

Henderson Ridge Consulting, Inc.

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July 11, 2018

Louisiana Public Service Commission
Kim Trosclair
Melissa Watson – Deputy General Counsel
602 North Fifth Street (Galvez Building)
P.O. Box 91154
Baton Rouge, Louisiana 70821-9154

Re: RFP 18-09

In re: Docket No. X-34851
Audit of Purchase Gas Adjustment Filings for Trans Louisiana Gas Company and Louisiana Gas Service Company (Regulatory Divisions of Atmos Energy Corporation) from April 2016 to March 2018.

Dear Kim and Melissa:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") June 18, 2018 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in reviewing the technical and jurisdictional issues related to the Commission's audit of the Purchased Gas Adjustment filings ("PGAs") of Trans Louisiana Gas Company and Louisiana Gas Service Company ("TransLa" and "LGS", collectively, "the Companies"). As defined in the RFP, the audit covers the period of April 2016 through March 2018.

Henderson Ridge Consulting is very experienced with the filings and applications of the Atmos Energy Corporation's gas local distribution companies. Our firm has conducted prior PGA audits of TransLa and LGS which spanned the years of January 2001 through March 2007. As part of those projects, we identified multiple corrections to the Companies' monthly PGA filings. In addition, we have recently completed our examination of the TransLa and LGS Rate Stabilization Clause filings for the 2017 test year (Docket No. U-34714 and Docket No. U-34803, respectively).

Other work that our firm has performed that is germane to the PGA audits includes: conducting prior PGA audits, Federal Environmental Adjustment Clause audits, Fuel Adjustment Clause audits, avoided cost audits (for the calculation and verification of the accuracy of the payments made to Qualified Facility providers), storm restoration expenditure audits, and affiliate transaction audits.

Scope of Representation

Henderson Ridge Consulting has developed a cost-effective work plan that builds upon our experience of the prior PGA audits of TransLa and LGS. We will undertake a comprehensive review of the monthly PGA filings for the audit period and our work plan will ensure that the scope of services identified in the Commission's Request For Proposal (see Section I, Scope of Representation) is fulfilled. The proposed work plan is designed to achieve the Commission's objectives for the audit including:

- Whether the costs passed through the PGA clause were reasonable and prudent.
- Whether the costs were appropriate and eligible for recovery in the PGA clause mechanism consistent with Commission General Order dated March 24, 1999.
- Whether the costs passed through the PGA clause produced just and reasonable rates.
- Whether the costs passed through the PGA clause were necessary for the provision of gas service.

The audit will result in an Audit Report that presents the findings, conclusions, and recommendations of the investigation.

Period of Representation

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

Proposed Work Plan of Henderson Ridge Consulting

The work plan proposed by Henderson Ridge Consulting includes audit procedures that are routinely performed in the course of investigating a regulated utility's PGA filings. These activities include, but are not limited to, an examination of the monthly PGA filings (and related support) submitted by TransLa and LGS during the audit period. The monthly PGA filings will be reviewed for completeness and accuracy and to detect computational errors and/or clerical inaccuracies that may have adversely affected the PGA rates. We will also perform analytical review procedures that seek to determine whether any significant changes or abnormalities in pricing occurred during the audit review period. In addition, we will assess whether the types of costs (i.e. fuel related) flowed-through the Companies' PGA filings were consistent with the requirements of the Commission's March 24, 1999 General Order.

We will conduct additional audit procedures that focus more on the operations and practices of the Companies in order to assess how these measures may have ultimately affected the PGA filings and rates. For instance, the Companies' PGA rates are based upon a weighted average cost of purchased gas ("WACOG"). We will perform trend analyses to assess the reasonableness of the WACOG over the audit period and to identify any abnormal patterns (e.g. month-to-month spikes).

We will evaluate the hedging strategies of the Companies and gauge whether those efforts have resulted in cost savings for the benefit of ratepayers or higher PGA rates. Our work plan will also evaluate the performance of the Companies' gas procurement function and gas supply arrangements in the context of whether those areas were effectively managed and helped reduce the costs included in the PGA filings.

The impact of Atmos Energy Corporation's affiliate transactions upon the PGA rates in effect during the audit period will be determined. The affiliate transactions will be reviewed in order to ascertain whether they represent arms-length relationships and result in a lower cost gas procurement arrangement.

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We will undertake price analyses that compare what Atmos paid for delivered gas purchased from other suppliers versus the average market index prices paid for gas during the audit period(s).

Once our audit fieldwork is complete, we will prepare an Audit Report that presents the findings, conclusions, and recommendations that are based upon our auditing efforts.

In summary, the scope of services, at a minimum, shall include the preparation of the Audit Report and the following activities:

- The review and analysis of all PGAs and related filings made to the Commission by TransLa and LGS during the period of April 2016 through March 2018.
- Review of On-System Loss and Unaccounted-For and Company Use (“LUFG”) activity;
- Evaluation of the Use of Projected Purchased Gas Costs;
- Examination of Capacity Release Revenues and Net Margins from Off-System Sales;
- Assessment of Rate Stability and Over/Under Recoveries;
- Verification of the Carrying Charges on Over/Under Recoveries;
- Review of Corrections and Errors and any Prior Period Adjustments;
- Investigation into and examination of Exceptions and Treatment of Exceptions, if any;
- Meetings with the Commission Staff and Commissioners.
- Meetings with Company representatives.
- Site visits for audit fieldwork or other matters, as necessary.
- Preparation of discovery.

- Preparation of the Audit Report and, if necessary, prefiled direct and rebuttal testimony.
- Participation in hearings and other tasks normally associated with the pre-hearing process.
- Assistance in the preparation of post-hearing briefs.
- Presentation of the Audit Report at the Commission Business & Executive Session.
- Assistance in the drafting of the Commission Order.

Experience of Henderson Ridge Consulting

The extensive utility auditing experience of Henderson Ridge Consulting and our familiarity with Atmos Energy Corporation's gas local distribution companies makes the firm particularly well-suited to conduct the audit of the Companies' Purchased Gas Adjustment filings. Our firm's auditing experience includes Purchased Gas Adjustment audits, Fuel Adjustment Clause audits, Environmental Adjustment Clause audits, avoided cost audits, compliance audits, affiliate transaction audits, management audits, and single-issue audits.

As mentioned, Henderson Ridge Consulting completed a prior audit of TransLa's and LGS' PGA filings for the period of January 2001 through March 2007. The Commission recently retained our firm to conduct the Federal Environmental Adjustment Clause audits for Southwestern Electric Power Company and Cleco, LLC. Over the last several years, we have conducted multiple audits of LPSC-jurisdictional utilities on behalf of the Commission, including Fuel Adjustment Clause audits, avoided cost audits, compliance audits, and audits of storm restoration costs.

Henderson Ridge Consulting has been retained to conduct over twenty biennial compliance audits and over twenty Universal Access Fund audits of regulated utilities on behalf of the Georgia Public Service Commission. Henderson Ridge Consulting has also

been retained by state regulatory authorities, including the Louisiana Public Service Commission, to conduct affiliate transaction audits and single-issue audits (e.g. disbursements from State funds, traffic usage data, etc.).

Mr. Barta is a Certified Public Accountant and is 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.

A firm resume has been attached to our response to the proposal which provides further background on our firm's experience and qualifications.

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 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 TransLa and LGS, including charges assigned from and allocated by affiliates. We are also experienced in conducting audits of the monthly PGA filings submitted by gas local distribution companies under the Commission's jurisdiction.

Henderson Ridge Consulting has reviewed the list of Minimum Requirements identified in Section III of the Commission's RFP. Our firm is experienced with each of

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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 audit of TransLa and LGS PGAs for the period of April 2016 through March 2018 will require a total of \$29,700.00 in professional fees for the project based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$800.00 for a total budget of \$30,500.00.

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