

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 No. 18-12

In re: Docket No. X-34850

Audit of Purchase Gas Adjustment Filings for CenterPoint Energy Arkla for the period of January 2015 through December 2017.

Dear Kim and Melissa:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") June 20, 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 CenterPoint Energy Arkla ("the Company" or "Arkla"). As defined in the RFP, the audit covers the period of January 2015 through December 2017 (i.e. 36 monthly PGA filings).

Henderson Ridge Consulting is very experienced with the filings and applications of the gas local distribution companies ("LDCs") under the Commission's jurisdiction. Our firm conducted prior PGA audits of the Atmos Energy Corporation LDCs which spanned the years of January 2001 through March 2007. As part of that project, we identified multiple corrections to those utilities' monthly PGA filings. Our firm has also conducted PGA audits of Entergy Louisiana, LLC's gas division where we identified numerous errors and omissions in the monthly filings. Over the years, Henderson Ridge Consulting has performed several and diverse audits on behalf of the Commission

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including: Fuel Adjustment Clause audits, Federal Environmental Adjustment Clause audits, avoided cost audits, storm restoration expenditure audits, compliance audits, affiliate transaction audits, and single issue audits. Additional detail on the experience of Henderson Ridge Consulting can be found in the firm resume that is attached to our proposal.

Scope of Representation

Henderson Ridge Consulting has developed a cost-effective, detailed work plan that builds upon our experience of prior PGA audits of LPSC-jurisdictional LDCs. 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 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 nine months.

Proposed Work Plan of Henderson Ridge Consulting

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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 Arkla 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 Company's 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 Arkla in order to assess how these measures may have ultimately affected the PGA filings and rates. For instance, the Company's 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 undertake price analyses that compare what the Company 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:

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- The review and analysis of all PGAs and related filings made to the Commission by CenterPoint Energy Arkla during the period of January 2015 through December 2017.
- 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

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The extensive utility auditing experience of Henderson Ridge Consulting and our familiarity with LPSC-jurisdictional gas local distribution companies makes the firm particularly well-suited to conduct the audit of the CenterPoint Arkla's 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.

Henderson Ridge Consulting completed prior PGA audits of Atmos Energy Corporation's Louisiana gas rate divisions. 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.

In addition to conducting several types of audits on behalf of the Commission, 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 other State regulatory authorities 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.

Minimum Requirements

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Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, gas local 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 LDCs, 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 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 CenterPoint Arkla for the period of January 2015 through December 2017 will require a total of \$17,700 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 \$18,500.00.

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.

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I appreciate the opportunity to respond to the RFP and to continue our relationship with the Commission and its Staff.

Sincerely,

William Barta
Principal