

J. KENNEDY AND ASSOCIATES, INC.

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Kimberly N. O'Brian
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Louisiana Public Service Commission
602 North Fifth Street (Galvez Building) (70802)
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Baton Rouge, LA 70821-9154

**In re: Docket No. X-36645 –Louisiana Public Service Commission, ex parte. In re:
Audit of Fuel Adjustment Clause filings for Southwestern Electric Power
Company for the period of January 2020 through December 2022**

Dear Ms. O'Brian and Ms. Bowman:

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") in the review of Southwestern Electric Power Company's ("SWEPCO") fuel adjustment clause ("FAC") filings for the years 2020 - 2022.

Kennedy and Associates has provided consulting services to the Commission in numerous utility rate proceedings, audits, and other proceedings. This proposal has been structured to respond to the Commission's Request for Proposal ("RFP") 23-04 dated January 27, 2023 and the requirements therein, as well as the requirements in the Commission's November 10, 2014 General Order.

Kennedy and Associates is extremely well qualified to perform these audits. First, our firm, on behalf of the Commission Staff, developed the current FAC process in the Docket No. U-21497 generic fuel proceeding, including the various guidelines and rules as well as the various reporting forms, adopted by the Commission in its General Order dated November 6, 1997.

Second, also on behalf of the Commission Staff, our firm has performed several comprehensive reviews and audits of fuel costs in prior proceedings involving SWEPCO and other utilities. We performed a review of SWEPCO's fuel expenses in Docket No. U-23327. We performed audits of Cleco's FAC filings for the years 2016 and 2017 in Docket No. X-34765, for the years 2014 and 2015 in Docket No. X-33972, and Cleco's 2009-2013 FAC filings in Docket No. X-33325. We performed a review and audit of Cleco's trading activities and FAC filing in Docket No. U-26994. We performed a review of fuel expenses incurred by Entergy Louisiana LLC ("ELL") in Docket No. U-25116. We

performed two reviews and audits of fuel expenses incurred by Entergy Gulf States, Inc. ("EGSI"), the predecessor of Entergy Gulf States Louisiana, L.L.C. ("EGSL"), in Docket Nos. U-20647 and U-19904. We performed audits of ELL's and EGLL's FAC filings for the years 2010 through 2013 in Docket Nos. X-33323 and X-33324, respectively. 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.

In these reviews and audits, 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.

Third, our firm has represented consumer interests in numerous electric rate and fuel review proceedings in other jurisdictions, including Georgia, Ohio, Pennsylvania, West Virginia, Virginia 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.

Fourth, our firm has been involved in hundreds of regulatory proceedings since its formation, with our principals having provided expert testimony on hundreds of 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. Books and records of utility companies for the purpose of accounting for fuel and purchased power costs.
3. Fuel adjustment clause audits.
4. Costing methodologies utilized by the Commission for its jurisdictional electric utilities.
5. Cost allocation and sharing methodologies set forth by Midcontinent Independent System Operator ("MISO").
6. Appropriate ratemaking adjustments to the utility's accounting records.
7. Appropriate allocations of costs to base rates and fuel.

8. Recoverable expenses for ratemaking purposes.
9. Just and reasonable costs and prudent investments associated with providing reliable and quality service.
10. Costs passed through a FAC which are considered reasonable and prudent, appropriate and/or eligible for recovery pursuant to Commission orders, which are necessary for the provision of electric service and which have or will produce just and reasonable rates.
11. Utility taxation issues.

Kennedy and Associates meets all professional qualification requirements specified in the Commission's RFP for technical consultants. 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 which are likely to arise in this proceeding.

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. The resumes list the regulatory proceedings and subject matters addressed by our consultants in the form of expert testimony provided in those proceedings. We will be pleased to provide you with additional copies of the qualifications upon request.

Scope of Comprehensive Review

Kennedy and Associates' project team will work closely with the Commission's Legal, Audit and Economic Division to review the SWEPCO FAC filings for the years 2020-2022. The scope of our review will be focused upon the ratemaking aspects of the Company's fuel and purchased power expense and compliance with the Commission's General Order. As specified in the RFP, our audit procedures will include, but not be limited to:

1. A review and analysis of SWEPCO's monthly comprehensive fuel adjustment reporting requirements filed with the Commission.
2. If applicable, the development and improvement of internal staff procedures to effectively monitor and evaluate SWEPCO's performance in areas impacting the fuel and purchased power cost which are reflected in SWEPCO's monthly fuel adjustment filings with the Commission.
3. A review and analysis of SWEPCO's monthly comprehensive fuel adjustment filings to assure compliance with all pertinent state and federal regulations.

We 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 SWEPCO properly recorded fuel and purchased power transactions and whether these costs were properly reflected in the Company's FAC filings during the review period. This includes consideration of whether SWEPCO properly removed fixed costs that may have been embedded in energy-only priced purchases.
2. Whether the costs passed through the SWEPCO FAC were reasonable and prudent.
3. Whether the costs were appropriate and eligible for recovery in the SWEPCO FAC consistent with the Commission's General Order dated November 6, 1997 and sound ratemaking principles.
4. Whether the costs passed through the SWEPCO FAC produced just and reasonable rates.
5. Whether the costs passed through the SWEPCO FAC were necessary for the provision of electric service to Louisiana retail ratepayers.

Action Plan and Timeline to Perform Comprehensive Review

Kennedy and Associates will follow the Audit approach outlined in the Commission's General Order dated November 6, 1997 in Docket No. U-21497. First, we will obtain copies of and review all SWEPCO FAC filings and the related supporting documentation for the audit period.

Second, we will perform analysis by comparing fuel and transportation costs to determine any significant changes or abnormalities in pricing or utilization during the audit period.

Third, we will compare the Company's fuel 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 utility's affiliates in that process, in order to assess the effect on its FAC filings. This will include a review of the Company's contracts and hedging strategies.

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

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

Seventh, we will prepare an Audit Report, as required by the Commission's General Order, detailing the results of our investigation, and will identify any irregularities in the monthly fuel adjustment calculations that incorrectly assessed and applied to Louisiana consumer billing statements or which allowed for the recovery of these unauthorized expenses by the utility. The Audit Report will contain

an Executive Summary, which will include specific findings and recommendations regarding whether any of the costs passed through the FAC were found to be in violation of the Commission's General Order, and it will include recommendations as to the appropriate methodology to be utilized by the Commission to provide for the refund of costs not properly included in the FAC, if any.

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

Tenth, if any of the issues identified in the Audit Report move 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 personnel as necessary.

At the outset of the project, we will work with the Staff and the other parties to develop a procedural schedule for this proceeding. Assuming timely responses to the Staff's written discovery requests, we will expect to complete our review and prepare an initial draft of the Audit Report for the Commission Staff to review within nine to twelve months of commencing work. The schedule will also be designed to account for comments on the Audit Report, settlement discussions, hearings, briefs, responses to the proposed and final recommended decisions of the ALJ, and preparation of a final Commission Order. Overall, we expect the entire process to complete the docket will require 18 months. However, as the Commission's RFP notes, this is merely an estimate and may vary depending on whether the matter is contested.

Budget to Perform These Services

Kennedy and Associates proposes a budget of \$78,900, including \$77,000 for consulting services and \$1,900 for expenses. This budget assumes the scope identified in the Commission's RFP, which extends to the completion of the docket.¹ The costs of such services will be billed at the hourly rates on the Attachment to this proposal. Kennedy and Associates will ensure that only charges for actual hours worked and actual expenses incurred will be billed, and that our bills will not exceed the total labor and expense budgets based on the scope of work outlined. Furthermore, we acknowledge that any expenses charged will be within the Commission's standard expense allowances.

¹ The RFP does not state, and this proposal does not include budget for representation of the Commission in the event of an appeal of the final order to state or federal court. We would be available to provide such services based on the hourly rates included in the attachment to this proposal.

Kennedy and Associates Project Team

Mr. Lane Kollen, Vice President, CPA, CMA, CGMA will manage this project. He will be assisted by other Kennedy and Associates personnel as appropriate, including primarily Mr. Randy Futral. Mr. Kollen and Mr. Futral are experienced regulatory consultants and have performed numerous audits and reviews in conjunction with the Staff. Mr. Kollen and Mr. Futral have both testified on regulatory matters on numerous occasions in multiple jurisdictions, including the Commission.

Mr. Kollen has several decades of experience in nearly all facets of utility operations, including electric cooperatives, cooperative ratemaking, the design and implementation of FRPs, and cooperative accounting. In addition, he is an expert in the financial, rate, tax, and planning areas. He specializes in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisitions and diversification. Mr. Kollen has expertise in various software systems used by utilities for budgeting, rate case support and strategic and financial planning. Mr. Kollen has testified on hundreds of occasions before federal and state regulatory commissions and courts on utility matters. Mr. Kollen's regulatory experience is described further in his biography attached to this proposal and his extensive expert testimony and appearances are detailed in the enclosed Qualifications package.

Mr. Randy Futral, Director, Consulting, is an expert on utility ratemaking and analyses, including electric and gas utilities and cooperative electric utilities. He has performed numerous audits in conjunction with the Staff, including several annual FRP filings made by SWEPCO and by Louisiana cooperative electric utilities such as DEMCO, SLECA, Claiborne, and Beauregard, fuel adjustment clause filings for Cleco, ELL and SWEPCO, and PGA filings made by ELL and by divisions of Atmos Energy Corporation and CenterPoint Energy Resources Corp. He has also participated and filed testimony in numerous proceedings before the Federal Energy Regulatory Commission in regards to Entergy's wholesale tariffs and its accounting. Mr. Futral's regulatory experience is described further in his biography attached to this proposal and his expert testimony and appearances are detailed in the enclosed Qualifications package.

Kennedy and Associates No Conflicts of Interest

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

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

Sincerely,

A handwritten signature in black ink that reads "Lane Kollen". The signature is written in a cursive style with a large initial "L" and a long horizontal stroke at the end.

Lane Kollen
Vice President

LK:ji

Attachment

J. Kennedy and Associates, Inc.
Hourly Fee Schedule
For SWEPCO FAC AUDIT 2020-2022

<u>Title</u>	<u>Name</u>	<u>Hourly Rate</u>
President	Stephen J. Baron	\$300
Vice President	Lane Kollen	\$300
Vice President	Philip Hayet	\$300
Director	Richard A. Baudino	\$285
Director	Brian R. Barber	\$285
Director	Randy Futral	\$285
Manager	Leah Justin Wellborn	\$275
Senior Consultant	Ann Bruccoliere	\$225
Consultant	Evelyn Menendez	\$195
Consultant	Brian Kollen	\$175
Analyst	Jessica Inman	\$140