

**J. KENNEDY
AND
ASSOCIATES, INC.**

**PROPOSAL TO THE
LOUISIANA PUBLIC SERVICE COMMISSION**

IN RESPONSE TO RFP 19-24

DOCKET NO. U-35441

**IN RE: SOUTHWESTERN ELECTRIC POWER COMPANY'S
APPLICATION FOR APPROVAL OF A CHANGE IN RATES,
EXTENSION OF FORMULA RATE PLAN AND OTHER
RELATED RELIEF**

**570 Colonial Park Drive
Suite 305
Roswell, Georgia 30075
770-992-2027**

January 9, 2020

Executive Summary

J. Kennedy and Associates, Inc. (“Kennedy and Associates”) is pleased to submit this proposal to assist the Louisiana Public Service Commission Staff (“Commission” and “Staff”) in its review of Southwestern Electric Power Company’s (“SWEPCO” or “the Company”) requests to: 1) increase its base rates after it files a cost of service study and supporting documentation in 2020, 2) amend its Formula Rate Plan (“FRP”) and extend it for five years (beginning with a 2020 test year, 3) update and extend its Service Quality Improvement Plan (“SQIP”), 4) revise its depreciation rates, and 5) approve the seasonal levelization of its residential charges. This proposal is structured to meet the requirements of the Commission’s Request for Proposal (“RFP”) dated December 17, 2019 (RFP 19-24).

Although SWEPCO filed its Application in this proceeding, it did not file a cost of service study or a specific request to increase its base rates by a specific amount. Instead, it plans to supplement the Application with an updated revenue requirement based on a test year of 2019 or a “more recently completed 12-month period, if necessary,” along with supporting testimony and other documentation, at some later date in 2020. This cost of service study also will require the completion of the review and a final order in Docket No. U-34806 for the FRP rate change based on a 2017 test year and rolling forward all FRP rate changes from 2012 to present, according to the Company’s Application.

Kennedy and Associates is well-qualified to assist the Staff in this review in a knowledgeable and efficient manner. We have assisted the Commission in numerous proceedings on SWEPCO matters, including the AEP acquisition of Central and Southwest Corporation (Docket No. U-23327), base rate proceedings (Docket No. U-23327), SWEPCO’s acquisition of Valley Electric (Docket No. U-31351), development of the initial SQIP (Docket No. U-23327), development of the initial FRP

(Docket No. U-23327), modifications to the initial FRP necessary to include the energy efficiency related revenue requirement (Docket No. U-34728), fuel adjustment clause mechanism audits (Docket No. U-23327, Subdocket B for the separate audits of 2001-2002 and 2003-2004), Environmental Adjustment Mechanism audits (Docket Nos. U-32020 and U-33969), and Certification of the Leaside Way Transmission Project (Docket No. U-34630).

We have assisted the Staff in the design and development of several other utility FRPs. We also have assisted the Staff in other requests to modify utility FRPs and in numerous reviews of annual FRP filings. These utilities include Dixie Electric Membership Cooperative, Inc., South Louisiana Electric Cooperative Association, LLC, Claiborne Electric Cooperative, and Beauregard Electric Cooperative Inc. We also have assisted the Staff in various MISO matters, including the Commission's extensive investigation into Entergy's and Cleco's decisions to join MISO.

We will review the Company's filing in detail to determine if the requests are appropriate, whether modifications are necessary, and if so, then what modifications should be made. We will work closely with the Staff to attempt to reach a consensual settlement with the Company and the other parties to the proceeding to balance SWEPCO's need for timely rate relief with the need to ensure that customer rates are reasonable. We will conduct discovery, participate in meetings with the Commissioners, Staff and other parties as requested, assist the Staff in preparing briefing materials if there is not a settlement, and attend the Commission's Business and Executive Session if requested. In the event that it becomes necessary to litigate this matter, we will also provide expert testimony, and other regulatory support services as part of our services under our proposed budget.

Budget to Perform These Services

Kennedy and Associates proposes a budget of \$127,200, consisting of \$122,000 for consulting services and \$5,200 for expenses. Our services will be billed based on the hourly billing rates attached to this letter. We will bill only for actual hours worked and actual expenses incurred. We will not exceed the total labor and expense budgets based on the scope of work outlined without authorization from the Commission. We will not change our hourly rates on this project during the period of representation without authorization from the Commission. We also acknowledge that all expenses charged will be within the Commission's standard expense allowances.

Kennedy and Associates Qualifications

Kennedy and Associates is well qualified to assist the Staff in this docket due to its familiarity with SWEPCO and the base ratemaking process using a historic test year, the FRP, the SQIP and our familiarity with other investor owned and cooperative electric utility FRPs. In addition, our firm has provided extensive consulting assistance to the Staff in dozens of other proceedings involving nearly all of the electric and natural gas utilities in the state. These proceedings have involved rate cases, design and modification of FRPs, annual FRP reviews, rulemakings, acquisitions, fuel clause audits, purchased gas adjustment audits, environmental clause audits, resource acquisitions, and affiliate transactions. Our experience and the expert appearances of our consultants are detailed in our Qualifications package, a copy of which is enclosed with our proposal.

Kennedy and Associates meets all professional qualification requirements specified in the Commission's RFP for technical consultants. We are qualified to prepare and render expert testimony and stand for cross-examination with respect to all of the issues addressed in the RFP and which are likely to arise in this proceeding. Each of our consultants is experienced in analyzing

the operations, books and records of utility companies for the purpose of setting just and reasonable rates, is prepared and qualified to render expert testimony, and has knowledge of the following:

- 1) Appropriate accounting standards and practices for electric public utilities and/or electric cooperatives, public utility accounting, and generally accepted auditing standards;
- 2) Appropriate ratemaking adjustments to be made to the utility's accounting records;
- 3) Determination and calculation of the appropriate rate base of a utility plant investment dedicated to providing service;
- 4) Traditional cost-of-service and cost allocation methodologies supporting the revenue requirements among classes of customers;
- 5) Cost allocation methodologies for the allocation of investment and expenses between affiliates, including the relationship of the holding company to its subsidiary operating companies, the transfer of investment and costs between operating companies, and the provision of services between affiliates;
- 6) Cost of capital, including capital structure, cost of debt, cost of equity and rates of return;
- 7) Familiarity with just and reasonable costs and prudent investments associated with providing reliable and quality service as recommended by NARUC;
- 8) Formula rate plans;
- 9) Depreciation and taxation; and
- 10) Detailed understanding of electric utility regulation.

Kennedy and Associates Project Team

Mr. Lane Kollen, Vice President, CPA, CMA, CGMA will manage this project. He will be assisted by other Kennedy and Associates personnel as appropriate, including primarily Mr. Randy Futral and Mr. Richard Baudino. Mr. Kollen, Mr. Futral, and Mr. Baudino are experienced regulatory consultants who have analyzed and provided expert testimony in hundreds of proceedings. They also have designed and developed FRPs and performed numerous audits and reviews of FRP filings in

conjunction with the Staff. Mr. Kollen, Mr. Futral, and Mr. Baudino have testified on regulatory matters on numerous occasions in multiple jurisdictions, including the Commission.

Mr. Kollen has several decades of experience in nearly all facets of utility operations, including investor owned and cooperative utilities, investor owned and cooperative utility ratemaking, the design and implementation of FRPs, and utility taxes. In addition, he is an expert in the financial, rate, tax, and planning areas. He specializes in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisitions and diversification. Mr. Kollen has expertise in various software systems used by utilities for budgeting, rate case support and strategic and financial planning. Mr. Kollen has testified on hundreds of occasions before federal and state regulatory commissions and courts on utility matters. Mr. Kollen's regulatory experience is described further in his biography attached to this proposal and his extensive expert testimony and appearances are detailed in the enclosed Qualifications package.

Mr. Randy Futral, Manager, Consulting, is an expert on utility ratemaking and analyses, including electric cooperatives. Mr. Futral worked closely with the Staff in the development of the Dixie, Claiborne, and SLECA FRPs and has performed numerous audits in conjunction with the Staff, including numerous annual FRP filings made by various electric cooperatives. Mr. Futral also has assisted in various audits of electric cooperatives, including the review and recovery of storm damage costs by Dixie. Mr. Futral's regulatory experience is described further in his biography attached to this proposal and his expert testimony and appearances are detailed in the enclosed Qualifications package.

Mr. Baudino is a consultant to Kennedy and Associates. He has several decades of utility ratemaking experience and is an expert on cost of capital, including capital structure and return on

equity. He also is an expert on other revenue requirement, class cost of service, and rate design issues. He has testified on more than one hundred occasions. In addition, Mr. Baudino was the consultant who worked with our firm and the Staff to develop the SWEPCO SQIP in Docket No. U-23327. Mr. Baudino's regulatory experience is described further in his biography attached to this proposal and his expert testimony and appearances are detailed in the enclosed Qualifications package.

Action Plans and Timelines

Kennedy and Associates is prepared to begin work on this project immediately upon being retained by the Commission. We anticipate that there will be as many as four proceedings, with the first one in early 2020 to address the Company's request to seasonally levelize the residential rates. We anticipate another proceeding to address the Company's request to amend and extend the amended FRP for five years beginning with the 2020 test year, although neither the RFP nor our proposal address or include the reviews of the five annual FRP filings pursuant to the amended FRP if it is adopted by the Commission. We anticipate another proceeding to address the extension of the SQIP. Finally, we anticipate another proceeding to address the Company's base revenue requirement. Depending on when the Company files its cost of service, it may be possible to combine the proceedings to address the FRP, SQIP, and revenue requirement. We have developed the following Action Plan and Timeline for the major activities in these proceedings.

We will assist the Staff in the following actions:

- 1) Review the Company's request to seasonally levelized its residential charges. We anticipate that this will be an expedited proceeding to ensure that residential rates are levelized prior to the summer billing cycles, most likely to be completed in February or March 2020, and most likely to be resolved via settlement agreement and available for Commission decision at the March or April Business and Executive ("B&E") meeting.

- 2) Review the Company's request to amend and extend its current FRP for five years. This review will take place in mid to late 2020 and likely would run simultaneously with the Company's rate case proceeding. We expect that this proceeding will be resolved via settlement agreement and available for Commission decision at the December B & E or earlier.
- 3) Review the Company's request to amend the SQIP and extend it for five years in parallel with the extension of the FRP. This review will take place in mid to late 2020 and likely would run simultaneously with the Company's rate case proceeding. We expect that this proceeding will be resolved via settlement agreement and available for Commission decision at the December B & E or earlier.
- 4) Review the Company's base rate increase request. In addition to the rate base, operating revenues, and operating expenses for the test year, including accounting and other adjustments, we will review the Company's depreciation study. We also will review the requested capital structure, cost of debt, and return on equity. We will perform an independent study of the required return on equity. We expect that this review will begin after the Company and Staff resolve the 2017 test year FRP rates, which could be in early to mid-2020. We expect that our review will be completed within twelve months from the date the cost of service study, direct testimony, and other supporting schedules and workpapers are filed.
- 5) Prepare discovery and review responses in all four proceedings.
- 6) Assist Staff counsel in negotiating and drafting settlement agreement in all four proceedings;
- 7) Prepare direct testimony in support of settlement agreement(s) and appear at hearing(s), if necessary; prepare direct testimony addressing litigated issues not resolved by settlement agreement and appear at hearing(s), if necessary; assist Staff counsel in preparation for hearing(s), if necessary; assist Staff counsel in drafting briefs, if necessary; and appear at the Commission B&E(s) if requested by Staff counsel, if necessary, in all four proceedings.

Kennedy and Associates Has No Conflicts of Interest

Kennedy and Associates has no known conflicts of interest in representing the Louisiana Public Service Commission in this proceeding and none of the Project Team members presently represent other clients before the Commission. Kennedy and Associates does not represent investor-owned gas or electric utilities.

RESUME OF LANE KOLLEN, VICE PRESIDENT



EDUCATION

University of Toledo, BBA (Accounting)
University of Toledo, MBA
Luther Rice University, MA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)
Certified Management Accountant (CMA)
Chartered Global Management Accountant (CGMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
Georgia Society of Certified Public Accountants
Institute of Management Accountants
Society of Depreciation Professionals

EXPERIENCE

Mr. Kollen has nearly forty years of utility industry experience in nearly every facet of utility planning, performance, and operations, including the financial, accounting, rate, tax, and financing areas. He has conducted prudence and operational audits on behalf of utilities and regulatory commissions; participated in and reviewed mergers and acquisitions on behalf of utilities and regulatory commissions; conducted performance and financial analyses on behalf of utilities and regulatory commissions; developed and reviewed alternative and performance based ratemaking plans; performed traditional ratemaking evaluations and filed reports and/or provided expert testimony before state and federal courts and regulatory commissions on hundreds of occasions addressing prudence and restructuring, including staffing levels and organizational structure; mergers, acquisitions, and divestitures; contract performance; revenue requirements; taxes; depreciation; financing; operation and maintenance expense; reliability; cost of service; and other issues. Mr. Kollen also is experienced in various proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. Kennedy and Associates, Inc. (1986 to Present): Vice President and Principal. Mr. Kollen provides consulting services that address planning, performance, operational, financial, accounting, and tax issues. Clients include state regulatory commissions and other government agencies, large users of electricity, natural gas, water, and steam.

Energy Management Associates (1983 to 1986): Lead Consultant, Product Manager. Mr. Kollen provided consulting services to electric and natural gas utility clients throughout the country in numerous planning, financial, accounting, and budgeting areas. In addition, he used and developed proprietary software tools widely used throughout the regulated utility industry.

The Toledo Edison Company (1976-1983): Planning Supervisor, Auditor, Accountant. Mr. Kollen was engaged in financial planning activities, including generation expansion planning; construction monitoring; capital and expense budgeting; evaluation of tax law changes; rate case strategy and support; production cost and financial modeling; and operational and financial audits.

RESUME OF RANDY A. FUTRAL, MANAGER OF CONSULTING



EDUCATION

New Mexico State University, M.A.
Economics

New Mexico State University, B.A.
Economics, English

EXPERIENCE

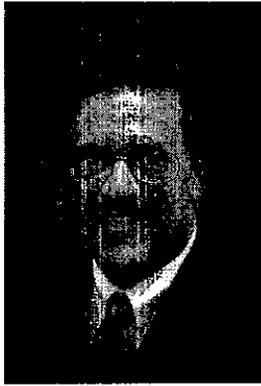
Mr. Baudino has more than thirty years of broad-based experience in utility ratemaking, including revenue requirement analysis, cost of capital, utility financing, electric and natural gas utility restructuring and competition; phase-ins, auditing, cost allocation, and rate design. Mr. Baudino has provided expert testimony in one hundred eighty utility rate proceedings. He has significant experience in the development and use of revenue requirement, cost of service, and rate design modeling.

Baudino Regulatory Consulting, Inc. (2007 to Present). President. Mr. Baudino has continued his association with J. Kennedy and Associates, Inc. as a Consultant. Mr. Baudino provides consulting services to clients that encompass the following: estimation of the investor required return on equity, capital structure, cost of service analysis for electric, gas, and water utility operations, rate design, and various issues of regulatory policy.

J. Kennedy and Associates, Inc. (1989 to 2007). Director of Consulting. Responsible for consulting projects and expert testimony in the areas of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, fuel cost auditing, gas industry restructuring and competition.

New Mexico Public Service Commission Staff (1982 to 1989). Utility Economist. Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

RESUME OF RANDY A. FUTRAL, MANAGER OF CONSULTING



EDUCATION

**Mississippi State University, BBS in Business Administration
Accounting**

EXPERIENCE

Mr. Futral has nearly thirty years of utility and related industry experience in the areas of management, accounting, budgeting, forecasting, financial reporting, ratemaking, tax, banking, and both as a management employee and as a consultant. He has conducted utility revenue requirements analyses, affiliate transaction auditing and analysis, fuel adjustment clause auditing, purchase gas adjustment auditing, environmental adjustment clause auditing, and research involving tax and public reporting matters. He has filed reports and/or testimony before state and federal courts and regulatory commissions on numerous occasions addressing revenue requirements, tariff development and compliance, operation and maintenance expenses, and other issues.

J. Kennedy and Associates, Inc. (2003 to Present): Manager of Consulting. Mr. Futral provides consulting services that address compliance, performance, and operational issues. Clients include state and regulatory commissions and other government agencies as well as large users of electricity and natural gas.

Telscape International, Inc. (1997 – 2003): Corporate Assistant Controller and Corporate Controller. Mr. Futral had complete responsibility and accountability for the accounting and financial functions of a \$160 million newly public company providing telecommunication and high-end internet access services. Telscape served as a telephony carrier of services domestically and to Latin and Central America targeting other service carriers as well as individuals. Mr. Futral reported directly to the CFO and managed a staff of eleven.

Comcast Communications, Inc. (1988 - 1997): Regional Senior Financial Analyst, Regional Assistant Controller and Regional Controller. Mr. Futral had complete responsibility and accountability for the accounting functions of a \$2.1 billion regional division of then the world's third largest cable television provider serving approximately 490,000 subscribers. Mr. Futral reported to the Regional VP of Finance and managed a staff of twelve.

Storer Cable Communications, Inc. (1987 – 1988): Senior Accountant for Operations. Mr. Futral had responsibility for the accounting, budgeting, and forecasting activities of this 82,000 subscriber area for this cable television concern that was acquired by Comcast listed above.

Tracey-Luckey Pecan & Storage, Inc. (1986 – 1987): Senior Accountant

Tarpley & Underwood, CPA's (1984 – 1986): Staff Accountant

J. Kennedy and Associates, Inc.
Hourly Fee Schedule
For Southwestern Electric Power Company's Application
For Approval Of A Change In Rates, Extension
Of Formula Rate Plan, Extension of SQIP, And Other Related Relief

<u>Title</u>	<u>Name</u>	<u>Hourly Rate</u>
President	Stephen J. Baron	\$275
Vice President	Lane Kollen	\$275
Vice President	Philip Hayet	\$275
Director	Richard A. Baudino	\$260
Director	Brian R. Barber	\$260
Manager	Randy Futral	\$260
Senior Consultant	Ann Bruccoliere	\$240
Consultant	Sam Wyrobeck	\$180
Consultant	Brian Kollen	\$180
Analyst	Jessica Inman	\$130