

AzP Consulting, LLC

PROPOSAL TO ASSIST AS OUTSIDE CONSULTANT TO
THE LOUISIANA PUBLIC SERVICE COMMISSION
IN REVIEWING THE ISSUES RELATED TO BEAUREGARD'S REQUEST
TO EXTEND AND MODIFY ITS EXISTING FORMULA RATE PLAN

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January 19, 2016

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

Re: RFP 15-16 Docket No. S-33908 Beauregard Electric Cooperative Inc., ex parte. In re: Request for Extension of Formula Rate Plan and Modification Thereto.

Dear Ms. Richardson:

AzP Consulting, LLC (AzP) is pleased to submit the following proposal to the Louisiana Public Service Commission (the Commission or LPSC) for an outside consultant to assist the Commission in reviewing the issues related to Beauregard Electric Cooperative, Inc.'s request to extend and modify its existing formula rate plan (FRP).

AzP is a consulting firm based in Leawood, Kansas. We provide finance and accounting consulting services in the energy industry, primarily to public service commissions. Our extensive industry experience, dedication to clients, and distinctive project methodology will allow us to efficiently and effectively complete the objectives listed in the Request for Proposals within the proposed timeframe. AzP's proposal includes the following highlighted strengths:

- Our proposed project team is comprised of Certified Public Accountants with both regulatory consulting and "Big Four" public accounting experience.
- Our proposed project manager has served as an expert witness in proceedings before public service commissions in a number of projects, regarding complex issues requiring accounting, finance, and economic analyses.
- Our professional qualifications include experience providing finance and accounting consulting services to public service commission technical staffs in a number of projects including rate cases, management and compliance audits, and several of the largest proposed utility mergers and acquisitions over the last decade.

Our objective in devising this proposal was to form an engagement team and develop a project approach that are most responsive to the scope of services requested in the Commission's Request for Proposals. I am confident our consultants will bring considerable value to the Commission's review. If we may provide any additional information or address any inquiries, please don't hesitate to contact me. I can be reached by phone at 913-214-6149 and by email at rpfaff@azpconsulting.com. I look forward to hearing from you.

Sincerely,

A handwritten signature in black ink that reads 'Ryan Pfaff'.

**Ryan Pfaff, CPA
AzP Consulting, LLC**

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1 EXPERIENCE AND QUALIFICATIONS

1.1 QUALIFICATIONS OF THE FIRM

AzP Consulting, LLC (AzP) is a management consulting firm based in Leawood, Kansas—a suburb of Kansas City. Our firm is comprised of experienced finance and accounting professionals specializing in the utility industry. As demonstrated throughout this proposal, AzP is a highly qualified firm that meets or exceeds the requirements to provide the Louisiana Public Service Commission with a review of the issues related to Beauregard Electric Cooperative Inc. (Beauregard or BECI) and its request to extend and modify its existing formula rate plan as requested in the Commission’s Request for Proposals (RFP). AzP is comprised of licensed Certified Public Accountants with extensive experience in public accounting, auditing, and utility consulting.

Recent projects completed by AzP consultants on behalf of public utility commission staffs include:

- Rate case support
- Merger and acquisition reviews
- Compliance audits
- Affiliate transactions reviews

Particularly relevant to this RFP is the value AzP’s consultants provide to clients through litigation support services. Recently, both members of AzP’s proposed project team provided expert consulting services and litigation support to the commission staffs of Maryland and Delaware during the regulatory review of the Exelon-PHI merger. The services provided to these state commissions included preparation and evaluation of discovery, expert testimony (both written and oral), and assistance with cross-examination of opposing expert witnesses.

1.2 FIRM METHODOLOGY

Equally important to the experience of our consultants is the approach and methodology of AzP. Our objective is to provide our clients with expert analyses in a fair, unbiased manner that is wholly defensible under even the most intense scrutiny and cross-examination.

We accomplish this objective by following three key principles:

1. Emphasizing progress from the start of the engagement
 - We believe the most critical day of the project is Day 1.
 - Our philosophy is to “hit the ground running” so we advance project objectives from the very first day.
 - Our consultants’ experience working on behalf of regulators is that there is no time to waste because the information and data required to develop a quality work product is generally in possession of the utility and only accessible through a formal data request process that can take several weeks to process.
2. Setting clear, unambiguous milestone dates for deliverables
 - Consistent communication between consultant and client is an important, though often overlooked, element of project success.

- We value our clients' input throughout the process.
 - We will segment our deliverables into discrete sections and provide them to the Commission Staff piecemeal for review.
 - For example, our written report will be separated into distinct areas and provided to Staff as each area is completed.
 - Our consultants have found that providing deliverables in parts as they are completed provides clients more time to thoughtfully review our work and provide valuable feedback, ultimately resulting in a higher quality work product and a better client experience.
- 3. Establishing a working relationship with the subject utility built on mutual respect and shared goals
 - AzP's consultants have learned during the course of their careers how to be firm, yet reasonable when working with utilities.
 - Within the first week of being awarded the project, we will reach out to the key contacts at Beauregard to introduce our firm. We have found maintaining open lines of communication with the utility allows for effective and efficient resolution of administrative matters.
 - Our approach has allowed our consultants to maintain healthy and productive working relationships with utilities, even in the midst of contentious proceedings.

1.3 CONSULTANTS' EXPERIENCE AND PROJECT TEAM ORGANIZATION

As discussed in detail in the following sections, AzP's consultants have worked in a number of jurisdictions throughout the United States. AzP's consultants bring a broad, yet focused, industry knowledge to this engagement.

In addition, we are knowledgeable of the eleven categories listed on page 2 and 3 of the RFP and reproduced below for ease of reference:

1. Appropriate accounting standards and practices for electric public utilities and/or electric Co-ops, 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 Co-ops;
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. Cost of capital, including capital structure, cost of debt, cost of equity and rates of return;
8. Familiarity with just and reasonable costs and prudent investments associated with providing reliable and quality service as recommended by NARUC;
9. Depreciation and taxation;

10. Formula Rate Plans, or other methods of annual rate adjustments; and
11. A detailed understanding of the major functional areas of a regulated Co-op.

1.3.1 Ryan J. Pfaff, CPA Project Manager

Ryan Pfaff is a co-founder and Partner of AzP Consulting. Mr. Pfaff will serve as project manager for the review of Beaugard's FRP, overseeing the overall direction and management of the project.

Mr. Pfaff is a Certified Public Accountant and an experienced regulatory consultant who, over the course of his career, has served as an expert witness on behalf of state public service commissions in some of the industry's most significant and high-profile regulatory proceedings.¹

Given the demands of this project, the Commission must choose a Project Manager who possesses the following abilities and experience:

- Experience in providing innovative solutions to complex issues
 - Mr. Pfaff was recently Technical Manager on a financial review of PG&E. The objective of this review was to quantify PG&E's ability to withstand a financial penalty (regulatory disallowance or fine) as part of a disciplinary action related to the 2010 San Bruno explosion. This was a unique set of circumstances wherein no "template" was available. Mr. Pfaff played a key role in developing the novel approach used to estimate the financial capacity of PG&E to survive a financial penalty. This analysis was ultimately relied upon by two Administrative Law Judges at the California Public Utilities Commission who used it as a basis to recommend the largest penalty ever ordered on a public utility in the United States.
- Understanding of utility practices and procedures
 - In order to adequately review a utility's procedures, it is necessary for the chosen consultant to have a wide-ranging knowledge and expertise of the utility industry.
 - Mr. Pfaff has served in leadership roles on a number of comprehensive utility management audits, as well as several focused compliance audits, throughout the United States.² Mr. Pfaff's industry knowledge and expertise will allow him to assess Beaugard's procedures with a broad industry perspective.
- Expertise in developing expert testimony and serving as an expert witness
 - Mr. Pfaff has served as an expert witness in a number of jurisdictions and on a multitude of subject areas, including utility accounting. Mr. Pfaff's analysis and recommendations have routinely been relied upon by regulators.

¹ Mr. Pfaff is also an expert in utility merger and acquisition reviews and has testified in some of the largest utility mergers ever proposed. Mr. Pfaff has testified in utility mergers that, in aggregate, represent a deal value of over \$19 billion.

² Mr. Pfaff recently served as Senior Consultant in the compliance audit of safety data reported by New York's utilities, performed on behalf of the New York Public Service Commission. As part of this audit, Mr. Pfaff toured the facilities and interviewed key management of each of the nine investor-owned utilities in New York State.

- One recent example of Mr. Pfaff's recommendations making a tangible impact on a regulatory proceeding was the review conducted by the Maryland Public Service Commission regarding the acquisition of Allegheny Energy. During this proceeding, Mr. Pfaff found that a \$31 million regulatory asset was being inappropriately booked on the subject utility's balance sheet and recommended that it be disallowed. While there were dozens of parties in the proceeding, Mr. Pfaff's testimony was the only testimony to recommend the disallowance of the regulatory asset. In its final order, the Maryland PSC adopted Mr. Pfaff's recommendation and disallowed the regulatory asset in full.³

1.3.2 Ara Azad, CPA Lead Consultant

Ara Azad is co-founder and Managing Partner of AzP. Ms. Azad will serve as Lead Consultant in the review of Beauregard's FRP and related filings. Ms. Azad will also manage the discovery process in this engagement.

Ms. Azad is a Certified Public Accountant with extensive audit and industry experience. Ms. Azad brings the following relevant experience and competencies to this engagement:

- Experience in preparing technical analysis and managing discovery in high profile, complex regulatory proceedings
 - Recently, Ms. Azad prepared analyses used as a basis for the Lead Policy Witness's testimony presented on behalf of both the Maryland Public Service Commission and the Delaware Public Service Commission. Ms. Azad's areas of analysis included: corporate governance, credit ratings, utility finance, capital structure, cost of capital, and utility rates.
- Experience in benchmarking utility best practices
 - On a number of occasions, Ms. Azad has reviewed utility best practices for the development of recommendations. This experience will help inform Ms. Azad's review of Beauregard's FRP application in her role as Lead Consultant.
 - In a 2013/2014 regulatory audit performed on behalf of the New York Public Service Commission, for example, Ms. Azad developed analyses comparing the processes by which nine different New York utilities compile and report their customer service and gas safety data.
- Broad consulting and accounting experience
 - In addition to her experience as a regulatory consultant, Ms. Azad also worked with a number of companies, including utilities, during her time as a financial statement auditor with PricewaterhouseCoopers. This broad experience allows Ms. Azad to have a comprehensive perspective of potential accounting issues that may arise during this

³ Mr. Pfaff's testimony in this proceeding is available for download at the following URL:
http://webapp.psc.state.md.us/newIntranet/Casenum/CaseAction_new.cfm?CaseNumber=9233

proceeding.

- Ratemaking expertise
 - While Ms. Azad has broad experience over the utility industry, she is especially knowledgeable in the area of ratemaking.
 - Ms. Azad developed analysis for the Public Service Commissions of Maryland and Delaware regarding the potential rate implications of Exelon's proposed acquisition of Pepco Holdings, Inc. She has also recently agreed to coauthor a textbook in which she evaluates different ratemaking techniques across the country.

Résumés of Mr. Pfaff and Ms. Azad are provided at the end of the proposal in the section titled, Résumés, and provide additional details regarding their qualifications.

2 BACKGROUND

AzP has studied the circumstances surrounding the FRP and performed a preliminary review of related documents to gain an understanding of the events leading to the request for this proposal. In this section we summarize our knowledge of BECi and our understanding of the background issues relating to Beauregard, its existing FRP, and the review.

2.1 BEAUREGARD

Beauregard is a non-profit electric cooperative located in the Beauregard Parish in the state of Louisiana. It currently provides electric service to approximately 30,000 residential, commercial, and industrial member customers in southwestern Louisiana in parishes of Vernon, Rapides, Beauregard, Allen, Evangeline, Calcasieu, and Jefferson Davis. Beauregard is governed by a board of directors that consists of nine members elected by the general membership. The utility's members are the owners of the system as well as its ratepayers. BECi has approximately 126 employees. All of Beauregard's long-term debt financing needs are obtained from the National Rural Utilities Cooperative Finance Corporation (CFC). As a cooperative, Beauregard has no stock.

2.2 CURRENT FRP

On August 29, 2013, Beauregard's FRP was established under LPSC Order No. U-32540 for an initial term of three years. The FRP was to be effective prospectively, with the twelve-month periods ending December 31, 2012, 2013, and 2014 as the FRP Annual Report Test Year periods. Annual Report Filings were to be made on or before May 15, 2013, 2014, and 2015 respectively for each of the test years. Commission Staff and other interested parties would have until August 7th of each year to review the Annual Filing Reports to ensure compliance with the requirements of the Rider FRP.

The CFC, which holds 100 percent of Beauregard's outstanding long-term debt, requires compliance with a minimum Modified Debt Service Coverage (MDSC) of 1.35. Beauregard's FRP consequently established an MDSC Bandwidth—a range of values with the lower limit (MDSC Lower Limit) of 1.5 and upper limit (MDSC Upper Limit) of 1.7.

2.3 FRP EXTENSION AND MODIFICATION

On December 3rd, 2015, Beauregard filed a request for extension of and modification to its formula rate plan. This request contains two proposed modifications to the FRP:

- 1- Addition of a mid-point value of 1.60 to the FRP's Modified Debt Service Coverage Bandwidth (in addition to the MDSC Lower and Upper Limits of 1.50 and 1.70 currently in place).
- 2- A change such that if revenues exceed the MDSC Upper Band, rather than adjusting revenue levels in accordance with the existing Rider FRP, to instead increase or decrease revenue levels to the Mid-Point Limit.

Currently, if the MDSC falls below 1.50 (the MDSC Lower Limit), the FRP Revenue is reset to 1.50 and if it exceeds 1.70 (the MDSC Upper Limit), it is reset to 1.70. Should the proposed modification be approved, if revenue levels fall outside the MDSC Bandwidth (below 1.50 or exceeding 1.70), they would be adjusted to the 1.60 mid-point instead.

2.4 AZP'S ROLE

AzP's role, if selected, will be to assist the Commission in reviewing the issues related to Beauregard's request to extend and modify its existing formula rate plan (FRP) for an additional three-year term. In addition, we would assist in the review of Beauregard's annual report filings for test years 2015 through 2017.

3 WORK PLAN

3.1 PROJECT MANAGEMENT AND ADMINISTRATION

In the previous section, *Background*, we discussed our understanding of the issues and events leading to the issuance of the RFP. In this section, we discuss AzP's approach to the management and administration of the project as well as our anticipated methodology for analysis and report preparation based on our preliminary review of the facts.

3.1.1 Communication with Commission Staff

We will commence the project with a Project Initiation Conference Call with Commission Staff. During this call we will discuss AzP's preliminary assessment of the issues and discuss factors to consider in finalizing the work plan and the proposed project schedule.

We understand the need for reasonable performance measures in place to gauge the performance and progress of this review. We propose measures consisting of:

- 1- Quality, completeness, and timeliness of AzP's work – this will be marked by specific project checkpoints, discussed in greater detail in the *Project Schedule* section of this proposal.
- 2- AzP employs a system of regular open communication with scheduled, as well as informal discussions with the appropriate members of Commission Staff to ensure timeliness of AzP's response to Staff's requests for input on strategies or requests for further information.

We follow up with the parties present during telephone conferences with a summary of the items discussed, as well as next action items and anticipated dates of completion. In addition to the draft and final reports, this will serve as a 'check list' to ensure proper communication and delivery of services on our part leading to and following major deliverables.

3.1.2 Litigation Support

As regulatory consultants, our work is generally performed within the setting of regulatory proceedings. As such, we are experienced in and available to assist with depositions, development of cross-examination questions, and assistance with drafting legal briefs. Our proposed Project Manager has served as an expert witness on behalf of public service commission technical staffs in various regulatory proceedings. AzP will be prepared to submit written testimony and to testify in person in front of the Commission or an Administrative Law Judge as necessary during the course of this project.

3.1.3 Quality Control

AzP performs rigorous internal reviews prior to issuing all formal work products. This includes checks for factual accuracy, as well as proper and professional presentation of the material in a comprehensive, comprehensible manner. In addition to our internal quality control procedures, we will provide drafts of the report to the Commission Staff and, where appropriate, to Beauregard, to allow the parties an opportunity for review prior to issuance of the final report.

3.2 ANALYSIS AND REPORT PREPARATION

As noted in the RFP, there are two key elements of the proposed review:

1. Advising the Commission with its review of Beauregard's request to extend and modify its existing FRP, and
2. Assisting in the annual review of Beauregard's annual report filings for test years 2015, 2016, and 2017.

Our preliminary work plan for accomplishing these two objectives is provided below.

3.2.1 Request for Extension and Modification of Existing FRP

We will perform the following procedures in review of Beauregard's Request for Extension and Modification.

1. Review all Beauregard filings made in Docket S-33908, and related dockets U-32540 and U-32807. This examination will include review of filed testimony and exhibits, as well as hearing transcripts and commission orders (where available).
2. Assess whether the expired FRP has met the expectations originally set by the Commission in its original order approving the FRP. In determining whether or not the FRP should be extended, it is important to determine whether the recently expired FRP has functioned adequately. To make this determination we will discuss with Commission Staff whether, and the extent to which, Staff has observed areas of concern or identified improvements to the FRP that would better protect the interests of Beauregard's members.⁴
3. Determine the necessity and appropriateness of Beauregard's modification request to the existing FRP. We will review the modification requested by Beauregard and determine whether it is appropriate and necessary. We will also compare this to similar FRP modifications requested by other cooperatives.⁵

3.2.2 Annual FRP Filings

On an annual basis, we will perform the following procedures.

3.2.2.1 Filing Compliance

To ensure compliance of the report with the Rider FRP, we will perform the following validation procedures:

1. Check the filing against the requirements of the Rider FRP. We will compare the contents of Beauregard's annual filings to the requirements set forth in the Commission's order approving the extension of the FRP.
2. Review the filing for completeness and accuracy. As part of this review we will review the filing for internal consistency and mathematical accuracy.

⁴ In his August 2012 testimony (filed in Docket U-32540), the Executive Vice President and General Manager of Beauregard described the benefits of the FRP to the cooperative's members as follows: "The [FRP] will allow [Beauregard] to continue to provide safe and reliable service to its member owners well into the future, provide access to long term debt funds as required, achieve satisfactory DSC levels on a consistent basis, and provide greater assurances to our lender that [Beauregard] will have the ability to service existing and new loans."

⁵ Beauregard is requesting that, regardless of whether its MDSC falls below or exceeds the MDSC band of 1.50 to 1.70, the FRP revenue be reset to the mid-point (1.60). This request is similar to the modification requested by Dixie Electric Membership Corporation, and ultimately approved by the Commission, in Docket Number U-33063.

3.2.2.2 *Assessment of Adjustments*

We will perform the following procedures to identify and quantify any necessary adjustments:

1. Assess the filing for compliance with traditional ratemaking standards, as well as past Commission Orders. We will review the filing's pro forma adjustments. We will quantify any and all adjustments not in accordance with standard ratemaking practice and/or Commission precedent.
2. Test consistency of rate filing with utility's actual costs. We will identify the expense and investment drivers, and agree these drivers to source documents or accounting records. We will also perform a trend analysis on an account level basis to identify material changes.
3. Test Company's underlying assumptions. We will review the assumptions underlying Beaugard's calculations—for determining its WACC, or in any benchmarking analysis undertaken by the company—and make a determination for reasonableness of the assumptions and the resulting outcomes. Where we believe the assumptions require revision, we will quantify and propose necessary adjustments.

3.2.3 *Support Services*

In accordance with page 1 of the RFP, we are ready and able to provide Commission Staff with the following support services throughout the engagement:

- Assisting with cross-examination questions for opposing witnesses,
- Drafting and responding to discovery requests,
- Preparing direct testimony and defending testimony under cross-examination,
- Conducting informal and formal meetings as necessary, and
- Assisting in settlement discussions and reviewing and analyzing stipulation terms.

The procedures above are based on our knowledge of the issues at this stage. These proposed steps are subject to change and will be further developed based on discussions with Commission Staff.

4 SCHEDULE

Section 4, *Work Plan*, contains details regarding how AzP will accomplish each of the tasks identified by Commission Staff. Based on the RFP, the current estimate of the time period to complete the Scope of Representation for the Beauregard FRP review for all three test years is thirty months.

The following summarizes AzP's anticipated schedule based on this estimate:

Task / Deliverable⁶	Estimated Date of Performance
• Execution of Contract.....	January 29, 2016
• Project Initiation Conference Call.....	February 02, 2016
• Refined work plan.....	February 10, 2016
• Submission of discovery requests.....	February 17, 2016 – April 1, 2016
• Preliminary findings and analysis.....	March 25, 2016
• Written report of findings and recommendations.....	May 6, 2016
• Report on annual report filings for test years 2015-2017.....	*by July 15 of Filing Year

*We propose the July 15 date for providing AzP's findings and recommendations to Staff based on our understanding that, if the FRP is extended, Beauregard will file its FRP Annual Reports on or before May 15 and Commission Staff would have until August 7th of the filing year to review the FRP Annual Report to ensure compliance with the requirements of the Rider FRP.

As discussed in Section 1.2, *Firm Methodology*, one of AzP's key project management principles is setting explicit dates for key milestones and deliverables. Within the first two weeks of being awarded the project, AzP will discuss, in additional detail, the key deliverables and agree on specific dates when such deliverables will be transmitted.

The schedule above is an estimate and subject to change based on any Commission-ordered procedural schedule and discussions with the Staff. Another factor that may impact the schedule is Beauregard's response time during the discovery process. During the Project Initiation meetings, AzP will work with Staff (and Beauregard, if applicable) to establish a mutually agreeable protocol for the timing and form of the data request responses.⁷

⁶ AzP will also be prepared to assist Commission Staff with litigation support tasks including development of responses to discovery, attendance of hearings and presenting live testimony under cross-examination, assistance with cross-examination of opposing witnesses, and development of initial and reply briefs. We will provide these services as necessary and consistent with the procedural schedule set forth by the Commission as applicable.

⁷ It has been our experience that jurisdictions have diverse rules regarding discovery. We have generally found that a turnaround time of two weeks is a sufficient amount of time for the utility to respond, and allows us to perform our analysis in an efficient manner. We also always request that the subject company (in this case, Beauregard) provide its responses in native electronic format (*e.g.*, Microsoft Excel, with cell logic intact). This allows us to perform our analysis in the most efficient and effective manner.

5 PRICING

5.1 ESTIMATED PROJECT COST

As described earlier, the RFP noted two areas of review: advising the Commission with its review of Beauregard's request to extend and modify its existing FRP, and assisting in the annual review of Beauregard's annual report filings for test years 2015, 2016, and 2017.

AzP's proposed not-to-exceed project cost consists of professional labor of \$16,500 and expenses of \$1,500 for assistance in reviewing Beauregard's request for FRP extension and modification. For assistance in the review of Beauregard's annual report filings for each of the test years 2015, 2016, and 2017, our estimated annual costs consist of professional labor of \$13,500 and expenses of \$1,500. AzP's proposed not-to-exceed project cost for all components of the services described in the RFP for the Commission's estimated thirty-month period of performance is **\$63,000**.

The not-to-exceed bid amount will not be exceeded without prior written approval from the Louisiana Public Service Commission.

AzP's estimated costs are based on the following hourly rates:

Ryan Pfaff	\$180
Ara Azad	\$150

5.2 BILLING ADMINISTRATION

In conformity with Commission guidelines described on page 3 of the RFP, labor will be billed monthly. Support for invoices will consist of detailed time sheets that include the name of professional staff and a description of activities for all invoiced time for the month. To the extent travel expenses are incurred for the month, an individual expense report will be provided for any consultant who incurred travel expenses for the period. Supporting documentation, including receipts, will be provided as part of the expense report package.

6 REFERENCES

AzP consultants have performed work on behalf of regulatory agencies on a number of projects. We have listed several of these projects in this section. We encourage the Commission to contact our references to learn how we have provided value for our clients in the past.

Services Provided: Litigation Support and Expert Testimony
Project Name: *In the Matter of the Merger of Exelon Corporation and Pepco Holdings, Inc.* – Case Number 9361

Client: Maryland Public Service Commission
Contact Name: Jennifer Grace
Title: Deputy Staff Counsel
Phone: 410-767-8101
Duration: August 2014 to April 2015
Reference for: Ryan Pfaff and Ara Azad

Project Summary: Review and examination of the costs and benefits of proposed acquisition of Pepco Holdings, Inc. by Exelon Corporation under the relevant Maryland statute - *Public Utilities Article Section 6-105*. Specifically, this statute requires that a merger or acquisition involving a Maryland utility offer net benefits and no harm to the subject utility's ratepayers.

Relevance to RFP: Similar to the current RFP, the services required in this review involved both expert testimony and litigation support on behalf of Maryland Public Service Commission Staff. Services provided by Mr. Pfaff and/or Ms. Azad to Maryland Public Service Commission Staff included: development of cross-examination questions, on-site assistance during depositions, proposal and submittal of discovery questions, and assistance with preparation of briefs. Mr. Pfaff presented written testimony and defended recommendations under cross-examination in the areas of cost-benefit analysis, accounting, and tax. Ms. Azad managed the discovery process and developed technical analysis underlying Staff's Lead Policy Witness testimony, covering areas of corporate governance, credit ratings, finance, capital structure, cost of capital, and utility rates.

Services Provided: Litigation Support and Expert Testimony
Project Name: *In the Matter of the Application of Delmarva Power & Light Company, Inc., Exelon Corporation, Pepco Holdings, Inc., Purple Acquisition Corporation, Exelon Energy Delivery Company, LLC, and Special Purpose Entity, LLC for Approvals Under the Provisions of 26 Del. C. §§ 215 and 10116* – PSC Docket Number 14-193

Client: Delaware Public Service Commission
Contact Name: James Geddes

Title: Partner, Ashby & Geddes
Phone: 302-438-9500
Duration: July 2014 to May 2015
Reference for: Ryan Pfaff and Ara Azad

Project Summary: Comprehensive review of proposed merger between Exelon Corporation and Pepco Holdings, Inc.

Relevance to RFP: During this proceeding, both Mr. Pfaff and Ms. Azad worked closely with Delaware PSC Staff and the PSC's outside counsel, James Geddes, to conduct a merger review of the costs and benefits of the acquisition of Pepco Holdings, Inc. by Exelon Corp. The services provided to counsel were similar to those provided to Maryland PSC Staff in the project described above. Specifically, during this proceeding, Mr. Pfaff served as both Lead Consultant and Expert Witness on behalf of the Delaware PSC in the areas of Accounting and Cost-Benefit Analysis. Mr. Pfaff also worked closely with PSC's outside counsel during the depositions of the Companies' key witness, including the Chief Executive Officers of both Exelon and Pepco Holdings. Ms. Azad also worked closely with Delaware PSC Staff and provided litigation support—such as assistance with discovery—to counsel assigned to the case. Ms. Azad also developed technical analyses underlying the testimony of the Delaware PSC Lead Policy Witness.

Services Provided: Appraisal Services
Project Name: *Genon Mid-Atlantic, LLC (Dickerson Plant) vs. State Department of Assessments & Taxation, et al.*, Case Numbers 11-PP-OO-1344 and 13-PP-OO-0400

Client: Maryland State Department of Assessments & Taxation
Contact Name: Jeffrey Comen
Title: Assistant Attorney General
Phone: 410-767-1280
Duration: October 2013 to April 2014
Reference for: Ryan Pfaff

Project Summary: Asset valuation of the Dickerson Electric Generation Coal Plant located in Dickerson, Maryland. Project included the development of a complete appraisal of the plant using replacement cost, market, and income valuation approaches.

Relevance to RFP: This project demonstrates the extensive and varied industry knowledge of the proposed Project Manager. As part of this appraisal, Mr. Pfaff analyzed the power industry, performed a site visit at the coal plant subject to valuation, and interviewed plant management.

Services Provided: Examination of Utility Compensation Practices

Project Name: *Mississippi Power Company and Southern Company – Executive Compensation Study*

Client: Mississippi Public Service Commission
Contact Name: Paige Wilkins
Title: Senior Attorney
Phone: (601) 961-5875
Duration: April 2013 to January 2014
Reference for: Ryan Pfaff

Project Summary: Compensation study of Mississippi Power Company and Southern Company executives. Analysis utilized public and proprietary compensation data to determine the reasonableness of compensation paid to key utility and utility holding company executives.

Relevance to RFP: This review required the analysis of highly sensitive compensation data and demonstrates Mr. Pfaff’s ability to maintain positive working relationships with company personnel. Performed an assessment of reasonableness of expense; developed and provided recommendations to the Commission Staff.

Services Provided: Focused Compliance Audit
Project Name: *Operations Audit of New York State Utilities’ Self-Reported Data, Case 13-M-0314*

Client: New York Public Service Commission
Contact Name: Ron Vero
Title: Project Manager, New York Department of Public Service
Phone: 518-474-3137
Duration: February 2013 to October 2014
Reference for: Ryan Pfaff

Project Summary: Operations audit to review the accuracy of self-reported reliability and customer service data for the following New York utilities: Consolidated Edison Company of New York, Inc.; Niagara Mohawk Power Corporation; Central Hudson Gas & Electric; National Fuel Gas Distribution Corporation; Orange and Rockland Utilities, Inc.; Rochester Gas and Electric Corporation; New York State Electric & Gas Corporation; Brooklyn Union Gas; Key Span East Gas Corporation.

Relevance to RFP: During this review, Mr. Pfaff reviewed and developed recommendations for four different natural gas utilities. Mr. Pfaff reviewed the leak management, damage prevention and emergency response metrics for each of these utilities and provided recommendations for how the utility could improve the accuracy and effectiveness of these metrics in the future. Mr. Pfaff also reviewed the gas company’s compliance with its infrastructure replacement programs by making

certain that the Company's data supported the figures it reported to the Commission.

Services Provided: Utility Financial Analysis
Project Name: *San Bruno-related Orders Instituting Investigations* Olls I.12-01-007, I.11-02-016, and I.11-11-009

Client: California Public Utilities Commission
Contact Name: Travis Foss
Title: Staff Counsel
Phone: 415-703-1998
Duration: May 2012 to June 2013
Reference for: Ryan Pfaff

Project Summary: Financial capacity analysis of Pacific Gas and Electric Company (PG&E). During this review, Mr. Pfaff served as the Technical Manager to perform a financial capacity review of PG&E that was filed with the California Public Utilities Commission. Specifically, Mr. Pfaff prepared analyses demonstrating that PG&E had the financial capacity to absorb a significant fine.

Relevance to RFP: This engagement addressed several areas of utility finance relevant to rate case filings, including utility cost of capital. Specifically, the analysis reviewed whether, and the extent to which, utility cost of capital would be impacted due to a penalty being assessed at the holding company level.

Services Provided: Auditing Services (Utility Cost Allocation Audit)
Project Name: *Investigation of National Grid's Affiliate Cost Allocations, Policies and Procedures*, Case Number 10-M-0451

Client: New York Public Service Commission
Contact Name: Jeremy Routhier-James
Title: Project Manager, New York Department of Public Service
Phone: 518-473-8149
Duration: February 2011 to October 2012⁸
Reference for: Ryan Pfaff

Project Summary: Audit ordered by the New York Public Service Commission to investigate the cost allocations policies and procedures of National Grid's service companies.

⁸ The New York Public Service Commission press release announcing the audit findings can be found at the following URL:
[http://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/Web/2F7697F2EDD608CE85257D4900635C68/\\$File/pr14057.pdf?OpenElement](http://www3.dps.ny.gov/pscweb/WebFileRoom.nsf/Web/2F7697F2EDD608CE85257D4900635C68/$File/pr14057.pdf?OpenElement)

Relevance to RFP: This required review of a large number of transactions (1,425 service company transactions analyzed). This audit also required extensive use of audit sampling to determine whether, and the extent to which, a material misstatement occurred through National Grid's service company transactions. This audit required detailed knowledge of FERC accounting for electric and gas utilities.

Services Provided: Litigation Support and Expert Testimony
Project Name: *In the Matter of the Merger of Exelon Corporation and Constellation Energy Group, Inc., Case 9271*

Client: Maryland Public Service Commission
Contact Name: Ryan (Chuck) McLean
Title: Administrative Law Judge
Phone: 410-767-8100
Duration: July 2011 to February 2012
Reference for: Ryan Pfaff

Project Summary: Performed merger review on behalf of the Maryland Public Service Commission Technical Staff. Maryland statute requires that utility mergers involving a Maryland utility provide benefits and no harm to utility ratepayers.

Relevance to RFP: During this proceeding, Mr. Pfaff submitted expert testimony and provided litigation support to Maryland Staff. Services included: preparation and review of discovery, cross-examination of witnesses, and assistance with initial and reply briefs.

Services Provided: Litigation Support and Expert Testimony
Project Name: *In the Matter of the Merger of FirstEnergy Corporation and Allegheny Energy Inc., Case 9233*

Client: Maryland Public Service Commission
Contact Name: Ryan (Chuck) McLean
Title: Administrative Law Judge
Phone: 410-767-8100
Duration: July 2010 to December 2010
Reference for: Ryan Pfaff

Project Summary: Expert consulting services provided to Maryland Public Service Commission Staff in the statutory proceeding wherein FirstEnergy's acquisition of Allegheny Energy was ultimately approved. Under Maryland law, utility must provide "certain, specific and measurable benefits" to utility customers.

Relevance to RFP: Mr. Pfaff provided expert testimony and litigation support to Maryland Staff. Areas of expert testimony included: accounting and tax consequences of

merger; accounting policy conformance; utilization of utility assets; and impact of merger on credit ratings.

Services Provided: Litigation Support
Project Name: *Application of Baltimore Gas and Electric Company for Revisions in its Electric and Gas Base Rates, Case 9230*

Client: Maryland Public Service Commission
Contact Name: Ryan (Chuck) McLean
Title: Administrative Law Judge
Phone: 410-767-8100
Duration: May 2010 to July 2010
Reference for: Ryan Pfaff

Project Summary: Expert consulting services provided to Maryland Public Service Commission in its review of Baltimore Gas and Electric’s rate filing. Areas of analysis included shared service cost allocations from Constellation Energy Group (parent holding company) to Baltimore Gas & Electric (utility subsidiary), as well as an assessment of company procedures and internal controls governing shared service allocations. Also reviewed and quantified impacts of Constellation Energy’s 2009 joint venture with Électricité de France.

Relevance to RFP: Mr. Pfaff provided support services, including preparation of discovery requests and cross-examination questions, to the Maryland Public Service Commission. Also reviewed utility rate filing and assessed reasonableness of expenses being charged to ratepayers through the cost allocation process. Developed analysis underlying expert testimony. This testimony recommended internal controls enhancements to ensure the utility would be charged a reasonable and appropriate amount for goods and services purchased through its shared service organization.

7 DISCLOSURES

7.1 CONFLICT OF INTEREST

AzP has had no past, has no current, and is not anticipated to have employment that may result in a conflict of interest in our capacity to provide expert consulting services to the LPSC. There are no matters in which AzP currently represents clients before the Commission.

8 RÉSUMÉS

8.1 RYAN J. PFAFF, CPA

Summary of Experience

Mr. Pfaff is an experienced regulatory consultant, auditor, and expert witness. Mr. Pfaff's areas of expertise include: utility finance, accounting, corporate governance, affiliate transactions, and mergers/acquisitions. Prior to cofounding AzP, Mr. Pfaff was Vice President of the regulatory consulting firm Overland Consulting. Mr. Pfaff is a former financial statement auditor from the public accounting firm PricewaterhouseCoopers.

Selected Auditing and Consulting Experience⁹

- Lead Consultant on the 2014-2015 evaluation of Exelon Corporation's \$6.8 billion acquisition of Pepco Holdings, Inc. Performed on behalf of the Public Service Commission Staffs of Maryland and Delaware. Prepared and defended under cross-examination testimony covering the following areas: accounting and tax consequences of the proposed merger; conformance of accounting policies between the merging entities; evaluation and critique of filed cost-benefit analyses and the use of subsidiary assets.
- Senior consultant for the examination and validation of gas safety metrics as part of the audit of self-reported operational data conducted on behalf of the New York Public Service Commission. All investor owned electric and gas utilities were subject to this review. Gas safety metrics areas reviewed included: damage prevention; infrastructure replacement; emergency response; and leak management. Responsible for developing the audit findings and recommendations of four separate New York gas utilities.
- Senior Consultant in the valuation of the Dickerson Electric Generation plant located in Dickerson, Maryland. Employed replacement cost, market and income asset valuation approaches. Valuation was used in state property tax appeal proceeding.
- Senior Consultant in the executive compensation study of the electric utility, Mississippi Power Company, and its holding company parent, Southern Company. Analyses included benchmarking utility and its parent to peer companies to determine reasonableness of top management's base salary and incentive compensation.
- Technical Manager in the financial analysis of Pacific Gas & Electric. Reviewed public financial filings and company cash flow projections to determine PG&E's financial ability to absorb a penalty. Analysis was ultimately used as a basis by the California Public Utilities Commission in April 2015, when it assessed a \$1.6 billion penalty—the largest penalty ever assessed against an American utility company.
- Lead Consultant and Expert Witness on the evaluation of the acquisition of Constellation Energy Group by Exelon Corporation. Areas of testimony included the following: merger accounting; treatment of transaction and transition costs resulting from the merger; accounting policy conformance; tax consequences of the merger. Presented expert testimony on behalf of the Maryland Public Service Commission's Technical Staff.

⁹ Representative experience obtained while at Overland Consulting.

- Senior Consultant in a detailed examination of the corporate cost allocation review of the Canadian utility EPCOR. Developed analyses used in expert testimony presented to the Alberta Utilities Commission.
- Lead Consultant responsible for the areas of gas supply, gas operations, system design, cash management, internal audit and utility accounting in the comprehensive management audit of South Jersey Gas Company performed on behalf of the New Jersey Board of Public Utilities.
- Senior Consultant for the detailed review of National Grid's cost allocation audit. Detail tested over 500 randomly selected transactions to ensure proper cost direction and FERC Accounting.
- Technical Manager in the asset valuation of the personal property of Verizon Virginia and Verizon South, two US telecommunications companies. Developed valuation as part of property tax appeal proceeding utilizing generally accepted valuation practices.
- Senior Consultant and Expert Witness in the merger review of FirstEnergy Corporation and Allegheny Energy Inc. Defended testimony under cross-examination before the Maryland Public Service Commission. Areas of testimony included merger accounting issues, including recommendation that regulatory asset proposed by merging companies be disallowed. The Maryland Public Service Commission adopted this recommendation in final order approving the merger.
- Senior Consultant in the review of Baltimore Gas & Electric's application to increase electric and gas base rates. Developed analyses regarding affiliate transaction/shared service concerns. Analyses was used in expert testimony provided on behalf of the Maryland Public Service Commission Technical Staff.
- Consultant in the management audits of Atlantic City Electric and Connecticut Natural Gas, two utilities in northeast US. Reviewed accounting and operations issues.
- Consultant in the development of expert testimony for the review of the acquisition of 49.99% of Constellation Energy Group's nuclear fleet by Électricité de France. Performed analyses related to the benefits and costs of the venture, as well as ring-fencing and corporate governance issues.

Publications

- "How to Build a Fence (and When)," Howard Lubow, Ryan J. Pfaff, Dr. J. Robert Malko, and Leslie Romine, *Public Utilities Fortnightly*, October 2013.
- "Constellation / EDF Nuclear Joint Venture: Regulatory Issues and Subsequent Resolutions," Howard Lubow, Ryan J. Pfaff, and Dr. J. Robert Malko, *Electricity Journal*, March 2010.

Selected Speaking Engagements

- *Merger and Acquisition Training Workshop*, Presentation to the New Jersey Board of Public Utilities Staff and the Delaware Public Service Commission Staff, May 2015.
- *CPUC Knowledge Transfer Workshop – Executive Summary*, Presentation to senior policymakers, including Commissioners and senior members of Commission Staff, February 2014.
- *California Public Utilities Commission Staff Workshop*, Presentation to California Public Utilities Commission Staff, November 2013.

Education

Bachelor of Science in Accounting; Minor in Economics, Truman State University
With Honors, *President's Recognition Scholar*

Professional Certification

Certified Public Accountant

Professional Affiliations

Member of American Institute of Certified Public Accountants
Member of Chartered Financial Analyst Institute

8.2 ARA AZAD, CPA

Summary of Experience

Ms. Azad is Managing Partner at AzP Consulting. Prior to co-founding AzP, Ms. Azad was a Senior Consultant at the regulatory consulting firm, Overland Consulting. She is a former financial statement auditor from PricewaterhouseCoopers. She has developed analyses concerning the impact of rates on public utility customers. Ms. Azad is a Certified Public Accountant and an experienced utility consultant and auditor who has performed a number of financial and operational audits in the utility industry during her career.

Selected Auditing and Consulting Experience¹⁰

- Consultant on the 2015 prudency and affiliate transaction review of Questar Gas Company, a local distribution company, and Wexpro, its unregulated affiliate supplier of natural gas. Investigated costs charged by unregulated affiliate to regulated distribution company to ensure costs were accurate and in compliance with the regulatory requirements approved by the Utah Public Service Commission.
- Consultant on the 2014-2015 regulatory review of Exelon Corporation's \$6.8 billion proposed acquisition of Pepco Holdings, Inc. Developed financial and accounting analyses used in expert testimony of Commission Staff's Lead Policy Witness. Performed concurrent reviews on behalf of both the Maryland Public Service Commission and the Delaware Public Service Commission. Analyzed facets of corporate governance, finance, capital structure, and cost of capital, as well as accounting, credit ratings impacts, and the related rate implications of the proposed merger in the two jurisdictions.
- Consultant on the 2014 operations audit to review the veracity of customer service and gas safety data reported to the New York Public Service Commission by the state's nine investor-owned utilities. Aggregated and reviewed data for purposes of benchmarking. Performed targeted and sample testing to assess accuracy of data reported to the Commission for gas safety measures implemented within each utility, including leak management reporting, damage prevention, infrastructure replacement, and emergency response time. Examined utility reporting of customer service metrics to the New York Public Service Commission and performed comparison of the methods employed by the utilities in recording and reporting gas safety and customer service metrics.
- Consultant on the independent valuation of the Portsmouth Genco and James River Genco coal-fired generation units (owned and operated by Cogentrix Energy, a subsidiary of the Carlyle Group). Engaged to provide independent expert appraisal services to the Virginia State Corporation Commission's Public Service Taxation Division, applying the market, income, and historical cost methods of valuation analysis.
- Member of *Loss Mitigation* special projects group at PricewaterhouseCoopers. Conducted detailed review and analysis of Citibank's loan and foreclosure practices in response to the Independent Foreclosure Reviews Audit Consent Order issued by the Office of the US Comptroller of the Currency.

¹⁰ Representative experiences include professional services provided while employed at Overland Consulting or PricewaterhouseCoopers.

- Audited Nebraska’s largest electric utility, Nebraska Public Power District. Performed detailed testing and analytical procedures in the areas of asset depreciation, accruals, and payroll expense. Performed substantive testing of the District’s liabilities.
- Audited the opening balance sheet of telecommunications company, NewWave Communications, following the acquisition of NewWave by private equity firm GTCR/Rural Broadband Investments. Performed testing over accrued expenses and examined financial statements to ensure compliance with Generally Accepted Accounting Principles. Performed agreed-upon procedures including testing of accuracy, appropriateness, and supporting documentation of management expenditures. Inspected financial statements and supporting documents as well as company journal entries for proper reporting of capitalized costs.

Education

Master of Science in Accounting, University of Missouri-Kansas City
Bachelor of Science in Molecular Biosciences, University of Kansas

Professional Certification

Certified Public Accountant