Cooperative Energy Response to Entergy Services, Inc., on behalf of the Entergy Operating Companies’ July 6, 2017 Requests for Information regarding Cooperative Energy’s June 12, 2017 MISO Tariff Attachment O Update, i.e., Cooperative Energy’s contribution prepayment to the NRECA Retirement and Security Plan

In order to have a complete understanding of Cooperative Energy’s specific responses set forth below, it is necessary to include the following explanation of Cooperative Energy’s treatment of its contribution prepayment to the National Rural Electric Cooperative Association (NRECA) Retirement and Security Plan, which is incorporated by reference into each of the specific responses:

Cooperative Energy does not include any pension amounts (prepayment, overfunding, etc.) in its Attachment O transmission formula rate base on which it earns a return. Cooperative Energy made a discretionary NRECA – Benefit Administrator prepayment in 2013 that is being amortized over eighteen years. The prepayment has lowered Cooperative Energy’s current and future funding payments. It has thus lowered Cooperative Energy’s expenses, which are reflected in Cooperative Energy’s Annual Transmission Revenue Requirement. Guidance on the accounting treatment of the NRECA prepayment to stabilize Cooperative Energy’s future pension costs was provided by the Rural Utilities Service (RUS) to all RUS borrowers, per letter dated February 14, 2013. Per the RUS guidance, the pension costs were recorded as a long term prepayment in Account 186, Miscellaneous Deferred Credit. Account 186 balances are not included in Cooperative Energy’s Attachment O transmission formula rate. Cooperative Energy allocates the prepaid expenses in same manner as current benefits. No amounts for the prepayment were booked into Account 165 – Prepayments, and no amount is included in any other rate base item on which a return is earned.

1. Please list each account and associated amount by account related to the contribution prepayment.

   Account No. 186017: $9,306,223.00 prepayment balance as of December 31, 2016, which represents the remaining balance after the amortization of the prepayment contribution made during February 2013 described in response 3 below.

2. For the response to Item 1, what amount by account was applied to satisfy a current required minimum funding pension contribution or was a discretionary pension contribution above the current minimum required funding?

   The pension cost amount for the current year includes a component for the current portion of the pension costs from NRECA in the amount of $5,251,497 and the amortization of the NRECA prepayment over eighteen years in the amount of $664,728. The combination of these two amounts is the total required by NRECA and RUS guidance for the current year. Amounts that are not capitalized during the current year are allocated to benefit expense based on labor charges to the different accounts.

3. Please describe in detail how the contribution prepayment is the same as or differs from a normal pension contribution, an accrued pension cost, a discretionary pension contribution, or a prepaid pension contribution.

   The NRECA Board of Directors approved an option to allow participating cooperatives in the Retirement Security Plan (RS Plan), a defined benefit multiemployer pension plan, to make an
accelerated payment and reduce future required contributions. The prepayment amount is a cooperative’s share, as of January 1, 2013, of future contributions required to fund the RS Plan’s unfunded value of benefits earned using the RS Plan’s actuarial valuation assumptions. After making the prepayment, the billing rate was reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns and other plan experience different from that expected, plan assumption changes, and other factors may have an impact on the differential in billing rates and the 15-year period. During February 2013, Cooperative Energy made an $11.9 million payment under this option. In accordance with RUS guidance, the payment is being amortized over an 18-year period based on the difference in the normal Plan retirement age, and average age of the Cooperative Energy workforce.

4. Please describe and give details of the circumstances of how and when input from transmission customers and FERC was sought for the contribution prepayment decision and the results of any input sought. If no input was sought from either transmission customers or FERC, please provide the underlying reasoning why their input was not sought prior to Cooperative Energy’s decision on the contribution prepayment.

The prepayment was approved by Cooperative Energy’s Board of Directors, which is composed entirely of representatives from Cooperative Energy’s member distribution cooperatives. The prepayment was made prior to Cooperative Energy becoming a member of MISO. Approval for the amortization was received from USDA Rural Utilities Service.

5. Please provide a calculated return on assets for the contribution prepayment for the 2016 test year.

As noted above, the contribution prepayments are not included in Cooperative Energy’s Attachment O transmission formula rate, and, therefore, Cooperative Energy does not earn a return on this contribution prepayment.

6. For GAAP accounting purposes, how does Cooperative Energy calculate pension cost recovered through Attachment O?

Annual pension costs are deemed a benefit expense. All annual benefit expenses are charged to a clearing account which is in turn allocated based on labor dollars charged to each account. Transmission O&M expense reported in the Attachment O includes labor and allocated benefit expense.

7. Is the amount of pension cost recovered through Attachment O the same amount as the contribution made by Cooperative Energy to the NRECA Retirement Security Plan?

No