

J. KENNEDY
AND
ASSOCIATES, INC.

**PROPOSAL TO THE
LOUISIANA PUBLIC SERVICE COMMISSION**

IN RESPONSE TO RFP 16-03

DOCKET NOS. U-33984 and U-34033

CLAIBORNE ELECTRIC COOPERATIVE, INC., EX PARTE.

**IN RE: APPLICATION TO EXTEND FORMULA RATE PLAN AND
2015 FORMULA RATE PLAN ANNUAL REPORT FILING**

**570 Colonial Park Drive
Suite 305
Roswell, Georgia 30075
770-992-2027**

Executive Summary

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 its review of Claiborne Electric Cooperative, Inc.’s (“Claiborne” or “the Company”) Formula Rate Plan (“FRP”) filings recently made in Docket Nos. U-33984 and U-34033. The Company submitted an application in Docket No. U-33984 to extend its FRP, originally authorized in Docket No. U-32315 and modified in Docket No. S-33549, for an additional three years based on test years ended December 31, 2016, 2017, and 2018. The request for proposal issued on behalf of the Commission seeks assistance in reviewing the extension request along with the review of each of the three annual report filings should the FRP extension be granted. Claiborne also made its 2015 test year Annual Report filing that was docketed in Docket No. U-34033. The Company states its filing was made in accordance with the LPSC Order in Docket No. U-32315, as modified in Docket No. S-33549, which approved the Company’s current three year FRP Tariff. This proposal is structured to meet the requirements of the Commission’s Request for Proposal (“RFP”) dated April 22, 2016 (RFP 16-03).

Kennedy and Associates is uniquely qualified to assist the Commission in this review in a knowledgeable and efficient manner. We already are familiar with Claiborne, its accounting practices, and its FRP and annual rate report and change filings.

We assisted Staff in the design and implementation of Claiborne’s FRP in Docket No. U-32315, including developing the formulas and the upper and lower coverage ratio thresholds that were included in the FRP tariff. We also assisted Staff in that same docket in reviewing Claiborne’s

request for a base rate increase. We reached a settlement agreement with the parties in that docket resulting in the establishment of the FRP and a reasonable base rate increase.

We assisted Staff in the review of Claiborne's 2013 Annual report filing submitted in Docket U-33120 involving the 2013 test year. We also assisted Staff in the review of Claiborne's 2014 Annual report filing involving the 2014 test year and its subsequent request to modify certain FRP terms, both filed in Docket No. S-33549. FRP modifications were ultimately authorized in that proceeding by the Commission.

We also are familiar with other jurisdictional cooperatives and their FRPs. We assisted the Staff in the design and implementation of the original Dixie Electric Membership Cooperative, Inc. ("Dixie") FRP, which was the first FRP adopted by the Commission for a cooperative electric utility. We also assisted the Staff in the design and implementation of the South Louisiana Electric Cooperative Association, LLC ("SLECA") FRP. We have also assisted the Staff in the review of all three FRP compliance annual reports filed on behalf of Beauregard Electric Cooperative, Inc. The other cooperative FRPs, including Claiborne's, are patterned on the Dixie FRP.

The Company's FRP extension request in Docket No. U-33984 seeks to retain all terms, conditions, and requirements of the current FRP established in Docket No. U-32315 as modified in Docket No. S-33549. We will review the filing in detail to determine if the request is appropriate and warranted. Should the extension request be granted by the Commission, we will review each of the applicable annual report filings for the test years ended 2016-2018. We will thoroughly review each

filing in order to make recommendations regarding whether and to what extent changes in rates are warranted and determine if each filing complies with the terms of the potential FRP extension.

The 2015 Annual Report filing in Docket No. U-34033 represents the third and final annual report filing by Claiborne since the Commission approved the FRP in Docket No. U-32315. The Company's 2015 filing suggests that no change in rates is warranted. Nevertheless, we will thoroughly review to determine if it is in compliance with the terms of the FRP.

We fully expect to reach settlements with the Company based on our knowledge of Claiborne and the experience gained in prior dockets involving Claiborne and other cooperatives, which will allow us to perform this review in an efficient manner and at a low cost. We will conduct discovery, participate in meetings with the Commissioners, Staff and other parties as requested, assist the Staff in preparing briefing materials if there is not a settlement, and attend the Commission's Business and Executive Session if requested. In the event that it becomes necessary to litigate this matter, we will also provide expert testimony, and other regulatory support services as part of our services under our proposed budget.

Budget to Perform These Services

Kennedy and Associates proposes a budget of \$49,200, consisting of \$48,400 for consulting services and \$800 for expenses. Our services will be billed based on our standard billing rates, which are attached to this letter. Kennedy and Associates will ensure that only charges for actual hours worked and actual expenses incurred will be billed, and that our bills will not exceed the total labor and expense budgets based on the scope of work outlined. Furthermore, we

acknowledge that any expenses charged will be within the Commission's standard expense allowances.

Kennedy and Associates Qualifications

Kennedy and Associates is well qualified to assist the Staff in this docket due to its familiarity with the Claiborne FRP and the other cooperative electric utility FRPs. In addition, our firm has provided extensive consulting assistance to the Staff in dozens of other proceedings involving nearly all of the electric and natural gas utilities in the state. These proceedings have involved rulemakings, acquisitions, rate cases, fuel clause audits, and affiliate transactions. Our experience and the expert appearances of our consultants are detailed in our Qualifications package, a copy of which is enclosed with our proposal.

Kennedy and Associates meets all professional qualification requirements specified in the Commission's RFP for technical consultants. We are qualified to prepare and render expert testimony and stand for cross-examination with respect to all of the issues addressed in the RFP and which are likely to arise in this proceeding. Each of our consultants is experienced in analyzing the operations, books and records of utility companies for the purpose of setting just and reasonable rates, is prepared and qualified to render expert testimony, and has knowledge of the following:

1. Appropriate accounting standards and practices for electric public utilities and/or electric cooperatives, public utility accounting, and generally accepted auditing standards;
2. The appropriate ratemaking adjustments to be made to the utility's accounting records;

3. NARUC approved cost-of-service methodologies for electric cooperatives;
4. The determination and calculation of the appropriate rate base of a utility plant investment dedicated to providing service;
5. Traditional cost-of-service and cost allocation methodologies supporting the revenue requirements among classes of customers;
6. The cost allocation methodologies for the allocation of investment and expenses between affiliates, including the relationship of the holding company to its subsidiary operating companies, the transfer of investment and costs between operating companies, and the provision of services between affiliates;
7. the allocation of investment and expenses between the non-regulated and regulated operations at the holding company and at the operating company level;
8. Cost of capital, including capital structure, cost of debt, cost of equity and rates of return;
9. Familiarity with just and reasonable costs and prudent investments associated with providing reliable and quality service as recommended by NARUC;
10. Depreciation and taxation; and
12. A detailed understanding of the major functional areas of a regulated electric cooperative.

Kennedy and Associates Project Team

Mr. Lane Kollen, Vice President, CPA, CMA, CGMA will manage this project. He will be assisted by other Kennedy and Associates personnel as appropriate, including primarily Mr. Randy Futral. Mr. Kollen and Mr. Futral are experienced regulatory consultants and have performed numerous audits and reviews in conjunction with the Staff. Mr. Kollen and Mr. Futral have both testified on regulatory matters on numerous occasions in multiple jurisdictions, including the Commission.

Mr. Kollen has several decades of experience in nearly all facets of utility operations, including electric cooperatives, cooperative ratemaking, the design and implementation of FRPs, and

cooperative accounting. In addition, he is an expert in the financial, rate, tax, and planning areas. He specializes in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisitions and diversification. Mr. Kollen has expertise in various software systems used by utilities for budgeting, rate case support and strategic and financial planning. Mr. Kollen has testified on hundreds of occasions before federal and state regulatory commissions and courts on utility matters. Mr. Kollen's regulatory experience is described further in his biography attached to this proposal and his extensive expert testimony and appearances are detailed in the enclosed Qualifications package.

Mr. Randy Futral, Manager, Consulting, is an expert on utility ratemaking and analyses, including electric cooperatives. Mr. Futral worked closely with the Staff in the development of the Claiborne, DEMCO, and SLECA FRPs and has performed numerous audits in conjunction with the Staff, including numerous annual FRP filings made by various electric cooperatives. Mr. Futral also has assisted in various audits of electric cooperatives, including the review and recovery of storm damage costs by DEMCO. Mr. Futral's regulatory experience is described further in his biography attached to this proposal and his expert testimony and appearances are detailed in the enclosed Qualifications package.

Action Plans and Timelines

Kennedy and Associates is prepared to begin work on this project immediately upon being retained by the Commission. We have developed the following Action Plan and Timeline for the major activities in this proceeding.

We will assist the Staff in the following actions:

1. Review the Company's request to extend its current FRP for an additional term of three years.
2. Review the Company's 2015 Annual Report filing, as well as the three additional 2016-2018 Annual Report filings, to determine compliance with the FRP tariff.
3. Review the Company's revenue requirement and any surplus or deficiency to reset rates to just and reasonable levels.
4. Prepare discovery and review responses.
5. Perform analysis to determine trends in capital expenditures, revenues, and operating expenses and to identify anomalies.
6. Identify appropriate adjustments to the Company's revenues and expenses.
7. Negotiate with Claiborne to determine the change in base rates, if any.
8. Assist counsel in drafting settlement agreements for each phase of the project.
9. Prepare testimony in support of settlement agreement(s), appear at hearing(s), if necessary, and assist Staff counsel in preparation for hearing(s), if necessary.

We anticipate that we can complete the preceding activities, except for those associated with future Annual Report filings, within three months after being retained by the Commission to assist the Staff.

Kennedy and Associates No Conflicts of Interest

Kennedy and Associates has no known conflicts of interest in representing the Louisiana Public Service Commission in this proceeding and none of the Project Team members presently represent other clients before the Commission. Kennedy and Associates does not represent investor-owned gas or electric utilities.

RESUME OF LANE KOLLEN, VICE PRESIDENT



EDUCATION

University of Toledo, BBA (Accounting)
University of Toledo, MBA
Luther Rice University, MA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)
Certified Management Accountant (CMA)
Chartered Global Management Accountant (CGMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants
Georgia Society of Certified Public Accountants
Institute of Management Accountants
Society of Depreciation Professionals

EXPERIENCE

Mr. Kollen has nearly forty years of utility industry experience in nearly every facet of utility planning, performance, and operations, including the financial, accounting, rate, tax, and financing areas. He has conducted prudence and operational audits on behalf of utilities and regulatory commissions; participated in and reviewed mergers and acquisitions on behalf of utilities and regulatory commissions; conducted performance and financial analyses on behalf of utilities and regulatory commissions; developed and reviewed alternative and performance based ratemaking plans; performed traditional ratemaking evaluations and filed reports and/or provided expert testimony before state and federal courts and regulatory commissions on hundreds of occasions addressing prudence and restructuring, including staffing levels and organizational structure; mergers, acquisitions, and divestitures; contract performance; revenue requirements; taxes; depreciation; financing; operation and maintenance expense; reliability; cost of service; and other issues. Mr. Kollen also is experienced in various proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. Kennedy and Associates, Inc. (1986 to Present): Vice President and Principal. Mr. Kollen provides consulting services that address planning, performance, operational, financial, accounting, and tax issues. Clients include state regulatory commissions and other government agencies, large users of electricity, natural gas, water, and steam.

Energy Management Associates (1983 to 1986): Lead Consultant, Product Manager. Mr. Kollen provided consulting services to electric and natural gas utility clients throughout the country in numerous planning, financial, accounting, and budgeting areas. In addition, he used and developed proprietary software tools widely used throughout the regulated utility industry.

The Toledo Edison Company (1976-1983): Planning Supervisor, Auditor, Accountant. Mr. Kollen was engaged in financial planning activities, including generation expansion planning; construction monitoring; capital and expense budgeting; evaluation of tax law changes; rate case strategy and support; production cost and financial modeling; and operational and financial audits.

RESUME OF RANDY A. FUTRAL, MANAGER OF CONSULTING



EDUCATION

Mississippi State University, BBS in Business Administration
Accounting

EXPERIENCE

Mr. Futral has nearly thirty years of utility and related industry experience in the areas of management, accounting, budgeting, forecasting, financial reporting, ratemaking, tax, banking, and both as a management employee and as a consultant. He has conducted utility revenue requirements analyses, affiliate transaction auditing and analysis, fuel adjustment clause auditing, purchase gas adjustment auditing, environmental adjustment clause auditing, and research involving tax and public reporting matters. He has filed reports and/or testimony before state and federal courts and regulatory commissions on numerous occasions addressing revenue requirements, tariff development and compliance, operation and maintenance expenses, and other issues.

J. Kennedy and Associates, Inc. (2003 to Present): Manager of Consulting. Mr. Futral provides consulting services that address compliance, performance, and operational issues. Clients include state and regulatory commissions and other government agencies as well as large users of electricity and natural gas.

Telscape International, Inc. (1997 – 2003): Corporate Assistant Controller and Corporate Controller. Mr. Futral had complete responsibility and accountability for the accounting and financial functions of a \$160 million newly public company providing telecommunication and high-end internet access services. Telscape served as a telephony carrier of services domestically and to Latin and Central America targeting other service carriers as well as individuals. Mr. Futral reported directly to the CFO and managed a staff of eleven.

Comcast Communications, Inc. (1988 - 1997): Regional Senior Financial Analyst, Regional Assistant Controller and Regional Controller. Mr. Futral had complete responsibility and accountability for the accounting functions of a \$2.1 billion regional division of then the world's third largest cable television provider serving approximately 490,000 subscribers. Mr. Futral reported to the Regional VP of Finance and managed a staff of twelve.

Storer Cable Communications, Inc. (1987 – 1988): Senior Accountant for Operations. Mr. Futral had responsibility for the accounting, budgeting, and forecasting activities of this 82,000 subscriber area for this cable television concern that was acquired by Comcast listed above.

Tracey-Luckey Pecan & Storage, Inc. (1986 – 1987): Senior Accountant

Tarpley & Underwood, CPA's (1984 – 1986): Staff Accountant

J. Kennedy and Associates, Inc.
2016 Hourly Fee Schedule
Louisiana Public Service Commission

<u>Title</u>	<u>Name</u>	<u>Hourly Rate</u>
President	Stephen J. Baron	\$250
Vice President	Lane Kollen	\$250
Vice President	Philip Hayet	\$250
Director	Richard A. Baudino	\$239
Director	Brian R. Barber	\$239
Manager	Randy Futral	\$239
Senior Consultant	Ann Bruccoliere	\$180
Consultant	Leah Justin Wellborn	\$160
Consultant	Brian Kollen	\$140
Analyst	Jessica Inman	\$100
