

***Henderson Ridge Consulting, Inc.***

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May 12, 2016

Louisiana Public Service Commission  
Attention: Kathleen Richardson/Brandon Frey  
Office of the General Counsel  
602 North Fifth Street, 12<sup>th</sup> Floor (Galvez Building) (70802)  
P.O. Box 91154  
Baton Rouge, Louisiana 70821-9154

Re: **RFP 16-03 Docket No. U-33984 and Docket No, U-34033**  
***Claiborne Electric Cooperative, Inc.***  
***In re: Application to Extend Formula Rate Plan and 2015 Formula Rate Plan Annual Report Filing.***

Dear Kathleen and Brandon:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") April 22, 2016 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in conducting (1) a review of Claiborne Electric Cooperative, Inc.'s ("Claiborne" or "the Cooperative") application to extend the currently-effective Formula Rate Plan ("FRP"), (2) an evaluation of the Cooperative's Annual Filings for the test years ending December 31, 2016 through December 31, 2018, and (3) an evaluation of the Cooperative's 2015 Annual FRP Filing. Our firm has been recently retained by the Commission to evaluate the annual FRP filings of Beauregard Electric Cooperative, Inc., Concordia Electric Cooperative, Inc. and Pointe Coupe Electric Membership Corporation as well as those cooperatives' requests to extend the existing FRP and/or initiate a FRP. 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 a recent FRP Annual Filing of DEMCO. In the Annual

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Review of DEMCO's FRP, our firm evaluated the Cooperative's request to extend the FRP and whether the plan remained in the public interest. Henderson Ridge Consulting is also experienced with other Formula Rate Plans that have been approved by the Commission and has designed several of the Formula Rate Plans that are currently in effect for LPSC-jurisdictional electric distribution cooperatives and water and sewer utilities.

**Scope of Representation**

As defined in the RFP, the consultant retained by the Commission shall assist Staff in the review of Claiborne's application to extend the current FRP and also evaluate the upcoming Annual Filings of the Cooperative for test years 2016 through 2018. The Cooperative's 2015 Annual FRP filing will also be reviewed as part of the project. Henderson Ridge Consulting has worked closely with the Commission Staff throughout several proceedings that involved an evaluation of whether the terms and conditions of a proposed FRP would serve the interests of the Cooperative's members. Thus, our firm is very familiar with the terms of the Claiborne FRP that has been approved by the Commission as well as the individual FRP adjustments, schedules and filings that the Cooperative is required to submit under the requirements of the FRP. We will ensure that a comprehensive review of each Annual Filing of Claiborne is undertaken and each Annual Filing is consistent with the terms of the FRP that has been approved by the Commission.

**Summary of Work Plan**

Henderson Ridge Consulting will initially examine the Cooperative's request to extend the FRP approved in Docket No. U-32315. We will evaluate the Cooperative's performance for the three year period that the FRP has been in effect. Should the Commission approve the extension of the Cooperative's FRP, we will evaluate the Annual Filings submitted by Claiborne in support of the 2016 – 2018 test years. We will determine whether additional adjustments should be made outside of those prescribed in

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the FRP and assess how such adjustments affect the earnings bandwidth set for the Cooperative under the terms of the modified FRP. As part of the project, we will evaluate the 2015 Annual FRP filing submitted by Claiborne.

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

- Examine the Cooperative's request to extend and modify certain conditions of the currently-effective FRP;
- Compare the terms and conditions of the modified FRP as proposed by Claiborne 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;
- 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 DEMCO, BECi, and SLECA. We have just completed the review of SLEMCO's application before the Commission in Docket No. U-33452 that sought an increase in base rates (i.e. not an FRP annual evaluation filing). We are currently working on the evaluation of the requests of Pointe Coupee Electric Membership Corporation, Concordia Electric Cooperative, Inc., and Beauregard Electric Cooperative, Inc. to enter into a FRP or extend an existing FRP. We will also be examining the upcoming annual FRP filings of those cooperatives. Over the years, our firm has worked closely with the electric distribution cooperatives on behalf of the

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Commission. These engagements have covered a broad range of areas, including earnings investigations, FRP design, long-term purchased power and services agreements, affiliate transaction audits, and storm restoration expense audits and subsequent rate relief. We have also worked closely with Northeast Louisiana Power Cooperative and BECi during the last year to address those Cooperatives’ requests to implement Advanced Metering Infrastructure programs. The following table summarizes our experience in working with the Louisiana electric distribution cooperatives on behalf of the Commission.

**Henderson Ridge Consulting, Inc.**  
**Louisiana Electric Distribution Cooperative Projects**  
**Conducted on Behalf of the Louisiana Public Service Commission**

<u>Cooperative</u>	<u>Docket No.</u>	<u>Year</u>
<u>Earnings Reviews:</u>		
DEMCO	U-26845	2003
Pointe Coupee	U-28608	2005
Jefferson Davis	U-28857 (Phase I)	2006
Jefferson Davis	U-28857 (Phase II)	2007
Beauregard	U-30328	2008
Washington-St. Tammany	U-30455	2008
DEMCO	U-33063	2014
South Louisiana Electric Cooperative Assn (SLECA)	U-33122	2014
SLEMCO	U-33452	2015
Concordia	U-33779	2016
Pointe Coupee	U-33917	2016
<u>Formula Rate Plan Design and Evaluation</u>		
Beauregard	U-32540	2013
SLECA	U-32698	2013
Beauregard	U-33908	2016
Concordia	U-33779	2016
Pointe Coupee	U-33917	2016
<u>Affiliate Transaction Audit:</u>		
DEMCO	U-27496	2004
<u>RFP for Long-term Power Supply Contract:</u>		

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Valley		2007,2008
<u>Certification of Long-term Power Supply Contract:</u>		
Valley	U-30914	2009
Washington-St. Tammany	U-32222	2012
Claiborne	U-32224	2012
<u>Storm Restoration Expense Audit and Rate Recovery</u>		
DEMCO	U-32977	2014
SLECA	U-33191	2014
<u>AMI Pilot Program Evaluation</u>		
Beauregard	U-33411	2015
Northeast Louisiana Power Cooperative	U-33490	2015

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, local gas distribution companies, telecommunications carriers, 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 coverage approaches, the cash needs study, and the cost plus margin model.

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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 in effect for the LPSC-jurisdiction electric distribution cooperatives as our firm has been retained in numerous proceedings to determine whether the FRP as proposed by the Cooperative was in the interests of its members.

Henderson Ridge Consulting has reviewed the list of minimum requirements identified in Section IV as (1) through (11) 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 Claiborne's request to extend the current FRP, and (2) the evaluation of each Annual Filing for test years 2015, 2016, 2017, and 2018. We estimate the professional fees at \$18,300.00 per test year based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$1,200.00 for each Annual Filing evaluation.

The proposed budget for the entire project is:

- Professional Services for four annual FRP evaluations - \$73,200.00,
- Travel-related Expenses - \$4,800.00,
- Total Budget - \$78,000.00.

**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

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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