

**BEFORE THE
WYOMING PUBLIC SERVICE COMMISSION
DIRECT TESTIMONY
OF
JOANNE L. KOLB
POWDER RIVER ENERGY CORPORATION**

Docket No. 10014-17~~56~~-CT-16

1 **Q: Please state your name and address.**

2 A: My name is Joanne L. Kolb and my business address is Powder River
3 Energy Corporation, P.O. Box 930, Sundance, WY 82729.

4 **Q: What is your present occupation?**

5 A: I am employed as Chief Financial and Administration Officer of Powder
6 River Energy Corporation (PRECorp).

7 **Q: What are your duties as Chief Financial and Administration Officer of
8 Powder River Energy Corporation?**

9 A: My position includes responsibility for accounting and administration
10 personnel management in the areas of accounting, financing activities,
11 financial planning, payroll, preparation of financial statements, inventory,
12 fleet and facilities, accounts payable, accounting for construction, billing,
13 and credit and collections.

14 **Q: Please state your educational background and professional
15 qualifications.**

16 A: I have a Business Administration degree in Finance and a Masters of
17 Science in Management from the University of Wisconsin Green Bay. I
18 also have a Certified Financial Professional Certificate from
19 NRECA/NRUCFC. Prior to coming to PRECorp in February of this year, I
20 worked in various accounting and finance functions in the private sector
21 until 2009 at which time I took a position at Price Electric Cooperative in
22 Phillips, Wisconsin, as Manager of Finance and Administration.

23 **Q: What is the purpose of your testimony?**

24 A: The purpose of my testimony is to support PRECorp's application to
25 amend its rules and regulations regarding member security deposit
26 requirements.

27 **Q: Why is PRECorp proposing changes to its currently approved rules
28 and regulations regarding member security deposits?**

29 A: PRECorp's proposed changes are intended to: 1) address challenges
30 found in the administration of the Corporation's current rules governing
31 member deposits; 2) further address financial risks; and, 3) adopt changes
32 and policy provisions agreed upon by members of the rural electric
33 cooperative model tariff working group in realigning cooperative tariffs with
34 those revised by the Wyoming Public Service Commission (the
35 Commission) that became effective March 21, 2016.

36 **Q. What are the substantive proposed changes to PRECorp's deposit
37 rules and regulations proposed in the Application?**

38 A. The Corporation is adopting the deposit policy language as agreed to by
39 the rural electric cooperative model tariff working group with the following
40 PRECorp specific alterations: 1) retaining PRECorp's current language on
41 unacceptable payment history as a cause for requesting a deposit from an
42 existing member; 2) addition of clarifying language "...as determined by
43 the Corporation" to the list of options of how a member might demonstrate
44 acceptable credit/passing an objective credit screen; 3) addition of
45 language "...deemed acceptable by the Corporation" as a clarification of
46 how "favorable" is determined under the third-party credit reporting agency
47 option; 4) added language clarifying that failure by a member to provide
48 financial information requested to conduct a credit screen equates to
49 failing the credit screen; 5) removed letter of credit or business reference
50 as a choice among financially based objective credit screen options; 6)
51 added a non-financial credit screen provision enabling PRECorp to
52 request and hold security deposits from members whose average monthly
53 billings equal or exceed \$25,000 per month; 7) clarified that the
54 acceptance of a written guarantee from an acceptable guarantor pertains
55 to residential applicants and residential members only; 8) established a
56 minimum deposit amount for residential deposits in cases where there is
57 insufficient billing history to calculate a site specific deposit amount; 9)
58 added language that makes it clear that when a member pays a deposit
59 PRECorp is not required to re-evaluate the need for a deposit or refund
60 said deposit for twelve (12) months, except in cases where electric service

61 is discontinued; and, 10) added a refund exclusion, until service is
62 disconnected, for deposits collected under the non-financial credit screen
63 provision where average monthly bills equal or exceed \$25,000 per
64 month.

65 **Q: Please provide additional detail on the changes just outlined and**
66 **explain why PRECorp feels the changes are needed.**

67 A: PRECorp last filed amendments to its deposit policy in November 2015.
68 Several of the aforementioned current amendments are to address
69 challenges stemming from the implementation of the Corporation's current
70 policy. Change #4, for instance, is to clarify that if a member fails to
71 provide requested financial information it equates to a failed credit screen,
72 change #5 is to clarify that PRECorp will not accept a letter of credit or
73 business reference in lieu of a deposit, and change #9 is to clarify the
74 Corporation is not required to re-evaluate a member's financial information
75 based credit for one (1) year after that member failed a screen and was
76 required to pay a deposit. The adoption of the rural electric cooperative
77 model tariff language and PRECorp's desire for that language to be as
78 clear as possible was the reason for changes 2, 3, 7, and 8. Change #1
79 was simply to retain current policy language which pertains to all accounts
80 that are too small to cost-effectively evaluate through the financial
81 information based objective credit screen process. Finally, changes 5 and
82 10 - provisions to collect and hold security deposits from members whose
83 account billings represent a sizable liability to the Corporation, is intended

84 to remove the uncertainty inherent in financial information based credit
85 assessment tools and reduce the administrative burden associated with
86 constantly tracking and monitoring the financial positions of those
87 members whose failure would have a significant financial impact on the
88 Corporation and its membership. PRECorp's Security Deposit tariff
89 outlining these changes is provided in legislative format as **Exhibit 1** to
90 this Application.

91 **Q. How did PRECorp arrive at the \$25,000 average monthly bill**
92 **threshold as the point at which to require a mandatory deposit?**

93 A. As you know, electric service is not generally a pre-paid service. Members
94 consume electricity over the month and then receive a billing. Currently,
95 members receive a 20-day grace period from the time a bill is rendered
96 until it becomes delinquent and collection activity begins. The resulting
97 time from consumption, billing, mail time and collections before
98 disconnection can occur exceeds 60 days. That means members at the
99 low end of this threshold may owe the Corporation over \$50,000 before
100 they are subject to disconnection for non-payment and at the high end
101 they may owe in the upwards of \$2-3 million. At \$50,000 a month this
102 represents roughly 1.5% of the Corporations recently filed operating
103 margin, a significant amount to have at risk in any given month for a utility
104 of PRECorp's size.

105 **Q. How many of PRECorp's members have average monthly billings equal to**
106 **or in excess of \$25,000?**

107 A. Based on a recent analysis, the \$25,000 threshold would result in 50-60 of
108 the Corporations largest energy using members being required to pay a
109 deposit under the proposed risk based credit screen.

110 **Q. Why does PRECorp feel it necessary to collect and hold security**
111 **deposits from select members under a risk based credit screen?**
112 **Isn't the ability to conduct financial information based credit screens**
113 **sufficient protection?**

114 A. Sadly no. The expansion of the objective credit screen eligibility, right to
115 petition for deposits from members, and ability to disconnect for non-
116 payment of deposits implemented nearly a year ago has proven a solid
117 step in reducing the Corporation's financial risk, but still leaves the
118 Corporation vulnerable to significant risk. It places the burden on the
119 Corporation to understand and protect itself and its membership from the
120 financial viability of its largest members. As I stated earlier, PRECorp is a
121 not-for-profit electric cooperative whose business is providing safe,
122 affordable and reliable electric service. The Corporation is not in the
123 business of financial information based credit assessment and monitoring.
124 Furthermore, these credit screens are subject to a degree of uncertainty in
125 their ability to accurately predict current and future financial conditions.
126 They are also susceptible to significant lag time between the receipt of key
127 financial information and a member's current financial position. These
128 gaps in protection, given the sheer size of some member's billings, is
129 unacceptable to a Corporation the size of PRECorp. If these financial

130 challenges were limited to a few members, PRECorp's perspective on
131 what's needed might be different. However, in a recent screening of the
132 Corporation's top fifty (50) members, nearly eighty-percent (80%) failed
133 the Corporation's financial information based credit screen. Those same
134 fifty (50) members represent less than one-half of one percent (.04%) of
135 the Corporation's total membership yet collectively account for eighty-
136 percent (80%) of its billed revenues. Unlike most utilities in Wyoming,
137 PRECorp's financial stability is dependent on a small number of very large
138 coal, oil and gas companies. In any given month these top fifty (50)
139 members represent outstanding debt exceeding \$20 million. The
140 unexpected financial failure by one (1) of these larger members would
141 disproportionately impact the Corporation and therefore protections must be
142 in place in order to avoid losses from these larger members.
143 Unfortunately, financial information based credit screens alone are subject
144 to some margin of error and member financial positions, like the market,
145 are in constant flux. To account for these risks, requesting to expand our
146 credit screening to include a risk based metric is the only real way to
147 equitably and adequately protect the Corporation and its other members.

148 **Q: Please explain how the mandatory deposits will assist PRECorp in**
149 **managing financial risk?**

150 A: The change will allow us to request a deposit from those non-residential
151 members (members other than those in the residential class) whose

152 failure would significantly impact the Corporation before default becomes
153 apparent, or the member enters into bankruptcy protection.

154 **Q. How much time will be provided applicants or non-residential**
155 **members subject to the mandatory deposit requirement to pay their**
156 **deposit?**

157 A. New applicants subject to the rule would be required to pay deposits in
158 advance of receiving service. PRECorp will work with existing members
159 who previously were not subject to a deposit request under the objective
160 credit screening criteria on a case by case basis allowing for deposit
161 payment plans not to exceed three (3) months.

162 **Q. Will objective credit screening of applicants or non-residential**
163 **members still be used by PRECorp in cases where the mandatory**
164 **deposit requirement doesn't apply?**

165 A. Yes. PRECorp intends to continue the use of objective credit screening for
166 large non-residential applicants and members who fall outside of the
167 mandatory deposit requirement. Monitoring and protecting against default
168 on electric billings, regardless of member or revenue class, remains a high
169 priority at PRECorp.

170 **Q: Does this conclude your testimony?**

171 A: Yes.