

**J. KENNEDY
AND
ASSOCIATES, INC.**

**PROPOSAL TO THE
LOUISIANA PUBLIC SERVICE COMMISSION**

IN RESPONSE TO RFP 16-20

DOCKET NO. X-34110

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

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

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”) with the Fuel Adjustment Clause (“FAC”) Audit of Southwestern Electric Power Company’s (“SWEPCO”) charges flowed through its Fuel Adjustment Charge, from the period beginning January 1, 2014 through December 31, 2015 (2014-2015). This proposal is structured to meet the requirements of the Commission’s Request for Proposal (“RFP”) dated November 22, 2016 (RFP 16-20).

We will assist the Staff in analyzing SWEPCO’s fuel and purchased power expense pursuant to the requirements of the FAC General Order dated November 6, 1997. We are very familiar with the requirements of the General Order. We assisted the Staff in the rulemaking that led to the General Order. We have assisted the Staff in FAC audits pursuant to the requirements of the FAC General Order as well as Purchased Gas Adjustment (“PGA”) audits pursuant to the companion PGA General Order dated March 24, 1999.

We are familiar with SWEPCO and have assisted the Staff on numerous occasions in reviews of SWEPCO’s fuel expenses, purchased power expenses, affiliate transactions, and other issues. We performed separate FAC audits for the years 1999-2002 and again for the years 2003-2004, both in Docket No. U-23327.

We are presently assisting the Commission Staff in a review of Cleco Power, LLC’s (“Cleco”) FAC Audit for years 2009-2013.

Kennedy and Associates Qualifications

Kennedy and Associates is extremely well qualified to perform this review of SWEPCO's FAC filings for the years 2014-2015. Our firm worked closely with the Staff in the Docket No. U-21497 (generic fuel proceeding) to develop the FAC General Order adopted by the Commission on November 6, 1997. This includes the various FAC guidelines and rules as well as the various reporting forms that are filed monthly by each utility since then. The Commission's PGA General Order, adopted March 24, 1999, was patterned after the FAC General Order.

In addition, our firm, also on behalf of the Commission Staff, has performed several comprehensive reviews and audits of fuel costs and purchased gas costs in addition to those mentioned above related to SWEPCO. 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. We also are currently 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. That audit resulted in a settlement and significant refunds to 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. Another review involved Entergy Louisiana L.L.C. for the years 2002-2004 in Docket No. U-25116. Another review involved Entergy Gulf States, Inc. ("EGSI"), the predecessor of Entergy Gulf States L.L.C. ("EGSL"), in Docket Nos. U-20647 and U-19904. 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.

Further, our firm has represented consumer interests in numerous gas rate and fuel proceedings in other jurisdictions, including Georgia, Ohio, Pennsylvania, 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.

Finally, our firm has been involved in hundreds of regulatory proceedings since its formation, with our principals and consultants having provided expert testimony on several hundred 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. Appropriate ratemaking adjustments to the utility's accounting records.
3. Appropriate allocations of costs to base rates and PGA or FAC.
4. Recoverable expenses for ratemaking purposes.
5. Just and reasonable costs and prudent investments associated with providing reliable and quality service.

6. Costs passed through a PGA or FAC which are considered reasonable and prudent, appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of gas (electric) service and which have or will produce just and reasonable rates.
7. Utility taxation issues.

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. We will be pleased to provide you with additional copies of the Qualifications upon request.

Our Project Team will consist of Mr. Lane Kollen, Vice President, CPA, CMA, CGMA; Mr. Randy Futral, Manager, Consulting; and Ms. Leah Wellborn, Consultant. Their resumes list the regulatory proceedings and subject matters in which they have provided expert testimony.

Scope of Comprehensive Review

Kennedy and Associates' project team will review the FAC filings of SWEPCO for the months January 2014 through December 2015. The scope of our review will be focused upon the ratemaking aspects of the Companies' fuel and purchased power expense and compliance with the FAC General Order. We will work closely with the 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 the costs passed through the FAC were reasonable and prudent.
2. Whether SWEPCO's costs were appropriate and eligible for recovery in the FAC and were consistent with the FAC General Order and sound ratemaking principles.

3. Whether the costs passed through the FAC produced just and reasonable rates.
4. Whether the costs passed through the FAC were necessary for the provision of electric service to Louisiana retail ratepayers.

Action Plan to Perform Comprehensive Review

Kennedy and Associates will follow the Audit approach outlined in the Commission's FAC General Order. First, we will obtain copies from the Commission of all SWEPCO FAC filings and the related supporting documentation for the audit period.

Second, we will perform analytics by comparing fuel commodity 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 and purchased power costs to other publicly available information in order to identify any significant differences or abnormalities.

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

Fifth, we will systematically review the costs included by SWEPCO during the audit review period against the requirements in the FAC General Order.

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

Seventh, we will prepare an Audit Report detailing the results of our investigation, as required by the General Order. The Audit Report will contain specific findings and recommendations regarding whether the costs passed through the FAC were or were not reasonable

and prudent, and whether the costs were appropriate for recovery in the FAC consistent with the requirements of the General Order.

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

Tenth, if any of the issues identified in the Audit Report moves to litigation, we will prepare and file testimony; review and respond to the testimony of SWEPCO 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 SWEPCO and technical conferences with SWEPCO's subject matter experts as necessary.

Assuming timely responses to the Staff's written discovery, we can complete this review and prepare an initial draft of the Audit Report for the Commission Staff to review within six to nine months of commencing work. We will work with the Staff and the other parties to develop a procedural schedule for SWEPCO and the other parties to comment on the Audit Report, engage in settlement discussions, hold hearings, file briefs, respond to proposed and final recommended decisions of the ALJ, and prepare a final Commission Order.

Budget to Perform Comprehensive Review

To perform the comprehensive review of the FAC filings and to address issues that move to litigation, we propose a total budget of \$32,900, consisting of \$32,500 for consulting services and \$400 for expenses, such as reproduction, courier services, travel, and lodging. This budget assumes the scope identified in the Commission's RFP and reflected in this proposal and includes the audit, preparation of the Audit Report, settlement discussions, filing of testimony, hearings, and assistance to the Commission Staff and Staff Counsel through the issuance of the Commission's final order. The costs of such services will be billed at the hourly rates on the Attachment to this proposal.

No Conflicts of Interest

Kennedy and Associates has no known conflict of interest in representing the Louisiana Public Service Commission in this proceeding. Kennedy and Associates does not represent investor-owned gas or electric utilities.

Contact Information

Thank you for the opportunity to provide consulting services to the Commission Staff on this important project. Please call or e-mail Lane Kollen at lkollen@jkenn.com or Stephen Baron, the President of Kennedy and Associates, at sbaron@jkenn.com with any questions or comments.

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
