

J. KENNEDY
AND
ASSOCIATES, INC.

**PROPOSAL TO THE
LOUISIANA PUBLIC SERVICE COMMISSION**

IN RESPONSE TO RFP 16-19

DOCKET NO. X-34109

IN RE: REQUEST FOR PROPOSALS FOR OUTSIDE CONSULTANT TO ASSIST STAFF WITH THE FUEL ADJUSTMENT CLAUSE AUDIT OF ENTERGY LOUISIANA, LLC'S CHARGES FLOWED THROUGH ITS FUEL ADJUSTMENT CHARGE, FROM THE PERIOD BEGINNING JANUARY 1, 2014 THROUGH DECEMBER 31, 2015 (2014 – 2015)

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December 12, 2016

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 the review of Entergy Louisiana, LLC’S (“ELL”) fuel adjustment clause (“FAC”) filings for the years 2014 - 2015. The ELL FAC filings for this time period include the separate filings made by Entergy Gulf States Louisiana LLC (“EGSL”) from January 2014 through October 2015 prior to the merger of EGSL into ELL.

Kennedy and Associates has provided consulting services to the Commission in numerous utility rate proceedings, audits, and other proceedings. This proposal has been structured to meet the requirements of the Commission’s Request for Proposal (“RFP”) 16-19 dated November 22, 2016, and has been designed to be in accordance with the Commission’s requirements in its November 6, 1997 General Order.

Kennedy and Associates Qualifications

Kennedy and Associates is extremely well qualified to perform these audits. First, our firm, on behalf of the Commission Staff, developed the current fuel adjustment clause (“FAC”) process in the Docket No. U-21497 generic fuel proceeding, including the various guidelines and rules as well as the various reporting forms, adopted by the Commission in its General Order dated November 6, 1997.

Second, also on behalf of the Commission Staff, our firm has performed several comprehensive reviews and audits of fuel costs in prior proceedings. We performed one review in Docket No. U-

25116 that involved Entergy Louisiana LLC (“ELL”) and pertained to the years 2002-2004. Two of the reviews we performed involved Entergy Gulf States, Inc. (“EGSI”), the predecessor of EGSL, in Docket Nos. U-20647 and U-19904. We are currently finalizing FAC audits of ELL and EGSL for the years 2010 through 2013 in Docket Nos. X-33323 and X-33324, respectively. The audit reports in those proceedings have been drafted and we are awaiting Staff’s first round of comments. Another review involved Southwestern Electric Power Company (“SWEPCO”) in Docket No. U-23327. Currently, we are finalizing an audit of Cleco Power, LLC (“Cleco”) for the years 2014 and 2015 in Docket No. X-33972. The audit report in that proceeding has been drafted and has just been forwarded to Staff for review. We recently performed the audit for Cleco’s 2009-2013 FAC filings in Docket No. X-33325. Prior to that, our firm completed an audit of the FAC filings and trading activities of Cleco in Docket No. U-26994. In these proceedings, our firm identified numerous instances of non-compliance with the Commission’s prior Orders, the General Order, and sound ratemaking principles. As a result of these reviews, the Commission ordered tens of millions of dollars of refunds to Louisiana retail ratepayers. Kennedy and Associates has also performed other audits on behalf of the Commission, including a special “Fuel and Purchased Power Cost” audit of EGSL and ELL in 2005 and 2006 following Hurricanes Katrina and Rita in Docket Nos. U-29175 and U-29176.

Third, our firm is extremely knowledgeable on the costs incurred by ELL through its participation in the Entergy System Agreement. The costs of purchases and the revenues from sales pursuant to the System Agreement are included in the ELL FAC. Our firm has represented the Commission before the Federal Energy Regulatory Commission in all major proceedings involving the Entergy

System Agreement and its effects on EGS/EGSL and ELL since the Entergy/Gulf States Utilities merger proceeding in 1992.

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

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

1. Appropriate accounting standards and practices for utilities, public utility accounting, and generally accepted auditing standards.
2. Books and records of utility companies for the purpose of accounting for fuel and purchased power costs.
3. Fuel adjustment clause audits.
4. Costing methodologies utilized by the Commission for its jurisdictional electric utilities.
5. Cost allocation and sharing methodologies set forth in the Entergy System Agreement.

6. Appropriate ratemaking adjustments to the utility's accounting records.
7. Appropriate allocations of costs to base rates and fuel.
8. Recoverable expenses for ratemaking purposes.
9. Just and reasonable costs and prudent investments associated with providing reliable and quality service.
10. Costs passed through a FAC which are considered reasonable and prudent, appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of electric service and which have or will produce just and reasonable rates.
11. Utility taxation issues.

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.

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

Scope of Comprehensive Review

Kennedy and Associates' project team will work closely with the Commission's Legal, Audit and Economic Division to review the ELL and EGSL FAC filings for the years 2014-2015. The scope of our review will be focused upon the ratemaking aspects of the Company's fuel and purchased

power expense and compliance with the Commission's General Order. As specified in the RFP, our audit procedures will include, but not be limited to:

1. A review and analysis of ELL's and EGSL's monthly comprehensive fuel adjustment reporting requirements filed with the Commission.
2. If applicable, the development and improvement of internal staff procedures to effectively monitor and evaluate ELL's and EGSL's performance in areas impacting the fuel and purchased power cost which are reflected in ELL's and EGSL's monthly fuel adjustment filings with the Commission.
3. A review and analysis of ELL's and EGSL's monthly comprehensive fuel adjustment filings to assure compliance with all pertinent state and federal regulations.

We will work closely with Staff to analyze and resolve the principal issues outlined below, together with any additional issues the Staff may deem appropriate and relevant to this review.

1. Whether ELL and EGSL properly recorded fuel and purchased power transactions and whether these costs were properly reflected in the Company's FAC filings during the review period. This includes consideration of whether ELL and EGSL properly removed fixed costs that may have been embedded in energy-only priced purchases.
2. Whether the costs passed through the ELL and EGSL FAC were reasonable and prudent.
3. Whether the costs were appropriate and eligible for recovery in the ELL and EGSL FAC consistent with the Commission's General Order dated November 6, 1997 and sound ratemaking principles.
4. Whether the costs passed through the ELL FAC produced just and reasonable rates.
5. Whether the costs passed through the ELL FAC were necessary for the provision of electric service to Louisiana retail ratepayers.

Action Plan and Timeline to Perform Comprehensive Review

Kennedy and Associates will follow the Audit approach outlined in the Commission's General Order dated November 6, 1997 in Docket No. U-21497. First, we will obtain copies of and review all ELL and EGSL FAC filings and the related supporting documentation for the audit period.

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

Third, we will compare the Companies' fuel costs to other publicly available information in order to identify any significant differences or abnormalities.

Fourth, we will obtain an understanding of the Companies' fuel and purchased power procurement practices, including the involvement of the utility's affiliates in that process, in order to assess the effect on their FAC filings. This will include a review of the Companies' contracts and hedging strategies.

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

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

Seventh, we will prepare an Audit Report, as required by the Commission's General Order, detailing the results of our investigation, and will identify any irregularities in the monthly fuel adjustment calculations that incorrectly assessed and applied to Louisiana consumer billing

statements or which allowed for the recovery of these unauthorized expenses by the utility. The Audit Report will contain an Executive Summary, which will include specific findings and recommendations regarding whether any of the costs passed through the FAC were found to be in violation of the Commission's General Order, and it will include recommendations as to the appropriate methodology to be utilized by the Commission to provide for the refund of costs not properly included in the FAC, if any.

Eighth, we will review and respond to comments on the Audit Report by ELL, EGSL and other parties.

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

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

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

At the outset of the project, we will work with the Staff and the other parties to develop a procedural schedule for this proceeding. Assuming timely responses to the Staff's written discovery requests, we will expect to complete our review and prepare an initial draft of the Audit Report for the Commission Staff to review within nine to twelve months of commencing work. The schedule will also be designed to account for comments on the Audit Report, settlement discussions, hearings, briefs, responses to the proposed and final recommended decisions of the ALJ, and preparation of a final Commission Order. Overall, we expect the entire process to complete the docket will require 18 months. However, as the Commission's RFP notes, this is merely an estimate and may vary depending on whether the matter is contested.

Budget to Perform These Services

Kennedy and Associates proposes a budget of \$47,900, including \$47,200 for consulting services and \$700 for expenses. This budget assumes the scope identified in the Commission's RFP, which extends to the completion of the docket.¹ The costs of such services will be billed at the hourly rates on the Attachment to this proposal. 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 Project Team

¹ The RFP does not state, and this proposal does not include budget for representation of the Commission in the event of an appeal of the final order to state or federal court. We would be available to provide such services based on the hourly rates included in the attachment to this proposal.

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 and Mr. Kollen 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

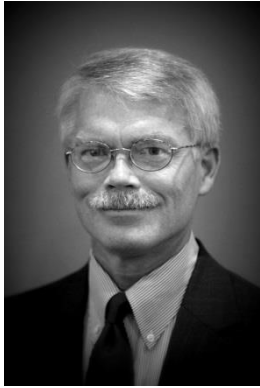
biography attached to this proposal and his expert testimony and appearances are detailed in the enclosed Qualifications package.

Ms. Leah Wellborn, Senior Consultant, has expertise in economic analysis, production cost modeling, and resource planning, and has worked on projects involving utilities across the U.S. She has a Bachelor's degree in Mathematics and has nearly completed a Master's degree in Operations Research, with specialized coursework in Energy Optimization and Energy, Policy, and Technology. Ms. Wellborn has worked with a variety of modeling tools, including Strategist, Cumulus, GRID, R, Excel, and Arena, and has evaluated modeling conducted in AuroraXMP and Prosym. Ms. Wellborn's experience is described further in her biography attached to this proposal and her project experience is detailed in the enclosed Qualifications package.

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

RESUME OF LEAH JUSTIN WELLBORN, CONSULTANT



EDUCATION

Georgia Southern University,
Statesboro, GA
B.S. Mathematics, 2012
GPA 3.72, Magna Cum Laude

Georgia Institute of Technology,
Atlanta, GA
Working towards M.S. Operations Research degree
Expected Completion in 2015

EXPERIENCE

Ms. Wellborn is a recent college graduate with a mathematics and analysis background. She has been working at J. Kennedy and Associates, Inc., and has been sub-contracting to Hayet Power Systems Consulting on projects since early 2013. For these companies, she has been providing critical support in the areas of production cost modeling and data analysis involving utility regulatory proceedings on cases for clients located across the country. Ms. Wellborn has worked on projects for regulatory commissions and government agencies such as the Department of Justice and the Louisiana Public Service Commission Staff, as well as the large industrial users group, the Kentucky Industrial Utility Customers, Inc.

J. Kennedy and Associates, Inc. (2013 to Present): Consultant

Responsible for conducting research, data analysis, production-cost modeling, and performing resource planning analyses.

Project Experience

Analyses and development of commodity forecasts,
Data extraction, interpretation, and organization,
Analysis using statistical software such as PAST, and
Familiarity with production cost models such as Strategist and Aurora XMP

Hayet Power Systems Consulting (2013 to Present): Sub-contractor Consultant

Responsible for conducting research, data analysis production-cost modeling and performing resource planning analyses.

Project Experience

Analysis of PROSYM results,
Evaluation of incremental cost, heat rate, and expected forced outage rate calculations,
Integrated Resource Planning assessments, and
Development of numerous analyses and creation reports and presentations

Relevant College Coursework (2008-2013)

Deterministic Optimization, Operations Research, Statistical Methods, Number Theory, Linear Algebra,
Differential Equations, Math Structures, Modern Algebra, Java Programming, and Calculus I, II, III

**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 |
