

Henderson Ridge Consulting, Inc.

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May 12, 2016

Louisiana Public Service Commission
Brandon Frey/Kathleen Richardson
Executive Counsel
602 North Fifth Street (Galvez Building)
P.O. Box 91154
Baton Rouge, Louisiana 70821-9154

**Re: RFP No. 16-04 – Docket No. X-33969
Audit of Environmental Adjustment Clause Filings for Southwestern Electric
Power Company for the period of November 2010 through December 31, 2015.**

Dear Kathleen and Brandon:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") April 22, 2016 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in reviewing all issues related to the Commission's audit of the Federal Environmental Adjustment Clause filings of Southwestern Electric Power Company ("SWEPCO" or "the Company"). The audit period will cover the Company's FEAC filings for the months of November, 2010 through December 31, 2015. The audit will be conducted pursuant to the requirements of General Order No. R-29380 Subdocket A, dated July 21, 2009 (the "Federal Environmental Adjustment Clause Order" or "FEAC Order"). The FEAC Order provides electric utilities with a cost recovery mechanism for the purchase and sale of air emission credits needed to meet local, state, and federal environmental regulations. The purchase or sale of these credits are needed to comply with the Clean Air Act Amendments ("CAAA") of 1990 as well as the Clean Air Interstate Rule ("CAIR") promulgated by the U.S. Environmental Protection Agency ("U.S. EPA") on March 10, 2005.

*Louisiana Public Service Commission
RFP No. 16-04: Audit of Federal Environmental Adjustment Clause Filings for
Southwestern Electric Power Company (2010 – 2015)
May 12, 2016*

Henderson Ridge Consulting has conducted prior FEAC audits authorized by the Commission. In addition, our firm has conducted Fuel Adjustment Clause and Purchased Gas Adjustment audits on behalf of the Commission. With respect to this RFP, we are qualified to perform the Commission's audit of the Federal Environmental Adjustment Clause of SWEPCO. The Commission retained our firm in Docket No. U-31174 to conduct the examination of the Entergy operating companies' environmental compliance costs. Thus, Henderson Ridge Consulting is very familiar with reviewing the reasonableness and prudence of environmental compliance costs claimed by LPSC-jurisdictional electric utilities.

Scope of Representation

The RFP defines certain areas of examination that the consultant retained by the Commission shall pursue in the review and analysis of the Company's FEAC filings, including: (A) whether the costs passed through the Federal EAC during the review period were reasonable and prudent; (B) whether the costs were appropriate and eligible for recovery under the FEAC mechanism consistent with the Commission's General Order dated July 21, 2009; (C) whether the costs passed through the FEAC produced just and reasonable rates; and (D) whether the costs passed through the FEAC were necessary for the provision of electric service. The RFP is flexible in the sense that the issues to be examined may be broadened as deemed necessary once the consultant begins the analysis and audit of the expenditures as reported by the Company during the review period.

Proposed Work Plan of Henderson Ridge Consulting

The Commission's FEAC General Order became effective on July 21, 2009 and that order will provide guidance for the audit. We will also refer to the Commission's General Order dated August 24, 2015 to evaluate potential issues that may arise in the course of the audit.

*Louisiana Public Service Commission
RFP No. 16-04: Audit of Federal Environmental Adjustment Clause Filings for
Southwestern Electric Power Company (2010 – 2015)
May 12, 2016*

We have developed a work plan that will evaluate whether the costs for which the Company seeks recovery are reasonable and prudent. We will also verify that the expenditures are eligible for recovery under the EAC and assess how the costs should be recovered from ratepayers.

We will perform a number of analyses, review procedures, and audit tests, including tests of transactions and substantive tests. Our work plan will include the following procedures:

- Examine documentation provided by the Company in support of the review period expenditures;
- Prepare formal discovery and review the Company's responses;
- Reconcile the review period general ledger activity with the amounts that the Company seeks to recover;
- Conduct on-site fieldwork, if necessary, to examine more detailed documentation in support of review period expenditures;
- Examine treatment of the review period costs in the Company's Formula Rate Plan filings;
- Review the Company's proposed recovery of the EAC-related costs from ratepayers. We are familiar with the methods of recovery that the Commission has approved in the past for electric utilities under its jurisdiction. Our recommendation will ensure that the recovery mechanism is fair and balanced among the classes of customers;
- Assess the appropriateness of adding the costs to the over/under balances in the FEAC;
- Compare the prices paid for environmental allowances with benchmark open market purchase prices;
- Determine the accuracy of the Company's calculation of interest charges;

*Louisiana Public Service Commission
RFP No. 16-04: Audit of Federal Environmental Adjustment Clause Filings for
Southwestern Electric Power Company (2010 – 2015)
May 12, 2016*

- Review the Company’s Fuel Adjustment Clause filings to ensure there were no instances of double recovery of environmental costs;
- Review the purchases to insure that the Company did not engage in any self-dealing in purchasing the emission allowances;
- Prepare final report and/or prefiled testimony;
- 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 to Staff throughout the engagement.

Experience of Henderson Ridge Consulting

Henderson Ridge Consulting has been retained by the Louisiana Public Service Commission over the years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under its jurisdiction. These engagements have involved investor-owned electric utilities and those organized as cooperatives, telecommunications carriers, local gas distribution companies, and water and wastewater utilities.

As mentioned earlier, our firm is experienced with the FEAC filings of the Entergy operating companies. Aside from projects involving the Entergy operating companies, the Commission has retained our firm to perform detailed earnings investigation of several electric utilities, telecommunications carriers, and water and wastewater utilities. We have conducted Fuel Adjustment Clause audits and Purchased Gas Adjustment audits on behalf of the Commission as well as a series of affiliate transaction audits of electric utilities and telecommunications carriers. At the Commission’s request, we developed a Cost Allocation Manual for a municipality in order to minimize the city’s opportunity for anti-competitive cross-subsidization of its competitive ventures. Our firm was also retained to develop the rules and procedures

*Louisiana Public Service Commission
RFP No. 16-04: Audit of Federal Environmental Adjustment Clause Filings for
Southwestern Electric Power Company (2010 – 2015)
May 12, 2016*

necessary to implement the Louisiana State Universal Service Fund. A firm resume that provides greater detail on our experience has been attached to our proposal.

Minimum Requirements

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, local gas distribution companies, telecommunications carriers, and water and sewer 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. With respect to the Minimum Requirements of this Commission RFP, we have specific experience in the requirements for electric utility compliance with the Clean Air Interstate Rule and auditing the purchases made to comply with those rules.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to LPSC-jurisdictional electric utilities, including charges assigned from and allocated by affiliates. We are also experienced in conducting regulatory audits that focus on a specific set of expenditures (e.g. storm restoration costs, avoided costs, Fuel Adjustment Clause and Purchased Gas Adjustment filings, and Formula Rate Plans).

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 the Company's FEAC filings for the 62 month review period will require professional services totaling

*Louisiana Public Service Commission
RFP No. 16-04: Audit of Federal Environmental Adjustment Clause Filings for
Southwestern Electric Power Company (2010 – 2015)
May 12, 2016*

\$39,150.00 based upon an hourly rate of \$135 for Debbie Barta and \$150 for William Barta. Travel-related expenses are anticipated to be \$1,500.00 for a total budget of \$40,650.00.

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.

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

Sincerely,

William Barta
Principal