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# EXETER

ASSOCIATES, INC.

CONSULTING ECONOMISTS  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, Maryland 20904  
(410) 992-7500  
(410) 992-3445 FAX  
jmierzwa@exeterassociates.com

Steven L. Estomin  
Dwight D. Etheridge  
Jerome D. Mierzwa  
Christina R. Mudd  
Kevin L. Porter

REF: 180607

July 9, 2018

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

Re: RFP 18-12 – Docket No. X-34850  
In re: Request for Proposals for Outside Consultant to Assist Staff with the Audit of Purchased Gas Adjustment Filings for CenterPoint Energy Arkla for the period January 2015 through December 2017

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Dear Ms. Trosclair:

Exeter Associates, Inc. (Exeter) is pleased to submit this proposal to assist the Louisiana Public Service Commission's (Commission's or LPSC's) Legal, Audit, and Economic Divisions (Staff) in analyzing the Purchased Gas Adjustment (PGA) filings of CenterPoint Arkla (CenterPoint or Company) for compliance with the Commission's General Order dated March 24, 1999 (PGA Order) for the period January 2015 through December 2017 (audit period).

## **Principal Issues**

Exeter will work together with the Commission Staff to address the following audit requirements and to analyze the principal issues outlined below:

1. Investigate the purchased gas costs incurred by CenterPoint during the audit period to ensure those costs were appropriate and eligible for recovery in the PGA mechanism consistent with the PGA Order, including:
  - a. Whether the costs passed through the PGA were reasonable and prudent;
  - b. Whether the costs passed through the PGA produced just and reasonable rates; and

- c. Whether the costs passed through the PGA were necessary for the provision of natural gas service.
2. Review and analyze the Company's monthly comprehensive PGA schedules filed with the LPSC;
3. Development and improvement of internal Staff procedures to effectively monitor and evaluate CenterPoint's performance in areas impacting the gas costs which are reflected in the Company's monthly PGA filings with the Commission;
4. Review of CenterPoint's price risk management guidelines pertaining to purchased gas (including policies regarding physical hedging, fixed-price transaction, index transaction, fixed-for-floating price swaps, options to purchase, and other arrangements) to determine their propriety and a recommendation of modifications if appropriate;
5. Quantify the adverse impact on ratepayers, if any, for each audit topic; and
6. Address any additional issues which Staff and Exeter identify as appropriate during the course of the investigation.

### **Plan of Action**

Exeter proposes to carry out this work by performing the following tasks:

1. Conduct a comprehensive review and analysis of all filings made to the Commission by CenterPoint for the period January 2015 through December 2017 with respect to the Company's PGA;
2. Conduct discovery, including the preparation of written data requests and site visits, as necessary;
3. Review the responses to discovery requests, workpapers, financial data, and historical data involving prior audits;
4. Conduct technical conferences with the Company, as necessary, to confirm facts, collect additional information, and obtain Company explanations for various positions;
5. Prepare a report identifying any irregularities detected in the Company's PGA filings or any charges incorrectly assessed to Louisiana jurisdictional customers, and present recommendations to recover any inappropriately assessed costs;
6. Prepare an audit memoranda and/or pre-filed testimony in support of Staff's ultimate recommendations, including supporting exhibits;

7. Assist with the preparation of applicable motions, exceptions, briefing sheets, and orders of the Commission;
8. Participate in settlement negotiations with Staff and the Company to determine whether issues can be resolved without litigation;
9. Participate in pre-trial conferences, depositions, and hearings; and
10. Participate in conference calls, meetings, and conferences with Staff and Commissioners, and attend Business and Executive Sessions, as necessary and appropriate.

Exeter will assist Staff in the above necessary actions through to the issuance of the final Commission order. Exeter understands that the time period estimated for completion is approximately 8 to 12 months, with the overall time period depending on the extent to which matters are contested. Exeter would begin work shortly after notification of selection. We would anticipate discovery and preparation of Exeter's evaluation and findings to take place over a period of six to ten months, with hearings to follow on a schedule established by the Administrative Law Judge (ALJ) assigned to the proceeding.

### **Qualifications**

A detailed description of Exeter's corporate qualifications and the qualifications and experience of its senior personnel has been included as Attachment A in our response to RFP 18-09. Exeter is well-qualified to provide the assistance that the Commission requires in this proceeding. Exeter has extensive experience addressing utility regulatory matters before the LPSC, as well as other state and federal regulatory agencies. The firm's experience includes extensive work in analyzing the operations, books, and records of utility companies and providing expert testimony on all aspects of utility regulation and ratemaking. The issues addressed in this work have included:

- Appropriate accounting standards and practices for utilities, public utility accounting, and generally accepted accounting standards.
- Appropriate ratemaking adjustments to utility accounting records.
- Appropriate allocations of costs to base rates and fuel charges.
- Recoverable expenses for ratemaking purposes.
- Just and reasonable costs and prudent investments associated with providing reliable and quality service.

- Costs passed through a PGA which are considered reasonable and prudent, and appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of gas service and which have or will produce just and reasonable rates.
- Utility taxation.

Exeter is especially well-suited to conduct this investigation because of its directly relevant Louisiana experience. Over the past 35 years, Exeter has worked for the Commission on numerous regulatory proceedings dealing with utility fuel purchases and usage. Exeter has also worked with the Commission on the proper function and flow-through of costs under fuel adjustment clauses (FACs). In fact, Exeter helped the Commission establish rules for purchased gas cost recovery filings and establish guidelines for cost recovery eligibility. These rules and guidelines were directly analogous to the rules previously adopted for electric FACs. Some of the other directly relevant projects that Exeter has undertaken for the Commission include:

- The investigation of the PGA filings of Entergy Louisiana, LLC for the period January 2012 through December 2015.
- The investigation of the PGA filings of Atmos Energy Corporation for the period April 2012 through March 2014 in Docket No. X-33480.
- The investigation into whether Trans Louisiana Gas Company (TransLa) and Louisiana Intrastate Gas Company included inappropriate or imprudent costs in their purchased gas cost recovery mechanisms from 1981 through 1994.
- Review of the Rate Stabilization Pilot Program of TransLa and Louisiana Gas Service Company for the 2004-05 through 2006-07 winter seasons.
- The investigation into Entergy Louisiana, LLC's FAC filings between 1975 and 1998.
- The review of Entergy Louisiana, LLC's purchased power practices and contracts (prudence and accounting) for 2000, 2001, and 2002.
- The investigation of Cleco Power, LLC's planning resource procurement practices and incurred fuel costs for the period January through October 2005 (initiated by the Commission as a result of the effect of Hurricanes Katrina and Rita on the fuel and purchased power costs of Louisiana electric utilities).
- The recently completed investigation of Cleco Power, LLC's fuel adjustment filings for the years 2003 through 2008.

- The recently concluded review of Entergy Gulf States, L.L.C.'s fuel adjustment filings for the years 2005 through 2009 in Docket No. U-32245 which resulted in a refund to ratepayers of \$5 million.

We propose that this project be conducted under the direction of Mr. Jerome D. Mierzwa, a Principal at Exeter. Mr. Mierzwa has previously participated in the review of PGA and FAC filings on behalf of LPSC Staff as previously described. Mr. Mierzwa has also been involved in the investigation of the purchased gas costs and gas procurement policies of gas and electric utilities in Arkansas, Georgia, Indiana, Louisiana, Maryland, Massachusetts, Nevada, New Jersey, Ohio, Pennsylvania, Tennessee, Texas, and Utah. Mr. Mierzwa's resume is included as Attachment B in our response to RFP 18-09. In addition to Mr. Mierzwa, other members of Exeter's staff will be available as necessary.

### **Cost Proposal**

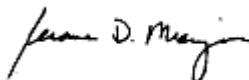
Exeter proposes to perform the audit of CenterPoint and provide the report for a budget not to exceed \$21,800 for professional services, plus direct expenses not to exceed \$1,500. Exeter will bill for professional services at our standard hourly billing rates which range from \$85 per hour for research assistants to \$195 for Mr. Mierzwa. Direct expenses will be billed at cost.

### **Conflict of Interest**

Please note that Exeter has no business relationship with CenterPoint or any of its affiliates, nor have we ever had such a relationship. Exeter has no business relationship with any likely fuel suppliers. In addition, Exeter regularly represents the interest of small customers such as CenterPoint PGA sales customers. Therefore, we have no conflict of interest that could impair or restrict our ability to provide assistance and objective advice to Staff.

If you have any questions of either a technical or contractual nature, please do not hesitate to call. We look forward to again being of service to the Commission and the ratepayers of Louisiana.

Very truly yours,



Jerome D. Mierzwa  
Vice President