7 Wiggins, Williams & Wiggins, PC
 8 1803 Rio Grande Blvd NW
 9 Albuquerque, New Mexico 87104
 10 (505) 764-8400
 11 lwiggins@wwwlaw.us
 12 pwilliams@wwwlaw.us
 13
 14 For the City of Socorro:
 15 NANN M. WINTER
 16 KEITH W. HERRMANN
 17 Stelzner, Winter, Warburton,
 18 Flores, Sanchez & Dawes, PA
 19 302 8th Street NW
 20 Albuquerque, New Mexico 8710
 21 nwinter@stelznerlaw.com
 22 kherrmann@stelznerlaw.com
 23
 24 For New Mexico Institute of Mining and Technology:
 25 MARK K. ADAMS
 26 CYNTHIA A. LOEHR
 27 Rodey, Dickason, Sloan, Akin & Robb, PA
 28 119 East Marcy Street
 29 Suite 200
 30 Santa Fe, New Mexico 87501
 31 P.O. Box 1357
 32 Santa Fe, New Mexico 87504
 33 (505) 954-3942
 34 madams@rodey.com
 35 cloehr@rodey.com

Page 276

1 A P P E A R A N C E S (Cont.)
 2
 3 For the Intervenor:
 4 DONALD STEINNERD, PRO SE
 5 711 Buford Drive
 6 Socorro, New Mexico 87801
 7 (575) 835-2622
 8 reenerd.q.com
 9
 10 For the Public Regulation Commission:
 11 BRADFORD BORMAN
 12 Staff Counsel - Legal Division
 13 1120 Paseo de Peralta
 14 P.O. Box 1269
 15 Santa Fe, New Mexico 87504-1269
 16 (505) 827-4048
 17 bradford.borman@state.nm.us
 18
 19 Also Present:
 20 PRC Commissioner Stephen Fischmann
 21
 22
 23
 24
 25

Page 277

1 I N D E X
 2
 3 Witness Name Direct Cross Redirect Recross
 4 Justin Proctor 279 285
 5 286 349 358
 6 360
 7 361
 8 Joseph Herrera 364
 9 Rauni Montoya 369
 10 Joseph Herrera 381 376
 11 Stephen Wells 381 383
 12 Olin Cleve Mcdaniel, 421 423 449 454
 13 Edwin Reyes, Jr. 459 461
 14 498 502
 15
 16 E X H I B I T S
 17 Exhibit No. Offered Admitted
 18 SEC Exhibit 11 367 375
 19 Tech Exhibit 1 383
 20 Tech Exhibit 2 423
 21 SEC Exhibit 12 455 455
 22 Tech Exhibit 3 460
 23 Tech Exhibit 4 461
 24
 25

Page 278

1 HEARING EXAMINER GLICK: Let's go back on the
 2 record. We are here for the second day of the hearing
 3 in case No. 18-00383-UT.
 4 So the first thing that we are going to do is
 5 Mr. Proctor, could you come forward, and Mr. Steinnerd
 6 and Mr. Proctor, I will wait till you are up here.
 7 Justin Proctor,
 8 having been previously duly sworn, testified as follows:
 9
 10 HEARING EXAMINER GLICK: Were you here
 11 yesterday when Mr. Steinnerd asked his question to Mr.
 12 Herrera about a possible discrepancy in the percentage
 13 increase in the Residential revenues?
 14 THE WITNESS: Yes, ma'am.
 15 HEARING EXAMINER GLICK: Could you respond to
 16 that.
 17 THE WITNESS: Yes, ma'am.
 18 Mr. Steinnerd, the information that you
 19 gathered out of the cost of service study was from
 20 schedule K-1 and K-2. K-1 being the revenues associated
 21 under the existing rates, and K-2 being the revenues
 22 under the proposed rates.
 23 The numbers that you picked up included not
 24 only the base revenues with adjustment factors, but also
 25 the allocated other revenues for things like penalty

<p style="text-align: right;">Page 279</p> <p>1 fees and service charges and pole rental and just the 2 other various things that aren't revenue related or base 3 revenue related, and so those are not the values that 4 are used in developing the rate changes. Not the rate 5 changes, but the level of changes for the rate classes 6 that are included in the notice. 7 And so I didn't check your computations, I'm 8 sure that those percentages are right, but it's just the 9 wrong source data for what's used in the public notice. 10 CROSS EXAMINATION 11 12 BY MR. STEINNERD: 13 Q. To make sure I understand then, the base 14 revenues that you are referring to picked up other 15 revenues. On page 190 of the cost of service study, 16 there is an Accounting Code 456, Miscellaneous Electric 17 Revenues. 18 Could you please state what's included in 19 those? 20 A. Generally speaking -- well, no, I can't tell 21 you exactly what's in there. 22 Q. Type of revenue? 23 A. Other revenues, anything in the 456s are not 24 related to things like the Residential rate being the 25 customer charge and energy charge. Those in the 456</p>	<p style="text-align: right;">Page 281</p> <p>1 is for the base revenue related items. The 5.60 -- the 2 5.6 -- I'm sorry -- 5.06 percent change is the total 3 system change, and that captures the additional changes 4 in the service charges. 5 Q. While you are there, if you could then go to 6 page 259 for the calculation of miscellaneous service 7 fees. 8 A. Okay. 9 Q. Are the miscellaneous service fees that are 10 shown here included in the upper part of the numbers 11 shown on page 249? 12 A. The upper part? 13 Q. Where you are showing all the percentages by 14 class for the proposed rate change versus existing. 15 A. No, no. 16 Q. No? 17 A. No. 18 Q. But these 259 schedule -- excuse me, on page 19 259, miscellaneous service fees are part of the rate 20 change numbers. 21 A. And they are reported below the base rate 22 change, yes. 23 Q. But they are not reflected in that 6.66 24 percent that has been advertised in virtually every rate 25 increase?</p>
<p style="text-align: right;">Page 280</p> <p>1 again are penalties, late charges, other revenues, 2 sometimes the pole attachment rental stuff is in there, 3 things of that nature. 4 Q. So in your opinion, then, it's -- those are 5 additional charges, are the 456 Accounting Code charges 6 items that have changed as part of this proposed rate 7 increase? 8 A. There are changes associated with the service 9 charges for those customers who caused those to be 10 incurred, yes. Like late payment fees. I forget 11 exactly. 12 Q. And they are not included in the base revenue, 13 they are in the miscellaneous electric revenues? 14 A. Right. Because you don't necessarily pay 15 those on a monthly basis with your electric bill, unless 16 you have a late payment and that's charged to you. 17 Q. What I don't understand, then, if they are 18 part of the proposed rate increase, it appears like you 19 are almost cherry picking just to show the base revenues 20 and not reporting the total revenues as being 21 reflective. 22 A. If you refer to schedule N-1, which is page 23 249 of 380. 24 Q. I'm there. 25 A. Okay. So you can see the 4.8 percent increase</p>	<p style="text-align: right;">Page 282</p> <p>1 A. It's not included. 2 Q. It's not included in that percentage? 3 A. And we don't do it that way. That's not the 4 standard approach for reflecting the change. 5 Q. I can't speak to what is standard approach, 6 but it doesn't reflect all the changes for those -- for 7 the class of customers. 8 It does change a little bit, it adds about a 9 half a percent; is that correct, when you add those 10 miscellaneous service fees? 11 A. Well, the system increase is 4.8 percent. And 12 the total increase for the system 5.06 percent. So 13 whatever the difference is. 14 Q. Okay. Do you have a copy of my Exhibit 8 from 15 yesterday? I only have my one. 16 HEARING EXAMINER GLICK: I have one I can give 17 him. 18 A. I have it. 19 HEARING EXAMINER GLICK: You do have it. 20 THE WITNESS: Yes, ma'am. 21 HEARING EXAMINER GLICK: Okay. 22 BY MR. STEINNERD: 23 Q. So looking at that again on the total side 24 when you look at the total revenues, these numbers are 25 from the total revenue.</p>

Page 283	Page 285
<p>1 A. The 5.06.</p> <p>2 Q. You see the total system 5.06?</p> <p>3 A. Yes.</p> <p>4 Q. So that when you do pick up those</p> <p>5 miscellaneous service fees, which is essentially all</p> <p>6 that's being picked up additionally by looking at total</p> <p>7 revenues, as opposed to base revenues, then 7.15 is</p> <p>8 correct; is it not?</p> <p>9 A. I don't see that number there.</p> <p>10 Q. See which number?</p> <p>11 A. On the total system. The total system is</p> <p>12 5.06.</p> <p>13 Q. For Residential.</p> <p>14 A. No. The Residential rate class is increasing</p> <p>15 6.66 percent.</p> <p>16 Q. Excluding miscellaneous service fees.</p> <p>17 A. Those are not included in the advertised</p> <p>18 change --</p> <p>19 Q. Okay. That's --</p> <p>20 A. -- because not all of these charges are</p> <p>21 incurred or charged to the Residential class. They can</p> <p>22 be charged to any of the customers in any of these other</p> <p>23 classes. So this is just --</p> <p>24 Q. So --</p> <p>25 HEARING EXAMINER GLICK: Let him finish.</p>	<p>1 a calculator in front of you?</p> <p>2 THE WITNESS: I can get one.</p> <p>3 HEARING EXAMINER GLICK: Would you?</p> <p>4 MS. WIGGINS: Just one or two follow-up</p> <p>5 questions to that.</p> <p>6 HEARING EXAMINER GLICK: Go ahead.</p> <p>7 REDIRECT EXAMINATION</p> <p>8</p> <p>9 BY MS. WIGGINS:</p> <p>10 Q. Mr. Proctor, do you know, what are the</p> <p>11 components of the miscellaneous charges? You mentioned,</p> <p>12 I believe, a late charge. Do you know what other</p> <p>13 charges are included in that category?</p> <p>14 A. Well, I'll refer to Exhibit 259 of 380, which</p> <p>15 is schedule N-6.0. And here are some of the items that</p> <p>16 are included in that. The connection fees and the</p> <p>17 reconnection fees, collection fees, return payment and</p> <p>18 things of that nature.</p> <p>19 Q. And you testified that you don't -- well, let</p> <p>20 me stop. Miscellaneous service fees don't get included</p> <p>21 in a particular individual class; is that right?</p> <p>22 A. Correct.</p> <p>23 Q. And why is that?</p> <p>24 A. We don't track which rate class they belong in</p> <p>25 when we are developing the cost of service study, we</p>
Page 284	Page 286
<p>1 A. It's just other revenues that are not related</p> <p>2 to the service charges, for instance the customer charge</p> <p>3 and the energy charge, the demands charge. We are</p> <p>4 measuring the change. We want to advertise the change</p> <p>5 in the base rate.</p> <p>6 BY MR. STEINNERD:</p> <p>7 Q. If -- I'm confused. If you are not sure where</p> <p>8 the miscellaneous service fees are coming from, why show</p> <p>9 a miscellaneous service fees revenue estimates by class?</p> <p>10 A. Because those are allocated across --</p> <p>11 Q. Excuse me --</p> <p>12 A. For the cost allocation purposes the revenues</p> <p>13 are allocated across the classes.</p> <p>14 MR. STEINNERD: Okay. I have everything I</p> <p>15 need to know. Thank you, thank you, sir.</p> <p>16 HEARING EXAMINER GLICK: Does staff or any of</p> <p>17 the intervenors have any follow-up to that?</p> <p>18 MR. BORMAN: No.</p> <p>19 HEARING EXAMINER GLICK: Ms. Wiggins?</p> <p>20 MS. WIGGINS: Yes.</p> <p>21 HEARING EXAMINER GLICK: Any follow-up to</p> <p>22 that?</p> <p>23 MS. WIGGINS: Not to that.</p> <p>24 THE WITNESS: May I grab my water?</p> <p>25 HEARING EXAMINER GLICK: Yes. And do you have</p>	<p>1 just identify what those account values are based on the</p> <p>2 chart of accounts and then we allocate them across the</p> <p>3 classes.</p> <p>4 Q. In your view is that because some members may</p> <p>5 never pay the special fees that we have discussed?</p> <p>6 A. It's just a standard approach to how we</p> <p>7 develop the cost of service study.</p> <p>8 Q. And why is that considered a standard</p> <p>9 methodology?</p> <p>10 A. Well, again because we don't track which</p> <p>11 particular rate class they actually belong in, or where</p> <p>12 they occur. From whom they were incurred by.</p> <p>13 Q. Are those miscellaneous fees intended to</p> <p>14 charge the individual or the entity causing the cost to</p> <p>15 co-op?</p> <p>16 A. Yes, those are directly attributable to</p> <p>17 somebody's action or behavior, I guess. Yes.</p> <p>18 MS. WIGGINS: Thank you.</p> <p>19 HEARING EXAMINER GLICK: Okay.</p> <p>20 CROSS EXAMINATION</p> <p>21</p> <p>22 BY HEARING EXAMINER GLICK:</p> <p>23 Q. Mr. Proctor, I have a number of questions for</p> <p>24 you.</p> <p>25 A. Yes, ma'am.</p>

<p style="text-align: right;">Page 287</p> <p>1 Q. I'm going to start by asking you two questions 2 that Mr. Herrera kindly deferred to you. 3 A. Oh, okay. 4 Q. One question was: How was the approximately 5 \$688,000 annual capital credits derived or identified to 6 be included in the revenue requirement? 7 A. Okay. That's a good question. What I would 8 like to do is, since it's included in the revenue 9 requirement, I need to talk about the establishment of 10 the revenue requirement. 11 Q. Okay. 12 A. So we are going to walk through a number of 13 schedules, and this is -- this is something that we do 14 with the cooperative boards when we work with them in 15 rate and cost of service studies. They hire Guernsey to 16 develop the cost of service study to test your 17 financials and then we walk with the board through the 18 approach for the revenue requirement. 19 So if we go to schedule D-8, which is -- 20 Q. 67? 21 A. Thank you, ma'am. All right. 22 So D-8 is the development of the cash revenue 23 requirement. Now Joseph kind of walked through a bit of 24 this yesterday. There is four main components when we 25 think about the revenue requirement for a cooperative,</p>	<p style="text-align: right;">Page 289</p> <p>1 about 3.7 million dollars. 2 And so that's what we have identified that we 3 need to do. I say "we," the cooperative, those are the 4 projects that we need to undertake in order to maintain 5 system reliability, public safety and things of that 6 nature. 7 If we go back to schedule D-1 just a few pages 8 back, we can see that over the past ten years the 9 cooperative's plant additions have ranged anywhere from 10 \$700,000 to 6.3 million dollars. Now I'm not exactly 11 sure what went on in 2014, but it certainly is an 12 outlier. And not anywhere near what the average would 13 be if we put all of these things together. 14 So what the cooperative has said is that they 15 believe that their projected plant additions are going 16 to be about \$18 million over the next five years. We 17 average that out, that's about 3.7 million dollars which 18 is what you see back on schedule D-8. 19 At the time that we were developing the 20 revenue requirement, this was the cooperative's estimate 21 of what the construction work plan would be. It 22 actually turns out it's closer to \$26 million. So we 23 are already understating the potential capital projects 24 that are associated with the things that the cooperative 25 has identified that it needs to do in conjunction with</p>
<p style="text-align: right;">Page 288</p> <p>1 the liquidity objectives, the CapEx and the equity 2 management plan, capital credits, those are generally 3 the four things that we think about. 4 And so schedule D-8 lays this out for us in a 5 nice summary. If you look at the right side of it you 6 can see the development of the cash general funds, which 7 is the, you know, the liquidity objective of the 8 cooperative. And so the way that we think about it is, 9 to the extent that the cooperative desires to have cash 10 on hand, then that becomes a component of the revenue 11 requirement. 12 The cooperative at the time of the study had 13 60 days of cash, or 4.72 percent plant, which equalled 14 about 3.8 million dollars of available funds. And so 15 that's one of the objectives, is how much cash do we 16 want to keep on hand. If we want to grow cash then we 17 have to add that to the revenue requirement. 18 If the cooperative desires to consume that 19 cash to offset the rate increase, then it reduces the 20 revenue requirement over here on the left side. 21 So we walk through the cash revenue 22 requirement here. And you can see that we have 23 identified the CapEx plan, which is the capital 24 expansion projects, the capital addition projects for 25 the cooperative. And there is a five-year average of</p>	<p style="text-align: right;">Page 290</p> <p>1 the consulting engineer and the development of the work 2 plan. So we say that we have a CapEx of 3.7 million 3 dollars. 4 What we also want to take into consideration 5 is how do we plan to fund that? And so there is three 6 ways that we can fund the operations of the cooperative 7 in this CapEx. We have contribution in aid of 8 construction, which we talked about to some extent. 9 That's what members would pay who are directly 10 responsible for a capital project for their specific 11 use. 12 The other source is margins or cash from 13 current rates. And so that's important because that 14 offsets the amount of what we would need to borrow 15 otherwise. 16 And so now we have to figure out what's the 17 balance between the amount of plant that we finance 18 through debt, which means that becomes the 19 responsibility of ratepayers over the next 30 years, and 20 how much of our current plant should be paid for with 21 current rates, current margins. 22 And that's where capital credits kind of come 23 into play, because the source -- the only source of 24 equity for an electric cooperative is retained margins. 25 And so if we go back to schedule A we can see</p>

<p style="text-align: right;">Page 291</p> <p>1 that the cooperative is producing about \$466,000 in 2 operating margins in the test year and the adjusted test 3 year in column C you see the operating margin is 4 \$409,000. 5 So that's the amount of cash that our 6 operations is actually producing. So we are not taking 7 into consideration any of the nonoperating activities 8 because we have already established that not all of 9 that, most of that is not cash that we can use. And so 10 that's what we have to fund current expenses, capital 11 credits, and the cash that we want to finance for the 12 capital expansion projects. 13 So if we go to -- if we go back to schedule 14 D-2, so this is the system capitalization, so we 15 start -- now we are talking about what's the appropriate 16 amount of plant additions that we finance through debt 17 and cash, current margins. 18 And we can see that the equity is a percent of 19 total assets in the test year is about 37 and a half 20 percent. This is a board number that they generally 21 see. You know, for us, we are really more interested in 22 what the percent of capitalization is. You can see 23 that's nearly 41 percent. 24 So if we want to maintain equity at its 25 current level and not burn equity or increase it, then</p>	<p style="text-align: right;">Page 293</p> <p>1 anybody, but that's the revenue less expenses for the 2 cooperative in the test year. 3 If we turn over to B-1, which is a few pages 4 over, B-1 would be page 51 of 380. I'm sorry, C-1. I 5 apologize. 6 I'll let everybody catch up. I know this is 7 exciting. 8 You can see that on the right side, on the 9 liability side that we are transferring those operating 10 margins over to the operating margins prior year. This 11 becomes part of the patronage. So the cooperative is 12 going to use those margins, use that cash, to help 13 finance plants. 14 So effectively what we are saying is we are 15 going to take the current rates, and they need to 16 provide a portion of cash for our CapEx that will be 17 used and useful for the next 30 or 35 years. 18 For that patronage capital that we have done 19 that with over the years, then we also want to consider 20 our members as a source of funds, almost like a lender. 21 So we want to pay them back. We want to retire the 22 capital credits that they contributed on that rotation, 23 you know, some years ago. And so that's where we factor 24 in the cash required for capital credits in our current 25 rates. We are treating the patronage capital almost as</p>
<p style="text-align: right;">Page 292</p> <p>1 we need to fund plants at the rate of 40.97 percent. 2 Again, that does kind of throw a little curve 3 in this conversation, that's total long-term debt and 4 total equity. But if we exclude the patronage capital 5 that's allocated from our G&T, for instance, then what 6 we see is that our equity as a percent of capitalization 7 is actually only about 30.4 percent. So that's 8 Socorro's true equity there, for its current operations. 9 And so we look at that and we decide what it 10 is that we want to do with the equity position of the 11 co-op. And I think yesterday somebody asked, you know, 12 why the 40 percent. Well, that's a generally recognized 13 number, it's a good number for electric co-ops. CFC 14 kind of recognizes that. I think even RUS at one point 15 in time would communicate to cooperatives 30 to 40 16 percent equity ratio. 17 So the co-op is in a pretty good spot here, at 18 least when we take into consideration all of the 19 patronage of total equity of the co-op. So capital 20 credits. So we retain earnings from current margins and 21 if you go back to the income statement on schedule A-1 22 you can see that the \$466,000 in column A under the 23 operating margins, so that's effectively the profit, if 24 you will. 25 We call it margins. I don't want to confuse</p>	<p style="text-align: right;">Page 294</p> <p>1 a lender, just like we are RUS or CFC or CoBank. 2 And so if we go back to D-8, the \$688,000 that 3 you asked about a few moments ago is the cash required 4 to retire the cooperative's patronage capital on a 5 rotation of 25 years or thereabouts. And so that was -- 6 that's a board objective of the cooperative. 7 Q. And who decided on that amount? That annual 8 amount. 9 A. Well, the annual amount is the total patronage 10 divided by 25 years. So it's an average rotation. The 11 board of directors decided on the number of years 12 rotation, if you will, to answer your question. 13 Q. All right. 14 A. And so we bring all of these things together 15 and you can see that the total cash requirement is the 16 cash required for plant, 3.71 million dollars at 37 17 percent equity position. So that totals 1.4 million 18 dollars. 19 The 25-year rotation of capital credits is the 20 \$688,000 and then we have to service debt. So that's 21 the principal payments, which is 2.7 million dollars. 22 So the total cash requirement for the system 23 operations based on these goals and objectives is 4.79 24 million dollars. The co-op is producing 409,000, which 25 we saw in the operating margin, right from an income</p>

<p style="text-align: right;">Page 295</p> <p>1 statement. And we can add back in the noncash expenses 2 like depreciation. 3 And then we have income from interest earned 4 and any cash payments from lenders and other 5 organizations. And so that amount is \$736,000. 6 So our net cash that we are producing is 3.5 7 million dollars. The difference between the 47 and the 8 35 is effectively the proposed rate change. 9 I think what's important to also take into 10 consideration in all of this in light of the, you know, 11 the RFIs and things of that nature, and nowhere in this 12 discussion have we mentioned the coverage ratios or rate 13 of return. The reason for that is we go through this 14 exercise to determine what the cooperative needs to do 15 to provide safe, reliable electric service, cover its 16 expenses, pay capital credits, and things of that 17 nature. 18 To the extent that that exceeds the coverage 19 ratios, this becomes the revenue requirement. Because 20 the coverage ratios are only historical metrics or 21 identifiers for the lenders to monitor the financial 22 performance of the co-op. 23 So if the coverage ratios become near the 24 minimum levels, either they can reach out to the co-op 25 or the co-op just uses them to say hey, we need to start</p>	<p style="text-align: right;">Page 297</p> <p>1 the cooperative. And all of these things are levers. 2 For instance, the current cash levels for the 3 cooperative are, I believe, about a million and a half 4 dollars. I think that that's what Joseph told me that's 5 what the current cash level is. 6 So since we developed the cost of service 7 study when they have 3.8 million dollars of available 8 cash, they found the need that they have to meet some of 9 their current expense levels with the savings that they 10 have, that they have established over many years. 11 And so, as we sit today, the proposed rate 12 change, as you can tell if you go back to D-8, the cash 13 to attain the desired level is zero. 14 We have not built into the rates any amount of 15 cash gain, if you will, to put in reserves, because we 16 were satisfied with what we had here. The board was 17 satisfied. 18 So they won't be able to restore that level of 19 cash under the current rate -- 20 Q. Under the current rate -- 21 A. -- designs. It just won't produce it. Based 22 on adjusted test year financials, consumption, and 23 things of that nature. 24 Q. Another question deferred to you by Mr. 25 Herrera, I asked him why the 2017 DSC that he cited in</p>
<p style="text-align: right;">Page 296</p> <p>1 looking at all of these relationships and the revenue 2 that our rates are producing and decide, you know, 3 what's the prudent course of action. 4 So the coverage ratios are just something that 5 we look at as a way to see where we are, but not as a 6 way to establish the revenue requirement. And Guernsey 7 was hired by NRECA. 8 Q. By who? 9 A. I'm sorry, the National Rural Electric 10 Cooperative Association, which is the national industry 11 association for electric co-ops. Guernsey was hired by 12 them in partnership with CFC, which is the National 13 Rural Utilities Cooperative Finance Corporation, NRUCFC. 14 They are the cooperative lender to a lot of 15 cooperatives in the United States, much like RUS is, but 16 they are part of USDA. 17 Anyhow, they hired us in 2016 or '17 to 18 develop a retail rate guide for electric cooperatives. 19 So we developed that rate guide, and part of that was to 20 provide a primer, if you will, for boards of directors 21 in how they think about the cash needs of the 22 cooperative and how to establish the revenue 23 requirement. And that's what's included, this kind of 24 narrative that I've gone through, and how cooperatives 25 generally think about rate changes and the cash needs of</p>	<p style="text-align: right;">Page 298</p> <p>1 his supplemental testimony was different from the ones 2 on the cost of service at page 7. Are you able to 3 answer that question? 4 A. The cost of service page 7, which would be 5 schedule A-1? 6 Q. Yes, I believe so. 7 A. And the DSC is identified as 1.35 and 1.30 8 under the adjusted test year -- I'm sorry, the test year 9 and the adjusted test year. 10 Q. Right. 11 A. Could you refresh my memory where those values 12 were? Off the top of my head I don't know that I can 13 answer that question. 14 Q. The ones on page 7 or the ones that Mr. 15 Herrera -- 16 A. Yes, ma'am. The one that Mr. Herrera was 17 referring to. 18 Q. That is in his Supplemental Direct Testimony 19 at page 10, line 1. Lines 1 and 2. 20 A. 1 and 2, okay. 21 I would just have to go -- according to the 22 information I have here, it should be a -- DSC should be 23 1.35, with 4 hundredths of a point. Of course it's 24 different, but relatively close. 25 MS. WIGGINS: Madam Hearing Examiner, I did</p>

Page 299	Page 301
<p>1 not hear that last answer.</p> <p>2 HEARING EXAMINER GLICK: I think he said it</p> <p>3 should be 1.35.</p> <p>4 Is that what you said?</p> <p>5 THE WITNESS: That's what I have on schedule</p> <p>6 A-1, yes, ma'am.</p> <p>7 MS. WIGGINS: Thank you.</p> <p>8 BY HEARING EXAMINER GLICK:</p> <p>9 Q. So in your testimony you use the terms test</p> <p>10 year and adjusted test year?</p> <p>11 A. Yes, ma'am.</p> <p>12 Q. So our commission rules don't use those terms.</p> <p>13 And so I'm going to show you the terms that are in our</p> <p>14 rules, and I'm going to ask you, and I will hand this</p> <p>15 out, if your term test year corresponds to what we call</p> <p>16 the base period. And if your term adjusted test year</p> <p>17 corresponds with what we call historical test year</p> <p>18 period.</p> <p>19 A. Okay.</p> <p>20 Q. And I've highlighted those terms, definitions.</p> <p>21 A. Okay.</p> <p>22 Q. So can you answer that question?</p> <p>23 A. Yes, ma'am. The base period that you</p> <p>24 highlighted here, it says the utilities, 12 consecutive</p> <p>25 months of actual experience as reflected on the book</p>	<p>1 A. That would be identified in column A on the</p> <p>2 income statement.</p> <p>3 Q. Just a minute. Okay. Page 7.</p> <p>4 A. Yes, ma'am.</p> <p>5 Q. Okay.</p> <p>6 A. And that would be \$25,953.616.</p> <p>7 Q. Okay. And then would the total current</p> <p>8 revenues be the number in the Total row under column A?</p> <p>9 A. The total current revenues of the cooperative?</p> <p>10 Q. Yes.</p> <p>11 A. Yes, ma'am. \$24,669,263. And that's</p> <p>12 identified on their Form 7 on line item 1.</p> <p>13 Q. Would you turn to page 132 of your cost of</p> <p>14 service study.</p> <p>15 A. Yes, ma'am, that's schedule H-1.</p> <p>16 Q. And so am I correct that you said yesterday</p> <p>17 that this schedule identifies the amount of dollars that</p> <p>18 would be needed to be collected from the classes under</p> <p>19 existing rates, if the results of the cost of service</p> <p>20 study were strictly followed?</p> <p>21 A. Yes, ma'am.</p> <p>22 Q. Okay. And so for the Residential class the</p> <p>23 cooperative would need to recover an additional -- well,</p> <p>24 first tell me what's the difference between uniform ROR</p> <p>25 and uniform percent MAR?</p>
Page 300	Page 302
<p>1 balance of accounts.</p> <p>2 So that would lead me to believe that that's</p> <p>3 what I have identified as test year, column A.</p> <p>4 Q. All right.</p> <p>5 A. So that column A reflects the report that the</p> <p>6 cooperative files, which is their Form 7.</p> <p>7 Q. Okay.</p> <p>8 A. So that's actual. And the historical test</p> <p>9 year, as it's identified on this page, says the base</p> <p>10 period after all proper adjustments. That would be the</p> <p>11 adjusted test year, which is column C on schedule A-1.</p> <p>12 Q. So the proposed rates reflect zeroing out the</p> <p>13 DCA clause and the FPP, CAC as of what date?</p> <p>14 A. 12/31/2017.</p> <p>15 Q. Okay.</p> <p>16 A. Yes, they are rebasing the factors.</p> <p>17 Q. What is the amount of -- the dollar amount of</p> <p>18 SEC's requested revenue requirement?</p> <p>19 A. The proposed rate change --</p> <p>20 Q. No.</p> <p>21 A. -- or the total?</p> <p>22 The total revenue?</p> <p>23 Q. Yes.</p> <p>24 A. Okay.</p> <p>25 Q. Total revenues being requested for recovery?</p>	<p>1 A. Okay. The uniform ROR is the uniform rate of</p> <p>2 return, which is the system rate of return. For the --</p> <p>3 if we go back to schedule A-1, which I think was the</p> <p>4 page 7 --</p> <p>5 Q. Uh-huh.</p> <p>6 A. -- that you see that the -- with the proposed</p> <p>7 rate change it's a 7.22 percent mar- -- system rate of</p> <p>8 return. And so what that is saying is, is that you</p> <p>9 would require a 5.06 percent increase for the total</p> <p>10 system, which is 1.249 million dollars, and in order to</p> <p>11 have a uniform rate of return for all of the rate</p> <p>12 classes, and yesterday we talked about the relative rate</p> <p>13 of return. That's to get to 1. And that would be the</p> <p>14 required rate change.</p> <p>15 Now, sometimes you might use the uniform</p> <p>16 margin as a percent of revenue, as a way for identifying</p> <p>17 the rate change. And generally speaking, when you are</p> <p>18 doing that, you're using that number if, for instance,</p> <p>19 you have a large contract or industrial rate that just</p> <p>20 doesn't have any rate base. For instance, to carry it</p> <p>21 to an extreme, let's just say they are at a delivery</p> <p>22 point and so the co-op has no investment in facilities.</p> <p>23 Well, they still should earn a return for</p> <p>24 serving that customer, they couldn't do it for free. So</p> <p>25 we will use the margin as a percent of revenue as a way</p>

<p style="text-align: right;">Page 303</p> <p>1 to identify what the change might be, since there is no 2 rate base associated with it.</p> <p>3 The rate base would be an improper number to 4 use because if there is no rate base, it becomes a mere 5 infinite number.</p> <p>6 Q. So which would you consider the more 7 appropriate measure of revenue deficiencies?</p> <p>8 A. For FCC I would look at the uniform rate of 9 return number.</p> <p>10 Q. Okay. So this shows that the revenue 11 currently, deficiency for the Residential class, is 12 about 2.96 million?</p> <p>13 A. Yes, ma'am.</p> <p>14 Q. Okay. And then did you say that page 135 15 mentions the same thing under the proposed rates?</p> <p>16 A. Yes, ma'am. So if we implemented the proposed 17 rates, what we are saying is that the Residential rate 18 class still should have, strictly following the cost of 19 service study, a 20 percent additional increase in order 20 to have a uniform rate of return with the system.</p> <p>21 Q. And is there a schedule that shows what the 22 customer charge would be for each class under the 23 proposed rates if the cost of service study were 24 strictly followed?</p> <p>25 A. Yes, ma'am. Schedule M-1, which is 202 of</p>	<p style="text-align: right;">Page 305</p> <p>1 cost of service study for providing service to a 2 customer regardless of any consumption and demand.</p> <p>3 And the system demand is the capacity portion 4 beyond what's considered the customer-related cost. And 5 so for the Residential customer class, for instance, we 6 have identified that the total customer piece for the 7 average consumer is \$43.13.</p> <p>8 The system demand, or capacity piece, is 9 \$20.11 per consumer. Of course we don't have that -- 10 that's not -- we are recovering this cost, if you will, 11 through the energy piece, the variable energy piece in 12 the current rate designs, as is very common for a 13 Residential rate.</p> <p>14 And so -- but, if you are an average consumer, 15 then not only have you caused the cooperative to incur 16 this customer-related piece, but the cooperative has 17 built its system to meet your capacity requirements, the 18 capacity requirement and average consumer. And so on a 19 monthly basis, really our total fixed cost is those two 20 added together, or \$63 and change.</p> <p>21 But we look at the total customer piece to 22 identify where we should be as we start thinking about 23 the customer charge and potential changes in the 24 customer charge.</p> <p>25 Q. What is the total change in O and M from the</p>
<p style="text-align: right;">Page 304</p> <p>1 380.</p> <p>2 Q. 200 and what?</p> <p>3 A. 202 of 380. I can explain the layout of this, 4 if you like. Or interpret it for you.</p> <p>5 Q. Sure. If you would.</p> <p>6 A. Okay. So, the cost of service study 7 identifies all of the unbundled cost components for 8 providing service to each of the rate classes. And so 9 when I say that, we are identifying purchase power 10 capacity, purchase power energy, any purchase power 11 delivery that might be associated with the Tri-State.</p> <p>12 And then we have the transmission service 13 delivery, distribution substations, distribution 14 backbone, and we go through all of these different cost 15 components.</p> <p>16 And in order to design rates we aggregate them 17 or put them into four buckets, if you will. And so you 18 can see on page 202 we have the purchase power capacity 19 identified in one bucket, the purchase power energy in 20 the second, and so that's the recovery of the power cost 21 from Tri-State. So that's all power cost that goes 22 right through to them.</p> <p>23 And so SEC's costs are included in the system 24 demand and the total customer. And so the total 25 customer piece is the customer charge identified in the</p>	<p style="text-align: right;">Page 306</p> <p>1 test year to the adjusted test year?</p> <p>2 A. I will just have to add that up. I don't have 3 a summary. The O and M is in two different categories, 4 so.</p> <p>5 (Alarm sounding.)</p> <p>6 HEARING EXAMINER GLICK: I think that means we 7 are having a break.</p> <p>8 (Break taken.)</p> <p>9 THE WITNESS: So if we look only at the 10 transmission O and M distribution operations and 11 distribution maintenance, those are the three things 12 that you want to think about in terms of operations and 13 maintenance expense.</p> <p>14 BY HEARING EXAMINER GLICK:</p> <p>15 Q. I guess I was thinking more generally just 16 when, you know, if the Commission asked me how much did 17 O and M expense change, what kind of -- what general 18 understanding of that is.</p> <p>19 A. Right. Here is the problem with trying to 20 look on the income statement with where we are looking 21 at A and B and C. So if you look at A-1, you can see 22 that the transmission operation or transmission O and M, 23 distribution operations and distribution maintenance 24 costs, they appear to go down; right?</p> <p>25 Q. Right.</p>

<p style="text-align: right;">Page 307</p> <p>1 A. The reason is, is if you look at tax, the tax 2 is stated at \$154,000 in the test year, and there is an 3 adjustment of \$477,000. The way the cooperative reports 4 taxes in its chart of accounts is it spreads the taxes 5 through the O and M accounts. And so what we do in the 6 cost of service, we pull those back out into a line 7 item.</p> <p>8 So there is really not any way of saying that 9 how O and M expenses have changed. Now, the cooperative 10 did not report any major changes in programs. Yesterday 11 when I was asked about the data request, as I was 12 running out of breath at the very end one of the things 13 that I probably said was the data request also asks for 14 changes in programs. Were there any abnormal expenses.</p> <p>15 For instance, do you plan, you know, in the 16 test year, or as we call the base year, did we have a 17 hundred thousand dollars in tree trimming, but we need 18 to do more, and so next year it's going to be -- for the 19 next five years it's going to be \$200,000 a year. And 20 so that would be a change like you are describing for O 21 and M expenses to increase.</p> <p>22 Q. Okay.</p> <p>23 A. The cooperative in its data request did not 24 identify things of that nature. And so what that tells 25 me is at least for the development of the adjusted test</p>	<p style="text-align: right;">Page 309</p> <p>1 I believe in Joseph's testimony, that don't reflect 2 actual cash that's available for operating activities.</p> <p>3 Q. So is that different from TIER?</p> <p>4 A. TIERS -- the RUS calculation for TIER is what 5 we have identified as net TIER.</p> <p>6 Q. All right. And so then what is the difference 7 between net TIER and operating TIER?</p> <p>8 A. Okay. Operating TIER in our spreadsheet will 9 be very similar to what RUS identifies as OTIER, which 10 is the operating activities.</p> <p>11 Q. Okay.</p> <p>12 A. I believe that for the RUS calculation there 13 also is a cash from -- cash from nonoperating 14 activities. I forget what it is. We don't always have 15 that at the time of the study and so we calculate 16 operating TIER. They're very similar.</p> <p>17 Q. Okay. And then what is the difference between 18 operating TIER and net TIER excluding capital credits?</p> <p>19 A. Actually we just have to look at the 20 calculation for that in the spreadsheets.</p> <p>21 Q. Okay.</p> <p>22 A. Again I'm assuming it's just excluding what's 23 identified as the G&T capital credits and other capital 24 credits.</p> <p>25 Q. Okay. What does rate of return mean in the</p>
<p style="text-align: right;">Page 308</p> <p>1 year there were no additional known measurable changes 2 that related to major changes in operations and 3 maintenance. Still status quo.</p> <p>4 Q. All right.</p> <p>5 A. Well, I should qualify that with there are, 6 you know, within the proposed CapEx, so you know the 7 revenue requirement we talked about the plant additions 8 and changes. So those things would reflect things like 9 system replacement and, what's it called -- let me go 10 quickly, I'm sorry, I lost my train of thought.</p> <p>11 It's the system improvements and ordinary 12 replacements, so those would be, you know, O and M 13 activity that is are related to the capital projects of 14 the cooperative that are a piece of the cash revenue 15 requirement.</p> <p>16 Q. Could you push the microphone closer to you, 17 please.</p> <p>18 A. Yes, ma'am. Sorry.</p> <p>19 Q. So staying on page 7 of the cost of service 20 study, am I correct that under SEC's proposed revenue 21 increase that would result in a net TIER of 2.5?</p> <p>22 A. Yes. And the net TIER is terminology that 23 we've added to reflect that it includes nonoperating 24 margins. And so it's a below the line coverage ratio 25 that includes those things that we identified yesterday,</p>	<p style="text-align: right;">Page 310</p> <p>1 context of the rural electric cooperative? I mean, it's 2 different from what it means in the context of the 3 investor-owned utility; right?</p> <p>4 A. Yes, ma'am. So if we look at the Form 7, 5 which is filed with the Commission, you will notice that 6 there is nowhere on here that we identified that the 7 cooperative identifies return. But you can see that we 8 have inserted -- Guernsey has inserted it in the 9 development of the cost of service.</p> <p>10 When we are meeting with cooperative boards 11 and we tell them that the test year, or what we call the 12 base year, is the actual operations of the cooperative 13 for the previous 12 months, we will say to them this 14 looks very similar to what you report on the Form 7. 15 Because they look at this every month. They understand 16 and know this.</p> <p>17 We will describe to them that we break out the 18 revenues so that we have a little better idea of what 19 all is made up of the total revenue. But we put the 20 return in there simply so that we can calculate a rate 21 of return, so we then can use that as the metric on 22 schedules H-1 and H-2 that we have talked about to 23 compare the performance of each of the rate classes 24 relative to the system, which is while we again, you 25 know, insist that the proper way to -- the proper metric</p>

<p style="text-align: right;">Page 311</p> <p>1 to determine how the rate change affects the interclass 2 subsidies and how each class is performing is we use the 3 relative rate of return. 4 We have to make that computation. 5 Cooperatives don't use rate of return in rate making. I 6 have never used it because what you have to do is assume 7 that there is a cost of equity. And there is no cost of 8 equity because equity for a co-op is retained margins. 9 And so we just don't use that as part of the development 10 of the revenue requirement. 11 Q. And so who made the decision to use the cash 12 revenue requirement method? Was that you or was that 13 the co-op? 14 A. It's the standard -- it was us, Guernsey, and 15 it's a standard approach for how we help the cooperative 16 determine what the revenue requirement is, because it 17 becomes an iterative process. 18 The cooperative may have board identified 19 goals and objectives and when we actually take those 20 goals and objectives, like we have done on D-8 or -- 21 yes, D-8, and we build them into the model, one thing we 22 identify is their goals and objectives actually result 23 in a rate change that's more than really what they are 24 willing to pass through. 25 And so it's just a way to again identify what</p>	<p style="text-align: right;">Page 313</p> <p>1 Q. All right. 2 A. So it's just a restatement of those values in 3 your format. 4 Q. So this commission to my knowledge, I did a 5 lot of research going back in time. This commission, 6 based on my research, has consistently used a TIER-based 7 method to calculate revenue requirement. 8 A. For? 9 Q. Rural electric cooperatives. 10 A. And -- 11 Q. That's not my question, I'm just stating that. 12 A. All right. 13 Q. And so my question is, if the Commission 14 wanted to follow that method and wanted to, let's just 15 say for instance, approve a revenue requirement that 16 would result in a 2.0 TIER, how would that calculation 17 be made? 18 A. So is that a 2.0, OTIER or a 2.0 net TIER? 19 Q. Net. That's just hypothetical. 20 A. Well, we would simply establish what the rate 21 change is at that level and produce rates that produce 22 that revenue change. And that would ignore the goals 23 and objectives that the board of directors has 24 identified as well as the development of the cash 25 revenue requirement.</p>
<p style="text-align: right;">Page 312</p> <p>1 the cooperative really needs in order to pay its 2 expenses, maintain its equity, move it to a desired 3 location, if you will, return capital credits to its 4 members, pay that, you know, debt, if you will. And 5 then at a minimum meet the coverage ratios. 6 Q. Does your company ever use a TIER based 7 revenue requirement? 8 A. You know, sometimes we have managers who may 9 say we want to target, you know, a 2.0 TIER. Regardless 10 of that, we will still go through this process and see 11 if that's the -- you know, what's the outcome of that. 12 We use this approach for everybody. 13 Q. All right. And then would you go to your 14 Second Supplemental Testimony, Exhibit 5. 15 A. Yes, ma'am. 16 Q. Okay. So this is -- am I correct that this is 17 the calculation of revenue requirement if you were to 18 use the TIER-based method? Is that right or no? 19 A. No, ma'am. This is -- this was the format 20 that you had provided in one of your -- in one of the 21 staff RFIs, I believe. 22 Q. Yes. 23 A. And I simply just took the corresponding 24 categories that were identified in that from the income 25 statement.</p>	<p style="text-align: right;">Page 314</p> <p>1 Q. So that would be an increase from what is the 2 adjusted test year net TIER; correct? 3 A. Yes, ma'am. 4 Q. Okay. So, that additional revenue bump that 5 would come from increasing that to 2.0, would there not 6 be revenues available to meet some of the board's goals? 7 A. Well, it wouldn't meet any of them, because it 8 would -- I mean, we have already established on schedule 9 D-8, if we go back to it, okay. So one of the board's 10 goals and objectives is a 40 percent equity. 11 Q. Yes. 12 A. I've already identified that based on the 13 level of plant additions, the CapEx program, that 14 currently we are looking at a 37 percent equity as a 15 percent of capitalization, which means that we are not 16 going to meet the 40 percent equity, at least based upon 17 this analysis right here. And so a lower rate change 18 would exasperate that even more, if you will. 19 We have also identified that the cooperative 20 desired to maintain 60 days of cash, or 3.8 million 21 dollars. And the proposed rates don't move cash either 22 up or down, there is nothing built into them to assume 23 the consumption of the available cash or building, but 24 we know today that the cash variable at the cooperative 25 is half of this or thereabouts.</p>

<p style="text-align: right;">Page 315</p> <p>1 And so based on where we are today, that's an 2 objective that would not be met. At least in terms of 3 the liquidity of the cooperative. 4 Now, depending on what the incremental change 5 is, I don't have that calculated here. I can get my 6 computer and we could look at it, but I mean, we may 7 still not meet the capital credit retirements, either. 8 We may have to change that to some other coverage ratio. 9 I think the point is, is that when we think 10 about electric cooperative rates, and I understand that 11 the Commission -- and help me, we are talking about one 12 rate case; right? 13 Q. No, I'm talking about -- I went through the 14 Commission's Edocket and looked at every rural 15 cooperative rate case I could find that was litigated. 16 A. Okay. 17 Q. And the ones that discuss the method of 18 calculating revenue requirement -- 19 A. Right. 20 Q. -- they were all TIER-based. 21 A. All right. 22 Q. And so I'm asking you these questions because 23 I want to be able to present to the Commission a -- how 24 the calculation would be made if they wanted to use that 25 method.</p>	<p style="text-align: right;">Page 317</p> <p>1 from year to year and the cooperative has no control 2 over them, and they don't produce any cash available for 3 operations. 4 So at a minimum I would look at an operating 5 metric. 6 Q. OTIER, you are saying you would look at OTIER 7 rather than net? 8 A. Above the line instead of below. Beyond that 9 it's just an arbitrary number we would choose. I mean, 10 the Commission would choose an arbitrary number and it 11 would not be thinking of the goals and objectives of the 12 board or the cash requirements of it. 13 Q. I understand that. I am just telling you I 14 want to be able to present them with something if they 15 choose to reject your method. 16 A. If the Commission said to Socorro Electric 17 that we reject this, and the Commission I would assume 18 would state the metric they ought to use and what the 19 value would be. We will make the calculation. 20 Then we have to choose how to allocate that 21 rate change to the rate classes. 22 Q. Sure. 23 A. Because it will be different. 24 Q. Okay. Let me get something real quick. 25 So I don't think you need to go to this, Ms.</p>
<p style="text-align: right;">Page 316</p> <p>1 A. Right. And we can make that calculation. As 2 I mentioned earlier, when NRCA and CAC hired Guernsey to 3 write the guide on rates that they distributed to all of 4 their 900 members across the United States, they 5 understand the approach for developing the cash revenue 6 requirement is independent of tagging a rate change to a 7 coverage ratio, which is really just a metric that a 8 lender would use to make sure that the cooperative can 9 meet the minimum requirements. 10 A cooperative doesn't design its rates to meet 11 the minimum, of course, but it doesn't also necessarily 12 design them to meet some arbitrary number. 13 Guernsey's worked in 38 states, we work for 14 cooperatives from Washington to Florida to North Dakota 15 to south Texas, and we have worked for a number of 16 cooperatives here in New Mexico as well. And again, we 17 go through this process with all boards. 18 Q. So can you just generally describe to me what 19 would be the method, how if the Commission again wanted 20 to use a TIER-based method, what would be the steps to 21 get there? And let's again hypothetically say the 22 Commission wanted to target a 2.0 TIER. 23 A. I would be first concerned that the metric 24 that we are going to choose would be a metric that 25 involves nonoperating margins, because those fluctuate</p>	<p style="text-align: right;">Page 318</p> <p>1 Staff Witness Dasheno, in her direct testimony provided 2 the OTIER of what she identified as peer cooperatives 3 for 2017. 4 A. Yes, ma'am. 5 Q. And came up with an average of 1.36. So 6 again, this is hypothetical, let's say the Commission 7 wants to set a revenue recovery amount for the 8 cooperative that would produce a 1.50 TIER. 9 A. Okay. 10 Q. What -- generally what is the calculation that 11 you would go through to determine the revenues necessary 12 to produce a 1.50 TIER? 13 A. Well, the calculation would be merely backing 14 into the margin that's in the numerator of that equation 15 for the TIER calculation, or whichever calculation it 16 would choose. 17 So, you know, my question would be, is a 1.50 18 TIER, what was the resulting TIER when those peer 19 cooperatives that we have identified proposed a rate 20 change, or is that their current TIER? There is a big 21 difference there. 22 Q. Again, this is just hypothetical. 23 A. Yes, ma'am. 24 Q. I -- 25 A. It would be merely calculating the margin.</p>

<p style="text-align: right;">Page 319</p> <p>1 Q. Okay. And how would you do that? Can you go 2 into a little more detail?</p> <p>3 A. The calculation for TIER is, for the RUS TIER, 4 is net margin plus interest divided by interest, I 5 believe is the calculation.</p> <p>6 Q. Okay.</p> <p>7 A. Just a mathematical --</p> <p>8 Q. All right. And -- let's see. Is an OTIER of 9 1, does that mean that the revenues are producing just 10 enough to pay the debt? Is that what 1 would mean?</p> <p>11 A. The numerator would equal the denominator. If 12 that's the case it would be below the below the default 13 level for --</p> <p>14 Q. I understand that.</p> <p>15 A. Yes, ma'am.</p> <p>16 Q. Is the revenues approved above 1.0, are those 17 revenues available to meet some of the board's goals?</p> <p>18 A. Assuming that the operating margin is positive 19 and the rates are throwing off cash to go towards those 20 things. I just -- again, you know, we have walked 21 through the revenue requirement as we have established 22 it and there is still some things that we aren't meeting 23 under the proposed. And so it would be up to the 24 cooperative to decide which of these levers we modify. 25 For instance, if the approved rate increase --</p>	<p style="text-align: right;">Page 321</p> <p>1 A. Yes, ma'am.</p> <p>2 Q. How would the Commission calculate what the 3 resulting OTIER would be if it granted a revenue 4 increase, again, not to meet that goal but meet the 5 others?</p> <p>6 A. So if we are starting from this particular 7 point, and you just say the incremental change is 8 \$100,000 less.</p> <p>9 Q. Why do you say \$100,000 less?</p> <p>10 A. You said it was a hypothetical.</p> <p>11 Q. Right.</p> <p>12 A. So I don't know what the Commission is saying 13 that they would reduce the capital credits to, because 14 the cooperative believes that that's an important 15 component of revenue requirement, it's what makes co-ops 16 who they are.</p> <p>17 Investor-owned utilities, as you know, pay 18 dividends. Municipal electric cooperatives take the 19 profit and transfer to city coffers. We give it back to 20 the members based on --</p> <p>21 Q. And I understand that. All this is, I'm 22 not -- I don't want to indicate this is what I'm 23 thinking of recommending.</p> <p>24 A. Right. Well, if the Commission were to decide 25 some other number for the capital credit retirements,</p>
<p style="text-align: right;">Page 320</p> <p>1 or if the proposed rate increase is not approved, are we 2 going to burn cash until it's gone and then use line of 3 credit and long-term debt to finance the operations of 4 the cooperative?</p> <p>5 If the proposed rate change is not approved, 6 are we going to go back and look at our construction 7 work plan and decide what's -- what is it that we can 8 afford to do to maintain reliability and public safety?</p> <p>9 Or, are they going to say, we are not going to 10 retire capital credits and so we are going to ignore 11 that cornerstone of cooperatives, if you will, retiring 12 capital credits.</p> <p>13 Or are we going to attempt to mitigate this in 14 terms of operations and maintenance expenses and 15 staffing and benefits and things of that nature?</p> <p>16 So all of these are levers that we have, and 17 that's -- you know, I'm assuming how the cooperative 18 would think about, if the Commission is going to dictate 19 what the overall rate change is, how is it that we are 20 going to operate within that as a prudent utility?</p> <p>21 Q. Let's say the Commission decided they support 22 the board reaching its goals but with the exception of 23 the capital credit requirements, that the Commission 24 said no, we don't want to provide the cooperative with 25 the \$688,000 necessary to return capital credits. Okay?</p>	<p style="text-align: right;">Page 322</p> <p>1 keeping all things equal, which they are not already 2 because we have the cash change from the test year to 3 current levels. But I believe that what they would do 4 hypothetically is reduce the capital credits by X 5 amount, and thereby reduce the operating margin by X 6 amount, or the cash required for it. And then you would 7 see what the fall-out ratio is.</p> <p>8 Because again, as I walked through the revenue 9 requirement we don't look at the coverage ratios, they 10 are something that fall out as an indicator of either 11 the TIER coverage or the debt service coverage. It's 12 just a metric that the lenders look at, not for rate 13 making.</p> <p>14 Q. I understand that.</p> <p>15 A. So it would just be that incremental change.</p> <p>16 Q. All right. And would you turn to page 70 of 17 the cost of service study.</p> <p>18 A. Yes, ma'am.</p> <p>19 Q. So how did you use this plan in developing the 20 proposed revenue increase?</p> <p>21 A. It was not used in developing the proposed 22 revenue increase. It was used as an informational tool 23 to show the cooperative what the rate impact would be if 24 they wanted to maintain a 2.05 net TIER out into the 25 future.</p>

Page 323	Page 325
<p>1 So if we look at the -- if we look at the</p> <p>2 results of the -- I'm sorry, the financial forecast, the</p> <p>3 first one is based on the 2.5 net TIER.</p> <p>4 The second one is -- okay. That's the high</p> <p>5 end of an increase, if you will.</p> <p>6 Q. Which is the -- which financial forecast are</p> <p>7 you talking about? The base case or the --</p> <p>8 A. It says base case, 40 percent equity, 2.5 net</p> <p>9 TIER.</p> <p>10 Q. Okay.</p> <p>11 A. So that result or that forecast indicates that</p> <p>12 rates in the future, if we go to page 76 -- sorry, my</p> <p>13 eye doctor says I don't need bifocals but something is</p> <p>14 happening, I'm not sure what it is.</p> <p>15 So if we go to page 76, and we look near the</p> <p>16 bottom where it says increase over present retail rates,</p> <p>17 you can see that if we want to meet 2.5 net TIER or 2.5</p> <p>18 TIER, as we have interchanged, that you are looking at</p> <p>19 at least a 9 and a half percent rate increase if you</p> <p>20 want rates to last out through 2021.</p> <p>21 So if we changed the rates, we could change</p> <p>22 them by 10 percent, and it looks like we could maintain</p> <p>23 a 2.50 net TIER, based on the assumptions we forecasted.</p> <p>24 But the cooperative's board of directors</p> <p>25 decided that that wasn't something they wanted to do,</p>	<p>1 A. So is that behind the cost of service study?</p> <p>2 Q. Yes, it is.</p> <p>3 A. Sorry. Bear with me.</p> <p>4 Q. That's okay.</p> <p>5 A. Thank you.</p> <p>6 Q. Why didn't you include the Thermal Energy</p> <p>7 Storage class on this graph?</p> <p>8 A. There probably -- I just have to verify, I</p> <p>9 believe that they are probably lumped in with the</p> <p>10 Residential. So that -- that may have been an</p> <p>11 oversight. So let's look --</p> <p>12 Q. All right.</p> <p>13 A. -- at schedule H-1.</p> <p>14 So if we go to page 132 and 135 -- oh, okay.</p> <p>15 Well, that answers my question, I'm sorry.</p> <p>16 The ETS customers are included with the</p> <p>17 Residential. The vast majority of the ETS rate are</p> <p>18 Residential consumers. I think there is a balance of</p> <p>19 eleven or so that are considered general service. So</p> <p>20 they are reported with the Residential -- they are</p> <p>21 reported with the Residential rate class in the cost</p> <p>22 allocation summary. And subsequently in that graph.</p> <p>23 Q. Would you turn to the cost of service study at</p> <p>24 page 116.</p> <p>25 A. Yes, ma'am.</p>
Page 324	Page 326
<p>1 that that was excessive.</p> <p>2 I wasn't in the deliberations when they -- so</p> <p>3 if we go to the second forecast, the one that says 1.35</p> <p>4 OTIER, and we look at page 99, so if we look at that</p> <p>5 same thing and we decide that the metric or the driver</p> <p>6 for the forecast is going to be something different, a</p> <p>7 1.35 TIER or a 40 percent equity, what we see is the</p> <p>8 percent change that's required is, you know, 4 to 6</p> <p>9 percent.</p> <p>10 But, if we go over to the income statement,</p> <p>11 pro forma income statement on page 101, what we see is</p> <p>12 that the operating margins out in 2021 are only a</p> <p>13 hundred thousand dollars.</p> <p>14 And so that was -- that was really a scenario</p> <p>15 to say, you know, if we had a really low rate change,</p> <p>16 what would that look like?</p> <p>17 And so it was really just trying to use this</p> <p>18 as an exercise to frame a bracket, you know, where the</p> <p>19 cooperative might think it should land in terms of the</p> <p>20 rate change and what that -- you know, where it is in</p> <p>21 between those two forecast scenarios.</p> <p>22 Q. I see. And then would you go back to your</p> <p>23 second supplemental testimony. No, I'm sorry. Just a</p> <p>24 minute. Your first supplemental testimony. And go to</p> <p>25 Exhibit 2.</p>	<p>1 Q. On the far left column you have a row that</p> <p>2 says Residential Time of Use. Does the co-op have a</p> <p>3 time of use class?</p> <p>4 A. That's the ETS rate.</p> <p>5 Q. The ETS rate?</p> <p>6 A. Yes, ma'am.</p> <p>7 Q. And there are other pages in the cost of</p> <p>8 service study that refer to time of use. Should that be</p> <p>9 changed to ETS for all those pages?</p> <p>10 A. Yes, ma'am.</p> <p>11 Q. And in the same testimony would you turn to</p> <p>12 page 12 of the text.</p> <p>13 A. Is that the first supplemental?</p> <p>14 Q. Yes.</p> <p>15 A. Page 12?</p> <p>16 Q. Yes.</p> <p>17 A. Okay.</p> <p>18 Q. So I'm looking at the question starting on</p> <p>19 line 14: For each affected rate class can you explain</p> <p>20 how SEC selected the monthly use required to support</p> <p>21 distribution and billing-related costs?</p> <p>22 And the answer is: SEC did not select a</p> <p>23 monthly kilowatt hour usage level for the determination</p> <p>24 of the minimum use charge.</p> <p>25 So I don't understand that, because the tariff</p>

<p style="text-align: right;">Page 327</p> <p>1 says it only applies to accounts whose monthly use falls 2 below the amount required to support distribution and 3 billing-related costs. 4 So doesn't that require a determination of the 5 amount of usage required to support distribution and 6 billing-related costs? 7 A. The determination of that is the 8 customer-related cost on schedule M-1. And so the 9 notion is that if you go back to page 202 of 380, we 10 identify that the customer-related cost is \$43.13. And 11 so to any extent that we are not charging that in our 12 customer charge, then we are below that. 13 And then ten of the five dollar additional 14 minimum is to capture some of that additional fixed cost 15 recovery from zero and low use customers. 16 If the -- let me think where the schedule is. 17 The cooperative has about 900 consumers in any 18 given month who have zero consumption based on billing 19 records. And that is the primary driver of the 20 additional \$5 charge. Because, those services are in 21 place, connected, energized and maintained by the co-op 22 and those consumers aren't using them. 23 And so there is an economic decision to be 24 made. If we know that our customer-related cost is \$43 25 but those particular customers are only paying \$15, now</p>	<p style="text-align: right;">Page 329</p> <p>1 charge regardless of how long that load operates. And 2 so we know that there is a relationship between load 3 factor and coincidence. And that was -- we have 4 testified to that with the relationship to the Bary 5 Curve and so forth and so on. 6 So if we think about it in the extreme, that 7 somebody goes out and punches a button for a motor and 8 it operates for 15 minutes, and then they stop it and 9 it's not on for the rest of the month, they have 10 established a demand for the cooperative and the 11 distribution capacity that's required to serve that 12 load. 13 They have also established a demand used for 14 the computation of the demand cost or the demand charge. 15 \$15 times that demand unit. But we know that at such a 16 low load factor it's highly unlikely that they were 17 coincident with the power supply peak. 18 Q. Right. 19 A. So the flat \$15 demand charge actually, in 20 existing rates, correlates, if we go back to schedule 21 M-1, you can see that the Large Commercial purchase 22 power capacity cost per billing kW is \$14.77. And so 23 that rate that -- right here effectively covers, 24 recovers, the purchase power capacity requirement for an 25 average consumer. But an average consumer has a much</p>
<p style="text-align: right;">Page 328</p> <p>1 that means that everybody else on the system is picking 2 up the rest of that cost. 3 And that's the intent of the additional 4 minimum charge. 5 Q. Would you go to the cost of service study at 6 page 269. Okay. 7 So am I correct that under the SEC's proposed 8 Large Commercial rates that a ten percent load factor 9 customer using -- consuming 250 kilowatts, about 18,000 10 kilowatt hours, would see an 11.76 percent bill 11 decrease? 12 A. Yes, ma'am. 13 Q. Okay. And would you consider that a low load 14 factor customer? 15 A. Yes, ma'am. 16 Q. So what's the rationale for giving a low load 17 factor customer a bill decrease? Because I would think 18 that because high load factor customers are more 19 efficient, you wouldn't want to give a benefit to the 20 low load factor customers. 21 A. Right. If you look at the rate design, and so 22 if you look at the hours use blocks, so it's the first 23 200 kilowatt hours per kW. And we talked about this 24 yesterday. 25 The current rate design bills a \$15 demand</p>	<p style="text-align: right;">Page 330</p> <p>1 higher load factor than 10 percent. 2 And so the notion is, is we are really 3 over-charging for such a low load factor customer 4 because it's highly unlikely they are coincident with 5 the power supplier's peak. 6 And so that's the rationale in the proposed 7 change. And you described how it will affect the 8 customer, aren't those the ones that we really like, 9 too, because there is an efficient use of resources and 10 things. The answer is yes. 11 But once we get to a certain point, we have 12 recovered our purchase power capacity cost and we have 13 recovered our distribution wire cost, but we are still 14 charging 7.75 cents or whatever. So that's just 15 contributing to the class's margin for a high load 16 customer. That rate design helps correct those two 17 interclass subsidies. So it's just a result, mechanism 18 of the rate design. 19 Q. And then would you turn to, same testimony, 20 your initial supplemental direct, the text at page 20. 21 So I have some questions about the horsepower 22 charge. Is that analogous to a demand charge? 23 A. It's a proxy for demand, yes, ma'am. 24 Q. And why do you need a proxy? 25 A. Because we don't have metered demand data for</p>

<p style="text-align: right;">Page 331</p> <p>1 them.</p> <p>2 Q. Okay. And why is the co-op proposing to</p> <p>3 change from an annual to a monthly charge?</p> <p>4 A. One of the reasons that we went down this path</p> <p>5 is because currently the horsepower charge is billed in</p> <p>6 January. So I mean, if you have a large motor, I mean</p> <p>7 that could be a pretty large sum of money that's</p> <p>8 required in one month. The cooperative also recognizes</p> <p>9 that we don't have really any fixed customer-related</p> <p>10 charge with this current rate design because it's a</p> <p>11 horsepower charge, annual horsepower charge, plus</p> <p>12 energy.</p> <p>13 And so what the cooperative decided to do so</p> <p>14 that we could begin recovering some of the monthly fixed</p> <p>15 customer-related costs, was to institute a \$10 customer</p> <p>16 charge. And then, so that the customer is not incurring</p> <p>17 that large charge in January for horsepower, we</p> <p>18 effectively divided it up amongst the 12 months, so it's</p> <p>19 paid on a monthly basis with a small increase.</p> <p>20 Q. Okay. And why would there be two horsepower</p> <p>21 charges in January?</p> <p>22 A. There is not.</p> <p>23 Q. There is not?</p> <p>24 A. No.</p> <p>25 Q. Okay. For some reason I thought there were.</p>	<p style="text-align: right;">Page 333</p> <p>1 return is merely -- well, I guess the answer to that</p> <p>2 would probably be yes. I apologize. Because you are</p> <p>3 identifying the rate of return based on the revenues</p> <p>4 divided by the rate base. And then you can compare it</p> <p>5 to the system.</p> <p>6 We use the relative rate of return to capture</p> <p>7 the change in the rates of return between the existing</p> <p>8 rates and the proposed rates.</p> <p>9 Q. Okay. So, for the Large Commercial class, why</p> <p>10 under the cooperative's proposed rates is the rate of</p> <p>11 return increasing but the relative rate of return is</p> <p>12 moving closer to 1?</p> <p>13 A. We did increase the system. Overall system</p> <p>14 revenues. And we did increase the revenue for the</p> <p>15 class. But the product of the change in relationship is</p> <p>16 the relative rate of return actually declines.</p> <p>17 Q. All right. So the cooperative is under the</p> <p>18 proposed rates lessening the alleged subsidization?</p> <p>19 A. Any time -- yes. Any time that we are moving</p> <p>20 the relative rate of return closer to 1 for that</p> <p>21 particular rate class, then you are reducing the amount</p> <p>22 of subsidies that exist between the rest of the classes.</p> <p>23 Q. Now some questions about the lighting rates,</p> <p>24 and I just want to vent for a little bit.</p> <p>25 Reading the testimonies on the lighting rates</p>
<p style="text-align: right;">Page 332</p> <p>1 And then would you turn to page 270 of your</p> <p>2 cost of service study.</p> <p>3 A. Yes, ma'am.</p> <p>4 Q. So why would a low load factor Irrigation</p> <p>5 customer receive such a large bill increase under the</p> <p>6 proposed rates?</p> <p>7 A. Well, there is -- I'm sorry, say that again.</p> <p>8 Q. It looks like a low load factor Irrigation</p> <p>9 customer, if you look at the first five rows, would</p> <p>10 receive an 86.89 percent bill increase.</p> <p>11 A. Because we have added the customer charge on</p> <p>12 top of the current billing structure. And the</p> <p>13 horsepower charge is effectively higher.</p> <p>14 Well, the horsepower charge on an annual basis</p> <p>15 should be 12 times a dollar five, so it's 12.60, and</p> <p>16 it's currently \$10.</p> <p>17 Q. So do you think that's just and reasonable,</p> <p>18 that percentage increase?</p> <p>19 A. That one is on the border. I mean -- but we</p> <p>20 really wanted to start getting some fixed cost recovery</p> <p>21 of the customer-related charges, so. That one is --</p> <p>22 that one is a large increase.</p> <p>23 Q. Okay. Are rate of return and relative rate of</p> <p>24 return both measures of subsidization among classes?</p> <p>25 A. Rate of return is merely -- no. Rate of</p>	<p style="text-align: right;">Page 334</p> <p>1 was one of the most challenging things I've ever done in</p> <p>2 my life. So I'm venting because you need to do a much</p> <p>3 better job in your post hearing briefs in explaining to</p> <p>4 me how these lighting rates work. It was -- as I said,</p> <p>5 very challenging.</p> <p>6 So is it your testimony that use of an</p> <p>7 embedded cost of service study precludes development of</p> <p>8 specific LED and cost-based rates?</p> <p>9 A. Could you rephrase that? I guess I'm just</p> <p>10 trying to understand the question.</p> <p>11 Q. I think yesterday a couple times you said that</p> <p>12 you had not developed cost-specific LED cost-based rates</p> <p>13 because you used an embedded cost of service study.</p> <p>14 A. Right. So we are looking at the cost of</p> <p>15 providing service to the lights based on historical</p> <p>16 data. And we are assuming that the cost for providing</p> <p>17 service to the new fixtures would be comparable. I</p> <p>18 don't believe it's any different than, you know, using a</p> <p>19 different piece of equipment, utility operations that</p> <p>20 might have a slightly different cost. But we are not</p> <p>21 modifying rate designs based on the different type of</p> <p>22 transformer, something of that nature.</p> <p>23 Q. But you could?</p> <p>24 A. We can identify rate base associated with a</p> <p>25 new connect. So like an industrial customer, we would</p>

<p style="text-align: right;">Page 335</p> <p>1 identify the amount of plant to serve the new customer 2 and decide what the margin would be on it, and get to a 3 calculation like that for customer-related and 4 distribution wires cost. 5 I don't know that we have ever done anything 6 like that for an LED light. 7 Q. What is the purpose of the assumed monthly 8 kilowatt hours in the rate? 9 A. One, to calculate what the power cost 10 component is that's embedded in the rate design. But 11 also so that the cooperative on a monthly basis can flow 12 through any adjustment factor, for instance the PCA or 13 the DCA. 14 Q. And so each fixture is assigned an assumed 15 monthly kilowatt hour consumption? 16 A. Yes, ma'am. 17 Q. You read Dr. Blank's testimony? 18 A. Yes, ma'am. 19 Q. What's your response to his argument that the 20 cooperative is double recovering when a customer pays 21 for installation and SEC recovers through its lighting 22 rates depreciation and interest expense for the 23 installation portion of the lighting investment. 24 A. Well, if the customer is paying for a portion 25 of the installation expense, then that's just an offset.</p>	<p style="text-align: right;">Page 337</p> <p>1 So am I correct that the top row, which has 2 numbers going from 1 to 17 and then -- 3 A. I'm sorry. Where are we? 4 Q. Exhibit 17. 5 A. Okay. I went to page 17, I'm sorry. 6 Q. Oh, okay. 7 A. Okay. I'm with you now. 8 Q. The top row that has the numbers going 1 to 17 9 and then IOU 1 to 3, does each number represent another 10 rural cooperative? 11 A. Yes. 12 Q. Okay. And then down in the row that says 13 "actual," does actual mean actual amounts listed in the 14 tariff? 15 A. Yes, ma'am. 16 Q. It doesn't mean actual metered data? 17 A. Correct. I don't -- I don't know if it is 18 actual metered data, but it's what's stated in the 19 tariff. 20 Q. Okay. And then I'm going to hand you -- I 21 don't know if you have it -- the city's Exhibit 3 that 22 was admitted yesterday, which is your responses to their 23 interrogatories regarding the lighting rates. 24 And this would have been something that would 25 have been helpful to have when Dr. Blank filed his</p>
<p style="text-align: right;">Page 336</p> <p>1 It's treated as a contribution to in aid of 2 construction. This is my understanding. 3 And so there is no rate base associated with 4 that. 5 Q. Okay. And would you turn to your rebuttal 6 testimony at page 11. And starting at line 7 you state: 7 SEC treats lighting fixtures the same as other 8 utility assets when members pay contribution in aid of 9 construction. When a member pays for materials such as 10 a lighting fixture, that fixture is recorded in the 11 accounting records as an asset owned by the cooperative 12 with the member contribution offsetting all or some 13 portion of the cost. 14 I just want to confirm what I thought I heard 15 yesterday you say that you were speaking in general 16 about how cooperatives account for CIAC but you could 17 not verify that SEC was doing that; am I right? 18 A. Yes, ma'am. 19 Q. Okay. 20 A. But it is my understanding that that is how 21 they are treating it. 22 Q. And what's the basis for that understanding? 23 A. Conversations with the co-op. 24 Q. And then would you turn to Exhibit 17 to your 25 rebuttal testimony.</p>	<p style="text-align: right;">Page 338</p> <p>1 testimony. I mean, this was part of my confusion in 2 reading all that testimony is I didn't have this. So 3 I -- anyway, it was very, very difficult. I'll stop 4 saying that. 5 Okay. So, this is -- this exhibit, am I 6 correct Exhibit 6 is -- was your attempt to develop an 7 LED specific cost-based rate? 8 A. It was -- yes, it's an exhibit just to 9 exemplify what the costs might look like. 10 Q. All right. On the first page in your response 11 to interrogatory 3.02, you state: The proposed lighting 12 rates are a single monthly fixed charge or rate element. 13 Schedule N-2.0 reflects the proposed unbundled rate 14 designs with purchase power and distribution wires 15 separately calculated. 16 Could you go to schedule N-2.0, please. 17 So are you saying that power supply and wires, 18 those are the only two categories of costs that are 19 incorporated into the lighting rates? 20 A. No. Remember when we went through schedule 21 M-1? 22 Q. Yes. 23 A. And we talked about how there is purchase 24 power capacity and purchase power energy. 25 Q. Yes.</p>

<p style="text-align: right;">Page 339</p> <p>1 A. And then how there is distribution wires and 2 distribution customer-related costs? 3 Q. Yes. 4 A. And those four categories, if you look at all 5 of the cost components behind it, includes 12, 13 cost 6 components generally. I don't know what the exact 7 number is here, but what we do is, again according to 8 schedule M-1, develop unbundled rate designs just in 9 this -- we take the four buckets. So we have the 10 purchase power capacity, purchase power energy piece, 11 and that's under the power supply. 12 Q. All right. 13 A. So we are just exhibiting that we are 14 recovering the allocated power cost to each of the rate 15 classes and the rate designs. Instead of trying to 16 exhibit just one total rate, we don't know what's built 17 into it, if you will. 18 Q. All right. And you didn't actually develop 19 your proposed lighting rates using the method in Exhibit 20 6; is that right? 21 A. Correct. 22 Q. And that's -- this is the discovery response 23 you referred to in your rebuttal testimony; is that 24 right? 25 A. Yes, ma'am.</p>	<p style="text-align: right;">Page 341</p> <p>1 customer-related expense with the methodology consistent 2 with the ratio" -- 3 A. Right. And I don't understand why you would 4 do that. We have clearly identified there is a customer 5 component-related to the lighting class on schedule M-1. 6 Q. So you did not factor into your lighting rates 7 the higher cost of LED fixtures and the lower energy 8 consumption of those fixtures. 9 A. Historically, whenever we have designed LED 10 lighting rates, and we used to do the analysis, what we 11 would find is it's pretty much a wash. 12 And so that's just the approach that we have 13 taken, you know, in developing or integrating LED lights 14 into the service offering of the cooperative's lighting 15 rates. 16 Q. Okay. And then would you turn to your 17 rebuttal testimony at page 19. And your question and 18 answer starting at line 5. 19 The question is: Should the lighting rate be 20 changed to reflect the corrected allocation of purchase 21 power capacity? 22 And your answer is: Not necessarily. 23 And then you go on to explain that more. 24 Am I correct that you are saying that the 25 lighting rate should not necessarily be changed because</p>
<p style="text-align: right;">Page 340</p> <p>1 Q. Would you turn to page 15 of your rebuttal. 2 A. Yes, ma'am. 3 Q. And starting at line 17, you state: Mr. Blank 4 proposed an alternative approach which uses 5 customer-related expenses to allocate transmission and 6 distribution expenses. 7 Can you explain that a little bit more to me? 8 A. I would have to go to his testimony to 9 remember exactly what he was saying. 10 Q. I can give you a copy. You don't have a copy 11 with you? Because I thought he was actually proposing 12 to replace the customer-related expense with a different 13 methodology. 14 A. It appears to me that what he is saying here 15 is that he has transmission and distribution expenses 16 allocated to plant, class and transmission and 17 distribution plant, allocated, and he is proposing some 18 sort of per customer component. 19 And so what we are saying is that that was 20 part of the distribution wires. It's not appropriate to 21 include that in the customer charge. I mean, it's not 22 embedded in the customer-related cost in our study. 23 I think that's what he is referring to. 24 Q. I thought, if you look at his testimony at 25 page 15, at line 12, he says: I propose to replace the</p>	<p style="text-align: right;">Page 342</p> <p>1 the cooperative is not proposing to increase the revenue 2 allocated to the Lighting class to produce unity? 3 A. What I'm saying is, the reason that it doesn't 4 need to be changed is what would change in the unbundled 5 rates is the purchase power piece would go down, and so 6 that would make the distribution wires recovery come up, 7 under the same total proposed charge; right? 8 Q. Uh-huh. 9 A. And based on the rerun of the cost of service 10 study -- let me find it. 11 Q. What page are you -- 12 A. On page 12. 13 Q. Okay. 14 A. Based on the rerun of the cost of service 15 study, which flows through the entire change, we still 16 identify that the revenue deficiency is 12.29 percent, 17 and the proposed rates are 9 percent, or whatever. I 18 could go back and look. 19 So we are still saying that -- but we are 20 saying that even with that change it's still cost 21 justified. 22 Q. All right. Would you turn to your rebuttal 23 testimony at page 25. And at line 18 you state: 24 According to the class cost of service -- the cost of 25 service study, the Residential class operating deficit</p>

<p style="text-align: right;">Page 343</p> <p>1 is \$1,857,131.</p> <p>2 What's the difference between that number and</p> <p>3 the -- about 3 million number we were talking about</p> <p>4 earlier as being the Residential class deficiency?</p> <p>5 A. I just have to look. Give me a moment.</p> <p>6 Q. Okay.</p> <p>7 A. Okay. So, if we go back to schedule H-1,</p> <p>8 which is page 132.</p> <p>9 Q. Okay.</p> <p>10 A. So the 1.857 million operating deficit is the</p> <p>11 margin deficit for the particular rate class. What you</p> <p>12 are referring to is the \$3 million or thereabouts is the</p> <p>13 rate change that would be required, or the additional</p> <p>14 revenue that would be required to get to a relative rate</p> <p>15 of return of 1.</p> <p>16 Q. So I guess I'm confused. Why don't those two</p> <p>17 numbers match?</p> <p>18 A. Well, we are looking at the operating margin</p> <p>19 for that top number and we are saying that the total</p> <p>20 system operating margin is \$409,000 and this is the</p> <p>21 allocation or make-up of that margin.</p> <p>22 And the Residential class's contribution is</p> <p>23 the operating deficit.</p> <p>24 Q. Okay. Could you turn to your rebuttal</p> <p>25 testimony at page 30. On line 1, should MCP be NCP?</p>	<p style="text-align: right;">Page 345</p> <p>1 consumer count, because it's not backbone facilities.</p> <p>2 So I don't know that it would really affect it</p> <p>3 at all.</p> <p>4 Q. Okay. The amount of the cost allocation?</p> <p>5 A. Yeah, because we are talking about single</p> <p>6 phase and three phase consumers.</p> <p>7 Q. So the amount of costs allocated among the</p> <p>8 classes wouldn't necessarily change?</p> <p>9 A. Because it's by consumer, yes.</p> <p>10 Q. Okay. And is the -- is the cost of</p> <p>11 underground distribution line also allocated by</p> <p>12 consumer?</p> <p>13 A. So could you repeat the other question -- I</p> <p>14 thought a while ago you were asking about underground</p> <p>15 plant, I'm sorry.</p> <p>16 Q. No. I was asking if underground facilities</p> <p>17 were excluded, if you could identify the amount of</p> <p>18 customers served by underground facilities by phase.</p> <p>19 A. Oh, okay. Well, I mean, the notion would be</p> <p>20 that there is overhead line that extends to those</p> <p>21 underground facilities, also. So I'm not exactly sure</p> <p>22 how that would affect the cost allocation.</p> <p>23 Q. Okay. And --</p> <p>24 A. That's not a -- to just further qualify it,</p> <p>25 that's not something that we ever really get that type</p>
<p style="text-align: right;">Page 344</p> <p>1 A. So you are asking if that should be N as in</p> <p>2 Nancy?</p> <p>3 Q. Yes.</p> <p>4 A. No. Because what we are talking about is the</p> <p>5 total MCP, which is identified by Tri-State as the</p> <p>6 system peak.</p> <p>7 Q. Okay.</p> <p>8 A. So we are all locating the system peak.</p> <p>9 Q. What does MCP stand for?</p> <p>10 A. Member coincident peak.</p> <p>11 MS. WIGGINS: Madam Hearing Examiner, could we</p> <p>12 have that repeated. It's hard to hear.</p> <p>13 THE WITNESS: I'm sorry.</p> <p>14 MCP is member coincident peak.</p> <p>15 MS. WIGGINS: Thank you.</p> <p>16 BY HEARING EXAMINER GLICK:</p> <p>17 Q. Then I have a question relating to that same</p> <p>18 page, lines 5 through 10. If the cooperative kept track</p> <p>19 of the number of customers served by underground</p> <p>20 facilities by phase, and were able to exclude those</p> <p>21 customers from the allocations of the cost of overhead</p> <p>22 distribution lines, how would that affect the allocation</p> <p>23 among the classes?</p> <p>24 A. Well, they still would be allocated, and they</p> <p>25 probably would be allocated in the same manner, by</p>	<p style="text-align: right;">Page 346</p> <p>1 of granular information. I don't know that anybody has</p> <p>2 provided that type of information to us.</p> <p>3 Q. Okay. And how is the cost of underground</p> <p>4 distribution line allocated among the classes?</p> <p>5 A. It's allocated by consumer and it's allocated</p> <p>6 to the Residential and Small Commercial consumers. The</p> <p>7 cooperative suggested that the underground facilities</p> <p>8 are primarily for subdivisions and the areas immediately</p> <p>9 surrounding them.</p> <p>10 Q. Okay. And does the actual allocation between</p> <p>11 those classes, how does that match the 87 percent</p> <p>12 estimate? Is the allocation the percentage allocation</p> <p>13 between Small Commercial and Residential? Does that</p> <p>14 match the 87 percent estimate?</p> <p>15 A. Since it's by consumer, I would think so, but</p> <p>16 it's just again we are using the number of consumers and</p> <p>17 in those rate classes to then allocate the percentage,</p> <p>18 or ratio, if you will, of those dollars going to them.</p> <p>19 Q. Okay. And then if you would go to the next</p> <p>20 page, page 31, and starting at line 6, where you talk</p> <p>21 about transformers.</p> <p>22 So am I correct that allocation factors 12 and</p> <p>23 13 allocate transformer cost based on kVA?</p> <p>24 A. Allocation factor 12 and 13 is the customer-</p> <p>25 and capacity-related components of transformers. And so</p>

<p style="text-align: right;">Page 347</p> <p>1 they are going to be used to allocate transformer plant, 2 and then the subtotal of that will be allocating the 3 expenses associated with servicing account 368 4 facilities. 5 Q. And so is the allocator a kVA allocator? 6 A. It's how it's developed. I mean, we have 7 assumptions. So if we go to J -- so if we go to J-5, 8 I'm trying to help us get to that here. Page 186. 9 So what we have -- what we have done is we 10 have taken the assumed kVA per consumer in order to get 11 the installed kVA and the cost per kVA based on the 12 continuing property records of the cooperative, the 13 average cost. 14 And so we develop a minimum extended cost, 15 which is the customer-related component of the 16 transformer, and then the remainder cost is the 17 capacity-related portion of the transformer. 18 So yes, those are based on kVA assumptions -- 19 Q. Okay. 20 A. -- on the per consumer basis. 21 Q. And kVA is a measure of the amount of power in 22 use in the system? 23 A. Well, it's the size of the transformer and 24 reflects the size of it. 25 Q. So what's the difference between installed kVA</p>	<p style="text-align: right;">Page 349</p> <p>1 A. So it would be a part of the computation for 2 the distribution wires demands charge. 3 HEARING EXAMINER GLICK: Okay. That's all I 4 have, thank you. Take a sigh of relief. So then I 5 allocated 25 minutes for redirect. 6 THE WITNESS: I'm not done? My bladder -- I'm 7 please don't write that down. 8 HEARING EXAMINER GLICK: If you want to run to 9 the bathroom we can take a two-minute break. 10 THE WITNESS: We have 25 minutes left. 11 HEARING EXAMINER GLICK: 40. 12 (Break taken.) 13 HEARING EXAMINER GLICK: Let's go back on the 14 record. And Ms. Wiggins, you may begin redirect 15 examination. 16 MS. WIGGINS: Thank you. 17 REDIRECT EXAMINATION 18 19 BY MS. WIGGINS: 20 Q. Mr. Proctor, can you explain how the revenue 21 requirement for the co-op was established in the cost of 22 service study? 23 A. Yes. The revenue requirement was established 24 based on identifying and communicating with the board 25 their financial goals and objectives and how best to</p>
<p style="text-align: right;">Page 348</p> <p>1 and minimum installed kVA? 2 A. Well, what we are saying here is that a 3 minimum sized kVA transformer to serve a minimum size 4 consumer like Socorro Electric, if we look at the plant 5 records, they have predominantly 10 kVA transformers. 6 That's the minimum sized transformer they install. 7 And so that is going to establish the minimum 8 extended cost. So it's the 10 times the cost per kVA. 9 So that's how we are deriving the customer-related cost 10 component of the transformer facilities. 11 Q. So my question is you have a column, the third 12 column over, that says kVA per consumer, and then three 13 columns over from that you have minimum kVA per 14 consumer. 15 A. Right. 16 Q. So what's the difference between those? 17 A. The minimum kVA per consumer is used in the 18 computation for the minimum extended cost, and then the 19 remainder is the -- is the difference between the 20 extended cost, which is the 12 and a half times 65.60. 21 So you have 8.2 million dollars, and then the minimum 22 cost is 6.8. 23 So what we are saying is the balance, the 1.38 24 million dollars, is a capacity responsibility. 25 Q. Okay.</p>	<p style="text-align: right;">Page 350</p> <p>1 meet those and what the cash requirement outcome is. 2 Q. And I understand one of those goals was a 40 3 percent equity; correct? 4 A. That's one of the goals identified in the 5 board's policy 312, yes, ma'am. 6 Q. Why in your view is 40 percent equity an 7 appropriate goal for the board to set? 8 A. Well, I think one of the things that we need 9 to think about when we think about equity is, you know, 10 if our equity is too high, then what that means is we 11 are requiring rates in place today to support that high 12 equity, which means we are paying for a lot of our plant 13 through cash. So today's ratepayers are paying for 14 future plant. 15 Conversely, if we think about what happens if 16 we allow our equity to erode, then really what we are 17 saying is today's rates aren't sufficient to maintain 18 the equity at that 40 percent ratio, and therefore we 19 are financing more of our plant that's required to 20 provide electric service. You know the, prudent 21 facilities. 22 And the result of that is, since we are 23 financing it that means that tomorrow's ratepayers are 24 going to be responsible for that. 25 And then the capital credits of course is a</p>

<p style="text-align: right;">Page 351</p> <p>1 piece of that, too, because the notion that each member 2 or generation of members should contribute their portion 3 of equity to the cooperative in the form of margins, so 4 that the cooperative then in turn can retire capital 5 credits to that former generation that did the same 6 thing. 7 Q. During Madam Hearing Examiner's questioning of 8 you, you were presented with various hypotheticals, 9 including a TIER set at 2. 10 Do you recall that testimony? 11 A. Yes, ma'am. 12 Q. In your view, would any of those hypotheticals 13 be better rate -- a better rate structure than what has 14 been proposed by the co-op in this rate case? 15 A. No. 16 Q. Why is that? 17 A. Well, because one, it would require a 18 reduction in the requested proposed change in revenue. 19 And we have already identified through the establishment 20 of the revenue requirement, that's the amount of rate 21 change that's needed to at least move the cooperative 22 towards those, those goals and objectives. It doesn't 23 achieve all of them but we are moving towards them. 24 Q. In that same vein then, would any of those 25 hypotheticals create more viable rates than the proposed</p>	<p style="text-align: right;">Page 353</p> <p>1 increase for things like payroll and benefits and taxes 2 and, you know, things of that nature, then we are almost 3 immediately at risk of being below the required minimum 4 ratio. 5 Q. If TIER or net TIER were set at 2 points, as 6 proposed, what would that do to the co-op's goals as set 7 by the board in policy 312? 8 HEARING EXAMINER GLICK: I just want to 9 clarify I'm not proposing that. 10 MS. WIGGINS: I appreciate that. 11 HEARING EXAMINER GLICK: Okay. That was just 12 a hypothetical. 13 BY MS. WIGGINS: 14 Q. Hypothetically? 15 HEARING EXAMINER GLICK: Okay. 16 A. As I said, it would just -- it would 17 jeopardize the cooperative's ability to meet those. 18 They would have to look at these things and juggle their 19 goals and objectives. Figure out how to operate within 20 that parameter. 21 Q. Would it potentially impact the speed with 22 which the co-op might have to return to the PRC for 23 another rate adjustment? 24 A. Most likely. 25 Q. We also talked about Irrigation rates.</p>
<p style="text-align: right;">Page 352</p> <p>1 rates in this case? 2 A. No. 3 Q. And why is that? 4 A. Well, for instance, if the lower revenue 5 requirement or the lower rate change causes us not to be 6 able, for instance, to design a rate that has for the 7 customer-related piece, a \$7 and whatever the rate 8 change is for the Residential, so \$7.25, plus the 9 additional \$5 minimum. To the extent that that revenue 10 exceeds the required revenue that the Commission has now 11 prescribed, then that jeopardized the rate design, if 12 you will. 13 We can't fix some of these interclass 14 subsidies that we are attempting to address. 15 Q. And we have heard testimony during this 16 proceeding that the TIER set by RUS is a minimum of 17 1.25. 18 Do you recall that? 19 A. Yes. 20 Q. Is it considered good business practice to 21 have a co-op TIER set at that amount? 22 A. No. We do not design rates for minimum 23 coverage ratios. 24 Q. Why is that? 25 A. Because almost immediately, as expenses</p>	<p style="text-align: right;">Page 354</p> <p>1 Considering the proposed changes in this case to those 2 Irrigation rates, can you tell us whether the Irrigation 3 class is still contributing a positive operating margin? 4 A. If -- Irrigation class is not contributing a 5 positive margin under the proposed rates, much less the 6 existing. 7 Q. If you would turn to schedule 6.0 on page 270 8 of the cost of service study. Does that demonstrate 9 whether the Irrigation class is contributing or not 10 contributing a positive operating margin? 11 A. 270? 12 Q. Yes. 13 A. No. 270 is only the billing comparison under 14 proposed and existing rates. 15 Q. Is there anything in the cost of service study 16 that demonstrates whether the Irrigation rates are 17 contributing a positive operating margin? 18 A. Well, if we look at schedule H-2, under the 19 proposed rates, which is page 135, we see that under the 20 proposed rates the Irrigation operating margin is still 21 a negative 38,000, it's still a \$38,000 deficit. 22 Q. Right. Thank you. 23 You talked about the CIAC contributions. Did 24 you review the co-op's plant records as a part of your 25 rate analysis in this case?</p>

<p style="text-align: right;">Page 355</p> <p>1 A. They were only presented to us in terms of 2 what's included and audited, if will you. 3 Q. Do you recall whether it -- whether the co-op 4 reconciles those plant records? 5 A. Those plant records are audited. They are 6 audited financials. The balance sheet and things of 7 that nature. 8 Q. Are they audited by RUS? 9 A. Not that I know of. 10 Q. In your review, is it fair to say that the 11 CIAC is captured correctly or are you unable to testify 12 on that? 13 A. I'm unable to testify to it. 14 Q. Are you aware of any loan fund audit review 15 conducted by RUS on the co-op records recording the 16 CIAC? 17 A. I'm not familiar with that. I don't know. 18 Q. What evidence are you relying on that 19 establishes that the co-op's revenue and operating 20 margins require a proposed rate adjustment? 21 A. The coverage ratios are near the minimums. 22 And again, based on the goals and objectives 23 of the board, the capital credit requirements and the 24 CapEx, the change is necessary. 25 Q. And can you point the hearing examiner to the</p>	<p style="text-align: right;">Page 357</p> <p>1 justify that proposed increase is fair, just and 2 reasonable? 3 A. I believe that it is. The rate designs 4 institute a fixed cost recovery that currently doesn't 5 exist, and I believe that that's very important. 6 Q. What about for other classes of members, what 7 do you rely on to establish that those proposed rates 8 are fair, just and reasonable? 9 A. I believe that member impact and the notion of 10 gradualism are two very important factors to me. 11 Q. And you have been asked questions about the 12 special fees charged to customers? 13 A. Yes, ma'am. 14 Q. What evidence supports the changes to those 15 special fees? 16 A. Guernsey has performed, you know, analysis of 17 these type of things before for other cooperatives, and 18 I say almost in every instance you find that the cost 19 associated with these activities in terms of, you know, 20 labor and the overhead and trucks and mileage and things 21 of that nature, those always exceed the current charge 22 that's in place. 23 Q. And do you believe that to be the case with 24 Socorro Electric as well? 25 A. I do believe that to be the case.</p>
<p style="text-align: right;">Page 356</p> <p>1 evidence that supports the proposed rate increase per 2 class? 3 A. I'm sorry? Say that again. 4 Q. In other words, what evidence is there to 5 support the proposed rate increases per class? 6 A. Well, if we again go to schedule H-1, it 7 identifies the performance of each of the rate classes. 8 And so we can identify which ones require an increase, 9 and of course we have to allocate the revenue 10 requirement and in doing so we have done so in such a 11 manner that the change in the relative rates of return 12 all move closer to 1, which helps to address some of the 13 rate subsidies that currently exist and are identified. 14 Q. Now, turning your attention to the allocation 15 of the rate increases across customer classes, in your 16 view is the proposed rate design appropriate in the 17 method it uses to allocate those rate increases? 18 A. Yes. For the particular rate designs? 19 Q. Yes. 20 A. Yes. Because we are increasing the fixed cost 21 recovery in almost all instances. So that we are 22 addressing intraclass subsidies in the rate designs, 23 too. 24 Q. And generally, when you were testifying 25 regarding, for example, the Irrigation class, can you</p>	<p style="text-align: right;">Page 358</p> <p>1 MS. WIGGINS: Those are all the questions for 2 redirect. 3 HEARING EXAMINER GLICK: So I also allocated 4 25 minutes in total for recross. Raise your hand if you 5 want recross? 6 Okay. Any idea how you want to split up that 7 time? 8 MR. BORMAN: We hadn't really talked about it. 9 I don't know who else -- 10 MR. HERRMANN: I just have two quick 11 questions. 12 MR. BORMAN: Mine is about five minutes. 13 MR. ADAMS: I have probably less than five 14 minutes. 15 HEARING EXAMINER GLICK: So Mr. Adams, why 16 don't you go first. 17 RE CROSS EXAMINATION 18 19 BY MR. ADAMS: 20 Q. Hello again, Mr. Proctor. 21 A. Hi, sir. 22 Q. If the proposed rate increase did not seek to 23 provide for the retirement of capital credits, how much 24 would the total aggregate amount of the rate increase be 25 reduced?</p>

Page 359	<p>1 A. How much would the total amount of the rate 2 increase be reduced? Well, at least in terms of the 3 cash revenue requirement where we have identified that 4 the cooperative is desiring a 25-year rotation cycle, 5 that amount is \$688,000. 6 Q. Okay, thank you. 7 You mentioned again the principle of 8 gradualism. 9 A. Yes. 10 Q. And I'm still concerned that the adjustment of 11 particularly the large customer class would be way too 12 great if we came in for a rate increase every eight 13 years and we are reducing it by the amount we are 14 seeking to reduce it this year, how long would it take 15 to achieve that reduction to a level of 1? 16 MS. WIGGINS: Objection, your Honor. I 17 believe this was covered, we are replowing old ground. 18 MR. ADAMS: I don't think I got a clear 19 answer. 20 HEARING EXAMINER GLICK: Sustained. I do 21 recall the answer to that. And I think he said 22 basically he didn't know. 23 MR. ADAMS: Okay. That's all I had. Thank 24 you. 25 HEARING EXAMINER GLICK: Okay. Mr. Herrmann?</p>	Page 361	<p>1 HEARING EXAMINER GLICK: Overruled. 2 A. I would say no. First of all, if anything 3 happens to a diode in the lights, it's my understanding 4 in an incandescent fixture you replace the bulb, \$20 5 bulb or whatever. 6 In an LED fixture, if it fails you replace the 7 whole unit, so you are looking at another \$400, \$500 8 \$600 investment, because the bulb failed due to whatever 9 nature. 10 BY MR. HERRMANN: 11 Q. In the absence of any -- I'll strike that 12 question. 13 HEARING EXAMINER GLICK: Okay. Mr. Borman? 14 MR. BORMAN: Thank you. 15 RE CROSS EXAMINATION 16 17 BY MR. BORMAN: 18 Q. It's still morning, Mr. Proctor, so good 19 morning. 20 A. Good morning to you, sir. 21 Q. I believe you stated in response to 22 questioning from the hearing examiner that you have 23 testified on behalf of co-ops in a number of states. 24 A. I have not testified on behalf of co-ops in a 25 number of states. I've worked for co-ops in a number of</p>
Page 360	<p>1 RE CROSS EXAMINATION 2 3 BY MR. HERRMANN: 4 Q. Good morning, Mr. Proctor. 5 A. Good morning, sir. 6 Q. Now you previously testified that you use the 7 same O and M for both LED and street lights. Operation 8 and maintenance. 9 A. It's embedded O and M, it's in the cost of 10 service. That's a ratio -- it's ratioed. 11 Q. Are you aware of the difference in lights -- 12 life span between LED lights and HPS lights? 13 A. I don't know the difference in the life span, 14 no. I do recall there is a number of hours that's 15 associated with it. 16 Q. And the bulb length or the life span of the 17 bulb specifically? 18 A. That's what I was talking about, yes. I have 19 seen the -- I know the number as it's identified in that 20 analysis. I don't know the number related to a bulb and 21 an incandescent fixture, for lack of a better term. 22 Q. Would it be fair to say that LED lights have a 23 longer life span than HPS lights? 24 MS. WIGGINS: Objection, assumes facts not in 25 evidence.</p>	Page 362	<p>1 states. 2 Q. Oh, okay. So I misunderstood, then, your 3 testimony. 4 A. I hope that I did not misspeak. 5 Q. Have you testified in any states before? 6 A. I have not. 7 Q. Is this your first testimony? 8 A. It is. 9 Q. Okay. In what states did you work for co-ops? 10 A. The list of states is on my resumé or CV. 11 Q. Okay. 12 A. I think that there is maybe 18 of them, or 13 something of that nature. 14 Q. 18 states. And what did that work consist of? 15 A. Cost of service and rate studies 16 predominantly. 17 Q. Okay. Those are in conjunction with rate 18 applications that those cooperatives were filing? 19 A. Most electric cooperatives are not regulated 20 by public utility commissions. 21 Q. Okay. Were any of those, uhm, that -- work 22 that you performed for co-ops on behalf of a co-op that 23 was seeking rate relief from a commission? 24 A. I have worked on portions of projects in 25 Arizona in support of the project manager, for instance,</p>

<p style="text-align: right;">Page 363</p> <p>1 on those projects, and I believe that I've also done 2 some work perhaps in Wyoming, but I've never sponsored 3 testimony or been, you know, the project manager on 4 those particular rate studies. 5 Q. What co-op in Arizona? 6 A. It's my -- do I have my resumé in here? It 7 would either -- I think it's Trico. 8 Q. Trico, okay. In any of the states that you 9 have done some of this work for co-ops, have you 10 encountered any commissions at all that utilized TIER, 11 OTIER or DSC in making its study and determination? 12 A. In the states that are regulating the 13 cooperatives? 14 Q. Yes. 15 A. Again, my involvement was only in developing, 16 you know, certain pieces of the study, and so I had no 17 interface with the client or the Commission. So I'm not 18 familiar with the development of the revenue 19 requirements in Arizona or those other states. 20 Q. Okay. So the answer is you don't know; right? 21 A. Correct. 22 MR. BORMAN: Okay. Thank you. I have no 23 further questions. 24 HEARING EXAMINER GLICK: Okay. Thank you, Mr. 25 Proctor. You are excused.</p>	<p style="text-align: right;">Page 365</p> <p>1 reporting amount that we -- so we use that amount. And 2 then on the credit we are looking at what the cost of 3 the transformer and the meters and then determine what 4 the remaining revenue credit is. 5 Q. Do you know what that amount currently is? 6 A. Approximately \$600. 7 Q. And that's indicated on your annual report 8 with the Commission? 9 A. Yes. On the Commission we report average 10 annual kWh billed. 11 Q. Okay. I'm going to get that annual report. I 12 think you -- 13 A. Yeah, we filed. 14 Q. You attached it to your rebuttal, I think. 15 A. Yes. And I have the corrected. 16 Q. If you could tell me where that is in that 17 annual report. 18 A. It's on the second page, it's on Exhibit 4, 19 SEC Exhibit 4. 20 Q. I have the wrong one. This is -- oh, the 21 corrected one. 22 A. Yes. 23 Q. Okay. Well, I don't know what I did with 24 that. But just tell me -- 25 A. Yes. On there it says average monthly -- or</p>
<p style="text-align: right;">Page 364</p> <p>1 THE WITNESS: Thank you. 2 (Witness excused.) 3 HEARING EXAMINER GLICK: Before we break for 4 lunch I had indicated yesterday that I would like Mr. 5 Herrera to come back and testify about a possible line 6 extension allowance. Is he prepared to do that at this 7 time? 8 MR. HERRERA: Yes. 9 HEARING EXAMINER GLICK: Is it okay to go 10 ahead and do that before we break for lunch? 11 MS. WIGGINS: Yes, no objection. 12 HEARING EXAMINER GLICK: Mr. Herrera, why 13 don't you come forward. 14 JOSEPH HERRERA, 15 having been previously duly sworn, testified as follows: 16 CROSS EXAMINATION 17 18 BY HEARING EXAMINER GLICK: 19 Q. So Mr. Proctor had testified, I think in his 20 experience working with rural electric cooperatives, 21 that annually the cooperatives set the amount of a line 22 extension allowance. And my question to you was whether 23 your cooperative does that, and if it does that what the 24 amount is. 25 A. Yes. So in our PRC filing we have that annual</p>	<p style="text-align: right;">Page 366</p> <p>1 average annual bill, consumer bill, \$1,914. So that's 2 our calculated annual per consumer bill. 3 Q. Okay. So I thought you -- I was talking about 4 the line extension allowance, which I think you said was 5 \$600. 6 A. Yes. So it says in there the annual -- the 7 average annual system consumer revenue calculation. So 8 that's -- we are taking that calculation for the credit. 9 Q. Okay. So how do you get from that amount in 10 the annual report to the 600? 11 A. Oh, so you take into account the transformer 12 and the meter and then reduce those costs, and that's 13 where it's approximately \$600. 14 Q. Okay. Could you go over that with me again. 15 I'm sorry, I'm not following you. 16 A. Yes. So if a transformer is \$1,800, the meter 17 is \$300, and so then the balance left from that is the 18 credit. 19 HEARING EXAMINER GLICK: Okay. Do any of the 20 staff or intervenors have any follow-up questions to 21 that? 22 MR. BORMAN: No. 23 HEARING EXAMINER GLICK: No? Okay. 24 Thank you, Mr. Herrera. 25 Let's go ahead and break for lunch and come</p>

Page 367	Page 369
<p>1 back at one o'clock. 2 Go off the record. 3 (Lunch break taken.) 4 (Commissioner Fischmann enters.) 5 HEARING EXAMINER GLICK: Let's go back on the 6 record, and at this time Ms. Rauni Montoya is going to 7 come back up again and answer some questions that 8 Commissioner Fischmann had asked her yesterday. 9 MS. WIGGINS: Madam Hearing Examiner, Ms. 10 Montoya has an exhibit prepared and we have a sufficient 11 number of copies. I believe we are at Socorro Electric 12 Exhibit 9. 13 HEARING EXAMINER GLICK: No, you are at 11. 14 MS. WIGGINS: I apologize, Exhibit 11. 15 (Marked SEC Exhibit 11.) 16 HEARING EXAMINER GLICK: Thank you. 17 MR. BORMAN: Does staff get one? 18 THE WITNESS: I'm sorry? 19 MR. BORMAN: You should have one for yourself. 20 THE WITNESS: I do, thank you. 21 So what I've given you is a spreadsheet with 22 an example of how our capital credits are allocated. 23 Column A is the total revenue contributed by 24 rate. So off to the left-hand side you see the title it 25 says Allocation by Rate. Those are the rates within our</p>	<p>1 RECCROSS EXAMINATION 2 3 BY COMMISSIONER FISCHMANN: 4 Q. So I'm going to ask you to do a couple of -- 5 do you have a calculator with you? 6 A. No, I don't. 7 Q. Does someone have a phone calculator? 8 A. I could get my Excel spreadsheet on my 9 computer. 10 HEARING EXAMINER GLICK: Mr. Herrera, can she 11 borrow your phone? 12 BY COMMISSIONER FISCHMANN: 13 Q. Just to tie down a couple definitions real 14 quickly. We say we are allocating per kilowatt hour. 15 If I take the power cost and divide by the kilowatt 16 hours, that should give me the same number all the way 17 down the column, is what -- is the way I'm interpreting 18 that. 19 A. So column C's calculation is the kilowatt 20 hours in B divided by the total kilowatt hours on that 21 same column, times the total power cost for the whole 22 entity. 23 Q. Yes. 24 A. Yes. 25 Q. So just kind of double checking that. So</p>
Page 368	Page 370
<p>1 billing system and how the revenue is tracked. So 2 column A is the total revenue, by rate. 3 Column B is the total kilowatt hour sales by 4 rate; and then column C is our power cost that we backed 5 out from that total revenue. 6 And it's an important note to make that the 7 total revenue here is only patronage affecting revenue 8 from energy sales and fixed system charge. It doesn't 9 include revenues that we get from tampering fees, 10 connect fees, reconnect fees, anything like that, 11 because obviously we don't want to encourage those 12 behaviors and create more revenue that they earned 13 capital credits on. So those are not included in that 14 revenue amount. 15 So we back out the power cost in column C, and 16 then column D is the net revenue that is used to 17 allocate those margins. 18 Column E is the percentage of net revenue that 19 is allocated for that rate, and then column F is the 20 dollar amount of allocated margins, and we take that 21 amount and give it to each member account that has 22 earned capital credits. 23 24 RAUNI MONTOYA, 25 having been previously duly sworn, testified as follows:</p>	<p>1 let's just take rate 1. 2 A. Okay. 3 Q. Okay? And just take the power cost and divide 4 it by the total kilowatt hours. So 5,040 divided by 5 6,531. And I love the power, that column C goes to the 6 penny. 7 A. Okay. I get .8 percent. So C is -- we take 8 the 600 -- or the 66,531,030 and divide it by the 9 172,799,659. 10 Q. Oh, you are taking the total? 11 A. Yes. And you multiply that by the -- 12 Q. So if I take 14,389 and 14,390 and divide by 13 172,799 -- 14 A. And then you multiply that by the total. 15 Q. Don't multiply, that should give us the -- 16 that should give us the power cost allocated per 17 kilowatt hour. So I just want to see that that's 18 consistent from the top to the bottom. 19 A. Oh, got you. So if do the 60,531,030 divided 20 by the 172,799 at the bottom, I get .35. So that's per 21 kilowatt hour. 22 Q. I'm sorry, where did you get the 65 from? 23 A. From rate 1. The 60,531. That's what you are 24 asking? 25 Q. Let's try it again. So I'm going to take</p>

<p style="text-align: right;">Page 371</p> <p>1 column C, the total power cost. 2 A. Okay. The 5,040,759? 3 Q. Right. And divide that by the total kilowatt 4 hours. 5 HEARING EXAMINER GLICK: Did you want her to 6 use this number? 7 BY COMMISSIONER FISCHMANN: 8 Q. You can use the 14,389, is that using the 9 bottom, bottom of column C? 10 A. I think I'm getting confused at what we are 11 trying -- 12 Q. Give me the calculator -- 13 A. These are blue because they are formulas in my 14 spreadsheet. 15 Q. We will get there. I am explaining it poorly, 16 undoubtedly. So -- anyone in the audience who wants to 17 calculate this to double check my number, please do. 18 So I'm taking 172,799,659, which is the -- I 19 did that backwards. So even I'm not getting it right. 20 Okay. 21 A. I don't feel so bad. 22 Q. I'm taking 14, total power cost, 14,389,999, 23 which is the total power cost, and I'm dividing it by 24 the total kilowatt hours, which is 172,799,659. And I'm 25 getting a power cost, which makes perfect sense, of</p>	<p style="text-align: right;">Page 373</p> <p>1 Q. So they are all getting 8.327 cents per 2 kilowatt hour. 3 And then the net revenue used to allocate the 4 margins is -- 5 A. So that's the total revenue in column A, minus 6 the power cost in column C. 7 Q. Okay. 8 A. And that's what we use to allocate the 9 margins, that amount, not the total revenue. 10 Q. Okay. So on a per kilowatt hour basis, the 11 Residential customers -- let me see. Net revenue used 12 to allocate margins. Okay. So there is the net 13 revenue. Percentage of net revenue. And then the 14 allocated margins. 15 So help me out a little bit. Talk me through 16 that. 17 A. So column E is a percentage of net revenue, so 18 we are saying of the total net revenue, 47 percent of 19 that belongs to rate 1. 20 Q. Right. 21 A. So then we take that and multiply it and you 22 get the 800,000. So we are saying for rate 1, we are 23 going to allocate 800,000 to that total rate class, and 24 then we take that up and divide it up to each member 25 account based off of their usage.</p>
<p style="text-align: right;">Page 372</p> <p>1 8.327 cents. 2 A. 8.32? 3 Q. 8.327, which is pretty close to the contract 4 that you've got with Tri-State; correct? 5 A. Uh-huh. 6 Q. Okay. Now I'm going to take one rate class 7 and see if we come up with the same number. 8 A. I see what you are doing. Sorry, I was not 9 following you. 10 Q. So now I'm going to take -- I'll just take 11 rate 1, which is what, probably Residential? 12 A. Yes. 13 Q. So I'm going to take the total power cost, 14 5,040,759. I'm not going to do the penny. And divide 15 by 60,531, okay. Perfect. That gives me the exact same 16 number, .8327. 17 A. Okay. Sorry, I was not tracking along with 18 you there. I apologize. 19 Q. So in each rate class you are just taking the 20 actual charges -- tell me if I'm interpreting this 21 correctly -- the actual rate from Tri-State, multiplying 22 by the kilowatt hours by that rate class, and that's how 23 much the rate class is charged. 24 A. That's what we back out from the allocation, 25 yes, sir.</p>	<p style="text-align: right;">Page 374</p> <p>1 Q. So the allocated margin, was that the total, 2 this 1.689 million, was that the total capital -- 3 A. That would have been the margins, yes, at the 4 end of the year. 5 HEARING EXAMINER GLICK: And so then the 6 amount, the allocated margin to rate 1, you allocate 7 that among all the consumers in rate 1 by their kilowatt 8 hour usage? 9 THE WITNESS: Yes, ma'am. 10 BY COMMISSIONER FISCHMANN: 11 Q. So tell me if I'm interpreting this correctly, 12 because the total revenue, the charge per kilowatt hour, 13 might be higher for a Residential customer than for a 14 Large Commercial user. I think I calculated yesterday 15 17 cents versus 12, something like that. 16 Your total margin is actually a little bit 17 greater for the residents -- 18 A. Well, we -- 19 Q. -- as a percentage, because you are only 20 taking the actual power cost, you are not deducting your 21 actual distribution costs -- 22 A. Right. 23 Q. -- to come up with a number? 24 A. Right. We are just deducting that power cost. 25 Q. All right. Well, I understand that.</p>

Page 375	<p>1 A. Okay, good.</p> <p>2 Q. I have to think a little bit about what it</p> <p>3 means, but I understand it.</p> <p>4 A. Okay.</p> <p>5 HEARING EXAMINER GLICK: No.</p> <p>6 Do you want to move this into evidence?</p> <p>7 MS. WIGGINS: Yes. At this time we will move</p> <p>8 Socorro Electric Exhibit 11.</p> <p>9 HEARING EXAMINER GLICK: Okay. Is there any</p> <p>10 objection?</p> <p>11 Socorro Exhibit 11 is admitted.</p> <p>12 (Admitted SEC Exhibit 11.)</p> <p>13 COMMISSIONER FISCHMANN: Thank you. Very</p> <p>14 helpful. If nothing else, at least I understand, even</p> <p>15 if nothing comes of it. I appreciate it.</p> <p>16 HEARING EXAMINER GLICK: Do any of the</p> <p>17 attorneys have any follow-up questions regarding this?</p> <p>18 No?</p> <p>19 Okay. Thank you, Ms. Montoya.</p> <p>20 (Witness excused.)</p> <p>21 (Commissioner Fischmann leaves.)</p> <p>22 HEARING EXAMINER GLICK: And so then at this</p> <p>23 time Ms. Winter had requested that the city be allowed</p> <p>24 to ask a question or more from Mr. Herrera as a</p> <p>25 follow-up to what he said earlier.</p>	Page 377	<p>1 Q. Is there anything in the street light rule?</p> <p>2 HEARING EXAMINER GLICK: Talking about the</p> <p>3 rate?</p> <p>4 MR. HERRMANN: Yes. The line extension</p> <p>5 policy.</p> <p>6 HEARING EXAMINER GLICK: Oh, okay.</p> <p>7 THE WITNESS: Can you restate the question?</p> <p>8 BY MR. HERRMANN:</p> <p>9 Q. Do you remember the examiner asking about</p> <p>10 allocations for lighting?</p> <p>11 A. Allocations for lighting on the cost of</p> <p>12 service study?</p> <p>13 Q. Specifically in the line extension rule.</p> <p>14 A. Yes.</p> <p>15 HEARING EXAMINER GLICK: Are you --</p> <p>16 A. I think the conversation, the discussion we</p> <p>17 had.</p> <p>18 BY MR. HERRMANN:</p> <p>19 Q. Uh-huh.</p> <p>20 A. Okay.</p> <p>21 Q. And you answered with a reference to the</p> <p>22 Residential rule.</p> <p>23 A. Yes.</p> <p>24 HEARING EXAMINER GLICK: When you say the</p> <p>25 "Residential rule," are you talking about the line</p>
Page 376	<p>1 So Mr. Herrera, could you come up, please.</p> <p>2 And Ms. Winter or Mr. Herrmann?</p> <p>3 JOSEPH HERRERA,</p> <p>4 having been previously duly sworn, testified as follows:</p> <p>5 MR. HERRMANN: Would it be possible to get his</p> <p>6 last question and response re-read? It's been an hour</p> <p>7 for lunch.</p> <p>8 THE REPORTER: I can do it, it will take a</p> <p>9 minute.</p> <p>10 (Record read as requested.)</p> <p>11 RECROSS EXAMINATION</p> <p>12</p> <p>13 BY MR. HERRMANN:</p> <p>14 Q. Could you identify where in the line extension</p> <p>15 rule you reference to substantiate the last couple of</p> <p>16 answers you made?</p> <p>17 A. Yes. I was referring to the Residential --</p> <p>18 Residential section 2. A-1 investment.</p> <p>19 Q. So that was in the Residential rule, not the</p> <p>20 line extension rule.</p> <p>21 A. No, rule No. 12, page 2, section 2.</p> <p>22 Q. But that was not in any reference to the</p> <p>23 street light rule?</p> <p>24 A. No. The street light rule was under section</p> <p>25 6, page 5. And it was not a reference to that.</p>	Page 378	<p>1 extension rule?</p> <p>2 MR. HERRMANN: Yes.</p> <p>3 HEARING EXAMINER GLICK: Is that, Mr. Herrera,</p> <p>4 what you are talking about?</p> <p>5 THE WITNESS: Well, the question -- the</p> <p>6 conversation from yesterday. So I guess the</p> <p>7 conversation right before lunch?</p> <p>8 BY MR. HERRMANN:</p> <p>9 Q. Yes.</p> <p>10 A. Okay. That's where I was referencing the</p> <p>11 Residential rule portion in the line extension rule.</p> <p>12 HEARING EXAMINER GLICK: Oh, I see. Do you</p> <p>13 mind if I ask a question?</p> <p>14 MR. HERRMANN: No, I don't.</p> <p>15 HEARING EXAMINER GLICK: But do you actually</p> <p>16 have any Residential customers that are seeking</p> <p>17 replacement of a security light or a street light?</p> <p>18 A. If they are seeking a replacement of a private</p> <p>19 light, that would follow under section 6.</p> <p>20 HEARING EXAMINER GLICK: What about customers</p> <p>21 like the City of Socorro, is there a line extension</p> <p>22 allowance for them?</p> <p>23 THE WITNESS: It's all covered under that</p> <p>24 section 6 of the line extension. That's the only</p> <p>25 portion of the line extension rule that covers area</p>

Page 379	Page 381
<p>1 lighting or security lighting.</p> <p>2 HEARING EXAMINER GLICK: Section 6?</p> <p>3 THE WITNESS: 4. I'm sorry. IV.</p> <p>4 HEARING EXAMINER GLICK: Okay. But the \$600</p> <p>5 that you gave me --</p> <p>6 THE WITNESS: Okay. That was in regards to</p> <p>7 Residential line extension.</p> <p>8 HEARING EXAMINER GLICK: Right. So my</p> <p>9 question is, do you have a similar allowance for a</p> <p>10 commercial customer like the City of Socorro? Is there</p> <p>11 a line extension allowance that's calculated annually?</p> <p>12 THE WITNESS: For electric service?</p> <p>13 HEARING EXAMINER GLICK: For -- well, Mr.</p> <p>14 Proctor I believe had been saying that annually in his</p> <p>15 experience cooperatives calculate the amount of a line</p> <p>16 extension allowance that I believe the cooperative pays</p> <p>17 for that part of it and then after that it's the</p> <p>18 customer's responsibility.</p> <p>19 So my question is whether you have calculated</p> <p>20 such an allowance that would apply to the City of</p> <p>21 Socorro.</p> <p>22 THE WITNESS: No. Because I believe in this</p> <p>23 line extension from 1988 rule it says that Commercial,</p> <p>24 other than Residential, will pay the cost of the line</p> <p>25 extension.</p>	<p>1 THE WITNESS: Thank you.</p> <p>2 HEARING EXAMINER GLICK: And then of course an</p> <p>3 exception to that is if it's security lighting.</p> <p>4 THE WITNESS: Right.</p> <p>5 HEARING EXAMINER GLICK: Okay.</p> <p>6 MS. WIGGINS: One follow-up.</p> <p>7 HEARING EXAMINER GLICK: Sure.</p> <p>8 REDIRECT EXAMINATION</p> <p>9</p> <p>10 BY MS. WIGGINS:</p> <p>11 Q. Just so I'm clear, is it a line extension if</p> <p>12 there are already existing facilities at that location?</p> <p>13 A. No.</p> <p>14 Q. What is that in that situation? What's that</p> <p>15 considered?</p> <p>16 A. That's an upgrade.</p> <p>17 Q. Of existing facilities?</p> <p>18 A. Of existing facilities.</p> <p>19 MS. WIGGINS: Okay, thank you. That's all.</p> <p>20 HEARING EXAMINER GLICK: Okay. So I think</p> <p>21 next is Dr. Wells, if I'm right.</p> <p>22 STEPHEN GENE WELLS, PhD,</p> <p>23 having been first duly sworn, testified as follows:</p> <p>24 DIRECT EXAMINATION</p> <p>25</p>
Page 380	Page 382
<p>1 HEARING EXAMINER GLICK: Where does it say</p> <p>2 that?</p> <p>3 THE WITNESS: I'm looking for that.</p> <p>4 So if you go on to page 4, item 3. Service to</p> <p>5 Commercial, Large Commercial, Large Power, Large</p> <p>6 Industrial and Irrigation.</p> <p>7 HEARING EXAMINER GLICK: Yes.</p> <p>8 THE WITNESS: Section A.</p> <p>9 HEARING EXAMINER GLICK: So doesn't that say</p> <p>10 that the cooperative will pay an allowance up to 36</p> <p>11 times the billing period minimum charge?</p> <p>12 THE WITNESS: Correct.</p> <p>13 HEARING EXAMINER GLICK: So that would be the</p> <p>14 allowance?</p> <p>15 THE WITNESS: That would be the allowance.</p> <p>16 HEARING EXAMINER GLICK: And what is the</p> <p>17 billing period minimum charge?</p> <p>18 THE WITNESS: I believe --</p> <p>19 HEARING EXAMINER GLICK: The customer charge.</p> <p>20 THE WITNESS: Yes.</p> <p>21 HEARING EXAMINER GLICK: Okay. You don't need</p> <p>22 to look it up.</p> <p>23 That's all the questions I had, Mr. Herrmann.</p> <p>24 MR. HERRMANN: I think that's all we have.</p> <p>25 Thank you, Mr. Herrera.</p>	<p>1 BY MR. ADAMS:</p> <p>2 Q. Good afternoon, Dr. Wells. Will you please</p> <p>3 state your name and title for the record.</p> <p>4 A. Stephen G. Wells, President of New Mexico</p> <p>5 Tech.</p> <p>6 Q. Did you prepare prefiled testimony and</p> <p>7 attachments in this case?</p> <p>8 A. I did.</p> <p>9 MR. ADAMS: May I approach the witness?</p> <p>10 HEARING EXAMINER GLICK: Yes.</p> <p>11 BY MR. ADAMS:</p> <p>12 Q. I'm going to hand that to you and a copy to</p> <p>13 the reporter.</p> <p>14 I have shown you a document not yet labeled as</p> <p>15 an exhibit. Do you recognize that?</p> <p>16 A. I do.</p> <p>17 Q. What is it?</p> <p>18 A. It's my direct testimony, and it's attached in</p> <p>19 the attachments provided.</p> <p>20 Q. Does it appear to be a fair and accurate copy</p> <p>21 of your prefiled testimony?</p> <p>22 A. Yes, it does.</p> <p>23 Q. Have the opinions you expressed in your</p> <p>24 prefiled testimony changed?</p> <p>25 A. No, they have not.</p>

<p style="text-align: right;">Page 383</p> <p>1 Q. If asked, would your answers to the questions 2 in the prefiled testimony be the same? 3 A. Yes, they would. 4 Q. Are the answers truthful? 5 A. Yes. 6 MR. ADAMS: I offer the prefiled testimony 7 with attachments into evidence. 8 HEARING EXAMINER GLICK: Is that as Exhibit 1? 9 New Mexico -- 10 MR. ADAMS: -- Tech Exhibit 1, yes, Ms. 11 Hearing Examiner. 12 HEARING EXAMINER GLICK: Is there any 13 objection? 14 Okay. New Mexico Tech Exhibit 1 is admitted. 15 (Admitted Tech Exhibit 1.) 16 MR. ADAMS: I tender the witness for cross. 17 HEARING EXAMINER GLICK: All right. So Ms. 18 Wiggins or Ms. Williams? 19 MS. WILLIAMS: It's me. 20 HEARING EXAMINER GLICK: So Ms. Williams. 21 MS. WILLIAMS: Yes. 22 CROSS EXAMINATION 23 24 BY MS. WILLIAMS: 25 Q. Good afternoon, President Wells. I have a</p>	<p style="text-align: right;">Page 385</p> <p>1 questions now, but I want to give you a fair chance to 2 review. 3 A. I'm good. 4 Q. Okay. In 2017 Tech established a leadership 5 council and ten working committees; correct? 6 A. Correct. 7 Q. And you -- the leadership council consisted of 8 stakeholders in the community and on campus; correct? 9 A. Initially it was primarily campus. 10 Q. And it expanded to include stakeholders in the 11 community? 12 A. It did. 13 Q. Okay. Does Socorro Electric Co-op have a seat 14 on your leadership council? 15 A. Not to my knowledge. 16 Q. Do you consider Socorro Electric Cooperative a 17 stakeholder in Socorro's community? 18 A. Define "stakeholder" for the co-op. 19 Q. Well, you use the term in your testimony and 20 so it says that you establish a leadership council. 21 This is on the top of page 5. 22 A. Yeah, and I -- just to answer that I consider 23 myself a stakeholder in the co-op. 24 Q. No. Do you consider Socorro Electric a 25 stakeholder that should have been included in your</p>
<p style="text-align: right;">Page 384</p> <p>1 couple of questions about your direct testimony, and 2 some of your related things, the exhibits as well. 3 So, what was the purpose of your testimony? 4 A. I believe that is stated in my direct 5 testimony. 6 Q. Correct. If you look at page 1, on line 20 7 the question is the question I just asked you, and so 8 I'm assuming your answer is going to be similar? 9 A. Yes, it is. To explain the broad effects of 10 Socorro Electric's proposed rate, the increase will have 11 on the future of New Mexico Tech. 12 Q. On the first page you also make two 13 recommendations; correct? To the PRC. 14 A. I do. 15 Q. And what are those recommendations? 16 A. The recommendation is to deny the proposed 17 rate increase and develop an economic rate that will 18 stimulate vital economic development in the Socorro 19 community. 20 Q. Let's look at page 4 of your testimony, 21 Doctor. If you will read the answer that starts on line 22 5, the question is on line 5, and let me know when you 23 are able to answer questions through the top of line 5. 24 A. You want me to read this out loud? 25 Q. No, to you, so you can refresh. I can ask you</p>	<p style="text-align: right;">Page 386</p> <p>1 leadership council? A stakeholder in the community. 2 A. Not initially, no, I didn't think they needed 3 to be represented. 4 Q. Do you think they need to be represented now? 5 A. Perhaps. It depends. 6 Q. And who makes that determination and how is 7 that determination -- 8 A. I make the determination. 9 Q. Okay. So when you formed the committee, it 10 was initially -- the leadership council was initially 11 campus stakeholders -- 12 A. Right. 13 Q. -- expanded to community stakeholders -- 14 A. Correct. 15 Q. -- and does not include Socorro Electric at 16 this point. 17 A. No. It includes the Chamber, it includes 18 people from the city, as well as a couple of citizens, 19 just regular citizens. 20 Q. Thank you. 21 Let's look at page 7, line 20. And if you 22 don't need to review it, just let me know and we can 23 talk about some of the answers. 24 A. Correct, yes. 25 Q. Whose responsibility is it to improve the</p>

<p style="text-align: right;">Page 387</p> <p>1 economic health of New Mexico Tech?</p> <p>2 A. It's a shared responsibility across the</p> <p>3 campus, under my leadership.</p> <p>4 Q. Okay. Whose responsibility is it to improve</p> <p>5 the economic health of the City of Socorro?</p> <p>6 A. It's a shared responsibility of everyone</p> <p>7 living in the community.</p> <p>8 Q. Okay. And whose responsibility is it to</p> <p>9 improve the economic health of Socorro Electric Co-op?</p> <p>10 A. Well, I think that would be anyone who is a</p> <p>11 stakeholder.</p> <p>12 Q. In Socorro Electric?</p> <p>13 A. Correct.</p> <p>14 Q. Which includes the members?</p> <p>15 A. It does.</p> <p>16 Q. Okay. Does it include anyone besides the</p> <p>17 member-owned cooperative folks?</p> <p>18 A. I don't understand your question.</p> <p>19 Q. It may be inarticulate.</p> <p>20 Who do you consider to be the stakeholders in</p> <p>21 Socorro Electric Cooperative besides the members?</p> <p>22 A. I'm not sure there would be anyone else other</p> <p>23 than the people who are the members.</p> <p>24 Q. Okay, thanks. Are you aware that the proposed</p> <p>25 rate increase is to strengthen the financial health of</p>	<p style="text-align: right;">Page 389</p> <p>1 A. No, I wouldn't say that.</p> <p>2 Q. You are happy with the service and --</p> <p>3 A. I think the service and the rate increase are</p> <p>4 two different things.</p> <p>5 Q. Okay. So you are happy with the service now?</p> <p>6 A. I have no objection to the service.</p> <p>7 Q. Okay. Are you happy with the rates now? You</p> <p>8 just testified at line 19 through 21 you are not happy</p> <p>9 with the rates.</p> <p>10 A. No, I'm not happy with the rate increase. New</p> <p>11 Mexico Tech has an undue subsidized burden, in my</p> <p>12 opinion, that has cost us over several years, and that</p> <p>13 is the issue at hand.</p> <p>14 And so the analogy would be one of our</p> <p>15 students carrying a hundred bricks, and yet we add one</p> <p>16 more brick to that, another increase. That increases</p> <p>17 the weight to the point that it is detrimental to the</p> <p>18 student holding those bricks.</p> <p>19 Q. And let me make myself clear. In this</p> <p>20 testimony that I've referenced here, it's clear you</p> <p>21 don't, and if I'm unclear please let me know, Doctor --</p> <p>22 A. Sure.</p> <p>23 Q. -- because I do want to understand your</p> <p>24 testimony. I'm just asking for clarification.</p> <p>25 You don't support the cost of the current</p>
<p style="text-align: right;">Page 388</p> <p>1 Socorro Electric Cooperative?</p> <p>2 A. That's what is stated.</p> <p>3 Q. Okay. And doesn't the financial health of</p> <p>4 Socorro Electric Cooperative strengthen the financial</p> <p>5 health of the communities in which you serve as an</p> <p>6 educational institution?</p> <p>7 A. It should.</p> <p>8 Q. Okay. Page 9, line -- it looks like 20.</p> <p>9 Are you there, Doctor?</p> <p>10 A. I'm there.</p> <p>11 Q. Okay. You don't support the cost of the</p> <p>12 current rates Socorro Electric is charging Tech for</p> <p>13 electricity?</p> <p>14 A. Just correction, are we on page 9?</p> <p>15 Q. Yes, sir.</p> <p>16 A. Okay.</p> <p>17 Q. Starting on line 19, if you need direction --</p> <p>18 A. Okay.</p> <p>19 Q. -- to that.</p> <p>20 You don't support, in your testimony, the</p> <p>21 costs of the current rates SEC charges Tech for</p> <p>22 electricity; correct?</p> <p>23 A. That's correct.</p> <p>24 Q. It's fair to say that Tech is a dissatisfied</p> <p>25 customer of Socorro Electric Co-op; correct?</p>	<p style="text-align: right;">Page 390</p> <p>1 rates or the proposed rates, do you?</p> <p>2 A. Well, I think the protest is against the</p> <p>3 additional -- the additional rate.</p> <p>4 Q. Correct. But the sentence that begins on line</p> <p>5 19 and goes to line 21 addresses your dissatisfaction</p> <p>6 with both --</p> <p>7 A. Yes.</p> <p>8 Q. -- the current corporate rates and the</p> <p>9 proposed rates.</p> <p>10 A. It does. It has led to the subsidization.</p> <p>11 Q. Okay. And let's look at page 9, line 24.</p> <p>12 Are you there?</p> <p>13 A. I'm there.</p> <p>14 Q. Okay. As a university president, you state</p> <p>15 that there is either -- can you read that?</p> <p>16 A. I can.</p> <p>17 Q. Okay.</p> <p>18 A. Do you want me to read it?</p> <p>19 Q. Yes.</p> <p>20 A. "There is either apparent lack of concern for</p> <p>21 economic development in Socorro or ignorance on how</p> <p>22 important electric rates cost are on economic</p> <p>23 development."</p> <p>24 Q. As university president are you familiar with</p> <p>25 the philosophical concept that's taught at universities</p>

<p style="text-align: right;">Page 391</p> <p>1 of the false dilemma, where someone is offered an 2 either/or option when there are actually other options 3 available? 4 A. Based on my experience that I've had with 5 economic development -- 6 Q. Yes. 7 A. -- for decades before it looks like an 8 either/or to me. 9 Q. Okay. So you are not considering that there 10 could be other reasons, such as effectuating the board 11 goals or keeping 40 percent -- 12 A. I don't know what the board -- 13 Q. -- cash at hand -- 14 THE REPORTER: One at a time. 15 A. I do not know what the board goals are. 16 Q. But you are discounting the fact that that 17 could be a factor -- 18 A. It -- 19 Q. -- in deciding -- 20 A. It could be a factor, but based in all my 21 experience of working with two economic development 22 boards, working with two governors, working with Nevada 23 Energy on a research park in my own institution, to me 24 it looks like it's one of those two. 25 Q. Okay. So that's your opinion, your personal</p>	<p style="text-align: right;">Page 393</p> <p>1 my opinion that's what it would look like. 2 Q. Have you or any of your ten working 3 committees, one of which is called Tech and Local; 4 correct? 5 A. Tech and Town. 6 Q. Tech and Town. 7 Has the Tech and Town committee worked with 8 people from Socorro Electric or talked to them or 9 interviewed them in the course of their work? 10 A. Not to my knowledge. 11 Q. Okay. Have any of your ten working committees 12 proposed a plan for the provision of lower cost 13 electricity to Tech by Socorro Electric Cooperative? 14 A. I don't know whether we have actually talked 15 about that, but we have talked about factors that hinder 16 economic development communities and utilities is 17 definitely one, based on my experience and what we see. 18 Q. Okay. 19 A. And quite frankly, that's one of the reasons 20 that I didn't really want to -- initially want to 21 approach Socorro Electric, is because what I saw was 22 what we just talked about, a lack of what appeared to be 23 an interest in doing something to spur economic 24 development in the community. 25 Q. Have you --</p>
<p style="text-align: right;">Page 392</p> <p>1 opinion? 2 A. It's in my testimony. 3 Q. You don't know enough about what other 4 considerations might have gone into the equation, but 5 these two are the ones that you choose to focus on -- 6 A. Well -- 7 Q. -- in your testimony? 8 A. -- it doesn't matter where I don't know them. 9 It appears to me that there is a lack of concern because 10 I met two times with people from the co-op, never once 11 have they brought up the significance of economic 12 development for the community as something they want to 13 talk about. 14 Q. Have they talked to you about what their 15 economic drivers are, that they need to pay their bills, 16 like Tech does? 17 A. Well, I assume they need to pay their bills. 18 Q. Okay. And that they need to comply with the 19 board goals, whatever those are? 20 A. They have never talked about the board goals 21 to me, no. 22 Q. Okay. And you are discounting that those 23 could be factors other than the two that you list in 24 this -- in your -- 25 A. They may be factors, but it seems to me from</p>	<p style="text-align: right;">Page 394</p> <p>1 A. And as the largest consumer you would think 2 that that would have been something they would bring to 3 us. 4 Q. Okay. 5 A. Because my experience has been in Nevada the 6 energy came to us and asked us, how can we help you, how 7 can we improve your service to make sure customers in 8 the research park have the most successful service they 9 might have. 10 Q. In Nevada are the rural electric co-ops 11 regulated by state entity? 12 A. That I don't know. We were with a 13 municipality. 14 Q. So you are with a municipality but the rural 15 cooperatives approached you? 16 A. No. 17 Q. I'm unclear in your answer. 18 A. The company that serviced us with electricity 19 came to us and asked how they could help, and us being 20 successful not only in our own institution but in 21 economic development through our research park. 22 Q. Was your educational institution, what was the 23 name of that? 24 A. That it was a research institution called 25 Desert Research Institute.</p>

Page 395	Page 397
<p>1 Q. Were they a high load customer for that 2 municipality?</p> <p>3 A. I believe they were, I believe that.</p> <p>4 Q. Okay.</p> <p>5 A. But you may want to ask that of my 6 vice-president, Dr. McDaniel. He was there at the same 7 time, yes.</p> <p>8 Q. All right. Have you read the cost of service 9 study?</p> <p>10 A. No.</p> <p>11 Q. Now Tech spins off companies; correct? On 12 page 4 you testify about spinning off.</p> <p>13 A. We are in the process, yes.</p> <p>14 Q. Under --</p> <p>15 A. What page?</p> <p>16 Q. -- the Research Park Act? It was on page 4 17 you first mentioned spin-off. You may talk about them 18 as well.</p> <p>19 A. Okay.</p> <p>20 Q. It's line 15.</p> <p>21 A. On page 4.</p> <p>22 Q. Yes, sir.</p> <p>23 A. Okay.</p> <p>24 Q. So do you spin off those companies under the 25 Research Park Act?</p>	<p>1 businesses that are economically developing --</p> <p>2 A. No, I don't understand.</p> <p>3 Q. You don't?</p> <p>4 A. No.</p> <p>5 HEARING EXAMINER GLICK: Okay. Please don't 6 talk over one another.</p> <p>7 THE WITNESS: Sorry I'm doing that. I'm 8 sorry.</p> <p>9 HEARING EXAMINER GLICK: Dr. Wells, please 10 wait for her to finish her question.</p> <p>11 THE WITNESS: All right.</p> <p>12 BY MS. WILLIAMS:</p> <p>13 Q. So you don't understand that the economic 14 development rate is a subsidy to support economic 15 development in the community?</p> <p>16 A. Could I ask for clarification? What economic 17 development rate are we talking about?</p> <p>18 Q. The one you are proposing, Doctor.</p> <p>19 A. You have one? I don't have one.</p> <p>20 Q. And no -- sorry.</p> <p>21 A. I'll be quiet.</p> <p>22 Q. No one at your institution has developed or 23 proposed a particular economic development rate that 24 Tech believes should be proposed to the PRC?</p> <p>25 MR. ADAMS: I have to object. I don't believe</p>
Page 396	Page 398
<p>1 A. Yeah. We utilize the Research Park 2 Corporation, correct. If that's what you are asking. 3 Correct.</p> <p>4 Q. Yes, sir, that's what I am asking. 5 And under that act, it's -- Tech wants to 6 transfer technology to benefit private industry; right? 7 One of the purposes of the act?</p> <p>8 A. It's one of the many goals.</p> <p>9 Q. Yes. And you as president of New Mexico Tech 10 want those spin-offs to stay in the Socorro area; 11 correct?</p> <p>12 A. I think that would be a primary initiative, 13 yes, for us.</p> <p>14 Q. Okay. Is Tech willing to subsidize those 15 spin-offs with a special economic development rate to 16 have them stay in the area?</p> <p>17 A. Special economic development rate on what?</p> <p>18 Q. Electricity is what we are talking about 19 today. Sorry, Doctor.</p> <p>20 A. Oh, no, but I don't control that. The 21 electricity.</p> <p>22 Q. But you were proposing a special economic 23 development rate; correct?</p> <p>24 A. Oh, if that were provided by the co-op.</p> <p>25 Q. And you understand that that's a subsidy for</p>	<p>1 that there has been a particular economic development 2 rate. I think the question is misleading.</p> <p>3 MS. WILLIAMS: I'm asking if there is a 4 proposed economic development rate or if we are just 5 talking about a concept. That's what I'm trying to 6 discern.</p> <p>7 HEARING EXAMINER GLICK: I think there was 8 some confusion. I think the question is, has New Mexico 9 Tech proposed an economic development rate?</p> <p>10 MS. WILLIAMS: Yes, Madam Hearing Examiner.</p> <p>11 A. No.</p> <p>12 BY MS. WILLIAMS:</p> <p>13 Q. Does Tech have an alternative proposed rate 14 structure that meets the needs identified by Socorro 15 Electric Cooperative's cost of service study and Tech's 16 vision for the future?</p> <p>17 A. I believe that may be in our consultant's 18 report, Mr. Reyes.</p> <p>19 Q. Okay. And are you not able to testify about 20 that rate structure?</p> <p>21 A. No.</p> <p>22 Q. Is that question is better for him?</p> <p>23 A. For him.</p> <p>24 Q. What percentage of Tech graduates stay in the 25 Socorro area? I know that you have alumni information.</p>

Page 399	Page 401
<p>1 Four years after graduation or so.</p> <p>2 A. Probably can't give you that number off the</p> <p>3 top of my head, but a fair number stay on but I don't</p> <p>4 know the exact percent. We have in the state,</p> <p>5 approximately 50 percent of them stay in the state.</p> <p>6 Q. And do approximately 50 percent of Tech</p> <p>7 graduates stay in Socorro?</p> <p>8 A. No.</p> <p>9 Q. Okay. Is that something that your committee</p> <p>10 and leadership council is trying to change?</p> <p>11 A. We would like to see students, especially</p> <p>12 those students that have the opportunity to work with</p> <p>13 industry. I think there was one industry mentioned</p> <p>14 yesterday by Mayor Bhasker, Solera. Some of our</p> <p>15 students have worked for it, so the more local industry</p> <p>16 we have, the more opportunity for our students and the</p> <p>17 more opportunities we have for the spouses of our</p> <p>18 faculty.</p> <p>19 Q. I want to talk with you on page 10 about a</p> <p>20 business besides Solera which Mayor Bhasker testified</p> <p>21 about yesterday.</p> <p>22 A. Yes.</p> <p>23 Q. He referred to an unnamed steel plant. Do you</p> <p>24 recall his testimony?</p> <p>25 A. I do.</p>	<p>1 A. We are.</p> <p>2 Q. Okay. So it's something that you may --</p> <p>3 A. It's something no doubt we will come to the</p> <p>4 co-op on.</p> <p>5 Q. Do you have an understanding of their load</p> <p>6 needs?</p> <p>7 A. It's significant --</p> <p>8 Q. Right.</p> <p>9 A. -- but I don't know the exact amount.</p> <p>10 Q. In fact you indicate in your testimony that --</p> <p>11 or in the letter, Exhibit A to your testimony --</p> <p>12 A. Correct.</p> <p>13 Q. -- that the load needs were not cost effective</p> <p>14 or able to be provided in the Boston area.</p> <p>15 You can look at Exhibit A if you like.</p> <p>16 A. Yes. That was not my testimony, that was Dr.</p> <p>17 Romero.</p> <p>18 Q. Well, what I'm looking at is on Exhibit A the</p> <p>19 letter to you from Van Romero --</p> <p>20 A. Correct.</p> <p>21 Q. -- which says "it's not cost competitive to do</p> <p>22 the cost of electricity in the area," referring to the</p> <p>23 Boston area; correct?</p> <p>24 A. Yes, that sounds correct.</p> <p>25 Q. So it was -- it's a significant enough load</p>
Page 400	Page 402
<p>1 Q. Is that unnamed steel plant the facility that</p> <p>2 you are referring to in your testimony at page 10,</p> <p>3 starting at line 14, which is actually a smelting</p> <p>4 facility?</p> <p>5 A. It's a smelting operation. It's -- yeah.</p> <p>6 Q. Is it your understanding that Dr. -- that</p> <p>7 Mayor Bhasker was talking about this Boston</p> <p>8 Electrometallurgical Corporation?</p> <p>9 A. That's my interpretation, that it was Boston</p> <p>10 Electrometallurgical Corporation.</p> <p>11 Q. Is that information, the name of the company,</p> <p>12 proprietary as far as you understand?</p> <p>13 A. I don't know the conversations they might have</p> <p>14 had with the mayor regarding that. But it isn't for me,</p> <p>15 so no.</p> <p>16 Q. And that's why you were able to include it in</p> <p>17 your direct testimony?</p> <p>18 A. Correct, correct.</p> <p>19 Q. Did Tech work with Socorro Electric</p> <p>20 Cooperative to determine the capacity needs to serve</p> <p>21 that smelting plant?</p> <p>22 A. No, ma'am, we have not done that because we</p> <p>23 are not at the point of actually doing that yet.</p> <p>24 Q. Are you still talking with Boston</p> <p>25 Electrometallurgical Corporation?</p>	<p>1 that it's going to tax whatever provider of electricity</p> <p>2 services the area that Boston, I'll say BMC, will</p> <p>3 locate; correct?</p> <p>4 A. I can't say that it will tax them. It</p> <p>5 depends, but it's clearly a heavy load.</p> <p>6 Q. Okay. All right. And do you know how load</p> <p>7 factors are decided between the wholesaler and electric</p> <p>8 co-op and a customer?</p> <p>9 A. That's not my expertise, ma'am.</p> <p>10 Q. Okay. And you haven't gotten to the point</p> <p>11 where you have determined the cost to extend the</p> <p>12 facility that -- the Socorro Electric Co-op facility to</p> <p>13 service such a plant, have you?</p> <p>14 A. No, because this is a prototype scaling up of</p> <p>15 the small scale they have there. And so it probably</p> <p>16 will take somewhere in the order of four to five years</p> <p>17 to develop capital to do that.</p> <p>18 Q. Have you examined with this entity who you are</p> <p>19 looking to have bring economic development to your area,</p> <p>20 their infrastructure needs?</p> <p>21 A. There will be a point in time we will do that.</p> <p>22 Q. That you will do that. But that's in the</p> <p>23 future because you are still new in the talks.</p> <p>24 A. Correct, yes.</p> <p>25 Q. So there are several other elements of an</p>

Page 403	Page 405
<p>1 economic package that needs to be ironed out besides 2 electricity to bring BMC to the Socorro area. 3 A. I'm sure there are. 4 Q. Okay. Have you determined whether their rate 5 would be a standard rate for SEC, either under one of 6 the rates or -- 7 A. No, that's premature. 8 Q. Okay, all right. So you -- what you know 9 about, is it fair to say -- I don't want to put words in 10 your mouth -- what you know about this project you have 11 included in your testimony and the information in 12 Exhibit A? 13 A. Correct. There are proprietary things that I 14 can't talk about, about the operations. 15 Q. And I appreciate that. I won't ask you about 16 them, but this is about as far as you have gotten. You 17 still have four to five years for the company to develop 18 the capital before you need to talk about shovels in the 19 dirt kind of issues. 20 A. The dialogue continues, the efforts continue, 21 primarily through Dr. Romero. He is the point person. 22 Q. And is he still at Tech? 23 A. He is. 24 Q. Okay. Let's look at page 13, line 12. 25 A. All right. I'm there.</p>	<p>1 to me. 2 Q. Okay. And that wasn't with the September 27, 3 2018 meeting that's referred to on line 13, page 16, it 4 wasn't about economic development? 5 A. No, it was about rate increases, at which time 6 we told them we were in the middle of an energy audit 7 and this was not a good time to raise the rates for us. 8 Q. Can you tell us what the results of that 9 energy audit were? 10 A. That I'm going to have to defer to 11 Vice-president McDaniel -- 12 Q. Okay. 13 A. -- because he is overseeing that. I think we 14 are still in the process of that. It's not completed. 15 Q. Okay. So it take six months or so to -- I 16 mean, this is September -- 17 A. It takes a long time. 18 Q. A long time to do an energy audit? 19 A. Correct. 20 Q. Who is doing your energy audit? 21 A. I am going to look -- Ameresco? Ameresco. 22 Q. Okay. Appreciate it. 23 Do you know of any rural American communities 24 that have free electricity? 25 A. Not to my knowledge.</p>
Page 404	Page 406
<p>1 Q. Can you read the sentence starting with 2 "understanding." 3 A. "The impact of utility costs and any 4 associated increases to larger employers, such as New 5 Mexico Tech, is part of a shared responsibility for the 6 economic good of the community." 7 Q. Okay. And can you outline the meetings you 8 have had with Socorro Electric Cooperative to explain 9 how important rate increases are on the economic 10 development of Tech spin-offs? 11 A. I have not done that at this rate -- at this 12 point in time because what I've seen is evidence to 13 suggest that the co-op has not been supportive of 14 economic development in the community. 15 Q. Have you had specific conversations with 16 anyone at Tech -- I mean between Tech and Socorro 17 Electric regarding economic development rates and 18 possible economic development needs for Tech spin-offs? 19 A. Not at this point, to my knowledge. Now 20 others may have done that and I'm not aware. 21 Q. And I appreciate that. 22 A. Just to clarify. 23 Q. So you don't know if anybody on your 24 leadership council or your -- 25 A. They may have but they have not reported that</p>	<p>1 Q. Okay. What percentage of Tech -- 2 A. It's sort of like free education for all, but 3 that's another story. Go ahead. 4 Q. That's a different topic -- 5 A. That's a different topic. 6 Q. -- which you are able to opine about and we 7 are not here to discuss today. 8 What percentage of Tech's budget is the 9 electric costs? 10 A. I'm going to defer the specific answer to that 11 to Dr. McDaniel. 12 Q. Okay. 13 A. But it will be focused on the I&G portion of 14 that instruction and general funds. 15 Q. Do you have an understanding that it's less 16 than a percent or less than 2 percent? 17 A. To my knowledge, it's significantly above 18 that. 19 Q. Okay. But Dr. McDaniel is a better witness 20 for that? 21 A. He can tell you, but it's well above those 22 numbers. 23 Q. Do you view Socorro Electric Co-op as an 24 instrument of social change? 25 A. What? Could you define "social change"?</p>

Page 407	Page 409
<p>1 Q. Well, I'm referring to some information in one 2 of the articles that you attached -- 3 A. Uh-huh. 4 Q. -- to your -- to your testimony. Let me find 5 the exact one. I think it's the one called Co-ops. 6 If you look at the article that you've 7 attached. Did you read all these articles that you 8 attached? 9 A. I've gone through them. It's been a while 10 since I've gone back through them, but I have. 11 Q. I think it's this article called -- 12 A. I have Rural America is Losing Young People. 13 I have Strategies to Revitalize Rural America. 14 Q. This is Strategies for Revitalizing Rural 15 America. 16 A. Okay, correct. 17 Q. Now in that study -- that's a 2003 study; 18 correct? 19 A. Correct. 20 Q. Or compilation of articles. 21 A. Correct. 22 Q. And it's not really a study, is it, it's more 23 a compilation? 24 A. It's a compilation of articles. 25 Q. It doesn't cite research or provide any</p>	<p>1 A. Yeah, it could be. 2 Q. And I have read those seven strategies, and 3 strategy No. 1 -- 4 A. Could you refer to which page. 5 Q. It's the next page, is the first strategy. 6 There is a table of contents that lists at what pages 7 the strategies start on. 8 A. Okay, yes. 9 Q. Okay? I want to ask you about the first 10 strategy. And I read that and found no mention of the 11 word electricity or electric cooperative. 12 Do you want to verify that or -- 13 A. Do you -- do you want me to read this entire 14 strategy? 15 Q. I found that this had nothing to do with 16 electricity or electric cooperatives. 17 If you need to -- 18 A. No. 19 Q. -- read that to disagree I'm -- 20 A. If you will let me put that into context. 21 Q. Sure. 22 A. The context I was putting that in was economic 23 development for Socorro, and have the university as a 24 centerpiece, because the university represents something 25 unique to most rural communities in that it is highly</p>
Page 408	Page 410
<p>1 things -- 2 A. I'm sure each article is based on some form of 3 research. 4 Q. Are you familiar with the Rural Affairs 5 newsletter, the Center for Rural Affairs newsletter? 6 A. No, I'm not. 7 Q. So you don't -- 8 A. Excuse me, ma'am, I don't know. When you say 9 I don't know -- 10 Q. You are not familiar with the Center for Rural 11 Affairs newsletter? 12 A. That's correct. 13 Q. That's what I meant. 14 A. Okay. 15 Q. I apologize if my question was confusing or 16 short. 17 So this is a 16-year-old article. Have you 18 determined whether these factors are still concerns for 19 rural America? 20 A. Well, I know, having grown up in rural 21 America, going back to my home town we have lost young 22 people. 23 Q. Now this includes -- 24 A. That's the centerpiece of the discussion. 25 Q. This includes seven strategies; correct?</p>	<p>1 ranked, high tech, and is all the capability of spinning 2 out technologies, but to do that you need a workforce 3 and young people in that. And so this was one of the 4 emphasis I believe on this thing which was, this article 5 in particular, was not to lose young people. And so. 6 Q. Now, I've read through all of the strategies 7 which are entitled the rural, A Federal Rural Policy. 8 Strategy 2, Small Entrepreneurship; Strategy 9 3, Niche Marketing; Strategy 4, Land Grant Universities; 10 Strategy 5, Making Rural Communities Desirable Places To 11 Live; Strategy 6, A New Kind of Regional Cooperative, 12 and found no mention of the words electricity, the 13 topics or the words electricity or electrical co-ops. 14 A. I think I answered the question. The purpose 15 of this was to talk about the loss of youth in the 16 community and the significance of having economic 17 development to keep them there. 18 Q. So these aren't attached to your testimony -- 19 A. Yeah. 20 Q. -- as relevant to electricity or electric 21 co-ops, but to the development of an economic 22 development rate in a co-op that serves rural America? 23 A. It was -- in part of my testimony, which is 24 all about the significance of changing Socorro for an 25 innovation-based economy, which means you have young</p>

<p style="text-align: right;">Page 411</p> <p>1 people there.</p> <p>2 Q. And that is an issue in the Socorro community?</p> <p>3 A. It's an issue for many rural areas.</p> <p>4 Q. Yes?</p> <p>5 A. Yes, it is.</p> <p>6 Q. And I want to find that reference to</p> <p>7 cooperatives as agents of social change. I have it.</p> <p>8 A. Is it in that article?</p> <p>9 Q. It might be in that article. Yes, it's on</p> <p>10 page 17. The middle of the page, it's bold. Let me</p> <p>11 know when you are there.</p> <p>12 It's under Strategy A. And it talks about do</p> <p>13 you see that article, do you remember that this article</p> <p>14 talks about farm and ranch cooperatives?</p> <p>15 A. Correct.</p> <p>16 Q. Okay. And do you see the middle section the</p> <p>17 first bold, it says cooperatives can be effective</p> <p>18 instruments of social change?</p> <p>19 A. Yes, I do.</p> <p>20 Q. And I asked you before, do you consider</p> <p>21 Socorro Electric Cooperative an instrument of social</p> <p>22 change?</p> <p>23 A. I do not see any evidence of social change</p> <p>24 made by the co-op.</p> <p>25 Q. Okay.</p>	<p style="text-align: right;">Page 413</p> <p>1 significantly different to do that, and hence the focus</p> <p>2 on creating an innovation-based economy.</p> <p>3 Q. Have you done any study into the differences</p> <p>4 between rural electrical rates compared with urban</p> <p>5 electrical rates for residents, whether young or older?</p> <p>6 A. I have for university rates. For example, the</p> <p>7 rates for UNM's electric costs are three to four cents</p> <p>8 per kilowatt hour.</p> <p>9 Q. Because PNM serves them?</p> <p>10 A. Correct.</p> <p>11 Q. Do you know how many meters PNM has?</p> <p>12 A. No, I do not.</p> <p>13 Q. Would you agree it's significantly more than</p> <p>14 Socorro Electric Cooperative has?</p> <p>15 A. Most likely. But there is an economic factor</p> <p>16 for the university in that differential --</p> <p>17 Q. Sure.</p> <p>18 A. -- because they are large and we are small.</p> <p>19 Our student body is at most around 2,000 students, so</p> <p>20 you have to consider the scale of the institution as</p> <p>21 well.</p> <p>22 Q. I appreciate that.</p> <p>23 A. You understand where I'm going with that?</p> <p>24 Q. Yes. And we also have to appreciate the scale</p> <p>25 of Socorro Electric --</p>
<p style="text-align: right;">Page 412</p> <p>1 A. Other than the fact that they do give out</p> <p>2 scholarships, which is deeply appreciated by the</p> <p>3 community.</p> <p>4 Q. Okay, thank you.</p> <p>5 Let's look at the article that is not the</p> <p>6 first exhibit but the second that you've said Rural</p> <p>7 America is Losing Young People - Consequences and</p> <p>8 Solutions.</p> <p>9 This article also doesn't mention the cost of</p> <p>10 electricity as a factor in rural America losing young</p> <p>11 people, does it?</p> <p>12 A. Let me get there.</p> <p>13 Q. Sure. I apologize.</p> <p>14 A. Yes.</p> <p>15 Q. Are you there?</p> <p>16 A. I'm there.</p> <p>17 Q. Are you aware that this article doesn't</p> <p>18 mention the cost of electricity as a factor in rural</p> <p>19 America losing young people?</p> <p>20 A. I am. But I believe it does, if -- and I have</p> <p>21 to go back and look carefully, but I do believe it talks</p> <p>22 about drivers. But yes, it focuses on, again, what it</p> <p>23 takes in the community to create an economic environment</p> <p>24 that's appropriate for the growth.</p> <p>25 And clearly Socorro needs something</p>	<p style="text-align: right;">Page 414</p> <p>1 A. It's a two-way street, that's why I was</p> <p>2 bringing that up.</p> <p>3 Q. Thank you. We are on the same page. It's</p> <p>4 harder to be smaller sometimes --</p> <p>5 A. Well --</p> <p>6 Q. -- correct?</p> <p>7 A. You can be nimble, too.</p> <p>8 Q. That's true. One of these articles indicates</p> <p>9 that affordable electricity -- it's the next article</p> <p>10 after the strategies. Let me see.</p> <p>11 A. From the National Rural Electric Cooperative</p> <p>12 Association.</p> <p>13 Q. Yes, sir.</p> <p>14 A. Yes, ma'am.</p> <p>15 Q. Do you know how affordable energy is defined?</p> <p>16 A. I know how I would define it at a university.</p> <p>17 Q. How would you define it at a university?</p> <p>18 A. Something that doesn't require the</p> <p>19 subsidization levels that we have.</p> <p>20 Q. And you are objecting to subsidizing the</p> <p>21 Residential class of Socorro Electric?</p> <p>22 A. I understand there is always a degree of</p> <p>23 subsidization but ours is tremendous for a university,</p> <p>24 has no other way of addressing, as Mr. Herrera says in</p> <p>25 his comments, that Large Commercial could easily adapt</p>

<p style="text-align: right;">Page 415</p> <p>1 and take care of those kind of changes by adding -- by 2 taking a tax write-off or by doing something. 3 We can't do that. We are nonprofit. We are a 4 university, so that makes it very challenging for us. 5 And in particular, because over the past -- 6 from 2016 to 2018, our education in this state took 44 7 percent reduction in their I&G funding. So for a small 8 institution like that, that's tremendous. 9 And we have had multiple reductions since 10 2009. We are not even back to where we were at those 11 levels in terms of our basic operating effectiveness and 12 cost. In revenue from the state. 13 So it's a challenge for us to have additional 14 financial burdens placed on us. So that is part of 15 my -- the issue that I have. 16 Q. And you submit your budget to the State of New 17 Mexico as a state institution for your -- 18 A. Correct. 19 Q. -- utility benefits; right? 20 A. No. 21 Q. Utility costs? 22 A. The utility costs, and if I'm correct that was 23 removed from the funding formula in 2013. 24 Q. That's right. And that was a change that -- 25 A. Correct.</p>	<p style="text-align: right;">Page 417</p> <p>1 same change in funding formula; correct? 2 A. Well, from that aspect, yes. 3 Q. Okay. 4 A. I don't know if they share equally to NMT 5 because I don't know how their electric rates and 6 subsidization might impact, so I can't answer that for 7 the other institutions, to be quite honest. 8 Q. Let's talk just a little bit about how the 9 economic development rate that you are proposing, the 10 theoretical one -- 11 A. The concept. 12 Q. -- because we don't have any numbers, the 13 concept of it. How does that benefit the most rural, 14 low density areas served by Socorro Electric 15 Cooperative? 16 A. I would think that the rural area would be 17 benefited by having a thriving economy in the Socorro 18 area that could include the community. For example, 19 I've seen -- you just take example FaceBook, or large 20 data centers that come in because there is open space, 21 there is solar energy, there are opportunities to have 22 businesses come in and utilize that space. All that 23 drives the base economy of the region. 24 Q. Okay. 25 A. And so it seems to me that the rural people</p>
<p style="text-align: right;">Page 416</p> <p>1 Q. -- you indicate. 2 Did you have a chance to see the exhibits that 3 we were provided this morning in response to discovery 4 that we served on New Mexico Tech? 5 A. No. Oh, wait. Are you -- yes. You are 6 talking about the one provided by Dr. McDaniel? 7 Q. Yes, sir. 8 A. Yes. 9 Q. Have you had a chance to look at that? 10 A. Very briefly. 11 Q. And that exhibit indicates that since 2005 to 12 2019, in that time frame, you've requested a budget from 13 the state for energy costs. And only two years have you 14 been able to cover that energy cost with your first 15 request. Are you familiar with that? 16 A. I believe so. 17 Q. Yes. And the funding formula changed by the 18 state, I think you have just testified, put an 19 additional strain -- 20 A. It does. 21 Q. -- on your resources as an educational 22 institution. 23 A. It does. 24 Q. And all the educational institutions, public 25 educational institutions in the state suffer from that</p>	<p style="text-align: right;">Page 418</p> <p>1 would benefit from having a stronger economy. 2 Q. Now, looking at that -- that the co-op has to 3 balance the needs of people that live on a farm and the 4 people in the City of Socorro who work at the 5 university, do you see that there is an essential 6 tension between sometimes the needs and energy 7 requirements and costs that have to be divvied up with 8 those members? 9 A. Could you define "tension"? 10 Q. Well, you don't want to pay a subsidy and they 11 need a subsidy. That seems to me to create a tension 12 between them. 13 A. I do understand that certain levels of 14 subsidization makes sense. I understand that. But I 15 said I think ours is unreasonable. 16 Q. Have Tech or have you determined what level of 17 subsidization that Tech believes is acceptable? 18 A. I believe our consultant -- I'm going to look 19 over at Mr. Reyes -- has undertaken that. 20 Is that correct? 21 So he is able to address that. 22 Q. Okay. You have been at Tech for how long? 23 A. Three years. 24 Q. Three years. Okay. So you weren't at Tech in 25 2005 when Socorro Electric had a rate increase?</p>

Page 419	Page 421
<p>1 A. No.</p> <p>2 Q. Are you familiar -- are you aware that Tech</p> <p>3 didn't protest or intervene in that?</p> <p>4 A. No, I'm not aware of that.</p> <p>5 Q. And you weren't there in 2011 --</p> <p>6 A. Clearly not.</p> <p>7 Q. -- for the last one. So you are not aware</p> <p>8 that Tech did not intervene or protest.</p> <p>9 A. I don't know.</p> <p>10 Q. Okay. All right. Has Tech been approached by</p> <p>11 Socorro Electric Cooperative in order to see if Socorro</p> <p>12 Electric could provide internships for college students</p> <p>13 or help develop some skills that rural America might</p> <p>14 need?</p> <p>15 A. Not -- not to my knowledge in the past three</p> <p>16 years, no.</p> <p>17 Q. Okay. Have you talked with folks at Tech</p> <p>18 about the needs of the university and the spin-off</p> <p>19 incentive programs that might help those spin-offs stay</p> <p>20 in the area to create incentive packages with</p> <p>21 stakeholders in the community?</p> <p>22 A. Could you clarify that?</p> <p>23 Q. I can. Because that got to be a long</p> <p>24 question.</p> <p>25 Have you discussed with Socorro Electric the</p>	<p>1 (Witness excused.)</p> <p>2 HEARING EXAMINER GLICK: Mr. Adams or Ms.</p> <p>3 Loehr, you may call your next witness.</p> <p>4 MS. LOEHR: We call Dr. McDaniel.</p> <p>5 OLIN CLEVE McDANIEL, PhD,</p> <p>6 having been first duly sworn, testified as follows:</p> <p>7 DIRECT EXAMINATION</p> <p>8</p> <p>9 BY MS. LOEHR:</p> <p>10 Q. I'm handing you a notebook here with a</p> <p>11 document in it. Which is not marked yet.</p> <p>12 Would you please state your name and title for</p> <p>13 the record.</p> <p>14 A. Yes. My name is Olin Cleve McDaniel and I'm</p> <p>15 the Vice-president for Administration and Finance at New</p> <p>16 Mexico Tech.</p> <p>17 Q. And the -- did you prepare prefiled testimony</p> <p>18 in this case?</p> <p>19 A. I did.</p> <p>20 Q. And I showed you a document that's yet to be</p> <p>21 marked as an exhibit. Do you recognize it?</p> <p>22 A. I do.</p> <p>23 Q. What is it?</p> <p>24 A. It is my direct testimony before the New</p> <p>25 Mexico Public Regulation Commission.</p>
Page 420	Page 422
<p>1 possibility of providing incentive packages developed by</p> <p>2 stakeholders in the community to keep businesses in</p> <p>3 Socorro or bring businesses to Socorro?</p> <p>4 A. Ms. Williams, specifically talking about</p> <p>5 incentives related to electric costs?</p> <p>6 Q. Yes.</p> <p>7 A. No, because I didn't know those existed.</p> <p>8 Q. Okay. Have you approached them to see if some</p> <p>9 can be crafted or created to meet the needs of some of</p> <p>10 the businesses that you are spinning off or looking at?</p> <p>11 A. I have not, but in the future I have every</p> <p>12 intention of doing that.</p> <p>13 MS. WILLIAMS: Great, great.</p> <p>14 Can I have a moment?</p> <p>15 HEARING EXAMINER GLICK: Yes.</p> <p>16 MS. WILLIAMS: Thank you, President. I have</p> <p>17 no further questions.</p> <p>18 (Pause in proceedings.)</p> <p>19 THE WITNESS: Thank you.</p> <p>20 HEARING EXAMINER GLICK: Mr. Adams, do you</p> <p>21 have any redirect?</p> <p>22 MR. ADAMS: No, Madam Hearing Examiner.</p> <p>23 HEARING EXAMINER GLICK: Okay. Dr. Wells,</p> <p>24 thank you very much. You are excused.</p> <p>25 THE WITNESS: Thank you very much.</p>	<p>1 Q. Have you had a chance to review that?</p> <p>2 A. I have.</p> <p>3 Q. And does it appear to be a true and correct</p> <p>4 copy of the prefiled testimony?</p> <p>5 A. Yes, it does.</p> <p>6 Q. Have your opinions expressed in the prefiled</p> <p>7 testimony changed?</p> <p>8 A. They have not.</p> <p>9 Q. Would you like to make any corrections to it?</p> <p>10 A. No.</p> <p>11 Q. Just to elaborate a bit on the experience that</p> <p>12 you cite in your testimony, what is your experience in</p> <p>13 higher education finance and administration?</p> <p>14 A. Well, I've been a chief business officer,</p> <p>15 sometimes it's called the chief financial officer,</p> <p>16 sometimes chief operating officer, at multiple higher</p> <p>17 educations institutions. That includes University of</p> <p>18 Colorado, College Springs, as Dr. Wells mentioned, the</p> <p>19 Desert Research Institute in Reno, Nevada, the American</p> <p>20 University of Sharjah in the UAE, and I'm currently at</p> <p>21 New Mexico Tech.</p> <p>22 And I have actually higher education</p> <p>23 experience before those, but those are the significant</p> <p>24 ones that relate to this.</p> <p>25 MS. WILLIAMS: Madam Hearing Officer, this is</p>

Page 423	<p>1 covered in the direct. I don't think that we need to 2 reiterate today.</p> <p>3 HEARING EXAMINER GLICK: Sustained. 4 And in fact in my prehearing order I stated 5 that direct testimony would be limited to moving the 6 testimony into evidence.</p> <p>7 MS. LOEHR: I'm sorry, I was thinking I was 8 supplementing it. I offer the prefiled testimony into 9 evidence.</p> <p>10 HEARING EXAMINER GLICK: Is there any 11 objection? 12 Is this New Mexico Tech Exhibit 2? 13 MS. LOEHR: Yes it is. 14 HEARING EXAMINER GLICK: Okay. New Mexico 15 Tech Exhibit 2 is admitted. 16 (Admitted Tech Exhibit 2.) 17 MS. LOEHR: I tender the witness for 18 cross-examination. 19 HEARING EXAMINER GLICK: Ms. Williams? 20 MS. WILLIAMS: Yes, thank you. 21 CROSS EXAMINATION 22 23 BY MS. WILLIAMS: 24 Q. Good afternoon, Dr. McDaniel. 25 A. Good afternoon.</p>	Page 425	<p>1 of 2016? 2 A. I did. 3 Q. So about two and a half years ago? 4 A. A little more than that, yes. 5 Q. A little more, okay. Time flies, doesn't it? 6 A. It does. 7 Q. Before that you didn't live in New Mexico. 8 A. I did not. 9 Q. At the educational institutions that you 10 mentioned in your direct testimony, were any of those 11 served by a rural electric co-op? 12 A. Not that I'm aware of. 13 Q. Okay. So your first experience with a rural 14 electric co-op is in -- with Socorro Electric in your 15 job at Tech. 16 A. At least professionally, yes. 17 Q. Yes. Have you been a member of a rural 18 electric co-op before? 19 A. I have not. 20 Q. Okay. So you weren't in New Mexico when the 21 prior two rate increases were requested and granted to 22 Tech to Socorro Electric by the PRC; correct? 23 A. I was not. 24 Q. So you don't have any information about the 25 rates, the overall rates and percentages that were</p>
Page 424	<p>1 Q. I have some questions about your direct 2 testimony. 3 A. Okay. 4 Q. No surprise, I'm sure. 5 The purpose of your testimony is twofold; 6 correct, Doctor? 7 A. Yes, it is. 8 Q. And that is, you are testifying regarding the 9 financial impact of historic rates of Socorro Electric 10 could have on Tech; correct? 11 A. That is correct. 12 Q. And second, you testified on the potential 13 impact of proposed rates it might have on Tech; correct? 14 A. That is correct. 15 Q. Now based on your testimony, Tech is a 16 dissatisfied customer of SEC; correct? 17 A. I think I will defer to Dr. Wells, we are not 18 necessarily dissatisfied with the service provided, we 19 are concerned with the over-subsidization of the rates 20 historically and the impact that the future increases 21 will have on that and our overall utility costs. 22 Q. Okay. And you are the financial guy at Tech; 23 correct? 24 A. Financial and administration, both. 25 Q. And you started your job at Tech in November</p>	Page 426	<p>1 approved at those times? 2 A. No. Not directly. What I look at is the 3 overall impact on our budget, particularly the utility 4 component. 5 Q. What historic information have you looked at 6 to determine the historical impact on Tech at the rates 7 Socorro Electric have had? 8 A. I looked at historical rates from 2005 to the 9 present. 10 Q. Okay. 11 A. I've looked at those in comparison to total 12 utility costs. I've looked at in relation to that the 13 -- also our finances over that time period, such as our 14 appropriations, tuition levels, et cetera. 15 Q. So are you aware that in 2005 the PRC granted 16 a 7.47 percent increase overall to Socorro Electric 17 Co-op rates? 18 A. I recognize they granted the rate. I wasn't 19 sure it was -- 20 Q. You are aware in 2011 there was another rate 21 increase, since you were going back to 2005 -- 22 A. Yes. 23 Q. -- of 6.95 overall to all ratepayers for 24 Socorro Electric? 25 A. Again, I was aware of the rates but not the</p>

Page 427	<p>1 percentage.</p> <p>2 Q. And you are aware that in this proceeding that</p> <p>3 we are here for today, that Socorro Electric is</p> <p>4 proposing rate increase from the PRC of 5.06 percent</p> <p>5 overall?</p> <p>6 A. Yes.</p> <p>7 Q. Okay. And you are unaware of the reasons that</p> <p>8 Tech didn't intervene in the preceding two rate cases?</p> <p>9 A. No, I am not aware.</p> <p>10 Q. Okay. So looking at your credentials on page</p> <p>11 2, starting at line 8, your BA is in psychology;</p> <p>12 correct?</p> <p>13 A. That's correct.</p> <p>14 Q. And your MA is in behavioral sciences?</p> <p>15 A. That is correct.</p> <p>16 Q. And what's your specialty? Does it relate to</p> <p>17 energy evaluation or anything like that?</p> <p>18 A. Well, I think one has to look at my doctorate.</p> <p>19 Q. I am getting to that next.</p> <p>20 A. The others do not.</p> <p>21 Q. And your PhD is in higher education</p> <p>22 administration?</p> <p>23 A. That is correct.</p> <p>24 Q. How do you describe that specialty?</p> <p>25 A. Well, it's basically -- it's No. 1,</p>	Page 429	<p>1 for a cooperative?</p> <p>2 A. I have not.</p> <p>3 Q. Have you ever worked at an electric</p> <p>4 cooperative?</p> <p>5 A. I have not.</p> <p>6 Q. Okay. Have you ever developed a cost of</p> <p>7 service study for an electric cooperative?</p> <p>8 A. I have not.</p> <p>9 Q. Do you, in your job, look at cost of service</p> <p>10 studies regarding utility rates or other fixed costs</p> <p>11 that the university has to pay?</p> <p>12 A. I would say I don't look at those directly.</p> <p>13 At my -- at the level of the vice-president I look more</p> <p>14 at the impact of the overall rates on our budgets.</p> <p>15 Q. Well, since you have been at Tech, or in your</p> <p>16 previous employment, have you ever required a cost of</p> <p>17 service, a study to be done?</p> <p>18 A. No.</p> <p>19 Q. Have you ever participated in the</p> <p>20 deliberations of a cooperative board of directors in a</p> <p>21 rate proceeding like this before?</p> <p>22 A. I have not.</p> <p>23 Q. Do you go to the SEC board meetings as -- in</p> <p>24 your official capacity or as a member? Are you a member</p> <p>25 of the co-op?</p>
Page 428	<p>1 administration leadership, and it's basically preparing</p> <p>2 one to serve in the kind of role I'm in, a role that</p> <p>3 looks at the entire aspect of higher education.</p> <p>4 I also might add I had significant coursework</p> <p>5 in the six years I was in the program in public</p> <p>6 administration as well.</p> <p>7 Q. Okay. But you don't have training as an</p> <p>8 engineer?</p> <p>9 A. No, I do not.</p> <p>10 Q. And do you have training as an accountant?</p> <p>11 A. Well, I have financial accounting courses --</p> <p>12 Q. Okay.</p> <p>13 A. -- in public administration in my program.</p> <p>14 I'm not an accountant, per se, I'm a PhD.</p> <p>15 Q. And you are not a CPA, obviously?</p> <p>16 A. No, I'm not.</p> <p>17 Q. Or you would have those initials after your</p> <p>18 name; right?</p> <p>19 A. I would.</p> <p>20 Q. Okay. Before you moved to New Mexico, what</p> <p>21 experience did you have dealing with rural electric</p> <p>22 co-ops? Have we already covered that this is your first</p> <p>23 experience?</p> <p>24 A. We have covered that, yes.</p> <p>25 Q. Have you ever served on a board of directors</p>	Page 430	<p>1 A. I am a member because I live in Socorro as</p> <p>2 well.</p> <p>3 Q. Okay. Have you ever gone to the cooperative</p> <p>4 meetings?</p> <p>5 A. I have not.</p> <p>6 Q. Okay. And you are individually a member as</p> <p>7 well as in your role as vice-president?</p> <p>8 A. Yes.</p> <p>9 Q. Okay. Have you voted in Socorro elections,</p> <p>10 Socorro Electric Co-op elections?</p> <p>11 A. I have not.</p> <p>12 Q. On page 4 of your testimony, on line 1, you</p> <p>13 state what you believe the issues in this proceeding</p> <p>14 are; correct?</p> <p>15 A. That is correct.</p> <p>16 Q. And in your testimony you advocate that Tech</p> <p>17 does not want a rate increase; right?</p> <p>18 A. That is correct.</p> <p>19 Q. Due to the fact that the rates for Large</p> <p>20 Commercial class are currently providing the majority of</p> <p>21 the rate of return for the entire SEC base. That's what</p> <p>22 you testified to; correct?</p> <p>23 A. That is correct, yes.</p> <p>24 Q. So Tech doesn't want to subsidize the</p> <p>25 Residential members of the cooperative.</p>

<p style="text-align: right;">Page 431</p> <p>1 A. Again, I think it's not necessarily 2 subsidization, per se, it's a level of subsidization 3 that we are -- 4 Q. Have you determined what an acceptable level 5 of subsidization for the Residential class would be for 6 the Large Commercial consumers? 7 A. I would defer that to our consultants, Mr. 8 Reyes and -- 9 Q. Did you discuss that with him in the 10 development of your testimony or his testimony? 11 A. We have had some discussion, yes. 12 Q. In your testimony, Tech doesn't advocate for 13 an economic development rate, does it? 14 A. Not in my testimony. 15 Q. Okay. That was left to the testimony of 16 President Wells? 17 A. Yes. 18 Q. Okay. Then we can't talk about them, I think. 19 So page 4, line 18. You answer the question: 20 What effect will the rate increase have on New Mexico 21 Tech; correct? 22 A. That's correct. 23 Q. Is that a speculative answer because you are 24 forecasting? 25 A. Well, I'm looking at the entire QMA on that</p>	<p style="text-align: right;">Page 433</p> <p>1 Q. And your entire tenure at Tech has been under 2 the new system; correct? 3 A. It has. 4 Q. And you provided an exhibit this morning. Do 5 you have a copy of that? 6 I didn't have a chance, Madam Hearing 7 Examiner, to make copies because we just got it this 8 morning. 9 HEARING EXAMINER GLICK: Okay. 10 MS. WILLIAMS: And I just want to ask one or 11 two questions about that. 12 THE WITNESS: Sure. 13 BY MS. WILLIAMS: 14 Q. I only have the one copy. 15 You are familiar with this discovery that was 16 given to us this morning; right? 17 A. Very familiar as of yesterday. 18 Q. I bet you are. And you verified that this was 19 true and accurate information? 20 A. Yes. 21 Q. And it's a chart, and I'm happy to -- 22 May I approach the witness? 23 Do you need to see it? 24 A. I have a copy. 25 Q. Perfect. It shows utility costs for FY 2005</p>
<p style="text-align: right;">Page 432</p> <p>1 and basically what I was doing was showing the rate of 2 increase over a time period. It's basically 105.8 3 percent. I was comparing that to the rate increases by 4 contrast of natural gas during that same time period, 5 and that's only 16 percent. 6 Then I used the projection of what our rate 7 increase would be from the co-op itself. 8 Q. Are you aware that natural gas prices have 9 fallen significantly since 2005? 10 A. I am, yes. 11 Q. And so an increase in your consumption when 12 the rate has bottomed out means that there has been 13 actually an increase in use. 14 A. That's correct. However, my point here is 15 more comparing that the primary driver of our utility 16 increases when you look at all of our utilities, the 17 electrical increases. 18 Q. And when you came to the university the rate 19 change had happened in the state regarding utility costs 20 for educational institutions; correct? 21 A. I -- if you could clarify that, please. 22 Q. You were aware that there was a change in the 23 rate structure by what the state would provide to 24 educational institutions? 25 A. Yes.</p>	<p style="text-align: right;">Page 434</p> <p>1 to 2019 to date; correct? 2 A. Okay. I think maybe we are talking about a 3 different -- 4 Q. This is the one that we got this morning. 5 It's an attachment to the answer. 6 MS. LOEHR: If I may approach the witness, I 7 have a copy. 8 MS. WILLIAMS: Thank you, Ms. Loehr. I 9 appreciate that. 10 THE WITNESS: Yes, make sure we are on the 11 same page. 12 MS. LOEHR: Is this the one? 13 MS. WILLIAMS: That's the one, thank you. 14 Q. Mr. -- Dr. McDaniel, the document, I haven't 15 asked you to let me know when you are finished looking 16 at something to ask questions. I don't be mean to be 17 rude, I just thought that you looked prepared. 18 A. Actually, I was. I just wanted to make sure 19 we are looking at the same exhibit. 20 Q. We are now, because Ms. Loehr showed me. 21 Was this a document that you prepared or that 22 was prepared at your direction? 23 A. This was prepared at my direction. 24 Q. It shows the original budget that Tech 25 requested for utility costs for FY 2005 to 2019;</p>

<p style="text-align: right;">Page 435</p> <p>1 correct?</p> <p>2 A. Well, basically that is not necessarily what</p> <p>3 we requested. It's what we had budgeted.</p> <p>4 Q. What you had budgeted?</p> <p>5 A. Yes.</p> <p>6 Q. Is that the allocation that the state gave you</p> <p>7 as part of your funding --</p> <p>8 A. Yes.</p> <p>9 Q. -- formula for Tech during those years?</p> <p>10 A. Yes.</p> <p>11 Q. Okay.</p> <p>12 A. Although there may be some adjustments for</p> <p>13 internal, but --</p> <p>14 Q. And I understand that.</p> <p>15 A. But so far it is that number.</p> <p>16 Q. And you may have asked for more than what you</p> <p>17 were budgeted; correct? But this is what the state gave</p> <p>18 you.</p> <p>19 A. Well, yes, except again I think it's important</p> <p>20 to note that, particularly with the formula change,</p> <p>21 that's no longer something that's even requested.</p> <p>22 Q. Right. Right. But this chart shows when you</p> <p>23 look at electric costs and water, sewage and garbage,</p> <p>24 fuel and natural gas and propane, and including expense</p> <p>25 recovery you add back; right?</p>	<p style="text-align: right;">Page 437</p> <p>1 Q. Would you have to terminate faculty contracts</p> <p>2 and offer less classes?</p> <p>3 A. No, we would not.</p> <p>4 Q. Would you have to shrink facilities?</p> <p>5 A. No. With one caveat. When you add the rate</p> <p>6 increase, and this requires looking at more of the</p> <p>7 overall budget, we basically, because of other unfunded</p> <p>8 mandates, are showing about a \$150,000 deficit we will</p> <p>9 have to cover. We have not yet determined the exact --</p> <p>10 how we are going to do that.</p> <p>11 That's in our first, what they call budget</p> <p>12 adjustment revision that will have some impact on</p> <p>13 services and other things across the campus.</p> <p>14 Q. Now, in the past, since 2005 Tech has grown</p> <p>15 facilities pretty aggressively, hasn't it?</p> <p>16 A. Yes, it has.</p> <p>17 Q. And those facilities are electrified?</p> <p>18 A. They are.</p> <p>19 Q. And so there is a function of the university</p> <p>20 growing facilities and being able to offer more</p> <p>21 educational programs and services has caused you to use</p> <p>22 more electricity?</p> <p>23 A. That is true.</p> <p>24 Q. And your budget -- your electric budget has</p> <p>25 gone up?</p>
<p style="text-align: right;">Page 436</p> <p>1 A. Yes.</p> <p>2 Q. You still have a negative balance for 13 out</p> <p>3 of those 15 years; correct?</p> <p>4 A. That is correct.</p> <p>5 Q. And what do you do when you have a negative</p> <p>6 balance? Do you go back to the state before the funding</p> <p>7 formula changed or what -- how do you manage that as an</p> <p>8 educational institution?</p> <p>9 A. No. We have to find our own resources to make</p> <p>10 up the difference.</p> <p>11 Q. And when you find your own resources, you find</p> <p>12 those resources without jeopardizing the educational</p> <p>13 services, the basic mission of Tech; correct?</p> <p>14 A. We do our best to do that, yes.</p> <p>15 Q. Okay. And so would educational services</p> <p>16 provided by Tech be jeopardized solely by a proposed</p> <p>17 rate increase, this one that we are here today, if that</p> <p>18 went into effect?</p> <p>19 A. Again I think what we are showing here is that</p> <p>20 it's not just the current rate increase, it's the</p> <p>21 history of the rates, and we would add to that</p> <p>22 subsidization impact we discussed.</p> <p>23 Q. Okay. But you wouldn't have to turn students</p> <p>24 away if the SEC rate was approved by the PRC.</p> <p>25 A. No, we wouldn't.</p>	<p style="text-align: right;">Page 438</p> <p>1 A. Yes.</p> <p>2 Q. Okay. Have you used natural gas with the same</p> <p>3 aggressiveness in providing energy to your facilities?</p> <p>4 A. We have tried to increase the use of natural</p> <p>5 gas because it's lower cost.</p> <p>6 I would like to add one other comment as well.</p> <p>7 Q. Sure.</p> <p>8 A. I actually did a cost analysis from 2005 to</p> <p>9 the present on what would be the impact of those new</p> <p>10 buildings. I took it year by year.</p> <p>11 Q. Okay.</p> <p>12 A. I used the additional gross square footage as</p> <p>13 a percentage as a proxy of the energy costs.</p> <p>14 Q. Okay.</p> <p>15 A. Then I calculated what the rate, our costs</p> <p>16 would have been had we not had those buildings on line</p> <p>17 year by year. And what I determined -- then I took a</p> <p>18 ratio of those two costs and the impact of the new</p> <p>19 buildings and that 105, 106 percent increase is about</p> <p>20 18.3 percent.</p> <p>21 Q. Were you just using square feet on the ground</p> <p>22 or volume that had to be heated?</p> <p>23 A. Gross square feet.</p> <p>24 Q. Does that include volume? I'm not a math</p> <p>25 person.</p>

<p style="text-align: right;">Page 439</p> <p>1 A. It includes the usable and, quote, nonusable 2 portions of building. 3 Q. Okay. Does it include how much heated space 4 there is -- 5 A. Yes -- 6 Q. -- in a space? 7 A. -- the whole building basically. 8 Q. If the proposed rate increase is approved by 9 PRC, Tech would have to reallocate from funds without 10 affecting the critical mission, or trying not to affect 11 the critical mission of the institution, or can you 12 return to the legislature for more money? 13 A. No, not for utilities. 14 Q. And without the rate increase you already have 15 a deficit. 16 A. Yes. 17 Q. Okay. 18 A. That would simply add to that deficit by about 19 25 percent. 20 Q. Okay. So let's look at page 7, line 8. 21 That just is your discussion that you are 22 aware that in 2013 the state changed its funding formula 23 and that's adversely impacted your annual utility 24 deficit every year since then; correct? 25 A. Well, to the extent that they no longer</p>	<p style="text-align: right;">Page 441</p> <p>1 Q. Yes, sir? 2 A. I would say that we extrapolated what the 3 impact of using one-time money for a seven figure 4 deficit would be over 20 years. 5 And when you add cost increases for energy and 6 things like that, we were talking about over \$50 7 million, well over \$50 million of use of reserves that 8 simply is untenable for us. That would more than 9 deplete our reserves. 10 Q. Got it. And Tech is not alone in public 11 educational institutions in having to deal with this 12 issue created by the legislative change in funding 13 formula and rising energy costs; correct? 14 A. I would agree it's not alone. However, 15 President Wells mentioned, for example, the costs that 16 UNM pays, which is significantly less than what we pay. 17 So while I think there is an impact across all 18 institutions, it varies with the rates they are charged. 19 Q. There obviously is an advantage to being in an 20 urban environment served by an investor-owned utility 21 that has thousands and thousands and thousands of 22 meters; correct? 23 A. I think President Wells carefully agreed and 24 explained that. 25 Q. Yes.</p>
<p style="text-align: right;">Page 440</p> <p>1 consider increased square footage in the formula. 2 Q. Right. So how do you -- how have you dealt 3 with that problem in the past six years? 4 A. Well, I'll even go back before that. The 5 institution, keep in mind that tuition is our source for 6 covering gaps between what we get in state funding, it's 7 one of the elements of that. A major element. 8 And of course tuition is on the backs of the 9 students. So I can't confirm, but it looks to me like 10 the decision was to use one-time money to cover the 11 deficit for multiple years. 12 Q. At Tech specifically? 13 A. At Tech. Although we are now, as my testimony 14 shows, having to change that and eventually build money 15 into the base budget to cover our costs. 16 Q. And so you recognize that there is a financial 17 disadvantage to using one-time money to go into your 18 reserves to pay for things -- 19 A. Yes. 20 Q. -- including facilities, or including, in 21 Socorro Electric's case, capital credits. You need a 22 recurring source of revenue to meet your obligations -- 23 A. Yes. 24 Q. -- right? 25 A. I agree to that. I would even go beyond that.</p>	<p style="text-align: right;">Page 442</p> <p>1 A. Small is not good necessarily for economies of 2 scale for any institution. 3 Q. Sure, sure. So you -- have you already 4 requested from the legislature an increase in your base 5 budget before the proposed PRC decision regarding SEC's 6 electric -- 7 A. We did for an overall increase. I would say 8 we do it collectively through the Council of University 9 Presidents, we try to have a collective stance on that 10 every year. 11 Q. Does that council assist you in determining 12 how to cover the issues caused by the change in the 13 funding formula and the rising energy costs dealing with 14 your electric provider? 15 A. I think all those items are discussed in the 16 deliberations. I do go with the president to most of 17 the meetings, however we have other issues as well, such 18 as unfunded mandates, partial payments of our faculty 19 staff salaries. So there is a panoply of issues that we 20 do look at. 21 Q. And you are aware that there are other 22 educational institutions, I can think of two or three 23 right now, that are served by electric co-ops, for 24 example, Diné University, Navajo Technical University, 25 some of those smaller colleges that are run by other</p>

<p style="text-align: right;">Page 443</p> <p>1 public entities like the Navajo Nation that are facing 2 the same kind of problems as you. Do you work together 3 to figure out how to approach your utility or how to 4 address the issue caused by the confluence of all 5 these -- 6 A. I'm aware of that. I would say those 7 institutions you mentioned are not within the Council of 8 University Presidents. 9 Q. I thought Diné College was. 10 A. No, it's not. 11 Q. Okay. It used to be. 12 A. Primarily four years and research institutions 13 comprise -- 14 Q. So how did you reach, on page 5, starting at 15 line 4, your projection of the annual electric costs 16 increase of \$48,000? 17 A. That was actually provided to us by the co-op 18 when they met with us last September. 19 Q. Okay. And you had no reason to question that 20 information? 21 A. No. 22 Q. Okay. Now, I think that President Wells 23 punted this question to you. The estimated increase is 24 about 3 percent of Tech's 2018 total operating budget; 25 correct? Of \$159,762,364 according to your published</p>	<p style="text-align: right;">Page 445</p> <p>1 Q. And your primary mission is to educate New 2 Mexicans? 3 A. Yes. 4 Q. On page 6, line 1, in answering -- are you 5 there? I don't mean to hurry you. 6 A. I am. 7 Q. In answering this question about the rate No. 8 3 rate increase, you testified that the rate of return 9 would increase. 10 A. Yes. 11 Q. Can we agree that the rate increase and the 12 rate of return are not the same metric? 13 I was confused by your answer. 14 A. Yes. Actually the rate -- this is the rate of 15 return taken directly from page 6 of the table under Mr. 16 Herrera's testimony. 17 Q. I understand. But the question is, is the 18 rate increase justified, and then you gave a rate of 19 return answer. 20 A. Well, I think we are saying that the rate of 21 return reflects the subsidization levels. 22 Q. Okay. And so this answer focuses on your 23 objection to the level of subsidization by Large 24 Commercial users to the Residential class. 25 A. Basically, yes.</p>
<p style="text-align: right;">Page 444</p> <p>1 financial statements; right? 2 A. That is correct. However, I think Dr. Wells 3 also mentioned when we were looking at the impact of 4 this we have to look at what we call the instruction and 5 general budget. That is where the utility costs are 6 embedded. 7 Q. Instruction and general? 8 A. The I&G, yes. 9 Q. I&G. Okay. 10 A. And if you look at the ratios there, our total 11 utility budget, I'm using FY '20, about 4.1 million. 12 Our total instruction and general I&G budget is about 13 28.4 million. You take that ratio, it's 14.6 percent. 14 Q. Is the instruction budget funded by tuition, 15 does the tuition go into the I&G budget and is it 16 dedicated to instruction? 17 A. It's a portion of the budget, yes. 18 Q. Okay. 19 A. The primary drivers, though, are 20 appropriations and tuition. Some indirect cost 21 recovery. Quite frankly, we pool our resources and then 22 we allocate it. But I would say that tuition 23 historically is used for things like scholarships for 24 student support more heavily than our general 25 appropriation.</p>	<p style="text-align: right;">Page 446</p> <p>1 Q. Have you ever been in an environment where 2 there was an economic development rate provided by the 3 utility that serviced your educational institution? 4 A. Not directly, but I would again defer to Dr. 5 Wells's testimony. I was also with him at the Desert 6 Research Institute, as he mentioned, and there was 7 active cooperation in looking for ways to assist the 8 institution with its rate structure, including helping 9 us build solar arrays to bring our costs down. 10 Q. Okay, okay. And you are currently doing that? 11 A. Not solar arrays, per se. As Dr. Wells 12 mentioned, we are, I'd say the last quarter of the 13 energy audit preparation, we are in the financial 14 planning stage of that. We have our items we want to 15 fund in that identified. It's about \$12 million. 16 We still have -- we are going to go with 17 revenue bonds, and we are now moving into the financing 18 of that. We still have to take it to our board and it 19 has to go through the state. 20 Q. So there is still a long path ahead for that 21 project? 22 A. Well, long, but not compared as to as much 23 time as we have had to do for preparation. 24 Q. Appreciate that. I'm going to ask you a 25 question that's hard for me because I'm a lawyer, so I</p>

<p style="text-align: right;">Page 447</p> <p>1 can't do math. Will you bear with me? 2 A. I will do my best. 3 Q. You stated if the PRC approves the proposed 4 rate, that it would translate into a 25 percent impact. 5 A. Where is that? 6 Q. I think you said that. 7 A. No, I did not say that. 8 Q. Let me see where that is. Let me see where 9 that is. 10 So you don't recall saying that earlier? I 11 just misheard it? 12 A. No. 13 Q. Okay, I apologize. That made it easy, I 14 didn't have to do the math part. 15 But -- well, and this may be really obvious to 16 you in your position, but how does SEC's 1.65 percent 17 increase translate into an increase of more than that to 18 your budget? 19 A. I don't think it does lead to higher increase 20 to our budget. 21 Q. Okay. 22 A. Again, I think it's the -- the 25 percent was 23 based on if we have \$150,000 deficit, now I recall, and 24 we added \$48,000 to that, that's approaching \$200,000. 25 Q. I understand. So you are combining the money</p>	<p style="text-align: right;">Page 449</p> <p>1 A. 9,000 people versus 250,000 and 2 million, so 2 my guess is we would not be considered a high load 3 institution in either of those cities compared to the 4 other businesses in operations. 5 Q. That operate in that -- 6 A. Yes. 7 Q. -- in those environments, and they have all 8 those neon lights? 9 A. Definitely. Particularly Vegas. 10 MS. WILLIAMS: Thank you for your attention, 11 Doctor. That's all I have for you. 12 HEARING EXAMINER GLICK: Ms. Loehr, any 13 redirect? 14 MS. LOEHR: Yes, ma'am. 15 REDIRECT EXAMINATION 16 17 BY MS. LOEHR: 18 Q. I'd like to clear up the record on the 19 discussion on the utility costs, FY 2005 through 2019, 20 the exhibit that I handed you. 21 A. Yes. 22 Q. There was some discussion on budgeted amounts 23 for utilities, and I just want to have you explain what 24 that budget is, or how you came by that budget? 25 A. Okay. So I will use FY '20 as an example, if</p>
<p style="text-align: right;">Page 448</p> <p>1 that you are already in the hole, whatever, the deficit? 2 A. It's a percentage of the deficit, not total 3 cost. 4 Q. Got it. I think that's what -- 5 A. Yes. 6 Q. -- caught the attention. 7 Now, I also think that Dr. Wells punted 8 another question to you, but let me see if I can 9 remember what that was. I think we did the percentage 10 of the budget, we have already done that. And I think 11 the others went to Mr. Reyes. 12 A. I think there was one on would we have been a 13 high load institution in Reno. 14 Q. Yes, sir. That was in desert, the Desert 15 Research. 16 A. The Desert Research Institute. 17 Q. Yes, sir. 18 A. Well, of course Desert Research Institute has 19 two campuses. It has one in Reno and one in Las Vegas. 20 Smaller campus in Las Vegas. 21 My understanding of the high load is in part 22 the usage, but it's also relative to the other entities 23 in an area. And of course both Reno and Las Vegas are 24 significantly larger than Socorro. 25 Q. Correct.</p>	<p style="text-align: right;">Page 450</p> <p>1 I can. Again you see that the -- there is seven figures 2 1.1, 1.8, if you look at the -- that's actually 19, I'm 3 sorry, 621. So we are using actuals here, not 4 projections. 5 But if you look at that, and I think I 6 answered it more obliquely, that over time we cannot 7 continue to use one-time money. 8 So what we are doing, over five years, and I 9 did mention this in my testimony, because if you took -- 10 if we did that all at once, the impact on tuition would 11 be immense. 6 percent increase in tuition is about 12 \$550,000 net revenues. This would cause us to have to 13 triple tuition increases, assuming that's how we funded 14 it. 15 What we are trying to do over five years is 16 split this up, and then add some of what utility 17 increased costs might be, and basically try to find 18 money and build into the base budget approximately 19 \$250,000 a year until we have it fully covered in the 20 base budget. 21 Q. And the original budget amounts that you have 22 on this chart, are they actually funded directly by the 23 state? 24 A. No. Again, the top line, the 3 million is 25 what is budgeted, basically budgeted by the state, and</p>

Page 451	<p>1 even that includes some other funds. So --</p> <p>2 Q. And exactly can you describe what some of your</p> <p>3 unfunded mandates are that tuition increases have to</p> <p>4 cover?</p> <p>5 A. Yes. If I could go back to the \$515,000 I</p> <p>6 mentioned for FY '20 for our projected tuition increase,</p> <p>7 we have several unfunded mandates. I mentioned one</p> <p>8 earlier, but I will go into more detail.</p> <p>9 Under the instruction and general budget we</p> <p>10 were mandated across the board 4 percent salary increase</p> <p>11 for all of our full-time faculty and staff. The way the</p> <p>12 state now calculates it they give us slightly less than</p> <p>13 half of that money.</p> <p>14 So we have to find all of the balance, another</p> <p>15 50 plus percent, in our own monies. That, in and of</p> <p>16 itself, is \$654,000 for FY '20.</p> <p>17 On top of that, this year they now have</p> <p>18 mandated increasing minimum wage that starts at \$9 this</p> <p>19 year and over four years goes to 12 percent, that we</p> <p>20 have to find in our own funds as well.</p> <p>21 On top of that there was an increase in our</p> <p>22 employer benefits, and they paid approximately a little</p> <p>23 less than half of that as well.</p> <p>24 So the \$515,000 doesn't even cover the salary</p> <p>25 increases, much less the other unfunded mandates.</p>	Page 453	<p>1 over multiple years. We try to direct all we can to the</p> <p>2 academic mission, but there is no question when you look</p> <p>3 at that over time it does have an impact on what we are</p> <p>4 able to do within that mission.</p> <p>5 Q. So potentially programs aren't funded or other</p> <p>6 initiatives don't start up?</p> <p>7 MS. WILLIAMS: Objection, your Honor.</p> <p>8 Leading. He has answered this question.</p> <p>9 MS. LOEHR: I'm just expanding the testimony,</p> <p>10 developing it.</p> <p>11 HEARING EXAMINER GLICK: Sustained.</p> <p>12 And by the way, I'm letting you go over the</p> <p>13 five minutes because you didn't -- I think you hardly</p> <p>14 used any of your cross-examination time for Ms. Montoya.</p> <p>15 MS. LOEHR: Right, okay, thank you.</p> <p>16 Q. I just wanted to have you reiterate what the</p> <p>17 primary purposes of Tech are.</p> <p>18 A. Well, it's -- obviously we have a strong</p> <p>19 academic mission, we have a strong research mission, and</p> <p>20 with the arrival of Dr. Wells we now have a strong</p> <p>21 entrepreneurial mission, which includes economic</p> <p>22 development.</p> <p>23 MS. LOEHR: That's all I have. Thank you.</p> <p>24 HEARING EXAMINER GLICK: Okay.</p> <p>25 MS. WILLIAMS: Madam Hearing Examiner, do you</p>
Page 452	<p>1 Q. You may have alluded to this in your</p> <p>2 testimony, in your description in response to the cross</p> <p>3 questions, I want to make sure that you described over</p> <p>4 the years how your current appropriation from state</p> <p>5 compares to previous years.</p> <p>6 A. Yes. That's one of the factors why we had to</p> <p>7 raise tuition and why we have to find -- scramble for</p> <p>8 funds. Our 2020 appropriation level is approximately</p> <p>9 25.3 million, is actually only about \$300,000 over what</p> <p>10 our actual appropriation was in 2008.</p> <p>11 If you look at the impact of inflation, in</p> <p>12 other words net present value of funds, our</p> <p>13 appropriations, using the 2008 base year are actually</p> <p>14 only about what they were in real purchasing power in</p> <p>15 2006.</p> <p>16 If you use 2000 as a base, we -- actually our</p> <p>17 purchasing power for the current appropriation is less</p> <p>18 than it was in the year 2000.</p> <p>19 Q. And so when you try to cover these utility</p> <p>20 deficits you have to pull from other places. How has</p> <p>21 that impacted services to students and supporting</p> <p>22 faculty?</p> <p>23 A. Well, again, we have tried to minimize the</p> <p>24 impact on our academic mission in part, in the past, by</p> <p>25 using one-time money. Now trying to balance an increase</p>	Page 454	<p>1 go next or can I --</p> <p>2 HEARING EXAMINER GLICK: I don't have any for</p> <p>3 this witness.</p> <p>4 MS. WILLIAMS: I think I have five minutes,</p> <p>5 and I have some things to follow up on Ms. Loehr's</p> <p>6 questions.</p> <p>7 HEARING EXAMINER GLICK: Yes.</p> <p>8 RE-CROSS EXAMINATION</p> <p>9</p> <p>10 BY MS. WILLIAMS:</p> <p>11 Q. Dr. McDaniel, looking at the chart --</p> <p>12 And I don't know, do you want this marked as</p> <p>13 an exhibit, your Honor? We both used it and I don't</p> <p>14 know that you've seen it.</p> <p>15 HEARING EXAMINER GLICK: Only unless -- only</p> <p>16 if I can follow it by what's in the transcript. I don't</p> <p>17 need it to be moved as an exhibit, but it's up to you.</p> <p>18 MS. WILLIAMS: I don't have copies, so that's</p> <p>19 a problem for me, and I just don't want you to be</p> <p>20 hampered at the end by not having -- looking at what we</p> <p>21 are talking about.</p> <p>22 HEARING EXAMINER GLICK: Uh-huh. Maybe during</p> <p>23 the break I can go make copies, so maybe it would be a</p> <p>24 good idea to make it an exhibit after all.</p> <p>25 MS. WILLIAMS: Dr. McDaniel, I think we are</p>

Page 455	<p>1 going to mark the chart that we have talked about a 2 little, and Ms. Loehr also questioned you about, as 3 Exhibit 12. 4 (Marked SEC Exhibit 12.) 5 MS. WILLIAMS: This was created under your 6 direction and we want to move it as an exhibit. 7 THE WITNESS: Very good. 8 HEARING EXAMINER GLICK: Is there any 9 objection? 10 MR. BORMAN: No. 11 HEARING EXAMINER GLICK: Okay. SEC Exhibit 12 12 is admitted. 13 (Admitted SEC Exhibit 12.) 14 BY MS. WILLIAMS: 15 Q. Now your budget calculations in this chart 16 take into account cost recovery, don't they? 17 A. They do. 18 Q. And tell us what that includes. 19 A. Okay. That includes several things. It does 20 include, over three years, about 102,000 in capital 21 credits. That's a piece of it. But that's over three 22 years, so it's about having to make \$34,000 a year. 23 It also includes -- we have charge-backs for 24 non-I&G units such as auxiliaries, such as research, 25 such as tech, where we recapture some of the utility</p>	Page 457	<p>1 A. I'm basically aware of that when we installed 2 LED lights in some parking lots, et cetera. 3 Q. Did that go into your cost recovery figures, 4 the rebates, or not? 5 A. I assume it did, yes. 6 Q. That's where you would expect it as a 7 financial manager of the university? 8 A. Yes. 9 Q. Okay. And you mentioned that the idea of 10 tuition shock, raising tuition significantly in one 11 gulp, is not sensitive to the needs of your student 12 body? 13 A. Yes. It's not only not sensitive, but it 14 could lead to significant enrollment decline if we had 15 that kind of tuition shock. 16 Q. Are you aware that in -- the same concept is 17 employed by electric co-ops in rate shock concepts, that 18 you don't want to just bump a rate up completely? 19 A. Well, given my background I will extrapolate 20 that as an issue, yes. 21 Q. Okay, okay. Now the unfunded mandates, 22 Socorro Electric Cooperative has no part in the fact 23 that you have been saddled with some unfunded mandates; 24 correct? 25 A. No, they do not.</p>
Page 456	<p>1 costs, and that's the primary other driver. 2 Q. And so you are aware that Socorro Electric 3 Cooperative returns excess margins to Tech in the form 4 of capital credits? 5 A. Yes. 6 Q. And you have included that in your expense 7 recovery remarks to about 103,000 -- 8 A. \$102,000 over three years. 9 Q. Over three years, okay. 10 And in fact early December 2018, Jimmy Capps 11 from SEC delivered you a check personally, didn't he? 12 A. Not to me directly, no. 13 Q. I thought he handed it to you. 14 A. Unless it was in our meeting in September, I 15 don't recall that. 16 Q. Okay. But you are aware that those excess 17 margins go to the university in the form of capital 18 credits and help it offset some of the utility costs? 19 A. Yes. In fact if you notice, since we do 20 offset it, the deficits that we were talking about would 21 be even higher if we didn't include those. 22 Q. And you are also aware that Tech receives 23 rebates from Socorro Electric, in particular are you 24 aware of a \$13,050 rebate for an LED retrofit that Tech 25 accomplished?</p>	Page 458	<p>1 Q. And the increase in minimum wage, have you 2 calculated the effect that that will have on your 3 budget? 4 A. For FY '20 it's \$50,000. 5 Q. \$50,000? 6 A. But that will increase every year now because 7 we are moving from 9 to 12 percent over four years. 8 Now, we have some hope that maybe the state will fund 9 some or part or all of that, but we don't know that 10 right now. 11 Q. And so the increase in your 50,000 for 12 addressing the minimum wage issue is more than the 13 48,000 that to be an increase of the proposed rate 14 increase would have on the university. 15 A. That is correct. 16 MS. WILLIAMS: Okay, thanks. Appreciate it. 17 HEARING EXAMINER GLICK: Thank you, Dr. 18 McDaniel. You are excused. 19 (Witness excused.) 20 HEARING EXAMINER GLICK: Let's go ahead and 21 take a break and come back at 3:00. 22 We are off the record. 23 (Break taken.) 24 HEARING EXAMINER GLICK: Let's go on the 25 record.</p>

Page 459	Page 461
<p>1 And Mr. Adams, you may call your next witness. 2 MR. ADAMS: Ed Reyes. 3 EDWIN REYES, JR., 4 having been first duly sworn, testified as follows: 5 DIRECT EXAMINATION 6 7 BY MR. ADAMS: 8 Q. Hello, Mr. Reyes. 9 A. Hello. 10 Q. Would you please state your name and title for 11 the record. 12 A. Edwin Reyes, Junior, Principal Energy -- 13 Enchantment Energy Consulting, LLC. 14 Q. Did you prepare and file prefiled testimony in 15 this case? 16 A. Yes, I did. 17 Q. Do you have a document in front of you that 18 consists of your prefiled testimony? 19 A. Yes, I do. 20 Q. Is that prefiled -- that document appear to be 21 an accurate and complete copy of your prefiled 22 testimony? 23 A. Yes, it does. 24 Q. Have the opinions you expressed in your 25 prefiled testimony changed?</p>	<p>1 A. Yes, sir. 2 Q. Were your answers truthful? 3 A. Yes. 4 MR. ADAMS: I offer the prefiled rebuttal 5 testimony. 6 HEARING EXAMINER GLICK: Is there any 7 objection? Okay. Mr. Reyes rebuttal testimony is 8 admitted as New Mexico Tech Exhibit 4. 9 (Admitted Tech Exhibit 4.) 10 MR. ADAMS: I offer Mr. Reyes for cross. 11 HEARING EXAMINER GLICK: Ms. Williams? 12 MS. WILLIAMS: Yes, ma'am. 13 CROSS EXAMINATION 14 15 BY MS. WILLIAMS: 16 Q. Good afternoon, Mr. Reyes. 17 A. Good afternoon. 18 Q. I want to ask you -- oh, I forgot my book 19 which I don't think I can function without. 20 Mr. Reyes, looking at page 3, starting with 21 the question that begins on line 2 of your testimony, is 22 it fair to say that your experience is primarily with 23 electric marketing and wholesale power marketing? 24 A. No. 25 Q. No? You were an electric -- in electric</p>
Page 460	Page 462
<p>1 A. No, sir. 2 Q. If asked today, would your answers be the same 3 as they were in your prefiled testimony? 4 A. Yes, they would. 5 MR. ADAMS: I offer the prefiled testimony 6 into evidence. 7 HEARING EXAMINER GLICK: Is there any 8 objection? Okay. 9 The direct testimony of Mr. Reyes is admitted 10 as New Mexico Tech Exhibit 3. 11 (Admitted Tech Exhibit 3.) 12 MR. ADAMS: I tender the witness for cross. 13 HEARING EXAMINER GLICK: And did you want to 14 move into evidence his rebuttal testimony? 15 MR. ADAMS: Yes. Right. Thank you. 16 Q. Would you please look at your rebuttal 17 testimony? 18 A. Okay. 19 Q. Is that a fair and accurate copy of your 20 rebuttal testimony? 21 A. Yes, sir. 22 Q. Have the opinions you expressed in your 23 rebuttal prefiled testimony changed? 24 A. No. 25 Q. If asked would your answers be the same?</p>	<p>1 marketing for PNM for 14 years? 2 A. Seven years on retail side, seven years on the 3 wholesale side, and four years during strategic 4 transactions for PNM. Six years selling wholesale 5 solutions in energy conservation, energy demand response 6 across the country, as I led the west US operations for 7 Comverge. 8 In the last five and a half years have been as 9 a strategic consultant for several co-ops and munis 10 across the state and Colorado. 11 Q. So is it not fair to say that your experience 12 is primarily electric marketing and wholesale power 13 marketing based on the summarization of your 14 professional experience provided on page 3, line 12 of 15 your testimony? 16 A. I think if you read it fully then will you get 17 a better sense of my experience. 18 Q. Have you ever served on a board of trustees 19 for an electric co-op? 20 A. No, ma'am. 21 Q. Have you ever worked as an employee, not a 22 consultant, of an electric co-op? 23 A. No, ma'am. 24 Q. Have you ever developed a cost of service 25 study for an electric co-op in New Mexico?</p>

Page 463	<p>1 A. For a co-op?</p> <p>2 Q. Yes.</p> <p>3 A. No, ma'am.</p> <p>4 Q. Have you ever participated in the</p> <p>5 deliberations of a cooperative board of trustees in a</p> <p>6 rate proceeding such as this?</p> <p>7 A. Yes.</p> <p>8 Q. And tell me -- tell us about that.</p> <p>9 A. That was with Kit Carson Electric.</p> <p>10 Q. Kit Carson during their last rate increase?</p> <p>11 A. Yes, ma'am.</p> <p>12 Q. What was your role?</p> <p>13 A. We provided some consultation --</p> <p>14 Q. Were you -- excuse me.</p> <p>15 A. -- regarding strategies.</p> <p>16 Q. Were you opposing the rate increase or in</p> <p>17 favor of the rate increase?</p> <p>18 A. We were consulting and providing advice to Kit</p> <p>19 Carson.</p> <p>20 Q. In pursuit of having PRC award them a rate</p> <p>21 increase?</p> <p>22 A. We were working for Kit Carson.</p> <p>23 Q. Got it, thank you.</p> <p>24 Do you have direct experience working for a</p> <p>25 cooperative board?</p>	Page 465	<p>1 Tri-State.</p> <p>2 Q. And are they not members of Tri-State at the</p> <p>3 present?</p> <p>4 A. They are no longer members of Tri-State as of</p> <p>5 June 30 of 2016.</p> <p>6 Q. Okay. And did you testify in the rate</p> <p>7 increase proceedings?</p> <p>8 A. No, ma'am.</p> <p>9 Q. Have you ever testified in a PRC proceeding</p> <p>10 before?</p> <p>11 A. Yes, ma'am.</p> <p>12 Q. In what capacity and for whom?</p> <p>13 A. For Comverge, in support of continuation of</p> <p>14 the energy efficiency programs. And for City of Las</p> <p>15 Cruces in Doña Ana County in opposition of continuation</p> <p>16 of their fuel and purchase power adjustment.</p> <p>17 Q. Okay. And I know that you said that you've</p> <p>18 never developed a cost of service study for an electric</p> <p>19 co-op in New Mexico. Have you ever been involved in the</p> <p>20 development of a cost of service study for a co-op in</p> <p>21 New Mexico?</p> <p>22 A. Yes. Over the 14 years at PNM I was involved</p> <p>23 in five different rate cases.</p> <p>24 Q. What was your role in developing the cost of</p> <p>25 service study?</p>
Page 464	<p>1 A. Yes, ma'am.</p> <p>2 Q. As an employee or as a consultant?</p> <p>3 A. As a consultant.</p> <p>4 Q. Okay. And tell me what co-ops in New Mexico</p> <p>5 that you have worked with as a consultant.</p> <p>6 A. Kit Carson Electric Co-op.</p> <p>7 Q. Yes.</p> <p>8 A. And Jemez Mountain.</p> <p>9 Q. What was the scope of services you provided</p> <p>10 for Jemez Mountain?</p> <p>11 A. Jemez Mountain, we did a strategic analysis on</p> <p>12 their wholesale power provision.</p> <p>13 Q. Did they get their wholesale power from</p> <p>14 Tri-State?</p> <p>15 A. Yes, ma'am.</p> <p>16 Q. Did they continue after your strategic</p> <p>17 analysis to get their power from Tri-State?</p> <p>18 A. Yes, they do.</p> <p>19 Q. And was the scope of work that you did for Kit</p> <p>20 Carson the consulting during the rate proceeding that</p> <p>21 they had, or have you done other work for them?</p> <p>22 A. We did other work for them.</p> <p>23 Q. And what would that scope of work be?</p> <p>24 A. We were some of the primary architects to help</p> <p>25 them with their negotiations to exit the membership of</p>	Page 466	<p>1 A. We primarily worked with, on the customer</p> <p>2 side, bringing data in and load forecasting.</p> <p>3 Q. So did you provide the raw data that Mr.</p> <p>4 Proctor indicated that goes into consideration of</p> <p>5 developing the cost of service study?</p> <p>6 A. Much of it. Load and -- load and other</p> <p>7 service data.</p> <p>8 Q. For PNM?</p> <p>9 A. For PNM.</p> <p>10 Q. And IOU?</p> <p>11 A. Uh-huh.</p> <p>12 Q. Okay. And you're consulting with Tech in the</p> <p>13 current case.</p> <p>14 A. Yes, ma'am.</p> <p>15 Q. And they are in the Large Commercial rate</p> <p>16 class as a member of SEC?</p> <p>17 A. Tech has, I forget exactly how many accounts,</p> <p>18 but probably close to 60 or so. I'm sure that someone</p> <p>19 could --</p> <p>20 Q. But they are rate 1 and rate 3; correct?</p> <p>21 A. They have general service, general commercial</p> <p>22 service customers, accounts and then they have Large</p> <p>23 Commercial accounts.</p> <p>24 Q. So which of the new rates will they be part</p> <p>25 of?</p>

<p style="text-align: right;">Page 467</p> <p>1 A. Both --</p> <p>2 Q. Well --</p> <p>3 A. -- 1 and 3.</p> <p>4 Q. -- there is a couple --</p> <p>5 A. 1 and 3.</p> <p>6 Q. And not the other classes, Small Commercial,</p> <p>7 they don't have any --</p> <p>8 A. They don't have Residential.</p> <p>9 Q. We both can't talk at the same time or Allison</p> <p>10 is going to get mad at us.</p> <p>11 THE REPORTER: Yes.</p> <p>12 Q. I will finish my question and I'll let you</p> <p>13 finish your answer. I know it's hard because we both</p> <p>14 have things we want to get done.</p> <p>15 HEARING EXAMINER GLICK: I'm going to</p> <p>16 interrupt for a minute just because I thought you said</p> <p>17 one of the rates that Tech takes service under is</p> <p>18 General Service; is that right?</p> <p>19 THE WITNESS: Correct.</p> <p>20 HEARING EXAMINER GLICK: That's Small</p> <p>21 Commercial; right?</p> <p>22 THE WITNESS: Well, currently it's General</p> <p>23 Service, because there is only the one rate for</p> <p>24 Residential. I mean, that's why they were breaking it</p> <p>25 up. They were proposing to break up the rate. At any</p>	<p style="text-align: right;">Page 469</p> <p>1 Q. Have you ever developed a revenue requirement</p> <p>2 for an electric cooperative in a rate proceeding?</p> <p>3 A. Not for the electric cooperative, no.</p> <p>4 Q. Okay. And can you just describe the process</p> <p>5 for determining the overall amount of revenue that a</p> <p>6 cooperative needs to meet its financial requirements?</p> <p>7 A. Should I reiterate what they went through for</p> <p>8 the -- that Justin Proctor went through, or would you</p> <p>9 like my interpretation?</p> <p>10 Q. Can you describe the process?</p> <p>11 A. You review all the past costs, and you review</p> <p>12 your future projections and load forecast, you review</p> <p>13 the debt costs. You review your cap structure. And put</p> <p>14 it into a black box and that will produce a revenue</p> <p>15 requirement.</p> <p>16 Q. And you have never done that before for an</p> <p>17 electric co-op, have you?</p> <p>18 A. Not for a co-op. Like I said, I was very</p> <p>19 involved in doing it with PNM.</p> <p>20 Q. Doing the data collection?</p> <p>21 A. Doing data collection and working on.</p> <p>22 Q. And Load Management?</p> <p>23 A. And --</p> <p>24 HEARING EXAMINER GLICK: Let him finish.</p> <p>25 MS. WILLIAMS: I'm sorry.</p>
<p style="text-align: right;">Page 468</p> <p>1 rate it's General Service, it's the Small Commercial</p> <p>2 rate and also Large Commercial rate.</p> <p>3 HEARING EXAMINER GLICK: Okay, thank you.</p> <p>4 BY MS. WILLIAMS:</p> <p>5 Q. Mr. Reyes, are you a member of SEC?</p> <p>6 A. No, ma'am.</p> <p>7 Q. Are you a member of any electric co-op?</p> <p>8 A. I am a member of Farmers Electric.</p> <p>9 Q. Where is their service area?</p> <p>10 A. It is Curry County, Guadalupe County, San</p> <p>11 Miguel County. Where else? I think -- Santa Rosa,</p> <p>12 Clovis, Tucumcari, Conchas Lake --</p> <p>13 Q. Big service area --</p> <p>14 A. -- Logan.</p> <p>15 Yes.</p> <p>16 Q. Low density?</p> <p>17 A. Fairly low density, yes, ma'am.</p> <p>18 Q. Have you ever served on the board of trustees</p> <p>19 of an electric co-op?</p> <p>20 A. I already answered that question. No.</p> <p>21 Q. Have you ever gone to co-op meetings as a</p> <p>22 member?</p> <p>23 A. Yes, ma'am.</p> <p>24 Q. Have you voted in co-op elections as a member?</p> <p>25 A. Yes.</p>	<p style="text-align: right;">Page 470</p> <p>1 A. And working on the revenue requirements.</p> <p>2 Q. Do you agree that the board of trustees of SEC</p> <p>3 like any co-op has a duty to ensure the co-op maintain</p> <p>4 its financial condition?</p> <p>5 A. I believe that's what they swear to when they</p> <p>6 are elected co-op president.</p> <p>7 Q. Do you agree that a board has responsibility</p> <p>8 to set financial objectives for the cooperative and work</p> <p>9 to achieve those objectives?</p> <p>10 A. I believe that they are supposed to set</p> <p>11 reasonable objectives for financial performance of the</p> <p>12 co-op to maintain health.</p> <p>13 Q. As a member-owned, not-for-profit company,</p> <p>14 does SEC have any incentive to earn a margin that is</p> <p>15 higher than absolutely necessary to meet its</p> <p>16 requirement?</p> <p>17 A. Does who have an incentive?</p> <p>18 Q. The board of Socorro Electric Cooperative.</p> <p>19 A. If the board of Socorro Electric Cooperative</p> <p>20 wants to continue to be on the board, then they probably</p> <p>21 have to keep their membership that's in their particular</p> <p>22 district happy, so I would imagine that that would be an</p> <p>23 ample incentive.</p> <p>24 Q. Have you proposed any analysis of SEC's cash</p> <p>25 requirements to reflect projected capital requirements</p>

<p style="text-align: right;">Page 471</p> <p>1 equity position and capital credit retirements that 2 benefit the members of the co-op? 3 A. Have I done the cash projection? 4 Q. Yes. Have you done -- 5 A. I have reviewed the cash projections that are 6 in the cost of service study. 7 Q. Have you prepared an analysis of the cash 8 projections to reflect the projected capital 9 requirements, the equity position, and the capital 10 credit retirements that the board has described? 11 A. I'm relying on the cost of service study -- 12 Q. Okay. 13 A. -- that was done. 14 Q. So you haven't determined whether the revenue 15 produced under the current rates is sufficient to meet 16 SEC's cash requirements yourself. 17 A. I -- what I determined was that the revenue 18 requirements that were requested seemed to be in excess 19 of the coverage that they need to be able to fulfill 20 their obligations under their RUS, CFC and CoBank -- 21 Q. And what do you base -- 22 A. -- debt. 23 HEARING EXAMINER GLICK: Let him finish. 24 A. Based on their TIER ratio. 25 BY MS. WILLIAMS:</p>	<p style="text-align: right;">Page 473</p> <p>1 money for that money today for things that you were 2 going to go try to charge for tomorrow. 3 Q. Your assessment that SEC doesn't need any 4 additional rate revenue is based on what metric? 5 A. Say that again. 6 Q. Your assessment that SEC doesn't need any 7 additional rate revenue is based on what metric? 8 A. Well, their rate of return is currently 9 4.18 -- or 8.18, I'm sorry, almost 5 percent, and as a 10 nonprofit organization I believe that that's adequate. 11 Q. So your assessment is based entirely on review 12 of the rate of return metric and the TIER metric; is 13 that correct? 14 A. That is -- those are foundations of my 15 analysis and my assessment, yes. 16 Q. Okay. And that -- does that reflect that the 17 subsidy between rate classes is being reduced in the 18 proposed rate increase? 19 A. I'm going to have to -- I'm going to have to 20 disagree that it's being reduced. If you look at the -- 21 if you look at page 6, the table on page 6 of Mr. 22 Herrera's testimony, the only reason that the relative 23 rates of return are being reduced is because they 24 generate a return for the entire enterprise that is 25 going up by 2.4 percent. But if you look at all of the</p>
<p style="text-align: right;">Page 472</p> <p>1 Q. And you are testifying to that because their 2 TIER ratios exceed the minimum described by either 3 lenders or RUS but that they are excessive? 4 A. That they are in excess of the minimums 5 required to maintain under their obligations under their 6 debt. They have -- they have several debt facilities 7 and all of them have requirements and they are meeting 8 all of those requirements. 9 Q. So you haven't done an independent analysis of 10 whether the revenue produced under the current rates is 11 sufficient to meet the co-op's cash requirements. 12 A. I am relying on the cost of service study to 13 look at the cash requirements that they have reported in 14 the cost of service study and I don't agree that they 15 need as much cash as they seem to believe that they 16 need. 17 Q. Okay. 18 A. The cost of service study also imputes future 19 CapEx needs that are not current costs. In a rate 20 proceeding in New Mexico the way I have always 21 understood it and the way we always did it at the IOU, 22 you are there to recapture costs that weren't being 23 captured in your current rate structure, not because you 24 had some projection of things that you wanted to go 25 spend money on, and you were going to go start earning</p>	<p style="text-align: right;">Page 474</p> <p>1 rate classes that currently have a negative rate of 2 return, individually, none of those are receiving the 3 same increase in the rate of return as those customers 4 who already have a positive rate of return. 5 Q. And are you -- 6 A. And the difference between the distance 7 between the average, system average that they are 8 proposing, and each rate class has gotten larger in the 9 negative direction for those who are already negative, 10 and has gotten larger in the positive direction for 11 those that were already positive. 12 So do I believe that there is an increased 13 subsidization? Yes. 14 Q. And that's -- that's based on your ROR metric? 15 A. It's not my ROR metric, it was in Joseph's 16 testimony. 17 Q. Are you familiar with the metric RROR? 18 A. Yeah, relative rate of return, yes, ma'am. 19 Q. Is that the metric that you used or did you 20 just use ROR? 21 A. I used both of them. 22 Q. And you understand that the ROR is the margin 23 plus the interest divided by the base rate for a class? 24 A. Yes, I'm very familiar with that. 25 Q. What's the relative rate of return?</p>

<p style="text-align: right;">Page 475</p> <p>1 A. You divide the enterprise rate of return -- 2 I'm sorry, you divide the individual class rate of 3 return by the enterprise rate of return, which means 4 that if you raise the enterprise rate of return high 5 enough, then all of the rates of return will get closer 6 to 1. 7 Q. And you are aware that the rates for a 8 cooperative are not determined based on a specific ROR 9 TIER coverage; right? 10 A. They are not based on a -- they are based on a 11 lot of -- apparently what's common across the country, 12 there is -- that was the previous testimony I heard from 13 one of the other witnesses. 14 Q. So are you aware they are not determined based 15 on a specified ROR or TIER coverage rate -- 16 A. That is correct. 17 Q. -- that they can span a range? Does the RROR 18 for the cost of service class proposed by SEC move 19 closer to 1 for all rate classes than the current does? 20 Rates do. 21 A. Yes. 22 Q. Okay. Have you looked at Proctor Exhibits H-1 23 and -2? 24 A. I'm sure I have. 25 Q. They should be there in that book, the biggest</p>	<p style="text-align: right;">Page 477</p> <p>1 budget? 2 A. Yes. 3 Q. Have you considered that in any aspect of your 4 analysis? 5 A. No, I haven't. Because it's not in the cost 6 of service study. It's included -- I'm assuming it's 7 included in the cost of service study with the 8 adjustments because they are funding -- they are trying 9 to fund through this increase additional allocations and 10 distributions of capital credits, even to customers 11 whose rate classes are producing zero margin or negative 12 margins. 13 Q. Okay. Let's look at page 2, lines 12 through 14 18 of your testimony. Let me know when you have had a 15 chance to -- 16 A. I'm sorry, which page? 17 Q. Page 2. 18 A. Okay. 19 Q. And the question beginning on 11, your answer 20 begins on 12. 21 A. Uh-huh, yes. 22 Q. You recommend that the proposed rate design 23 has your client, Tech, subsidizing Residential members of 24 SEC and you don't recommend that subsidy; correct? 25 A. I don't recommend that the subsidy needs to be</p>
<p style="text-align: right;">Page 476</p> <p>1 book, Mr. Reyes. If you have it in your own book, 2 that's fine. 3 A. Can you tell me what page it is in the 4 exhibit. 5 Q. You know what, I can get it for you. 6 HEARING EXAMINER GLICK: It's 132. 7 MS. WILLIAMS: Thank you. 8 THE WITNESS: 132. 9 HEARING EXAMINER GLICK: And 135. 10 BY MS. WILLIAMS: 11 Q. Have you had a chance to look at those? Let 12 me know, Mr. Proctor -- I mean Mr. Reyes when you have 13 looked at Mr. Proctor's exhibits. 14 A. Yes. 15 Q. Okay. The proposed rate -- the proposed rate 16 decrease RROR, don't they? 17 A. Yes. 18 Q. You know that SEC returns excess margins to 19 your client Tech in the form of capital credits; right? 20 A. Yes. 21 Q. And you just heard Dr. McDaniel testify that 22 in the past three years Tech has received \$102,000 or so 23 in capital credits. 24 A. Yes. 25 Q. That have gone to their cost expense recovery</p>	<p style="text-align: right;">Page 478</p> <p>1 as large as it is or continues or needs to be larger 2 than it currently is. 3 Q. Okay. Have you developed -- I think that Dr. 4 Wells directed this question that I had for him to you. 5 Have you developed for Tech an acceptable level of 6 subsidization of the Residential class? 7 A. No. We didn't produce a specific 8 recommendation. 9 Q. Okay. 10 A. I produced a specific recommendation in my 11 testimony. 12 Q. You did, or you did not? I just misheard you. 13 A. If you read the answer later in my testimony I 14 have a very specific recommendation for the overall rate 15 adjustments. 16 Q. And but that doesn't include an acceptable 17 level of subsidization that Tech would recommend? 18 A. It doesn't explicitly lay out an acceptable 19 subsidy recommendation, that is correct. 20 Q. And you believe -- sorry, I didn't mean to 21 interrupt. 22 A. That's correct. 23 Q. You do believe that the Commission should 24 order SEC to reduce the electric rates to commercial 25 customers to promote economic development opportunity;</p>

<p style="text-align: right;">Page 479</p> <p>1 correct?</p> <p>2 A. Yes, I do.</p> <p>3 Q. Are you familiar with economic development</p> <p>4 rates? Have they been in effect in any of the</p> <p>5 cooperatives that you have consulted with?</p> <p>6 A. Yes. And I'm very familiar with economic</p> <p>7 development rates because we had one for about 15 years</p> <p>8 when I was at PNM, and the current economic development</p> <p>9 rate that is available to SEC, which has not been turned</p> <p>10 in to an SEC economic development rate is the economic</p> <p>11 development rate, I believe it's LDRNM 1, that is from</p> <p>12 Tri-State, which was just released, or just put through</p> <p>13 their Advice Notice No. -- I want to say it was 29, I'm</p> <p>14 not positive. Which was a new rate.</p> <p>15 They canceled the two previous economic and</p> <p>16 load retention rates and put in a new one and the new</p> <p>17 rate essentially says that if you have an economic</p> <p>18 opportunity, economic development or load retention</p> <p>19 opportunity, that call us and we will see if we can work</p> <p>20 out a deal.</p> <p>21 Q. And that's a Tri-State policy?</p> <p>22 A. That is the Tri-State rate that is offered to</p> <p>23 SEC. SEC has not turned that rate into an SEC offered</p> <p>24 rate.</p> <p>25 Q. When did you work for Kit Carson as a</p>	<p style="text-align: right;">Page 481</p> <p>1 A. It's not any discovery. All I can tell you is</p> <p>2 that the way that FaceBook was attracted to New Mexico</p> <p>3 was through a very innovative economic rate development</p> <p>4 process that they went through. And that's what --</p> <p>5 that's one of the key factors that brought them here.</p> <p>6 Q. And that does not involve any participation by</p> <p>7 any rural electric co-op does it because Los Lunas and</p> <p>8 Albuquerque are served by PNM?</p> <p>9 A. It involves the utility that has jurisdiction</p> <p>10 for service in that specific territory.</p> <p>11 Q. And that's an IOU?</p> <p>12 A. It involves the utility in that service area</p> <p>13 that has the jurisdiction in that service territory.</p> <p>14 Q. You didn't specifically recommend the</p> <p>15 establishment of an economic development rate in your</p> <p>16 testimony, did you?</p> <p>17 A. In my rebuttal, I believe.</p> <p>18 Q. Let's talk about your direct, then we will go</p> <p>19 into your rebuttal.</p> <p>20 A. Okay. No, I did not.</p> <p>21 Q. Okay. And an economic development rate is a</p> <p>22 subsidized rate, isn't it?</p> <p>23 A. No.</p> <p>24 Q. The other members don't pay more so that the</p> <p>25 economic development rate can be less?</p>
<p style="text-align: right;">Page 480</p> <p>1 consultant?</p> <p>2 A. From 2014 to current.</p> <p>3 Q. Do they have an economic development rate at</p> <p>4 Kit Carson Electric Co-op?</p> <p>5 A. Do they have one now?</p> <p>6 Q. Yes.</p> <p>7 A. They have -- you have to understand that they</p> <p>8 are under a different scheme currently, because they</p> <p>9 don't take service from Tri-State. They have a</p> <p>10 wholesale contract that in order to bring in economic</p> <p>11 development, all they have to do is make the call and</p> <p>12 they can work out what the rate might be.</p> <p>13 Q. In their last rate that was approved by the</p> <p>14 PRC, is there an economic development rate in their</p> <p>15 structure at Kit Carson?</p> <p>16 A. I don't believe so.</p> <p>17 Q. How about Jemez Mountain, do they have an</p> <p>18 economic development rate in their current structure</p> <p>19 approved by the PRC?</p> <p>20 A. I believe they do not have one, either.</p> <p>21 Q. Do you have any empirical evidence that</p> <p>22 indicates lower electric rates to commercial customers</p> <p>23 promotes economic development opportunities? And if you</p> <p>24 have it, could you point it out to me in the discovery</p> <p>25 that's been produced?</p>	<p style="text-align: right;">Page 482</p> <p>1 A. No.</p> <p>2 Q. Why do you say that?</p> <p>3 A. Because an economic development rate is meant</p> <p>4 to recover only the direct cost of the economic</p> <p>5 development opportunity.</p> <p>6 Q. And then who pays for that direct cost? The</p> <p>7 other members; correct?</p> <p>8 A. I'm not sure you understood my answer.</p> <p>9 Q. Maybe not. Try again.</p> <p>10 A. An economic development rate is meant to</p> <p>11 recover the costs that are directly associated with the</p> <p>12 economic development opportunities or that customer, so</p> <p>13 if bringing in this new economic development</p> <p>14 opportunity, you bring in a company and they need a</p> <p>15 thousand megawatts of service or a hundred megawatts,</p> <p>16 whatever it is, say they need one megawatt of service,</p> <p>17 then you figure out what the incremental cost is to be</p> <p>18 able to serve that one megawatt, and they pay that cost</p> <p>19 plus some margin and that's what creates the opportunity</p> <p>20 for the economic development.</p> <p>21 So you don't add on -- you are not piling on</p> <p>22 other -- other costs and have them subsidize other folks</p> <p>23 to be able to attract the economic development.</p> <p>24 That was the main mechanism that PNM used.</p> <p>25 It's the main mechanism that Tri-State is using to be</p>

<p style="text-align: right;">Page 483</p> <p>1 able to try to -- I'm assuming they are attempting 2 through their potential negotiation mechanism in their 3 load retention economic development rate, to be able to 4 have their member cooperatives bring economic 5 opportunities to them and them be able to increase the 6 sales in their -- in that particular distribution co-op. 7 Once you produce any margin, that offsets the 8 cost to all of the other customers. 9 Q. So describe for me in terms of a calculation 10 like ROR, what your vision of an economic development 11 rate is. It's the cost plus a margin? 12 A. It would have an ROR of maybe 5 percent. 13 Q. And where do you get that number? 14 A. Well, I'm just taking the Small Commercial, 15 Small Commercial accounts are producing a positive rate 16 of return. And you would want the economic development 17 rate customer to produce some small economic, some small 18 return so they would have some margin. You are not 19 expecting everyone to subsidize a new entity coming into 20 the region. 21 Q. So what would the economic development rate 22 look like in the proposed rate structure that you are 23 proposing the PRC adopt regarding Socorro Electric? 24 A. Well, given that they don't have one and the 25 only opportunity for economic development rate that they</p>	<p style="text-align: right;">Page 485</p> <p>1 work that you did to determine that this recommended 2 TIER of 1.87 meets the operating margins for SEC. 3 A. It met the operating margins in the current 4 year. 5 Q. And do you know, what work did you do? You 6 just read the cost of service study and got that number 7 from the cost of service study? 8 A. And their previous financials. 9 Q. Okay. Okay. So you didn't do independent 10 calculations? 11 A. I did not go ask their board what the board's 12 targets were for their TIER. 13 Q. Have you looked at board minutes or looked at 14 the board's goals or looked at the board objectives on 15 what they are trying to accomplish with their proposed 16 rate increase? 17 A. I looked at some of them, yes. 18 Q. Can you tell me what you believe the four 19 goals are for the proposed rate increase to accomplish? 20 A. I didn't commit them to memory, but I believe 21 they wanted a 40 percent equity stake, they wanted -- 22 the projections are done with a 2.5 TIER. 23 Q. Okay. 24 A. And the other projections were done on a -- it 25 was a 1.8, I don't remember what the other one was.</p>
<p style="text-align: right;">Page 484</p> <p>1 have under their current electric wholesale power 2 supplier is a negotiated rate, we would have to work out 3 a negotiated rate with SEC to be able to offer an 4 economic development rate. 5 Q. So you are clear that SEC and whatever and who 6 works out a negotiated rate. 7 A. The -- whoever the opportunity is. I mean, 8 whoever the potential company is that wants to locate in 9 Socorro. 10 Q. So under your model the economic development 11 rate would be ad hoc depending on the needs of the 12 customer, whether they are high load, low load as you 13 described, or not. And that it would be done on a 14 case-by-case basis? 15 A. It would mirror the Tri-State rate. 16 Q. For economic development? 17 A. It would mirror the Tri-State tariff. The 18 Tri-State tariff does not have a rate embedded in it. 19 Q. Right. 20 A. So it's all negotiated. 21 Q. Okay. Now, let's look at page 8, line 20. It 22 says there that you recommend that the current TIER of 23 1.87 remain as the target; correct? 24 A. Yes. 25 Q. Okay. Did you determine -- or tell me the</p>	<p style="text-align: right;">Page 486</p> <p>1 Q. You're aware that the proposed rates are not 2 affected by and do not affect nonoperating margins; 3 correct? 4 A. Yes. 5 Q. Okay. So when you look at Proctor's chart 6 A-1 -- 7 A. Wait. Ask me that question again. I think 8 you -- I'm not sure. 9 Q. You are aware that the proposed rates do not 10 affect, or are not affected by the nonoperating margins; 11 correct? 12 A. They are changes in fees as well, correct. 13 Q. There could be changes in fees, that's 14 correct, but they are not included in the rates, which 15 was the subject of testimony today. 16 A. Yes. 17 Q. And why they weren't included in rates? 18 A. Yes. 19 Q. Because they could be one time occurring and 20 not affect every member of the class; correct? 21 A. Yes. 22 Q. If you are not late paying your bill you are 23 not going to have to pay a late fee? 24 A. I agree. 25 Q. Okay. Have you discussed any of these issues</p>

<p style="text-align: right;">Page 487</p> <p>1 with SEC that you testified about?</p> <p>2 A. I attended a meeting where they did a</p> <p>3 presentation for City of Socorro to present the rate</p> <p>4 increase and the analysis that was -- that they had done</p> <p>5 on what the rate increase impact was going to be to the</p> <p>6 city.</p> <p>7 Q. Were you just there as a listener or did you</p> <p>8 participate, ask questions?</p> <p>9 A. I participated.</p> <p>10 Q. Okay. And when was that?</p> <p>11 A. August either August or September. I'm not</p> <p>12 sure exactly.</p> <p>13 Q. Of 2018?</p> <p>14 A. Yeah, sometime last fall.</p> <p>15 Q. All right. Let's look at Exhibit 1. I just</p> <p>16 want to look at it generally how it's set up. It's</p> <p>17 based on several assumptions, isn't it. I'll give you a</p> <p>18 minute to get there.</p> <p>19 A. Okay.</p> <p>20 Q. Okay. It's based on several assumptions;</p> <p>21 correct?</p> <p>22 A. Correct. Based on a lot of assumptions.</p> <p>23 Q. Right. You assume that the proposed rate</p> <p>24 change will not be allowed when you prepared this;</p> <p>25 correct?</p>	<p style="text-align: right;">Page 489</p> <p>1 A. Correct. I believe that's what's in their</p> <p>2 forecast as well.</p> <p>3 Q. Did you use ROR or RROR in line 4?</p> <p>4 A. I'm sorry, which?</p> <p>5 Q. Did you use ROR, it says rate of return, is</p> <p>6 that --</p> <p>7 A. There is not lines on mine, I'm sorry.</p> <p>8 HEARING EXAMINER GLICK: Let her finish her</p> <p>9 question before you answer.</p> <p>10 BY MS. WILLIAMS:</p> <p>11 Q. If you need help finding it, it's the fourth</p> <p>12 line down on rate base.</p> <p>13 A. Rate of return?</p> <p>14 Q. Yes. Did you use ROR there or relative rate</p> <p>15 of return?</p> <p>16 A. That's ROR.</p> <p>17 Q. Did you use relative rate of return at all on</p> <p>18 Exhibit 1?</p> <p>19 A. No.</p> <p>20 Q. Exhibit 1, allocations, benefits Large</p> <p>21 Commercial members like your client Tech, and adversely</p> <p>22 affects every other class, doesn't it?</p> <p>23 A. No.</p> <p>24 Q. Why do you say that?</p> <p>25 A. Because it doesn't adversely affect Small</p>
<p style="text-align: right;">Page 488</p> <p>1 A. I am proposing a different solution.</p> <p>2 Q. So the proposed rate change that's been</p> <p>3 submitted by SEC you assume is not the rate change</p> <p>4 that's adopted when you do these numbers?</p> <p>5 A. I'm assuming that the current rates that are</p> <p>6 in effect today are the rates that would be in effect.</p> <p>7 Q. Yes.</p> <p>8 A. That is correct.</p> <p>9 Q. And you assume that the fixed charges will</p> <p>10 stay the same.</p> <p>11 A. Not under this scenario.</p> <p>12 Q. You assume that you start with the fixed</p> <p>13 charges here. Oh, you don't? You think the fixed</p> <p>14 charges are going to raise or lower under your Exhibit</p> <p>15 1?</p> <p>16 A. Well, if you -- I'm guessing -- when I -- what</p> <p>17 I recommended was an increase in fixed charges.</p> <p>18 Q. All right.</p> <p>19 A. All right. So that's what this analysis is</p> <p>20 looking at.</p> <p>21 Q. You assume that the number of customers stays</p> <p>22 the same; correct?</p> <p>23 A. Yes.</p> <p>24 Q. That there will be 44 members in the</p> <p>25 Irrigation class, going forward.</p>	<p style="text-align: right;">Page 490</p> <p>1 Commercial or Load Management.</p> <p>2 Q. Small Commercial or --</p> <p>3 A. Load Management.</p> <p>4 Q. -- Load Management. What is their rate under</p> <p>5 Tech's proposal? Point me to a number here.</p> <p>6 A. What I've suggested is a \$3.56 a month</p> <p>7 increase and -- or decrease, I'm sorry. And for Load</p> <p>8 Management I've suggested a \$3,424 a month decrease.</p> <p>9 Q. What did SEC propose for a Small Commercial,</p> <p>10 if you are comparing apples with apples, a monthly</p> <p>11 decrease?</p> <p>12 A. They didn't propose a decrease, they proposed</p> <p>13 an increase for all rates.</p> <p>14 Q. An increase for how much?</p> <p>15 A. For all rates. I have to get to that page.</p> <p>16 6.6 to Residential, 5.38 --</p> <p>17 Q. 6 dollars and 60 cents?</p> <p>18 A. No, 6.6 percent.</p> <p>19 Q. I'm asking you to compare apples and apples</p> <p>20 for me, not percentages with dollar amounts. So can you</p> <p>21 do that for me?</p> <p>22 A. It will take me a minute, because I have to do</p> <p>23 the math on this page.</p> <p>24 Q. That's okay. I appreciate that.</p> <p>25 A. \$5.35.</p>

Page 491	<p>1 Q. Increase?</p> <p>2 A. Is the proposed increase over the Residential</p> <p>3 class.</p> <p>4 Q. Per month?</p> <p>5 A. Per month.</p> <p>6 \$7.50 for Small Commercial.</p> <p>7 Q. Mr. Reyes, I just need you to do the ones that</p> <p>8 you talked about already, which were Small Commercial</p> <p>9 and Load Management. I don't mean for you to have to go</p> <p>10 through every class. Let's just talk about the ones you</p> <p>11 brought to issue.</p> <p>12 So what's the difference for the Load</p> <p>13 Management? I appreciate you doing the other, but it's</p> <p>14 not necessary.</p> <p>15 A. It's 38,701 divided by 12. 3225.</p> <p>16 Q. Okay. Now, under the Exhibit 1 scheme --</p> <p>17 A. Could I just -- those are all increases under</p> <p>18 the proposed --</p> <p>19 Q. I understand.</p> <p>20 A. -- not decreases.</p> <p>21 Q. I understand. Thank you.</p> <p>22 A. Okay.</p> <p>23 Q. Under the Large Commercial members under your</p> <p>24 Exhibit 1, how much do they subsidize the total system</p> <p>25 margins?</p>	Page 493	<p>1 Q. So what factor does the proposed rate decrease</p> <p>2 the subsidy by the Large Commercial to the other</p> <p>3 classes?</p> <p>4 A. What factor does my proposed?</p> <p>5 Q. No. The proposed, and I apologize because</p> <p>6 there is two proposals on the table, yours, Exhibit 1 --</p> <p>7 A. Okay.</p> <p>8 Q. -- the PRC, the PRC proposed factor, proposed</p> <p>9 rates --</p> <p>10 A. Yes.</p> <p>11 Q. -- decrease the subsidy to the total system</p> <p>12 margins by the Large Commercial members from what it is</p> <p>13 now; correct?</p> <p>14 A. No.</p> <p>15 Q. It's your testimony that their proposed rates</p> <p>16 increase?</p> <p>17 A. The margin -- the return, the Large Commercial</p> <p>18 return prior to the rate, the current rate of return, is</p> <p>19 29.09. The rate of return after the rate increase is</p> <p>20 32.48. So that appears to be an increase in the rate of</p> <p>21 return.</p> <p>22 Now just because you increase the denominator</p> <p>23 and increase rates for everybody doesn't mean that you</p> <p>24 are not creating a larger subsidy. So they are still</p> <p>25 creating a lot more margin, they are creating more</p>
Page 492	<p>1 A. I'm sorry, say that again.</p> <p>2 Q. Under Exhibit 1, how much do Large Commercial</p> <p>3 members subsidize the total system margins? In a</p> <p>4 percent, if that's what you are up to.</p> <p>5 A. \$1.5 million.</p> <p>6 Q. Can you give me the percent?</p> <p>7 A. 24.36.</p> <p>8 Q. Okay. Currently Large Commercial members</p> <p>9 subsidize 400 percent of the total system margins;</p> <p>10 correct?</p> <p>11 A. Currently?</p> <p>12 Q. Currently.</p> <p>13 A. Currently they provide 88 percent of the</p> <p>14 overall enterprise margins.</p> <p>15 Q. Okay. And under the proposed rates they</p> <p>16 decrease that subsidy by a factor of 3; correct?</p> <p>17 A. By a factor of 3?</p> <p>18 Q. Yes, sir.</p> <p>19 A. No, ma'am.</p> <p>20 Q. What does your math show?</p> <p>21 A. Show me where you are getting your number and</p> <p>22 I'll tell you why that doesn't make sense.</p> <p>23 Q. Just tell me your answer on why you think</p> <p>24 that's not a true statement. I have no citation here.</p> <p>25 A. So ask me again, please.</p>	Page 494	<p>1 margin than they were before. So that's more of a</p> <p>2 subsidy; correct?</p> <p>3 Q. Well --</p> <p>4 A. Are you going -- maybe I'm misunderstanding</p> <p>5 the fact that you are using the relative rate of return</p> <p>6 as the only metric for measuring a subsidy.</p> <p>7 Q. I'm now talking about the relative rate of</p> <p>8 return and these questions regard that --</p> <p>9 A. Yes.</p> <p>10 Q. -- because we are talking about total system</p> <p>11 margins. Have we got that?</p> <p>12 A. Yes.</p> <p>13 Q. And at present the Large Commercial customers</p> <p>14 subsidize 400 percent of the total system margins;</p> <p>15 correct?</p> <p>16 A. How do you get 400 percent? I'm not --</p> <p>17 Q. You don't get to ask me. If you disagree with</p> <p>18 the statement you can say that, or you can say I don't</p> <p>19 know.</p> <p>20 A. I don't understand where you are getting 400</p> <p>21 percent.</p> <p>22 Q. All right. As a retained consultant, you have</p> <p>23 no obligation to propose an alternative cost return</p> <p>24 allocation that benefits anyone but your client;</p> <p>25 correct?</p>

<p style="text-align: right;">Page 495</p> <p>1 A. I suppose.</p> <p>2 Q. And would you agree that the Socorro Electric</p> <p>3 co-op board of trustees has an obligation to every</p> <p>4 member of the co-op when considering rate changes?</p> <p>5 A. Every member, even commercial members.</p> <p>6 Q. Correct. And they have to balance all that</p> <p>7 out, don't they?</p> <p>8 A. Yes, that's why we are here.</p> <p>9 Q. Let's look at your rebuttal. Did you find it?</p> <p>10 A. Uh-huh.</p> <p>11 Q. You refer to the testimony of Ms. Montoya,</p> <p>12 correct, on page 3, line 11?</p> <p>13 A. Yes.</p> <p>14 Q. When you look at her testimony -- can you look</p> <p>15 at her testimony on page 3, line 11, where you excerpt</p> <p>16 your quote.</p> <p>17 Did you find that?</p> <p>18 A. Yes.</p> <p>19 Q. And we are looking at your rebuttal testimony</p> <p>20 at page 5, line 11. It's confusing because they are</p> <p>21 both starting at line 11.</p> <p>22 Ms. Montoya, in the testimony starting at page</p> <p>23 3, line 11, is not addressing appropriate recovery of</p> <p>24 cost; correct? She is addressing the proposal of</p> <p>25 Residential service class, isn't she?</p>	<p style="text-align: right;">Page 497</p> <p>1 per kilowatt hour, to affect a revenue requirement</p> <p>2 decrease of 1.22 million to Large Commercial class.</p> <p>3 BY MS. WILLIAMS:</p> <p>4 Q. Is it your understanding that SEC is proposing</p> <p>5 a declining block rate?</p> <p>6 A. If you look at the rate, the structure of the</p> <p>7 rate, it is a declining block rate.</p> <p>8 Q. Do you know what an hours used rate is?</p> <p>9 A. Yes. And it has three blocks. The first is</p> <p>10 200 kilowatt hours per kW, the second one is another 200</p> <p>11 kilowatt hours per kW, and the third block is all</p> <p>12 kilowatt hours above 400 kilowatt hours per kW. And the</p> <p>13 structure of that rate is that it's 13 -- 13 cents for</p> <p>14 the first one, 8 and change for the second one, and a</p> <p>15 nickel for the third one. So that is a declining block</p> <p>16 rate. However it's being structured under an hours used</p> <p>17 structure.</p> <p>18 Q. So are you proposing the use of a declining</p> <p>19 block rate or an hours used rate?</p> <p>20 A. I'm proposing the fact that they have already</p> <p>21 structured this rate, but that the two first rate blocks</p> <p>22 that they structure are already too high.</p> <p>23 Q. Okay. Now nothing in the proposed rates</p> <p>24 encourages greater energy consumption, does it?</p> <p>25 A. Not that I can tell.</p>
<p style="text-align: right;">Page 496</p> <p>1 A. Correct.</p> <p>2 Q. So you cite in your testimony part of a</p> <p>3 sentence of her testimony that's out of context, don't</p> <p>4 you?</p> <p>5 A. She is looking at the cost allocations, and</p> <p>6 the reasoning for breaking up the Commercial and</p> <p>7 Residential customer class into two separate classes of</p> <p>8 customer to better allocate -- to better apply the</p> <p>9 allocated costs within each class.</p> <p>10 Q. Correct.</p> <p>11 A. Yes.</p> <p>12 Q. Now on page 5, line 11, please read your</p> <p>13 recommendations aloud.</p> <p>14 A. I'm sorry, which one?</p> <p>15 Q. Page 5, line 11.</p> <p>16 A. Of what?</p> <p>17 Q. Of your rebuttal.</p> <p>18 A. Of mine.</p> <p>19 Q. Yes.</p> <p>20 A. Page 5, line 11. Yes, I recommend the</p> <p>21 Commission allow a de- --</p> <p>22 HEARING EXAMINER GLICK: Slow down, please.</p> <p>23 A. I recommend the Commission allow the declining</p> <p>24 block rate structure but reduce energy rates in the</p> <p>25 first two energy rate blocks by an average of 1.6 cents</p>	<p style="text-align: right;">Page 498</p> <p>1 MS. WILLIAMS: Okay. That's all I have for</p> <p>2 this witness.</p> <p>3 Thank you, Mr. Reyes.</p> <p>4 HEARING EXAMINER GLICK: Mr. Borman?</p> <p>5 MR. BORMAN: I have no questions for Mr.</p> <p>6 Reyes.</p> <p>7 HEARING EXAMINER GLICK: Mr. Reyes, I have</p> <p>8 some questions for you.</p> <p>9 THE WITNESS: Great.</p> <p>10 CROSS EXAMINATION</p> <p>11</p> <p>12 BY HEARING EXAMINER GLICK:</p> <p>13 Q. Would you turn to your direct testimony at</p> <p>14 page 8, please.</p> <p>15 A. Okay.</p> <p>16 Q. At lines 9 through 12 you state: A target</p> <p>17 TIER for establishing revenue requirements is expected</p> <p>18 to be between 1.8 and 2.2.</p> <p>19 What is the basis for your recommendation for</p> <p>20 that range being the target TIER?</p> <p>21 A. Discussions with other clients, co-op clients.</p> <p>22 Q. And am I correct that TIER measures how many</p> <p>23 times the interest expense is earned by a co-op?</p> <p>24 A. Correct. It's the coverage ratio.</p> <p>25 Q. Are you familiar with OTIER?</p>

<p style="text-align: right;">Page 499</p> <p>1 A. Yes.</p> <p>2 Q. Okay. Is OTIER also a measure of how many</p> <p>3 times the interest expense is earned by a cooperative?</p> <p>4 A. Yes.</p> <p>5 Q. All right. So does an OTIER of 1 mean that a</p> <p>6 cooperative is earning just enough to pay its interest</p> <p>7 expense?</p> <p>8 A. Essentially, yes.</p> <p>9 Q. Okay. So SEC had an OTIER in 2017 of 1.21.</p> <p>10 What does that mean in terms of its ability to pay its</p> <p>11 interest expense?</p> <p>12 A. That they had 20 percent on top of the minimum</p> <p>13 available to cover their interest expense, but still</p> <p>14 only point -- I guess that's .11 over the minimum in</p> <p>15 their -- in their covenants, in most of their debt</p> <p>16 obligations.</p> <p>17 Q. So that 20 percent that's on top of the</p> <p>18 minimum, is that -- are those earnings available toward</p> <p>19 meeting the board's goals?</p> <p>20 A. Yeah. They are margins. I mean -- so you</p> <p>21 have -- I guess you almost have to take it in context to</p> <p>22 a normal -- a regular business, and yes, those are</p> <p>23 margins available for all the other business activities,</p> <p>24 whether those are the goals of the board or their</p> <p>25 investment activities that they want to take on, or for</p>	<p style="text-align: right;">Page 501</p> <p>1 broken out in the rate study. And in fact three of</p> <p>2 those rate classes have negative margins.</p> <p>3 So that's what I was looking at, is if you are</p> <p>4 going to -- if you were going to try to push those</p> <p>5 increases that you wouldn't be pushing them to customers</p> <p>6 who are already producing a positive margin.</p> <p>7 Q. Okay.</p> <p>8 A. And if you are going to produce a rate</p> <p>9 reduction, then the rate reduction ought to go</p> <p>10 proportionately to the folks that are already paying too</p> <p>11 much.</p> <p>12 So -- or over-producing, I think was Proctor's</p> <p>13 testimony, that they are over-producing by 19 percent,</p> <p>14 Large Commercial.</p> <p>15 Q. And then going to Exhibit 1.</p> <p>16 A. Okay.</p> <p>17 Q. You don't have the ETS class on here. Are the</p> <p>18 ETS customers encompassed within the Residential class?</p> <p>19 A. That is my assumption.</p> <p>20 HEARING EXAMINER GLICK: Okay. That's all the</p> <p>21 questions I have. Thank you.</p> <p>22 THE WITNESS: Thank you.</p> <p>23 HEARING EXAMINER GLICK: Mr. Adams, any</p> <p>24 redirect?</p> <p>25 MR. ADAMS: Just a moment.</p>
<p style="text-align: right;">Page 500</p> <p>1 bonuses they want to hand out to their employees, those</p> <p>2 are extra cash. That's additional cash that can be put</p> <p>3 to use in whatever manner they deem is appropriate.</p> <p>4 Q. Okay. And do you have an opinion of a target</p> <p>5 OTIER range for SEC?</p> <p>6 A. In my discussions it's been about 1.3 to 1.5</p> <p>7 is about the max targets that you would see in an OTIER.</p> <p>8 Q. And then would you turn to page 9 of your</p> <p>9 direct testimony. At line 17 you're asked the question:</p> <p>10 Does the proposed rate design reduce the interclass</p> <p>11 subsidies?</p> <p>12 And your answer is: Only marginally.</p> <p>13 So that seems to be, am I correct, an</p> <p>14 acknowledgement by you that the proposed rates would</p> <p>15 reduce marginally, at least, the subsidies?</p> <p>16 A. Again, if you -- if you fill all the glasses,</p> <p>17 then one of the glasses don't look quite as full. So,</p> <p>18 yes.</p> <p>19 Q. Would you turn to page 13 of your direct</p> <p>20 testimony. And can you explain to me what you mean on</p> <p>21 lines 18 and 19 where you refer to: In the form of a</p> <p>22 rate reduction on a prorated basis according to current</p> <p>23 rate class operating margins?</p> <p>24 A. The margins that are being generated in each</p> <p>25 individual rate class are broken out by -- they were</p>	<p style="text-align: right;">Page 502</p> <p>1 REDIRECT EXAMINATION</p> <p>2</p> <p>3 BY MR. ADAMS:</p> <p>4 Q. Mr. Reyes, referring to Exhibit 1 to your</p> <p>5 direct testimony, what was the intent of the analysis</p> <p>6 that you made there?</p> <p>7 A. The intent was regarding my recommendation</p> <p>8 that fixed costs, that a fixed charge increase was an</p> <p>9 appropriate solution to adjusting rates, given the</p> <p>10 testimony from Mr. Herrera that they were trying to</p> <p>11 recover costs that -- that they were having a hard time</p> <p>12 recovering through energy charges, so if you had three</p> <p>13 rate classes who are in effect not even generating</p> <p>14 enough revenue to cover the basic expense of service to</p> <p>15 the entire rate class, that you would be able to -- you</p> <p>16 would be able to accomplish that by bringing them at</p> <p>17 least to zero by some minimum charge. So increasing the</p> <p>18 customer charge by whatever that potential piece would</p> <p>19 be. That increase would be.</p> <p>20 And that's what I was proposing here, was a</p> <p>21 \$3.61 a month for Residential, \$63.16 per month for</p> <p>22 Irrigation, and \$1.60 in Lighting. And that would have</p> <p>23 brought those individual rate classes up to a zero rate</p> <p>24 of return. Okay?</p> <p>25 And then using that additional cash you could</p>

1 have actually put that cash into a reduction for Large
2 -- Small Commercial, Large Commercial and Load
3 Management and affected the exact same enterprise rate
4 of return, and then in fact further improved the
5 relative rate of return for all classes by doing so.
6 MR. ADAMS: Okay. Thank you. That's all.
7 HEARING EXAMINER GLICK: Any recross?
8 MS. WILLIAMS: No, your Honor.
9 HEARING EXAMINER GLICK: Okay. Thank you, Mr.
10 Reyes, very much. You are excused.
11 THE WITNESS: Thank you.
12 (Witness excused.)
13 HEARING EXAMINER GLICK: Let's go off the
14 record.
15 (Discussion off the record.)
16 HEARING EXAMINER GLICK: On the record. We
17 will resume tomorrow at nine o'clock.
18 (The proceedings recess at 4:00 p.m.)
19
20
21
22
23
24
25

REPORTER'S CERTIFICATE

1
2
3 I, Allison Ash-Hoyman, New Mexico CCR #18, do
4 hereby certify that the proceedings of the
5 above-entitled cause were reported by me
6 stenographically on Tuesday, June 25, 2019, and that the
7 within transcript is a true and accurate transcription
8 of my shorthand notes.
9 I FURTHER CERTIFY that I am neither an attorney
10 nor counsel for nor related to or employed by any of the
11 parties to the action, and that I am not a relative or
12 employee of any attorney or counsel employed by the
13 parties hereto or financially interested in the action.
14
15
16 _____
17 Allison Ash-Hoyman, RPR, CSR, CCRR
18 New Mexico Certified Court Reporter #18
19 License Expires: 12/31/2019
20
21
22
23
24
25