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October 12, 2016

Louisiana Public Service Commission
Attention: Kathleen Richardson
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 16-18 Docket No. TBD**
Cleco Power LLC, ex parte
In re: June 2016 Formula Rate Plan Monitoring Report.

Dear Kathleen:

Henderson Ridge Consulting is pleased to respond to the Louisiana Public Service Commission's ("LPSC" or "the Commission") September 21, 2016 Request For Proposals ("RFP") for independent technical consultants to assist the Commission in conducting a review of Cleco Power LLC's ("Cleco Power" or "the Company") 2016 Formula Rate Plan ("FRP") Annual Report scheduled to be filed on October 31, 2016. Our firm has extensive experience with the filings and applications of Cleco Power, including an evaluation of its long-term Integrated Resource Plan ("IRP"), a review of the Company's request for certification of a Waste Heat Recovery project, and the evaluation of the Company becoming a member of the Midcontinent Independent System Operator ("MISO") Regional Transmission Organization.

In prior engagements with the LPSC, Henderson Ridge Consulting has conducted the annual earnings reviews of Entergy Gulf States, L.L.C. under its FRP for the test years of 2004 through 2011. In addition, we have reviewed the FRP filings of several electric distribution cooperatives that are subject to the regulation of the Commission, including the recent FRP Annual Filing of Beauregard and SLECA. Henderson Ridge

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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 evaluation of Cleco Power's 2016 FRP Annual Report pursuant to the provisions of Cleco's Rider FRP. The evaluation will require an examination of all Rider FRP Attachments prepared by the Company in order to determine compliance with the provisions of the FRP and whether additional ratemaking adjustments are warranted. For the 2016 evaluation period, it will also be necessary to conduct a prudence review of the expenditures incurred by the Company to comply with the Environmental Protection Agency's ("EPA") Mercury and Air Toxics Standards ("MATS") Rule. The Company is authorized to recover prudent and reasonable MATS expenditures through the FRP under Commission Order No. U-32507.

Summary of Work Plan

Our proposed work plan centers around two major efforts: (1) a comprehensive review of the 2016 FRP Annual Report of Cleco Power that ensures that the Company's filing is consistent with the terms of the FRP approved by the Commission and (2) a prudence review of the MATS expenditures that the Company seeks to recover in the 2016 FRP Annual Report.

Review of the 2016 FRP Annual Report

We will initially assess the unadjusted and adjusted earnings levels as prepared by the Company. We will subsequently 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 Company under the terms of the FRP.

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

- Examine documentation provided in support of test year pro forma adjustments;
- Prepare formal discovery and review responses;
- Perform a review of selected test year general ledger transactions;
- 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 whether there are unusual swings in expense activity;
- Meet and hold conference calls with Staff and Company representatives;
- Hold status conferences with Staff;
- Prepare final report and/or prefiled testimony;
- Attend depositions and/or stand cross examination at Commission hearings;
- Attend Business and Executive Session;
- Assist Staff counsel in the drafting of motions, briefs, and orders; and
- Provide general support services to Staff throughout the engagement.

Prudence Review of MATS Expenditures

It was determined in Commission Order No. U-32507 that Cleco Power's actions in complying with MATS were prudent but a specific determination regarding the actual costs incurred by the Company was not made. Per Commission Order No. U-33848 adopting the Staff Report on the Company's 2015 FRP filing, Cleco Power must submit support for MATS expenditures in the 2016 FRP Annual Report. The magnitude of the Company's MATS expenditures justifies a thorough examination as to the prudence of these expenditures rather than a cursory review that may be undertaken as simply another component of a FRP revenue requirement. Cleco Power's original budget to install equipment for MATS compliance is \$114.6 million at three different generating stations. In acknowledgement of the materiality to the Company's customers due to MATS compliance, our prudence review of the Company's MATS expenditures will focus upon:

- The accounting treatment of the expenditures by the Company as to classification to specific FERC accounts;
- The appropriate capitalization of the expenditures verses the expensing of those costs;
- The specific amount of MATS expenditures included in the 2016 FRP Annual Report;
- The determination of the appropriateness of the recovery of the MATS expenditures through the 2016 FRP Annual Report in lieu of authorized recovery

in Cleco Power's Environmental Adjustment Clause and/or the Company's Fuel Adjustment Clause.

Experience of Henderson Ridge Consulting

Henderson Ridge Consulting is very familiar with the FRP that was approved by the Commission in Docket No. U-32779 as we evaluated Cleco Power's compliance with the terms of the FRP when the Company sought certification of the Waste Heat Recovery project in Docket No. U-33593. Our knowledge of the FRP under which Cleco Power is regulated extends to the special cost recovery mechanisms provided in the plan as well as the individual FRP adjustments, schedules, and filings that the Company is required to submit under the provisions of Order No. U-32779. We also worked with the Commission Staff in monitoring the development of Cleco Power's 2014 long-term Integrated Resource Plan that the Company is required to file under Docket No. R-30021. Prior to these engagements on behalf of the Commission, our firm was retained by the LPSC for the public interest phase as well as the implementation phase in the evaluation of Cleco Power's application seeking the Commission's approval for membership in MISO.

Henderson Ridge Consulting has conducted the evaluation of the annual FRP filings submitted by Entergy Gulf States, L.L.C. for the test years of 2004 through 2011. Our firm also performed detailed earnings investigations of several electric distribution cooperatives that are regulated by the Commission, including the most recent reviews of the FRP results filed by Beauregard and SLECA. We have just completed the earnings investigation of SLEMCO's base rates after the cooperative sought a substantial rate increase. We are currently working on the applications of Concordia and Pointe Coupee for an increase in base rates. Over the years, our firm has worked closely with other electric distribution cooperatives on behalf of the Commission. These engagements have covered a broad range of areas, including earnings investigations, FRP design, affiliate transaction audits, and storm restoration expense audits and subsequent rate relief. During the past year, we evaluated the requests of Northeast Louisiana Power

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Cooperative and Beauregard to implement their Advanced Metering Infrastructure programs.

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, 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.

As discussed in the Experience section of our proposal, Henderson Ridge Consulting is very familiar with the ratemaking treatment and principles under which investor-owned electric utilities are regulated. We are also experienced with the terms and provisions of those utilities' FRPs.

Henderson Ridge Consulting has reviewed the list of minimum requirements identified in as (A) through (I) in Section III 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

For the review of Cleco Power's 2016 Formula Rate Plan Monitoring Report, the professional fees are estimated at \$34,650.00. We estimate that the professional fees involved to conduct the prudence review of the Company's MATS expenditures will total \$64,800.00 based upon an hourly rate of \$150 for William Barta. Travel-related expenses are anticipated to be \$3,600.00, for a total budget of \$103,050.00.

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 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