

J. KENNEDY
AND
ASSOCIATES, INC.

**PROPOSAL TO THE
LOUISIANA PUBLIC SERVICE COMMISSION**

IN RESPONSE TO RFP 19-09

DOCKET NO. X-35173

**IN RE: DOCKET NO. X-35173, AUDIT OF FUEL ADJUSTMENT CLAUSE
FILINGS FOR SOUTHWESTERN ELECTRIC POWER COMPANY FOR
THE PERIOD OF JANUARY 2016 THROUGH DECEMBER 2018**

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

June 4, 2019

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 for the period January 1, 2016 through December 31, 2018 (2016-2018). This proposal is structured to meet the requirements of the Commission’s Request for Proposal (“RFP”) dated May 15, 2019 (RFP 19-09).

Kennedy and Associates’ proposes to 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 familiar with the requirements of the General Order as Kennedy and Associates worked closely with the Staff in Docket No. U-21497 (the generic fuel rulemaking proceeding) to develop the FAC General Order that was adopted by the Commission on November 6, 1997. Since the FAC General Order went into effect, we have worked on numerous electric utility FAC proceedings in Louisiana, and are thoroughly familiar with the FAC guidelines and rules, as well as, the various reporting forms that are filed monthly by each utility. In addition, the Commission’s Purchased Gas Adjustment (“PGA”) General Order, which was adopted March 24, 1999 was patterned after the FAC General Order, and we have also assisted the Staff in performing various PGA audits for Louisiana gas utilities.

Kennedy and Associates Qualifications

Kennedy and Associates is well qualified to perform this review of SWEPCO's FAC filings as we have considerable experience 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 SWEPCO FAC audits for the years 1999-2002 and again for the years 2003-2004, in sub-dockets related to Docket No. U-23327. Also, in other sub-dockets related to Docket No. U-23327 we evaluated SWEPCO's Formula Rate Plan filings for years 2007 – 2009.

Our firm also performed several other comprehensive reviews and audits of fuel costs and purchased gas costs associated with Louisiana electric and gas utilities. Recently, we assisted the Commission Staff in a review of Cleco Power, LLC's ("Cleco") FAC Audit for years 2014 – 2015 in Docket No. U-33972, and prior to that we assisted Staff in an FAC Audit of the years 2009 through 2013 in Docket No. U-33325, and of the years 2000 through 2002 in Docket No. U-26994. Docket No. 26994 resulted in a settlement that provided significant refunds to ratepayers.

We are currently involved in FAC audits of ELL and EGSL for the years 2010 through 2013 in Docket Nos. U-33323 and U-33324, respectively. The audit reports in those proceedings have been filed and parties in the proceedings are currently evaluating whether there are any issues that they intend to contest. 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. Previously, we performed an FAC audit in Docket No. U-25116 that involved Entergy Louisiana LLC ("ELL") pertaining to years 2002-2004, and we performed audits of Entergy Gulf States, Inc. ("EGSI"), the predecessor of Entergy Gulf States Louisiana, 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 the proper qualifications required by the Commission for this work. Our consultants are experienced with:

1. Reviewing the operations, books and records of utility companies for the purpose of performing fuel audits;
2. Applying the costing methodologies utilized by the Louisiana Public Service Commission;
3. Applying appropriate accounting standards and practices for utilities, public utility accounting, and generally accepted auditing standards;
2. Identifying appropriate ratemaking adjustments to the utility's accounting records.

3. Determining appropriate allocations of costs to base rates, PGA, or FAC;
5. Determining just and reasonable costs and prudent investments associated with providing reliable and quality service pursuant to Commission orders;
6. Accounting for affiliate transactions of utilities; and,
7. Accounting for utility taxation issues.

Kennedy and Associates meets all professional qualification requirements specified in the Commission's RFP for technical consultants. We are experienced with public utility regulation and have knowledge of LPSC ratemaking, FAC proceedings and jurisdictional issues, and we are knowledgeable of appropriate accounting standards and practices for electric utilities. 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 that are likely to arise in this proceeding.

Along with the hard copies of this proposal, we are enclosing a single copy of Kennedy and Associates' Qualifications, which includes the resumes of all principals and consultants. We would be pleased to provide additional copies of the Qualifications upon request.

Our Project Team will consist of Mr. Lane Kollen, Vice President, CPA, CMA, CGMA; Mr. Philip Hayet, Vice President; Mr. Randy Futral, Manager of Consulting; and Mr. Samuel Wyrobeck, Consultant. The project team members' 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 of January 2016 through December 2018. The review will be focused on the ratemaking aspects of the Companies' fuel and purchased power expense and compliance with the FAC General Order.

Kennedy and Associates 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 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 are consistent with the FAC General Order and sound ratemaking principles.
3. Whether the costs included in 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, which includes the following activities:

First, we will obtain copies of prior SWEPCO FAC filings and the current FAC filing, along with all related supporting documentation for the audit period. We will obtain additional information based on discovery requests that we submit.

Second, we will perform analyses based on the information we obtain, including an analysis of 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 proceed 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 we will 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 will be available to participate in telephone calls, meetings and conferences with the Commission and its Staff as well as attending any Business and Executive Sessions that Staff deems

necessary. We anticipate that there will be several rounds of written discovery 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 litigated issues, we propose a total budget of \$35,000 consisting of \$34,250 for consulting services and \$750 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 Kennedy and Associates' current hourly rates which are attached 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 Philip Hayet at phayet@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 PHILIP HAYET, VICE PRESIDENT



EDUCATION

Purdue University, BS Electrical Engineering
Purdue University, Cooperative Education Certificate
Georgia Tech, MS Electrical Engineering. Specialization in Power Systems.
Post Graduate Study in Business Administration

PROFESSIONAL AFFILIATIONS

National Society of Professional Engineers
Georgia Society of Professional Engineers
Institute of Electrical and Electronic Engineers

EXPERIENCE

Mr. Hayet has nearly forty years of electric utility industry experience in the areas of resource planning, operations analysis, economic analysis, regulatory policy development, and utility rate analysis. He has worked on projects that led to the development of both supply-side and demand-side resources, participated in resource certification proceedings, power purchase agreement evaluations, the development of commission rules concerning Integrated Resource Planning, renewable energy and energy efficiency policies, and has performed many utility fuel audits. Mr. Hayet has written reports and filed expert testimony on numerous occasions in federal court, regulatory commissions and at the Federal Energy Regulatory Commission ("FERC"). Mr. Hayet is an expert in the use of proprietary and non-proprietary production cost and long-term resource planning software tools. Mr. Hayet began his career working for 15 years for Energy Management Associates ("EMA" now known as Ventyx), providing client support services and consulting services using the firm's PROMOD IV™ ("PROMOD") and Strategist software.

J. Kennedy and Associates, Inc. (2000 to Present): Vice President and Principal. Mr. Hayet provides consulting services to clients involving electric utility regulatory matters. Mr. Hayet has assisted in certificate of necessity proceedings, utility commission rulemakings, IRP proceedings, decertification proceedings, among others. These projects have involved performing production cost modeling and long-term resource planning analyses. Mr. Hayet has used numerous production cost and resource planning software tools as part of these projects.

Hayet Power Systems Consulting (1995 to 2015): President and Principal. Mr. Hayet provided consulting services to clients in the U.S. and abroad related to resource planning analyses. Mr. Hayet assisted in the evaluation of power purchase agreements, generation resource additions, fuel budget audits, resource certifications, and generating unit de-certifications stemming from environmental regulations. Mr. Hayet used the PROMOD and Strategist software, along with other modeling tools as part of his consulting work.

Energy Management Associates (1980 to 1995): Lead Consultant, Product Manager. Mr. Hayet provided client support and consulting services to electric utility clients using the PROMOD and Strategist software systems. These tools were used to perform a wide range of studies, including operations evaluations, resource planning studies, economic evaluations, financial analyses, and accounting and budgeting studies.

RESUME OF RANDY A. FUTRAL, MANAGER OF CONSULTING



EDUCATION

Mississippi State University, BBS in Business Administration
Accounting

EXPERIENCE

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

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

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

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

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

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

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

J. Kennedy and Associates, Inc.
2019 Hourly Fee Schedule
Louisiana Public Service Commission

<u>Title</u>	<u>Name</u>	<u>Hourly Rate</u>
President	Stephen J. Baron	\$266
Vice President	Lane Kollen	\$266
Vice President	Philip Hayet	\$266
Director	Richard A. Baudino	\$254
Director	Brian R. Barber	\$254
Manager	Randy Futral	\$254
Senior Consultant	Ann Bruccoliere	\$195
Consultant	Sam Wyrobeck	\$175
Consultant	Brian Kollen	\$160
Analyst	Jessica Inman	\$120
