

***Henderson Ridge Consulting, Inc.***

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September 5, 2017

Louisiana Public Service Commission  
Kim Trosclair/Melanie Verzwuyvelt  
Office of the General Counsel  
602 North Fifth Street (Galvez Building)  
P.O. Box 91154  
Baton Rouge, Louisiana 70821-9154

Re: RFP 17-10

In re: Application for Prudence determination of certain improvements at Welsh Units 1 and 3 and Flint Creek and associated cost recovery.

Dear Kim and Melanie:

Henderson Ridge Consulting (“HRC”) is pleased to respond to the Louisiana Public Service Commission’s (“LPSC” or “the Commission”) August 15, 2017 Request For Proposals No. 17-10 (“RFP”) for independent technical consultants to assist the Commission Staff in its review of Southwestern Electric Power Company’s (“SWEPCO”) application for a prudence determination for certain capital expenditures. As defined in the RFP, the expenditures in question are for compliance with the United States Environmental Protection Agency (“EPA”) Regional Haze, Mercury and Air Toxics and Cross State Air Pollution Rules.

Henderson Ridge Consulting is very experienced with the review of environmental expenditures required by the EPA. HRC reviewed Entergy Louisiana’s (“ELL”) Clean Air Act, Clean Air Interstate Rule and Cross-State Air Pollution Rule expenditures in two separate audits for the period 2009 through 2015. Our reviews considered whether the costs recovered in ELL’s Federal Environmental Adjustment Clause (“FEAC”) were reasonable and prudent, whether the costs were appropriate and eligible for recovery in the FEAC recovery mechanism, whether the costs passed through

the FEAC produced just and reasonable rates and whether the costs were necessary for the provision of electric service.

HRC is also familiar with the operations of SWEPCO. Our firm is currently conducting the evaluation of monthly fuel adjustment clause (“FAC”) filings for 2014 through 2015.

### **Scope of Representation**

Henderson Ridge Consulting has developed a detailed work plan that ensures that the scope of services identified in the Commission’s Request for Proposal (see Section II, Scope of Representation) are fulfilled. The proposed work plan is designed to achieve the Commission’s objectives for prudence determination including:

- SWEPCO’s adherence to principles associated with electric generating facility construction projects and the competitive process, including but not limited to analyzing whether or not a particular resource meets the utility’s need for power and whether the considered resources are able to meet those needs;
- Whether or not a resource will provide reliable service at the lowest reasonable cost;
- The adequacy of resource planning methods to improve the efficiency and reliability of SWEPCO’s power supply operations and whether SWEPCO is making use of any such methods;
- Whether the capital expenditures meet the public interest criteria for approval and monitoring of electric generating facility projects;
- Whether the Commission’s rules on affiliate transactions and cost recovery mechanisms for power supply resources have been met;
- SWEPCO’s compliance with environmental regulations and
- The extent to which the capital improvements meet all Southwestern Power Pool (“SPP”) regulations specifically related to resource adequacy planning.

**Period of Representation**

We estimate that the time period necessary to complete the fuel audit is six to twelve months.

**Proposed Work Plan of Henderson Ridge Consulting**

The work plan proposed by Henderson Ridge Consulting includes procedures that are routinely performed in the course of investigating the prudence of costs incurred by a regulated utility. These activities include, but are not limited to, a review of the compliance requirements of the two EPA rules in question: the Regional Haze, Mercury and Air Toxics Rule and the Cross State Air Pollution Rule. SWEPCO's capital costs will be compared to the EPA rules to determine the extent to which they adhere to the Rules' requirements. We will review the method SWEPCO utilized to hire contractors when it undertook activated carbon injection, fiber filter and new chimney projects at its coal units in Texas and to install a dry flue gas desulfurization system at its Flint Creek plant in Arkansas. We will request documentation to confirm that SWEPCO adhered to all SPP tariffs, rules and planning processes related to SPP's resource adequacy processes. The expected impact of SWEPCO's capital expenditures upon a typical customer bill will be determined. Affiliate transactions will be reviewed in order to ascertain whether they represent arms-length relationships and are consistent with the Commission's orders. Finally, we will test the extent to which the capital projects in question meet the Commission's public interest criteria.

**Experience of Henderson Ridge Consulting**

The extensive utility experience of Henderson Ridge Consulting and our familiarity with EPA compliance audits makes the firm particularly well-suited to conduct the prudence determination of SWEPCO's capital expenditures. We determined the prudence of expenditures in a number of engagements including expenditures for Entergy Louisiana, LLC FEAC audits for two periods and the SWEPCO FAC audit for

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2014 – 2015. Our prudence experience also includes purchased gas audits, compliance audits, affiliate transaction audits, management audits, and single-issue audits for a number of regulated utilities in Louisiana.

Henderson Ridge Consulting recently completed a comprehensive two-phase audit of ELL's FAC filings for the period of 2005 through 2009. Henderson Ridge Consulting also completed an audit of the Atmos Energy local gas distribution companies' PGAs. In addition, we conducted the audit of SWEPCO's fuel procurement practices during the period shortly after the landfall of Hurricanes Katrina and Rita. Over the years, Henderson Ridge Consulting has reviewed the FAC filings of other utilities as part of earnings reviews and other ratemaking dockets.

The members of Henderson Ridge Consulting are experienced in analyzing the operations and books and records of utility companies. This experience covers (1) appropriate accounting standards and practices for utilities, (2) appropriate ratemaking adjustments to the utility's accounting records, (3) appropriate allocations of costs to base rates and fuel charges, (4) recoverable expenses for ratemaking purposes, and (5) utility taxation issues.

**Minimum Requirements**

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, local gas distribution companies, telecommunications carriers, and water and sewer companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates in the recovery of costs from ratepayers.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to Louisiana regulated utilities, including charges assigned from and allocated by affiliates.

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Henderson Ridge Consulting has reviewed the list of Minimum Requirements identified in Section IV of the Commission's RFP. Our firm is experienced with each of the Minimum Requirements and can readily satisfy this group of professional standards that the Commission expects of its expert consultants.

**Estimate of Cost**

Henderson Ridge Consulting anticipates that the prudence review of SWEPCO's environmental project expenditures will require a total of 217 hours. The professional fees for the project are estimated at \$30,420.00 based upon an hourly rate of \$150 for William Barta and \$135 for Debbie Barta. Travel-related expenses are anticipated to be \$1,500.00 for a total budget of \$31,920.00.

**Conflict of Interest**

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public Service Commission.

I appreciate the opportunity to respond to the RFP and to continue our relationship with the Commission and its Staff.

Sincerely,

William Barta  
Principal