

J. KENNEDY AND ASSOCIATES, INC.

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July 11, 2018

Ms. Melissa Watson
Ms. Kim Trosclair
Office of the General Counsel
Louisiana Public Service Commission
602 North Fifth Street (Galvez Building) (70802)
P. O. Box 91154
Baton Rouge, LA 70821-9154

Re: RFP 18-12
Docket No. X-34850, Audit of Purchase Gas Adjustment Filings of CenterPoint Energy Arkla for the period of January 2015 through December 2017.

Dear Ms. Watson and Ms. Trosclair:

J. Kennedy and Associates, Inc. ("Kennedy and Associates") is pleased to submit this proposal to assist the Louisiana Public Service Commission Staff ("Commission" and "Staff") in the audit of the purchased gas adjustment filings ("PGA") of Centerpoint Energy Arkla ("Arkla") for the years 2015 through 2017. Kennedy and Associates has provided consulting services to the Commission in numerous utility rate proceedings, audits, and other proceedings. This proposal is structured to meet the requirements of the Commission's RFP 18-12 dated June 20, 2018.

Qualifications of J. Kennedy and Associates, Inc.

Kennedy and Associates is extremely well qualified to perform this audit. First, our firm, on behalf of the Commission, developed the current fuel adjustment clause ("FAC") process in the Docket No. U-21497 generic fuel proceeding, including the various guidelines and rules as well as the various reporting forms, adopted by the Commission in its General Order dated November 6, 1997. The Commission's General Order dated March 24, 1999 for the PGA filings was patterned after the General Order for the FAC filings.

Second, our firm, on behalf of the Commission Staff, performed the Arkla purchased gas audit for the period January 2009 through December 2012 and January 2013 through December 2014. Consequently, we are extremely familiar with Arkla and its gas purchasing practices and costs

Third, our firm, on behalf of the Commission Staff, has recently performed other purchased gas audits. One of these reviews involved Entergy Gulf States Louisiana, LLC for the years 2009

through 2011 in Docket No. X-32581. Other reviews involved Trans-Louisiana Gas Company and Louisiana Gas Service Company, divisions of Atmos Energy Corporation for the months April 2010 through March 2012.

Fourth, our firm, also on behalf of the Commission Staff, has performed several audits of fuel adjustment clause audits. One of these reviews involved Entergy Louisiana L.L.C. for the years 2002-2004 in Docket No. U-25116. Two of these reviews involved Entergy Gulf States, Inc. (“EGSI”), the predecessor of Entergy Gulf States L.L.C. (“EGSL”), in Docket Nos. U-20647 and U-19904. Another review involved Southwestern Electric Power Company (“SWEPCO”) in Docket No. U-23327. In these proceedings, our firm identified numerous instances of non-compliance with the Commission’s prior Orders, the General Order, and sound ratemaking principles. Kennedy and Associates also performed a special “Fuel and Purchased Power Cost” audit of ELL and EGSL in 2005 and 2006 following Hurricanes Katrina and Rita in Docket Nos. U-29175 and U-29176. In addition, our firm completed another audit involving SWEPCO in Docket No. U-23327 (additional years). Finally, our firm completed an audit of the FAC filings and trading activities of Cleco Power, LLC in Docket No. U-26994, which resulted in a settlement and significant refunds to ratepayers.

Fifth, our firm has represented consumer interests in numerous gas rate and fuel proceedings in other jurisdictions, including Georgia, Ohio, Pennsylvania, and Kentucky. Among the issues we addressed were excessive fuel prices due to corruption, mine closure and reclamation costs, capital versus expense, and various accounting and ratemaking issues, including transactions with affiliates.

Sixth, our firm has been involved in hundreds of regulatory proceedings since its formation, with each of the principals having provided expert testimony on more than 200 occasions. These proceedings have included analyzing the operations, books, and records of utility companies for the purpose of setting just and reasonable rates, addressing affiliate transactions and cost-sharing among utility affiliates (regulated and non-regulated), fuel recovery through FAC filings and the base ratemaking process, and addressing various intercompany system agreements. Our principals and consultants are experienced and have filed testimony on the following subjects, among others:

1. Appropriate accounting standards and practices for utilities, public utility accounting, and generally accepted auditing standards.
2. Appropriate ratemaking adjustments to the utility’s accounting records.
3. Appropriate allocations of costs to base rates and PGA or FAC.
4. Recoverable expenses for ratemaking purposes.
5. Just and reasonable costs and prudent investments associated with providing reliable and quality service.
6. Costs passed through a PGA or FAC which are considered reasonable and prudent,

appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of gas (electric) service and which have or will produce just and reasonable rates.

7. Utility taxation issues.

Along with the hard copies of this proposal sent to the Commission, we have enclosed a single copy of Kennedy and Associates' qualifications, which includes the resumes of all principals and consultants. The resumes list the regulatory proceedings and subject matters addressed by our consultants in the form of expert testimony provided in those proceedings. We will be pleased to provide you with additional copies of the qualifications upon request.

Scope of Comprehensive Review

Kennedy and Associates' project team will review the PGA filings of Arkla for the months January 2015 through December 2017. The scope of our review will be focused upon the ratemaking aspects of the Companies' purchased gas and compliance with the Commission's General Order. We will work closely with the Staff to analyze and resolve the principal issues outlined below, together with any additional issues the Staff may deem appropriate and relevant to this review.

1. An investigation into the purchased gas costs incurred by the utility during the designated review period for compliance with the requirements of the general order.
2. A review and analysis of the utility's monthly comprehensive purchase gas adjustment schedules filed with the Louisiana Public Service Commission.
3. If applicable, the development and improvement of internal staff procedures to effectively monitor and evaluate a utility's performance in areas impacting the gas costs which are reflected in the utility's monthly purchase gas adjustment filings with the Commission.
4. A review of the utility's price risk management guidelines pertaining to purchased gas (including policies regarding physical hedging, fixed price transactions, index transactions, fixed for floating price swaps, options to purchase, and other arrangements) to determine their propriety and recommendation of modifications if appropriate.
5. A quantification of the adverse impact on ratepayers, if any, for each audit topic.

Action Plan to Perform Comprehensive Review

Kennedy and Associates will follow the Audit approach outlined in the Commission's General Order dated March 24, 1999 in Docket U-22407. First, we will obtain copies from the Commission of all Arkla PGA filings and the related supporting documentation for the audit period.

Second, we will perform analytics by comparing natural gas and transportation costs to determine any significant changes or abnormalities in pricing or utilization during the audit period.

Third, we will compare the Company's natural gas costs to other publicly available information in order to identify any significant differences or abnormalities.

Fourth, we will obtain an understanding of the Company's gas procurement practices, including the involvement of the Company's affiliates in that process, in order to assess the effect on the PGA filings. This will include a review of the Company's contracts and their hedging strategies.

Fifth, we will systematically review the costs included by Arkla during the audit review period against the requirements in the Commission's General Order.

Sixth, we will quantify all adjustments to the extent it is possible to do so.

Seventh, we will prepare an Audit Report as required by the Commission's General Order, detailing the results of our investigation. The Audit Reports will contain specific findings and recommendations regarding whether the costs passed through the PGA were or were not reasonable and prudent, and whether the costs were appropriate for recovery in the PGA mechanism consistent with the General Order.

Eighth, we will review and respond to comments on the Audit Reports by CenterPoint Energy Corporation on behalf of Arkla and by other parties.

Ninth, we will work with the Staff to attempt to resolve issues that are identified in the Audit Reports through settlement negotiations with the parties.

Tenth, if any of the issues identified in the Audit Reports move to litigation, we will prepare and file testimony; review and respond to the testimony of CenterPoint Energy on behalf of Arkla and of other parties; assist Staff counsel in preparation for hearings, during the hearings, and after the hearings; and stand for cross-examination.

To perform this comprehensive review, Kennedy and Associates' project team will work closely with the Staff at the onset to develop a detailed audit plan and to incorporate the Staff into the review, consistent with the Staff's time availability and desire to participate in particular areas of interest. We anticipate several rounds of written discovery on Arkla and technical conferences with CenterPoint Energy Corporation personnel as necessary.

Assuming timely responses to the Staff's written discovery, we can complete this review and prepare initial drafts of the Audit Reports for the Commission Staff to review within nine to twelve

months of commencing work. We will work with the Staff and the other parties to develop a procedural schedule for CenterPoint and the other parties to comment on the Audit Reports, engage in settlement discussions, hold hearings, file briefs, respond to proposed and final recommended decisions of the ALJ, and prepare a final Commission Order.

Budget to Perform Comprehensive Review

To perform the comprehensive review of the PGA filings and to address issues that move to litigation, we propose a budget for consulting services of \$22,300. This budget assumes the scope identified in the Commission's RFP and reflected in this proposal and includes the audits, preparation of the Audit Reports, settlement discussions, filing of testimony, hearings, and assistance to the Commission Staff and Staff Counsel through the issuance of the Commission's final order. Hourly rates for the project team are provided as an Attachment to this proposal. Expenses for this project will be in addition to the consulting services, but will not exceed \$400.

As directed in the RFP, the budget does not include representation of the Commission in the event of an appeal of the final order to state or federal court. The costs of such services will be billed at the hourly rates on the Attachment to this proposal along with the related expenses.

No Conflicts of Interest

Kennedy and Associates has no known conflict of interest in representing the Louisiana Public Service Commission in this proceeding. Kennedy and Associates does not represent investor-owned gas or electric utilities.

Thank you for the opportunity to provide consulting services to the Commission Staff on this important project. Please call or e-mail me at lkollen@jkenn.com or Stephen Baron, the President of Kennedy and Associates, at sbaron@jkenn.com with any questions or comments.

Sincerely,



Lane Kollen
Vice President

LK:ji

Attachment

J. Kennedy and Associates, Inc.
2018 Hourly Fee Schedule
Louisiana Public Service Commission

<u>Title</u>	<u>Name</u>	<u>Hourly Rate</u>
President	Stephen J. Baron	\$263
Vice President	Lane Kollen	\$263
Vice President	Philip Hayet	\$263
Director	Richard A. Baudino	\$252
Director	Brian R. Barber	\$252
Manager	Randy Futral	\$252
Senior Consultant	Ann Bruccoliere	\$195
Senior Consultant	Leah Justin Wellborn	\$195
Consultant	Brian Kollen	\$155
Analyst	Jessica Inman	\$115
