POWDER RIVER ENERGY CORPORATION

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February 22, 2019

Mr. Chris Petrie
Chief Counsel
Wyoming Public Service Commission
Hansen Building, Suite 300
2515 Warren Avenue
Cheyenne, WY 82002

RE: Docket No. 10014-193-CP-18 Record No.15129
Cost of Power Adjustment Filing
Supplemental Information Request

Dear Mr. Petrie:

Powder River Energy Corporation's (PRECorp's) Application in Docket No. 10014-193-CP-18, Record No. 15129, was approved by the Commission during its Open Meeting on December 20, 2018. During discussion on the Application, Commissioner Cooley noted that Members 1st Power Cooperative's (Members 1st) costs in PRECorp's 2018 Cost of Power Adjustment (COPA) Order had been excluded, as it was not clear at the time whether they might not already be captured in PRECorp's base rates – that including them would result in double recovery. Joanne Kolb, PRECorp's Chief Financial and Administration Officer, participated by telephone, and in response to Commissioner Cooley's comment, agreed to provide additional information regarding PRECorp's participation in Members 1st, as well as an explanation of how the Cooperative proposes to address the Commission's concerns regarding any possible double recovery. In approving the 2019 COPA Application, the Commission directed PRECorp to provide the additional information offered by Ms. Kolb by February 22, 2019. PRECorp hopes the following information will satisfy that directive.

In the fall of 2016, PRECorp initiated the formation of Members 1st, a "paper" Generation and Transmission (G&T) Cooperative consisting of PRECorp, Fergus Electric Cooperative (Fergus), and Tongue River Electric Cooperative (Tongue River). PRECorp's motivation was primarily to address shrinking sales that threatened its Class A Membership status at Basin Electric Power Cooperative (Basin).

Basin's bylaws in 2016 stated if PRECorp's power sales fell below ten percent (10%) of Basin's total Class A Member power sales[1], PRECorp would lose its seat on the Basin

[1] Fell short of ten (10) percent any two of three consecutive years.

Board. The bylaws also allowed for any G&T Cooperatives on their system, regardless of their percent Class A Member sales, a seat on the Basin Board. As a Basin Class A Member, PRECorp was experiencing a decline in its sales percentage of Class A Member sales. It became evident by 2014 that this decline would likely continue, and work began to look at ways to retain its strong representation on the Basin Board.

Table A – PRECorp and Members 1st Power Sales as a Percent of Basin's Class A Member Power Sales, provides the sales data that led to PRECorp's decision to take action and form Members 1st.

Table A - PRECorp and Members 1st Power Sales as Percent of Basin Class A Power Sales

	2014	2015	2016	2017	2018
PRECorp Power Sale	$149,462,189	$142,081,637	$137,151,663		
Members 1st Power Sales				$163,871,297	$160,896,630
Basin Class A Power Sales	$1,194,537,630	$1,211,127,320	$1,391,733,538	$1,564,464,933	$1,614,704,107
% Basins Class A Power Sales	**12.51%**	**11.73%**	**9.85%**	**10.47%**	**9.96%**

PRECorp had been purchasing nearly $150M in power annually from Basin, and is under a full requirements contract through 2075. Maintaining a strong Board presence and being in a position to continue to influence Basin's business decisions as they relate to Basin's power rates remains in the best interest of PRECorp and its membership long-term.

In addition to the benefit of retaining a voice and vote on the Basin Board, combining system loads with Tongue River has had a positive effect on the load profile of the combined loads and has contributed to load diversity savings to PRECorp's power bill of $85,589 in 2017 and $21,722 in 2018. These were the financial benefits Ms. Kolb was referring to and offered to provide during her testimony at the December 20, 2018 Open Meeting.

PRECorp, Tongue River, and Fergus, fund Members 1st through the payment of a monthly "adder" that is in addition to each cooperative's payment of their share of Members 1st Basin power bill. This "adder" establishes the funding needed for Members 1st to pay its operating costs such as:

- Billing, Accounting, and Management Services (staff labor)
- Memberships Fees e.g. NRECA, MECA, etc.
- Legal Services, if any
- Insurance e.g. Director and Officer Umbrella and General Liability
- Audit and Tax Services
- Director travel for Members 1st specific purposes[2]

[2] The Members 1st Board consists of three PRECorp Directors, one Fergus Director, and one Tongue River Director. The Members 1st Directors are not paid positions as they already serve as Directors at their respective cooperatives.

PRECorp's "adder" payments for operating years 2017 and 2018 were $314,025 and $235,528, respectively.

Most of the costs paid with the "adders" are not incremental to what each member cooperative was paying to their prior wholesale power provider, with the exception of minor costs associated with items such as legal services, insurance, and audit and tax services. PRECorp provides staff support to Members 1st under a Management Services Agreement utilizing existing PRECorp resources. The "adder" for each member cooperative is set to include a small margin (funding above known needs) to ensure Members 1st is fully funded for each operating year.

The legal structure of Members 1st requires that Members 1st return any excess margins back to its member cooperatives annually through a capital credit allocation. PRECorp's capital credit allocations for 2017 and 2018 were $207,461 and $112,716, respectively.

Table B – Overview of PRECorp's Members 1st Costs, shows PRECorp's cost of membership in Members 1st for calendar years 2017 and 2018, once excess margins are earmarked for return through an annual capital credit allocation. PRECorp's net costs went toward the payment of Members 1st operational expenses such as billing, accounting and management services, membership fees, legal services, insurance, etc., with labor associated with these services representing roughly sixty-eight percent (68%) of PRECorp's costs over the two years.

Table B - Overview of PRECorp's Members 1st Costs

	2017	2018
PRECorp "adder" Payment to M1st	$314,025	$235,528
PRECorp's Capital Credit Allocation from M1st	-$207,461	-$112,716
PRECorp's Net Costs (once capital credits are retired)	**$106,564**	**$122,812**

PRECorp recognizes that some of the costs related to Members 1st included in its COPA Applications, most notably those associated with labor, may already be accounted for in base rates, as PRECorp is utilizing existing staff in its support of Members 1st. PRECorp also recognizes that until a base rate adjustment is made, a solution to address any double recovery is warranted.

In an October 31, 2018, letter to the Commission, PRECorp provided a proposed solution. In that letter, PRECorp stated it planned to refund to its membership, through special capital credit retirements, PRECorp's labor expenses billed to Members 1st in support of its Management Services Agreement. In 2017, this amounted to $92,350. In the October 31 letter, PRECorp proposed to return the labor costs in a special capital credit retirement in December 2018. When it came time to make the allocation for the retirement, the PRECorp Board amended the allocation amount to $250,000, effectively eliminating the possibility of any over-recovery of its Members 1st costs for that year. The letter went on to propose that until new base rates are established, PRECorp will refund to its membership, through capital credit retirements, PRECorp's labor expenses billed to Members 1st due to the Management Services Agreement.

PRECorp plans to file its next general rate case (GRC) in 2019 to be effective in the fall of 2020. In its 2019 GRC Application, PRECorp will adjust base rates for Members 1st costs being collected through the COPA Applications and discontinue the special capital credit retirement after the December 2021 retirement. This means that PRECorp will continue these special capital credit retirements in December of 2019, December of 2020, and December of 2021, for operating years 2018-2020.

Under a not-for-profit cooperative structure, any over-recovery of costs required to fund operations are over time refunded to cooperative members through the retirement of capital credits. The special retirements that PRECorp intends to make in this case simply accelerate that process.

We hope this additional information on the benefits and costs associated with Members 1st, and PRECorp's proposed solution to account for the temporary double recovery of some costs related to Members 1st, provides the Commission the additional information needed to satisfy any remaining concerns they have with these filings.

Sincerely,

Michael E. Easley
Chief Executive Officer

MEE/bf