

Henderson Ridge Consulting, Inc.

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August 26, 2019

Louisiana Public Service Commission
Attention: Kim Trosclair and Kathryn Bowman
Office of the General Counsel
602 North Fifth Street, 12th Floor (Galvez Building) (70802)
P.O. Box 91154
Baton Rouge, Louisiana 70821-9154

**Re: RFP 19-12 - Docket No. U-35351
Beauregard Electric Cooperative, Inc., ex parte
*In re: Application for Approval of Initial Revenue Adjustment and Extension and
Modification of Formula Rate Plan.***

Dear Kim and Kathryn:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") July 31, 2019 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in conducting a review of Beauregard Electric Cooperative's ("BECi" or "the Cooperative") base rate filing, including the proposed revenue adjustment, and its request to extend and modify the Formula Rate Plan ("FRP") under which the Cooperative has been regulated since 2013. Our firm has been retained by the Commission to examine the annual filings of BECi since 2013 and we have evaluated the Cooperative's prior requests to extend and modify the terms of the FRP. We have also been retained by the Commission in other proceedings to design the FRPs under which several of the LPSC-jurisdictional electric distribution cooperatives' earnings are being evaluated, including the proposed FRPs filed by Pointe Coupee Electric Membership Corporation ("Pointe Coupee"), Jefferson Davis Electric Cooperative, Inc. ("JDEC"), and Concordia Electric Cooperative, Inc. ("Concordia"). In other engagements with the LPSC, Henderson Ridge Consulting has conducted earnings reviews of several electric distribution cooperatives that are subject to the regulation of the Commission, including the most recent base rate filings of South Louisiana Electric

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Membership Corporation ("SLEMCO") and South Louisiana Electric Cooperative Association ("SLECA").

Scope of Representation

As defined in the RFP, the consultant retained by the Commission shall assist Staff in the review of BECi's request to extend and modify the FRP and examine the base rate filing, including the proposed initial revenue adjustment of \$2,908,264. The RFP does not specify that the consultant will be engaged to conduct the review of BECi's Annual Filings for any upcoming test years in which the FRP may be in effect. Most of the RFPs issued by the Commission in the past, however, have requested that the consultant provide a budget to complete the evaluation of the annual FRP reports to be filed by the cooperative. Therefore, Henderson Ridge Consulting has provided a budget estimate for the evaluation of BECi's Annual FRP Filings in the event the Commission wishes to expand the scope of the RFP to include such services.

Henderson Ridge Consulting has worked closely with the Commission Staff in several proceedings in the evaluation of whether the terms and conditions of a proposed FRP, or the extension of an existing FRP, would serve the interests of a cooperative's members. Thus, our firm is very familiar with the terms being proposed by BECi in its FRP as well as the individual FRP adjustments, schedules and filings that cooperatives are required to submit under the provisions of a FRP that is approved by the Commission. In recent filings by other LPSC-jurisdictional electric distribution cooperatives, we have evaluated the need for an initial revenue adjustment and will make the appropriate pro forma adjustments to BECi's 2018 test year to ensure that rates are fair and reasonable at the outset of the FRP.

Summary of Work Plan

Henderson Ridge Consulting will initially examine the Cooperative's request to extend and modify the terms of the FRP. Based upon our examination, we may recommend

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alternative terms and conditions to those being proposed in the Cooperative's application with the Commission. In tandem with the assessment of the FRP proposed by BECi, we will evaluate the initial revenue adjustment of \$2,908,264 requested by the Cooperative. We will determine whether additional adjustments should be made outside of those prescribed in the FRP and assess how such adjustments affect the earnings bandwidth set for the Cooperative under the terms of the modified FRP.

The major services, procedures, and tests that will be performed include:

- Examine the Cooperative's request to extend and modify the terms of the proposed FRP;
- Compare the terms and conditions of the FRP as proposed by BECi to the terms and conditions of the FRPs in place for other LPSC-jurisdictional cooperatives;
- Examine documentation provided in support of test year pro forma adjustments;
- Prepare formal discovery and review responses;
- Perform a detailed review of the test year general ledger activity;
- Conduct tests of accounts and examine documentation in support of specific transactions;
- Perform trend analyses of major Operations & Maintenance and General & Administrative accounts to identify unusual swings in expense activity;
- Meet and hold conference calls with Staff and Cooperative representatives;
- Hold status conferences with Staff;
- Prepare final report and/or prefiled testimony;
- Stand cross examination at Commission hearings;
- Attend Business and Executive Sessions;
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services to Staff throughout the engagement.

Experience of Henderson Ridge Consulting

Henderson Ridge Consulting has performed detailed earnings investigations of several electric distribution cooperatives that are regulated by the Commission, including the recent reviews of the FRP results filed by BECi, Pointe Coupee, JDEC, and Concordia. We have completed the review of SLECA's application before the Commission in Docket No. U-34483 that seeks an increase in retail rates (i.e. not an FRP annual evaluation filing). Over the years, our firm has worked closely with the electric distribution cooperatives on behalf of the Commission. These engagements have covered a broad range of areas,

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including earnings investigations, FRP design, long-term purchased power and services agreements, and affiliate transaction audits. Henderson Ridge Consulting worked closely with BECi, including the development of the initial FRP approved by the Commission for the Cooperative in Docket No. U-33908. We have also worked closely with BECi to address its request to implement an Advanced Metering Infrastructure program. Our experience in working with the Louisiana electric distribution cooperatives on behalf of the Commission is extensive: over the years we have worked on over forty projects with the cooperatives.

A firm resume has been attached to the proposal and provides further background on our experience and prior engagements. Our firm has been retained by the Louisiana Public Service Commission over the years to assist Staff in numerous dockets covering the myriad requests, issues, and audits of utilities under its jurisdiction. These engagements have involved electric distribution cooperatives, investor-owned electric utilities, gas local distribution companies, telecommunications service providers, and water and wastewater utilities.

Minimum Requirements

Henderson Ridge Consulting is experienced in analyzing the operations and the books and records of electric utilities, local gas distribution companies, telecommunications carriers, and water and wastewater companies under the jurisdiction of the Louisiana Public Service Commission. This experience has been applied for the purpose of setting just and reasonable rates. To that end, the firm has experience with several regulatory approaches to determine the utility's revenue requirement, including the traditional rate base/rate-of-return methodology, interest and debt service coverage approaches, the cash needs study, and the cost plus margin model.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles specific to electric distribution cooperatives. We are very experienced with the Formula Rate Plan currently

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in effect for many of the LPSC-jurisdictional electric distribution cooperatives as our firm has been retained in several dockets to determine whether the FRPs as proposed by the cooperatives were in the interests of their members.

Henderson Ridge Consulting has reviewed the list of minimum requirements identified in Section IV as (1) through (10) of the Commission’s RFP. Our firm is experienced with each of the minimum requirements and can readily satisfy this group of professional standards that the Commission expects of its expert consultants.

Estimate of Cost

The professional fees to be incurred in the course of the engagement include the following activities: (1) the examination of the base rate filing as submitted by BECi and (2) the evaluation of the Cooperative’s request to extend and modify the terms of the FRP. The professional fees are based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$1,200.00 for each trip to Baton Rouge in support of our reports and recommendations at hearings and at the Commission’s Business and Executive Session.

<u>Description</u>	<u>Services</u>	<u>Expenses</u>	<u>Total</u>
Evaluation of request to extend and modify the FRP	\$6,150		\$6,150
Examination of base rate filing and initial revenue adjustment	<u>32,700</u>	<u>2,400</u>	<u>35,100</u>
Total	\$38,850	\$2,400	\$41,250

The Commission may wish to expand the scope of the RFP and have the consultant evaluate the Annual Filings to be submitted by BECi during the extended term of the FRP. In that event, Henderson Ridge Consulting will conduct each annual review for a budget

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of \$19,350 in services and \$1,200 in expenses for a total budget for each annual review of \$20,550.

Conflict of Interest

Henderson Ridge Consulting has no current assignments, or any prior assignments, that could pose any conflicts of interest, or the appearance of such conflicts, including, but not limited to, any work performed on behalf of the Louisiana Public Service Commission. The firm does not represent any private clients before the Commission.

Henderson Ridge Consulting appreciates the opportunity to respond to the RFP and to continue its relationship with the Commission and its Staff.

Sincerely,

William Barta
Principal

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SERVICES PROVIDED:

Henderson Ridge Consulting, Inc. is a regulatory consulting firm founded in 1996. The firm's practice addresses the traditional regulatory matters (e.g. earnings investigations, affiliate transaction reviews, fuel adjustment clause audits, etc.) that routinely confront regulators in the electric, gas, telecommunications, and water and wastewater utility industries. In addition, the firm has increasingly focused its work on the technical and policy issues challenging the regulatory authorities overseeing the competitive developments occurring within the telecommunications, gas, and electric utility industries.

EXPERIENCE:

Electric Utility Industry:

- Monitoring of competitive solicitation process of electric utility's Request For Proposals for long-term, supply-side resources
- Reviewing and developing pole attachment rates that may be applied for the purpose of charging third party attachers. Extensive experience with the Federal Communications Commission Pole Attachment rate formula. Served as mediator for pole attachment disputes
- Certification of electric utility's self-build generating facilities as serving the public interest
- Prudence audits of generating plant environmental retrofits
- Evaluation of proposed long-term Purchased Power Agreements to meet capacity deficits
- Earnings investigations of major investor-owned utilities, generation and transmission cooperative, and distribution cooperatives
- Earnings investigations conducted under various approaches including traditional rate base/rate-of-return, TIER, cash flow requirements studies, and Formula Rate Plans
- Financial and public interest assessment of Waste Heat Recovery generation facility
- Cost-Benefit Analyses of integration into Regional Transmission Organizations
- Public interest determination of transfer of control of transmission facilities
- Evaluation of Integrated Resource Plans
- Financial and regulatory policy assessment of proposed renewable generation projects
- Evaluation of investor-owned utilities transmission expansion plans and upgrades
- Evaluation of electric service provider Smart Grid network infrastructure investments, customer service enhancements, and retail program initiatives
- Development of nuclear decommissioning revenue requirement
- Evaluation of long term Power Supply and Services Agreements for certification

- Storm restoration cost audits
- Rulemaking to develop “best practices” for storms and other disasters
- Fuel Adjustment Clause audits of investor-owned utilities
- Nuclear generating facility siting and licensing evaluation
- Management audits of Gulf States Utilities, Inc., generation and transmission cooperative and distribution cooperatives
- Merger analyses of Entergy-Gulf States Utilities, Inc.
- Affiliate transaction audits
- Demand Side Management program analyses

Natural Gas Industry

- Purchased Gas Adjustment audits of local distribution companies
- Evaluation of fuel procurement and hedging practices
- Fair and reasonable cost of capital
- Evaluation of Asset Management Agreements
- Review of Rate Stabilization Plan Annual Filings
- Evaluation of proposed consolidation of regulatory divisions

Telecommunications Industry

- Earnings investigations of major investor-owned utilities, independent local exchange carriers, and telephone cooperatives conducted under various approaches
- Price cap regulation reviews and alternative regulation assessments
- Biennial compliance audits of local exchange carriers
- Reactive audits of rural incumbent local exchange carriers
- Affiliate transaction audits
- Addressed policy and technical issues in regulatory proceedings initiated in response to the pro-competitive mandates of the 1996 Act. Subject areas include universal service and access charge reform, interim and permanent pricing for local interconnection and unbundled network elements, avoided retail cost studies for resale purposes, evaluation of local number portability cost studies, assessment of Contract Service Arrangements, and mediation of joint use pole disputes
- Financial review of special State regulatory funds (e.g. access funds, Telecommunications Relay Service fund) including implementation of accounting system to track contributions and disbursements from the funds
- Structuring of Louisiana State Universal Service Fund
- Retail Service Quality Measurements rulemaking

Water and Wastewater Utility Industry:

- Earnings investigations
- Affiliate transaction reviews
- Prospective financial statement studies
- Rate design support to ensure compliance with bond covenants
- Formula Rate Plan design

- Project administration and oversight of expenditures
- Public interest determination for transfer of control and ownership requests
- Valuation of assets in a business combination (under GAAP) and determination of rate base (for ratemaking purposes)
- Phased rate increases for recovery of planned capital improvements

AUDITING EXPERIENCE:

- Fuel Adjustment Clause audits
- Purchased Gas Adjustment audits
- Prudence audits
- Compliance audits
- Reactive audits
- Affiliate transaction audits
- Storm restoration cost audits
- Management audits
- Attestation of accuracy of semi-annual bond securitization true-ups
- Avoided cost audits in support of payments to Qualifying Facilities
- Federal Environmental Adjustment Clause audits

REGULATORY CLIENTS SERVED:

Henderson Ridge Consulting, Inc. has served a diverse range of clients including the State regulatory authorities of:

- Louisiana Public Service Commission
- Georgia Public Service Commission
- Nevada Public Utilities Commission

References are available upon request.

EXPERT TESTIMONY PROVIDED IN THE FOLLOWING JURISDICTIONS:

California	Florida	Georgia
Louisiana	Mississippi	Nevada
Ohio	North Carolina	Tennessee
	South Carolina	Texas