

Henderson Ridge Consulting, Inc.

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December 6, 2017

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

Re: RFP 17-16 - Docket No. U-34676
Jefferson Davis Electric Cooperative, Inc., ex parte
In re: Application for Approval of a Formula Rate Plan and Initial Revenue Adjustment.

Dear Kim:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") November 16, 2017 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in conducting (1) a review of Jefferson Davis Electric Cooperative's ("JDEC" or "the Cooperative") request to be regulated under a Formula Rate Plan ("FRP"), (2) the evaluation of the initial revenue adjustment of \$867,901 proposed by JDEC, and (3) the analysis of the Cooperative's Annual Filings for the test years ending 2017 through 2019. Our firm has been retained by the Commission in other proceedings to design the FRPs under which several of the LPSC-jurisdictional electric distribution cooperatives' earnings are being evaluated, including the proposed FRPs filed by Pointe Coupee Electric Membership Corporation ("Pointe Coupee") and Concordia Electric Cooperative, Inc. ("Concordia"). In other engagements with the LPSC, Henderson Ridge Consulting has conducted earnings reviews of several electric distribution cooperatives that are subject to the regulation of the Commission, including the most recent FRP Annual Filings of Beauregard Electric Cooperative, Inc., Pointe Coupee, and Concordia. We have also just completed our examination of the application of South Louisiana

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Electric Cooperative Association for an increase in retail rates based upon a 2016 test year.

Scope of Representation

As defined in the RFP, the consultant retained by the Commission shall assist Staff in the review of JDEC's request to be regulated under a FRP, the proposed initial revenue adjustment, and the upcoming Annual Filings of the Cooperative for test years 2017 through 2019. Henderson Ridge Consulting worked closely with the Commission Staff in several proceedings in the evaluation of whether the terms and conditions of a proposed FRP, or the extension of an existing FRP, would serve the interests of a cooperative's members. Thus, our firm is very familiar with the terms being proposed by JDEC in its FRP as well as the individual FRP adjustments, schedules and filings that cooperatives are required to submit under the provisions of a FRP that is approved by the Commission. In recent filings by other LPSC-jurisdictional electric distribution cooperatives, we have evaluated the need for an initial revenue adjustment and will make the appropriate pro forma adjustments to JDEC's 2016 test year to ensure that rates are fair and reasonable at the outset of the FRP. Over the effective term of the FRP, we will ensure that a comprehensive review of each Annual Filing of JDEC is undertaken and each Annual Filing is consistent with the terms of the FRP ultimately approved by the Commission.

Summary of Work Plan

Henderson Ridge Consulting will initially examine the Cooperative's request to be regulated under the terms of a FRP. Based upon our examination, we may recommend alternative terms and conditions to those being proposed in the Cooperative's application with the Commission. In tandem with the assessment of the FRP proposed by JDEC, we will evaluate the initial revenue adjustment of \$867,901 requested by the Cooperative. Should the Commission approve our recommended modifications to the FRP, we shall evaluate the Annual Filings submitted by the Cooperative in support of the

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2017 – 2019 test years. We will 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 Cooperative under the terms of the modified FRP.

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

- Examine the Cooperative's request to be regulated under the terms of the proposed FRP;
- Compare the terms and conditions of the FRP as proposed by JDEC to the terms and conditions of the FRPs in place for other LPSC-jurisdictional cooperatives;
- Examine documentation provided in support of test year pro forma adjustments;
- Prepare formal discovery and review responses;
- Perform a detailed review of the test year general ledger activity;
- Conduct tests of accounts and examine documentation in support of specific transactions;
- Perform trend analyses of major Operations & Maintenance and General & Administrative accounts to identify unusual swings in expense activity;
- Meet and hold conference calls with Staff and Cooperative representatives;
- Hold status conferences with Staff;
- Prepare final report and/or prefiled testimony;
- Stand cross examination at Commission hearings;
- Attend Business and Executive Sessions;
- 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 has performed detailed earnings investigations of several electric distribution cooperatives that are regulated by the Commission, including the recent reviews of the FRP results filed by BECi, Pointe Coupee, and Concordia. We have just completed the review of SLECA's application before the Commission in Docket No. U-34483 that seeks an increase in retail rates (i.e. not an FRP annual evaluation filing). Over the years, our firm has worked closely with the electric distribution cooperatives on behalf of the Commission. These engagements have covered a broad range of areas, including earnings investigations, FRP design, long-term purchased power and services agreements, and affiliate transaction audits. Henderson Ridge Consulting worked closely with JDEC after the 2005 hurricanes in performing

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storm restoration expense audits and recommending subsequent rate relief. We have also worked closely with Northeast Louisiana Power Cooperative and Beauregard Electric Cooperative, Inc. during the last year to address those Cooperatives' requests to implement Advanced Metering Infrastructure programs. Our experience in working with the Louisiana electric distribution cooperatives on behalf of the Commission is extensive: over the years we have worked on over thirty projects with the cooperatives.

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, gas local distribution companies, telecommunications service providers, and water and wastewater utilities.

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 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 and debt service 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 specific to electric distribution cooperatives. We are very experienced with the Formula Rate Plan currently in effect for many of the LPSC-jurisdictional electric distribution cooperatives

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as our firm has been retained in several dockets to determine whether the FRPs as proposed by the cooperatives were in the interests of their members.

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

The professional fees to be incurred in the course of the engagement include the following activities: (1) the examination of the FRP as proposed by JDEC, (2) the examination of the proposed initial revenue adjustment, and (3) the evaluation of each Annual Filing for test years 2017, 2018, and 2019. The professional fees are based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$1,200.00 for each trip to Baton Rouge in support of our reports and recommendations.

<u>Description</u>	<u>Services</u>	<u>Expenses</u>	<u>Total</u>
Evaluation of proposed FRP	\$1,800		\$1,800
Examination of initial revenue adjustment	12,750	1,200	13,950
Annual FRP Filings*	<u>35,550</u>	<u>3,600</u>	<u>39,150</u>
Total	\$50,100	\$4,800	\$54,900
* Review of each annual test year filing.	\$11,850	\$1,200	\$13,050

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,

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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
Principal