

Henderson Ridge Consulting, Inc.

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March 7, 2019

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

Re: RFP No. 19-02 – Docket No. U-35122

Atmos Energy Corporation, ex parte.

Application Requesting Consolidation of Atmos Energy Corporation's Louisiana Rate Divisions, Trans Louisiana Gas Company and Louisiana Gas Service and Related Amendments to Rate Schedules and Tariffs.

Dear Kim,

Henderson Ridge Consulting, Inc. is pleased to respond to the February 15, 2019 Request For Proposal (“RFP”) to assist the Staff of the Louisiana Public Service Commission (“LPSC” or “the Commission”) in the review of Atmos Energy Corporation’s (“Atmos,” “AEC,” or “the Company”) Application to consolidate its Louisiana Rate Divisions. The Louisiana Rate Divisions include Trans Louisiana Gas Company (“TransLa”) and Louisiana Gas Service (“LGS”) Company. As noted in the Company’s Application, Atmos is requesting to consolidate the tariffs of TransLa and LGS, including both utilities’ Rate Stabilization Clause (“RSC”) filings, and charge uniform rates across both divisions in order to recognize that the AEC infrastructure is operated as one system.

Scope of Representation

As defined in the RFP, the consultant retained by the Commission will undertake an examination of the Application filed by Atmos. The scope of the examination, at a minimum, will include:

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- A review of the amendments proposed by Atmos in support of the consolidated RSC filing;
- An evaluation of whether other potential amendments to the consolidated RSC filing proposed by Atmos should be attached;
- A reconsideration of the appropriate return on equity to be authorized under the terms of the consolidated RSC filing;
- The setting of the appropriate earnings bandwidth and sharing mechanism (if any) for the consolidated RSC filing;
- The determination of the appropriate length for the consolidated RSC term;
- The determination of the appropriate review cycle for the consolidated RSC filing by the Staff and other interested parties;
- The consultant will support the evaluation of the above (and additional) issues with discovery, analyses, and meetings among the parties as necessary;
- The Commission’s consultant will develop prefiled testimony in support of the Staff recommendations and findings.

Summary of Work Plan

We will perform a comprehensive examination of the Company’s Application and investigate whether additional concessions are reasonable for Atmos to make on behalf of the ratepayers of TransLa and LGS through its proposed consolidation of the Louisiana Rate Divisions.

The major services, procedures, and tests that will be performed include but are not limited to:

- Review the Application filed by Atmos, including the prefiled testimony and accompanying documentation in support of that testimony;
- Conduct an in-depth examination of the Company’s cost of service study in order to assess the reasonableness of the proposed charges to the restructured rate classes;
- Prepare formal discovery to gather additional data and evidence and review the Company’s responses to Staff and intervenor discovery;
- Perform a detailed review of the most recent year’s general ledger activity for TransLa and LGS;
- Conduct tests of accounts and examine documentation in support of specific transactions;
- Perform trend analyses of major expense categories in order to identify year-to-year swings in reported activity for TransLa and LGS;

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- Conduct “what-if” scenarios: analyses of earnings forecasts and ratepayer effect upon TransLa and LGS remaining separate rate divisions for the purposes of RSC filings and reviews;
- Develop the appropriate return on equity and capital structure to be authorized for the consolidated RSC (if recommended to be consolidated);
- Determine the earnings bandwidth and sharing mechanism (if any) to be applied in the consolidated RSC (if recommended to be consolidated);
- Recommend a reasonable timeframe to accommodate the regulatory cycle in review of the consolidated RSC (if recommended to be consolidated); and
- Identify opportunities for additional ratepayer benefits that may stem from the consolidation of the two rate divisions.

Additional services will be provided that are common to the review and the analysis of jurisdictional utilities’ filings before the Commission, including the Atmos Application:

- Meet and hold conference calls with the Staff and Atmos Energy Corporation representatives;
- Prepare final report and/or testimony in support of recommendations;
- Stand cross examination at Commission hearings;
- Attend Business and Executive Session;
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services throughout the engagement.

Experience of Henderson Ridge Consulting

Henderson Ridge Consulting is well-qualified to evaluate Atmos’ Application in Docket No. U-35122. Our firm is very familiar with the Louisiana regulatory divisions of AEC as we have just completed the audits of the monthly Purchase Gas Adjustment (“PGA”) consolidated filings of TransLa and LGS in Docket No. X-34851. We have also conducted prior PGA audits of the two AEC regulatory divisions when TransLa and LGS filed separate, monthly PGA reports.

Henderson Ridge Consulting has also examined the 2017 RSC filings – the most recent test years – submitted by TransLa and LGS in Docket No. U-34714 and Docket No. U-34803, respectively. Thus, our firm is well-aware of the adjustments made by the companies in their RSC filings and the issues that each utility raises in those filings, including the effect upon LGS ratepayers from the “Benchmark O&M Adjustment.”

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Henderson Ridge Consulting was retained by the Commission in Docket No. S-34879 in July, 2018 to examine the request of Atmos to extend the Asset Management Plan in effect for an additional five year term. We conducted a detailed review of the Asset Management Agreement that Atmos proposed and contrasted and compared the terms and conditions of the proposed Asset Management Agreement with the existing Asset Management Agreement that the Commission had formerly approved in Docket No. S-32919. We evaluated the reasonableness of the changes to the Asset Management Agreement and conducted extensive analyses of the guaranteed payments, the payments under any bonus sharing provisions, the Gas Inventory Charges that are assessed, and the calculation of the return reduction due to a reduced rate base.

Henderson Ridge Consulting has assisted Staff in the Rate Stabilization Plan filings of other LPSC-jurisdictional gas utilities, including the two CenterPoint Louisiana regulatory divisions. We are currently conducting the PGA audits of CenterPoint Energy Entex and CenterPoint Energy Arkla for the period of January, 2015 through December, 2017. We have also worked with Staff in the evaluation of CenterPoint's request to amend the existing Asset Management Agreement. In addition to our work with the CenterPoint Energy rate divisions, we have conducted Purchased Gas Adjustment audits of Entergy Gulf States Louisiana, L.L.C.'s monthly PGA filings.

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 last twenty-five years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under the Commission's jurisdiction. These engagements have involved gas local distribution companies, electric utilities, 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 gas local distribution companies, electric utilities, telecommunications service providers, 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 approaches to determine the utility’s revenue requirement and under different forms of regulatory oversight.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to gas local distribution companies and, in particular, the Louisiana Rate Divisions of Atmos Energy Corporation. We have reviewed the list of minimum requirements identified in Section IV (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 standards that the Commission expects of its consultants.

Estimate of Cost

Henderson Ridge Consulting anticipates that the review of AEC’s Application to consolidate its Louisiana Rate Divisions can be conducted in a cost-effective manner. The professional fees for the project are estimated at \$67,050.00 and expenses shall not exceed \$2,400.00 for a total project budget of \$69,450.00. The total professional fees are based upon an hourly rate of \$150 for William Barta and \$135 for Debbie Barta.

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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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

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SERVICES PROVIDED:

Henderson Ridge Consulting, Inc. is a regulatory consulting firm founded in 1996. The firm's practice addresses the traditional regulatory matters (e.g. earnings investigations, affiliate transaction reviews, fuel adjustment clause audits, etc.) that routinely confront regulators in the electric, gas, telecommunications, and water and wastewater utility industries. In addition, the firm has increasingly focused its work on the technical and policy issues challenging the regulatory authorities overseeing the competitive developments occurring within the telecommunications, gas, and electric utility industries.

EXPERIENCE:

Electric Utility Industry:

- Monitoring of competitive solicitation process of electric utility's Request For Proposals for long-term, supply-side resources
- Reviewing and developing pole attachment rates that may be applied for the purpose of charging third party attachers. Extensive experience with the Federal Communications Commission Pole Attachment rate formula. Served as mediator for pole attachment disputes
- Certification of electric utility's self-build generating facilities as serving the public interest
- Prudence audits of generating plant environmental retrofits
- Evaluation of proposed long-term Purchased Power Agreements to meet capacity deficits
- Earnings investigations of major investor-owned utilities, generation and transmission cooperative, and distribution cooperatives
- Earnings investigations conducted under various approaches including traditional rate base/rate-of-return, TIER, cash flow requirements studies, and Formula Rate Plans
- Financial and public interest assessment of Waste Heat Recovery generation facility
- Cost-Benefit Analyses of integration into Regional Transmission Organizations
- Public interest determination of transfer of control of transmission facilities
- Evaluation of Integrated Resource Plans
- Financial and regulatory policy assessment of proposed renewable generation projects
- Evaluation of investor-owned utilities transmission expansion plans and upgrades
- Evaluation of electric service provider Smart Grid network infrastructure investments, customer service enhancements, and retail program initiatives
- Development of nuclear decommissioning revenue requirement
- Evaluation of long term Power Supply and Services Agreements for certification

- Storm restoration cost audits
- Rulemaking to develop “best practices” for storms and other disasters
- Fuel Adjustment Clause audits of investor-owned utilities
- Nuclear generating facility siting and licensing evaluation
- Management audits of Gulf States Utilities, Inc., generation and transmission cooperative and distribution cooperatives
- Merger analyses of Entergy-Gulf States Utilities, Inc.
- Affiliate transaction audits
- Demand Side Management program analyses

Natural Gas Industry

- Purchased Gas Adjustment audits of local distribution companies
- Evaluation of fuel procurement and hedging practices
- Fair and reasonable cost of capital
- Evaluation of Asset Management Agreements
- Review of Rate Stabilization Plan Annual Filings

Telecommunications Industry

- Earnings investigations of major investor-owned utilities, independent local exchange carriers, and telephone cooperatives conducted under various approaches
- Price cap regulation reviews and alternative regulation assessments
- Biennial compliance audits of local exchange carriers
- Reactive audits of rural incumbent local exchange carriers
- Affiliate transaction audits
- Addressed policy and technical issues in regulatory proceedings initiated in response to the pro-competitive mandates of the 1996 Act. Subject areas include universal service and access charge reform, interim and permanent pricing for local interconnection and unbundled network elements, avoided retail cost studies for resale purposes, evaluation of local number portability cost studies, assessment of Contract Service Arrangements, and mediation of joint use pole disputes
- Financial review of special State regulatory funds (e.g. access funds, Telecommunications Relay Service fund) including implementation of accounting system to track contributions and disbursements from the funds
- Structuring of Louisiana State Universal Service Fund
- Retail Service Quality Measurements rulemaking

Water and Wastewater Utility Industry:

- Earnings investigations
- Affiliate transaction reviews
- Prospective financial statement studies
- Rate design support to ensure compliance with bond covenants
- Formula Rate Plan design
- Project administration and oversight of expenditures

- Public interest determination for transfer of control and ownership requests
- Valuation of assets in a business combination (under GAAP) and determination of rate base (for ratemaking purposes)
- Phased rate increases for recovery of planned capital improvements

AUDITING EXPERIENCE:

- Fuel Adjustment Clause audits
- Purchased Gas Adjustment audits
- Prudence audits
- Compliance audits
- Reactive audits
- Affiliate transaction audits
- Storm restoration cost audits
- Management audits
- Attestation of accuracy of semi-annual bond securitization true-ups
- Avoided cost audits in support of payments to Qualifying Facilities
- Federal Environmental Adjustment Clause audits

REGULATORY CLIENTS SERVED:

Henderson Ridge Consulting, Inc. has served a diverse range of clients including the State regulatory authorities of:

- Louisiana Public Service Commission
- Georgia Public Service Commission
- Nevada Public Utilities Commission

References are available upon request.

EXPERT TESTIMONY PROVIDED IN THE FOLLOWING JURISDICTIONS:

California	Florida	Georgia
Louisiana	Mississippi	Nevada
Ohio	North Carolina	Tennessee
	South Carolina	Texas