

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

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October 11, 2017

Louisiana Public Service Commission  
Attention: Kim Trosclair/Melanie Verzwuyvelt  
Office of the General Counsel  
602 North Fifth Street, 12<sup>th</sup> Floor (Galvez Building) (70802)  
P.O. Box 91154  
Baton Rouge, Louisiana 70821-9154

Re: **RFP 17-13** Docket No. TBD  
***Cleco Power LLC, ex parte***  
***In re: Cleco Power, LLC's Monitoring Reports for the test years ending June 30, 2017, 2018, and 2019.***

Dear Kim and Melanie:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") September 25, 2017 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in conducting a review of Cleco Power LLC's ("Cleco Power" or "the Company") Formula Rate Plan ("FRP") Monitoring Reports scheduled to be filed on October 31, 2017, 2018, and 2019. Our firm has extensive experience with the filings and applications of Cleco Power, including an evaluation of its long-term Integrated Resource Plan ("IRP"), a review of the Company's request for certification of a Waste Heat Recovery project, and the evaluation of the Company becoming a member of the Midcontinent Independent System Operator ("MISO") Regional Transmission Organization.

In prior engagements with the LPSC, Henderson Ridge Consulting has conducted the annual earnings reviews of Entergy Gulf States, L.L.C. under its FRP for the test years of 2004 through 2011. In addition, we have reviewed the FRP filings of several electric distribution cooperatives that are subject to the regulation of the Commission. We just completed our evaluation of the most recent annual FRP filings submitted by Beauregard,

Concordia, and Pointe Coupee. Henderson Ridge Consulting is also experienced with other FRPs that have been approved by the Commission and has designed several of the FRPs that are currently in effect for LPSC-jurisdictional electric distribution cooperatives and water and sewer utilities.

### **Scope of Representation**

As defined in the RFP, the consultant retained by the Commission shall assist Staff in the evaluation of Cleco Power's FRP Monitoring Reports for the test years of 2017, 2018, and 2019 pursuant to the provisions of the Rider FRP. The evaluation will require an examination of all Rider FRP Attachments prepared by the Company in order to determine compliance with the provisions of the FRP and whether additional ratemaking adjustments are warranted. The Company's adjusted test year results are subject to rate decreases but not rate increases per the terms of Commission Order No. U-33434-A.

### **Summary of Work Plan**

Our proposed work plan centers upon a comprehensive review of the FRP Monitoring Reports submitted by Cleco Power. We will ensure that the Company's filings are consistent with the terms of the FRP approved by the Commission. We will initially assess the unadjusted and adjusted earnings levels as prepared by the Company. We will subsequently determine whether additional adjustments should be made outside of those prescribed in the FRP and assess how such adjustments affect the earnings bandwidth set for the Company under the terms of the FRP.

The major services, procedures, and tests that will be performed include:

- Examine documentation provided in support of test year pro forma adjustments;
- Prepare formal discovery and review responses;
- Perform a review of selected test year general ledger transactions in order to identify entries that are inappropriate for ratemaking purposes and/or unusual or nonrecurring in nature;
- Conduct tests of accounts and examine documentation in support of specific transactions;

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- Perform trend analyses of major Operations & Maintenance and General & Administrative accounts to identify whether there are unusual swings in expense activity;
- Meet and hold conference calls with Staff and Company representatives;
- Hold status conferences with Staff;
- Prepare final report and/or prefiled testimony;
- Attend depositions and/or stand cross examination at Commission hearings;
- Attend Business and Executive Session;
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services to Staff throughout the engagement.

**Experience of Henderson Ridge Consulting**

Henderson Ridge Consulting is very familiar with the FRP that was approved by the Commission in Docket No. U-32779 as we evaluated Cleco Power's compliance with the terms of the FRP when the Company sought certification of the Waste Heat Recovery project in Docket No. U-33593. Our knowledge of the FRP under which Cleco Power is regulated extends to the special cost recovery mechanisms provided in the plan as well as the individual FRP adjustments, schedules, and filings that the Company is required to submit under the provisions of Order No. U-32779. We also worked with the Commission Staff in monitoring the development of Cleco Power's 2014 long-term Integrated Resource Plan that the Company is required to file under Docket No. R-30021. Prior to these engagements on behalf of the Commission, our firm was retained by the LPSC for the public interest phase as well as the implementation phase in the evaluation of Cleco Power's application seeking the Commission's approval for membership in MISO.

Henderson Ridge Consulting has conducted the evaluation of the annual FRP filings submitted by Entergy Gulf States, L.L.C. for the test years of 2004 through 2011. Our firm also performed detailed earnings investigations of several electric distribution cooperatives that are regulated by the Commission, including the most recent reviews of the FRP results filed by Beauregard, Concordia, and Pointe Coupee. We are currently conducting the earnings investigation of SLECA's base rates in response to the cooperative's request for a rate increase. Over the years, our firm has worked closely with other electric distribution cooperatives on behalf of the Commission. These engagements

have covered a broad range of areas, including earnings investigations, FRP design, affiliate transaction audits, and storm restoration expense audits and subsequent rate relief.

A firm resume has been attached to the proposal and provides further background on our experience and prior engagements. Our firm has been retained by the Louisiana Public Service Commission over the years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under its jurisdiction. These engagements have involved electric distribution cooperatives, investor-owned electric utilities, local gas distribution companies, telecommunications carriers, and water and wastewater utilities.

#### **Minimum Requirements**

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, telecommunications carriers, and water and wastewater companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates. To that end, the firm has experience with several regulatory approaches to determine the utility's revenue requirement, including the traditional rate base/rate-of-return methodology, interest coverage approaches, the cash needs study, and the cost plus margin model.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles under which investor-owned electric utilities are regulated. We are also experienced with the terms and provisions of those utilities' FRPs.

Henderson Ridge Consulting has reviewed the list of minimum requirements identified in as (A) through (I) 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.

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**Estimate of Cost**

For the review of Cleco Power's Formula Rate Plan Monitoring Reports for the test years 2017, 2018, and 2019, the professional fees are estimated at \$77,400.00 (i.e. \$25,800 for each Monitoring Report evaluation) based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$2,700.00 (i.e. \$900 for each Monitoring Report evaluation) for a total budget of \$80,100.00.

**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. The firm does not represent any private clients before the Commission.

Henderson Ridge Consulting appreciates the opportunity to respond to the RFP and to continue its relationship with the Commission and its Staff.

Sincerely,

*William Barta*

William Barta  
Principal

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**SERVICES PROVIDED:**

Henderson Ridge Consulting, Inc. is a regulatory consulting firm founded in 1996. The firm's practice addresses the traditional regulatory matters (e.g. earnings investigations, affiliate transaction reviews, fuel adjustment clause audits, etc.) that routinely confront regulators in the electric, gas, telecommunications, and water and wastewater utility industries. In addition, the firm has increasingly focused its work on the technical and policy issues challenging the regulatory authorities overseeing the competitive developments occurring within the telecommunications and electric utility industries.

**EXPERIENCE:**

**Electric Utility Industry:**

- Monitoring of competitive solicitation process of electric utility's Request For Proposals for long-term, supply-side resources
- Certification of electric utility's self-build generating facility as serving the public interest
- Prudence audits of generating plant environmental retrofits
- Evaluation of proposed long-term Purchased Power Agreements to meet capacity deficits
- Earnings investigations of major investor-owned utilities, generation and transmission cooperative, and distribution cooperatives
- Earnings investigations conducted under various approaches including traditional rate base/rate-of-return, TIER, cash flow requirements studies, and Formula Rate Plans
- Financial and public interest assessment of Waste Heat Recovery generation facility
- Cost-Benefit Analyses of integration into Regional Transmission Organizations
- Public interest determination of transfer of control of transmission facilities
- Evaluation of Integrated Resource Plans
- Financial and regulatory policy assessment of proposed renewable generation projects
- Evaluation of investor-owned utilities transmission expansion plans and upgrades
- Evaluation of electric service provider Smart Grid network infrastructure investments, customer service enhancements, and retail program initiatives
- Development of nuclear decommissioning revenue requirement
- Evaluation of long term Power Supply and Services Agreements for certification
- Storm restoration cost audits
- Rulemaking to develop "best practices" for storms and other disasters
- Fuel Adjustment Clause audits of investor-owned utilities
- Nuclear generating facility siting and licensing evaluation

- Management audits of Gulf States Utilities, Inc., generation and transmission cooperative and distribution cooperatives
- Merger analyses of Entergy-Gulf States Utilities, Inc.
- Affiliate transaction audits
- Demand Side Management program analyses

#### Natural Gas Industry

- Purchased Gas Adjustment audits of local distribution companies
- Evaluation of fuel procurement and hedging practices
- Fair and reasonable cost of capital
- Evaluation of Asset Management Agreements
- Review of Rate Stabilization Plan Annual Filings

#### Telecommunications Industry

- Earnings investigations of major investor-owned utilities, independent local exchange carriers, and telephone cooperatives conducted under various approaches
- Price cap regulation reviews and alternative regulation assessments
- Biennial compliance audits of local exchange carriers
- Reactive audits of rural incumbent local exchange carriers
- Affiliate transaction audits
- Addressed policy and technical issues in regulatory proceedings initiated in response to the pro-competitive mandates of the 1996 Act. Subject areas include universal service and access charge reform, interim and permanent pricing for local interconnection and unbundled network elements, avoided retail cost studies for resale purposes, evaluation of local number portability cost studies, assessment of Contract Service Arrangements, and mediation of joint use pole disputes
- Financial review of special State regulatory funds (e.g. access funds, Telecommunications Relay Service fund) including implementation of accounting system to track contributions and disbursements from the funds
- Structuring of Louisiana State Universal Service Fund
- Retail Service Quality Measurements rulemaking

#### Water and Wastewater Utility Industry:

- Earnings investigations
- Affiliate transaction reviews
- Prospective financial statement studies
- Rate design support to ensure compliance with bond covenants
- Formula Rate Plan design
- Project administration and oversight of expenditures
- Public interest determination for transfer of control and ownership requests
- Valuation of assets in a business combination (under GAAP) and determination of rate base (for ratemaking purposes)
- Phased rate increases for recovery of planned capital improvements

**AUDITING EXPERIENCE:**

- Fuel Adjustment Clause audits
- Purchased Gas Adjustment audits
- Compliance audits
- Reactive audits
- Affiliate transaction audits
- Storm restoration cost audits
- Management audits
- Attestation of accuracy of semi-annual bond securitization true-ups
- Avoided cost audits in support of payments to Qualifying Facilities
- Federal Environmental Adjustment Clause audits

**REGULATORY CLIENTS SERVED:**

Henderson Ridge Consulting, Inc. has served a diverse range of clients including the State regulatory authorities of:

- Louisiana Public Service Commission
- Georgia Public Service Commission
- Nevada Public Utilities Commission

References are available upon request.

**EXPERT TESTIMONY PROVIDED IN THE FOLLOWING JURISDICTIONS:**

California	Florida	Georgia
Louisiana	Mississippi	Nevada
Ohio	North Carolina	Tennessee
	South Carolina	Texas