BEFORE THE

WYOMING PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF

C. CURTIS MOCK

POWDER RIVER ENERGY CORPORATION

Docket No. 10014-168-CR-16

Q. Please state your name and address.

A. My name is Curtis Mock and my business address is Powder River Energy Corporation, P.O. Box 930, Sundance, WY 82729.

Q. What is your present occupation?

A. I am employed as Chief Financial and Administrative Officer of Powder River Energy Corporation ("PRECorp" or "the Cooperative").

Q. What are your duties as Chief Financial and Administrative Officer of Powder River Energy Corporation?

A. My duties are to manage the corporate accounting, finance and administrative functions of the Cooperative. The administrative duties include management of fleet, facilities and procurement. I also have the responsibility of ensuring the Cooperative's rates and margins are sufficient to maintain a sound financial position, and that we have adequate short and long-term financing available.

Q. Please state your educational background and professional qualifications.

A. I have a BA degree from Florida State University, a JD degree from Stetson University College of Law, and a LL.M. degree in Taxation from the University of Florida. I am also a graduate of the Cooperative Financial Professional program offered by the National Rural Electric Cooperative Association at the Fluno Center for Executive Education at the University of Wisconsin, Madison. I was accepted to the Florida Bar in 1996, but have not maintained that license. I have been employed in the utility field with PRECorp since 2007. I was originally hired as a Financial Analyst, then accepted the position of Manager of Financial Planning, and took over as Chief Financial and Administrative Officer in 2014. Before coming to PRECorp I worked in various tax and accounting positions, including five years with PricewaterhouseCoopers in Houston, Texas.

Q. Does Exhibit CM-1 accurately reflect your professional background and qualifications?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide background information on certain financial measurements that PRECorp must consider when determining whether its margins and rates are adequate.

Q. Please explain how financial measurements are used to determine whether PRECorp's rates and margins are adequate.

A. The federal government, through the Rural Utility Service (RUS) and the Federal Financing Bank, is PRECorp's principle source of borrowing for capital expenditures. There are several provisions in the loan contracts

PRECorp executes with the government that impose minimum financial conditions. The relevant provisions of PRECorp's current RUS Loan Contract are attached as Exhibit CM-2.

Q. Please describe those provisions.

A. The first relevant provision is the "Prospective Requirement." This section provides that PRECorp "shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios." Exhibit CM-2 at Section 5.4(a).

Q. What are the Coverage Ratios and what do they measure?

A. The Coverage Ratios are set forth in the "Retrospective Requirement" and are formulas analyzing the financial condition of a cooperative. The first Coverage Ratio imposed is TIER, or the Times Interest Earned Ratio, with a minimum measurement of 1.25. The second ratio is DSC, or Debt Service Coverage, with a minimum also of 1.25. The third ratio monitored is the RUS OTIER, or RUS Operating TIER, and the minimum permissible result of that measurement is 1.10. The final Coverage Ratio is the RUS ODSC, or RUS Operating DSC, with a minimum measurement also of 1.10. The TIER and RUS OTIER ratios measure the amount of income an entity has available to pay the interest expense it incurs annually. The DSC and RUS ODSC measure an entity's ability to pay its total debt service, both principle and interest.

Q. Please describe the formulas for the TIER and RUS OTIER.

A. The TIER and RUS OTIER look to the financial results of the Cooperative an annual basis. In the TIER, the Patronage Capital or Margins (Line 29) from the annual RUS financial statement are added to the total interest expense for the year. The total of those two numbers is divided by the interest expense. The result creates a ratio that shows how much of the earnings are left after interest expense is paid. A Cooperative with a TIER 1.00 would necessarily have Patronage Capital or Margins of zero. In other words, after interest expense is satisfied, the Cooperative has no earnings. RUS OTIER is similar except that it uses Patronage Capital and Operating Margins (Line 21) from the annual RUS financial statement instead of Patronage Capital or Margins (Line 29). This measure is more conservative because it does not give credit for allocations of capital credits, without retirements of the same. It does, however, add back in cash received from actual retirements because the retirements represent funds available to pay interest expenses.

Q. Please describe the formulas for the DSC and RUS DSC.

A. While the TIER ratios focus on interest, the DSC and RUS DSC analyze the Cooperative’s ability not just to pay interest on long term debt, but also to pay the principal due on those loans. The DSC sums Patronage Capital or Margins (Line 29), depreciation and amortization, and interest expense, and divides the total by annual interest expense and principal. Depreciation and amortization, as non-cash items, are included in this calculation. Again, the RUS DSC modifies that calculation by using Patronage Capital and

Operating Margins (Line 21), and allowing the use of cash from actual cash retirements made to the Cooperative in order to determine the ability to satisfy these obligations.

Q. When the ratios are applied to the adjusted test year results in the Cost of Service Study that is the basis of this filing, what are the results?

A. The rate case is based on a comprehensive Cost of Service Study (COSS) for the test year ending December 31, 2014. The COSS created an adjusted test year operating margin that demonstrated an $8,330,430 negative margin. The negative operating margin that results fails the minimum requirements of three of the measurements, the TIER, the OTIER, and the ODSC. Only the minimum requirement of the DSC ratio would be met absent a revenue increase.

Q. What immediate impact would failing to achieve these minimum ratio requirements have on the Cooperative?

A. As discussed earlier, we are required by our borrowing contract to meet all four ratio requirements. The test is applied as a best out of three years standard, meaning that the best two of the three most recent years must meet the requirement. Each year the Cooperative ratios are reported to RUS through the annual report filed with the United States Department of Agriculture, titled “Financial and Operating Report Electric Distribution,” formerly known as the Form 7. If the Cooperative fails a ratio, it is required to notify RUS of that fact in writing. The Cooperative must then develop a Corrective Plan to the satisfaction of RUS that describes the actions the

Cooperative is taking to reach minimum requirements in a timely manner. Failing to design and implement rates that pass the ratios test, and failing to provide an acceptable Corrective Plan thereafter, constitutes a default of the borrowing agreement. An additional consequence of not meeting the ratios is that the Cooperative may not lower its rates in the year following a year in which ratios were not met.

Q. What consequences could the Cooperative face if the Coverage Ratios were not met two years in a row?

A. That would place PRECorp in default of its loan contract with RUS. In addition to its rights as a mortgagor, in the event of default, the contract allows RUS to limit the Cooperative's operational authority and activities in several ways. For example, the Cooperative cannot make capital credit distributions while in default. The Cooperative may not incur additional debt from other lenders, and RUS has the discretion to suspend advances from the agreement in default. While in default RUS may request the termination of the general manager, and the Cooperative cannot hire a general manager without first securing RUS' approval of the candidate.

Q: What is the primary Coverage Ratio used in this filing to determine the adequacy of the rates requested?

A: The focus is on the RUS OTIER in the instant case. The focus is on the RUS OTIER because it is the most vulnerable ratio of the four ratios RUS uses. Unlike the TIER, the RUS OTIER calculation does not take into account non-operating items such as interest income or capital credit allocations the Cooperative receives. This means the numerator is smaller in the RUS OTIER, while the denominator remains the same in both Coverage Ratios. The COSS results in a negative RUS OTIER for the Cooperative. A rate increase of $11,506,749 is designed to provide sufficient revenue to achieve an RUS OTIER of 1.50. An RUS OTIER of 1.50 provides an operating margin of $3,176,319 in the proposed test year, and sufficient results in the other Coverage Ratios. This is an overview and David Hedrick will explain this in greater detail in his testimony. The calculation of the RUS Coverage Ratios after the revenue increase is attached hereto as Exhibit CM-3.

Q: Has the Cooperative failed any of these ratios in recent years?

A: No, however in 2013, the Cooperative used $4.5 million in revenues from its Revenue Deferral Plan in order to establish positive operating margins of $330,000 and an RUS OTIER of 1.10. Absent the Revenue Deferral Plan, more fully described in the testimony of CEO Mike Easley, the Cooperative would not have met the ratio. The 2014 Operating Budget also anticipated a revenue short fall and was supported by an estimated $1.8 million from the Plan in order to meet the respective Coverage Ratios. Ultimately it was not necessary to use the Plan in 2014, because the Cooperative made a one-time accounting change in the way it recognizes revenues, which resulted in revenues accruing in 2014 which were sufficient to provide positive year end margins and adequate Coverage Ratios. Finally, the 2015 Operating Budget also relied on the Revenue Deferral Plan as well, as it was supported by revenues of $2.35 million from the Plan. A schedule is attached as Exhibit CM-4 which shows the operating results that would have occurred since 2012 if PRECorp did not have the Revenue Deferral Plan available and did not make the accounting change described in 2014. It demonstrates that the Cooperative has been operating at a deficit and will continue to do so absent a rate increase.

Q: Is the Cooperative currently at risk of failing any Coverage Ratios?

A. Yes. While the financial results of 2015 have not yet closed, and the exact ratios are not yet known, we anticipate the need to utilize our Revenue Deferral Plan in order to restore sufficient margins and pass the Coverage Ratios this year. PRECorp has seen a significant reduction in sales in the last several years due in part to the general state of the economy and to the particular pressures on our two largest member groups. Sales to the combined Coal Bed Methane (CBM) customer classes in 2014 totaled 612,035,627 kWh, which was a 9.7% reduction in sales compared to 2013. Budgeted sales for 2015 for the same group are 541,058,800 kWh, an 11.6% reduction from 2014. Year to date November 2015, the actual decline is in line with budget at 10.6% and falling. The Large Power Transmission - Coal customers purchased 1,244,870,031 kWh in 2014, a 1.9% increase from 2013. Budgeted sales to the coal mines in 2015 are 1,236,965,095 kWh, or a 0.6% reduction over 2014, and year to date November 2015 actual sales results are a 3.7% reduction compared to the same period in 2014. As a result of the decline in sales, the Cooperative's 2015 operating budget projects a revenue short-fall of $1,692,823, which is offset by revenues from the Cooperative's Revenue Deferral Plan. Further, the Cooperatives' 2016 operating budget also projects negative margins and an operating loss.

Q. Does this conclude your testimony?

A. Yes, it does.