

To: Parties to the 2015 Decoupling Technical Conference
From: Alliance for Affordable Energy
Date: April 13, 2015
Re: Outline of decoupling proposal -- Revised Formula Rate Plan

This memorandum presents a high-level sketch of a decoupling program we propose for Entergy New Orleans (“ENO”). We intend this memo to help all stakeholders to consider a specific model in preparation for the third technical conference scheduled for April 14, 2015.

The central concept in our proposal is to assure Entergy New Orleans books its authorized revenue for non-power cost recovery (no more, no less) regardless of whether electricity sales rise or fall between rate cases. The basic structure outlined below seeks to decrease risk to the company and the ratepayers of New Orleans.

We titled the proposal “Revised Formula Rate Plan” (FRP) because we consider the proposal to be similar to ENO’s prior 2008-2012 FRP, which provided for automatic adjustments between rate cases to true-up actual collected revenues to authorized revenue. One major difference is that our proposal removes the “dead-band” (which otherwise allowed ENO to retain up to 40 basis points (bps) of revenue overages or shortfalls before triggering an adjustment), and includes new incentives¹.

Our proposal has four major components:

- 1) Establish baseline year;
- 2) Decoupling Implementation;
- 3) New Incentives for ENO; and,
- 4) Additional points to be addressed.

¹ Instead of removing the dead-band altogether, we could discuss a very limited band for the purposes of limiting the administrative costs. A buffer zone for ENO could ensure the benefits outweigh the costs of a full-blown true-up process.

1. Establish baseline year. Essential starting point is City Council-approved rates and authorized revenues for ENO (including an approved return on equity) for a “test year” or baseline. Adjustments in subsequent periods will “true-up” actual revenues to this amount of approved revenue for non-power costs.

- a. The fact that ENO is operating with an expired FRP and “frozen” rates presents several options for establishing the baseline of authorized revenues.
- b. The City Council will have multiple options to identify ENO’s authorized revenue for non-power cost recovery, including a new rate case. We recognize this raises multiple issues that exist whether or not the Council opts to implement a decoupling mechanism. [TO DISCUSS]
- c. When the next rate case occurs, the Council would identify anticipated levels of usage among rate classes, specify authorized non-power cost recovery, including an approved return on equity (ROE) for ENO. Rates would include all customary inputs -- recovery of variable operational costs, and other adjustments deemed appropriate by the Council. The decoupling adjustment mechanism (described below) would apply according to a schedule to be determined.

2. Decoupling Implementation. Council would schedule regular adjustments.

- a. Establish a schedule for periodic rate adjustments and a formula for each rate adjustment based upon the baseline authorized revenues.
- b. Adjustments could occur quarterly, semi-annually, or annually.
- c. We propose a three-year period for the program.
- d. At the end of each adjustment period, ENO would file a report with specified information needed to adjust rates for the subsequent period, including:
 - i. Actual revenue collected toward authorized non-power costs in the period.
 - ii. Any excess or shortfall in the prior period.
- e. With **x** weeks, a rate adjustment would be implemented for the upcoming period. The purpose of the adjustment to rates is to reconcile actual revenue collected from the prior period to the revenue needed to recover authorized non-power costs in the prior period. If there was a shortfall from the prior period, rates for the upcoming period are adjusted up to recoup the shortfall (in addition to the authorized revenue for the upcoming period). If there was an overage collected in prior period, rates are reduced to return the overage to customers in the upcoming period.
- f. The adjustment does not depend on the reason for the overage or shortfall. Specifically, adjustments do not depend on tying the overage or shortfall to energy efficiency programs.

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- g. Rate adjustments can take the form of a rider.
 - h. There is an option to include a review process for the Council (and Advisors) and parties to the rate case to consider and approve or modify the adjustment expected for the upcoming period if it triggers certain concerns as to the magnitude of the adjustment or other defined events.
 - i. Expected usage for the upcoming period is assessed using traditional methods, including expected weather factors.
 - j. The Council may include provisions to deal with extraordinary events.
 - k. Manage any potential volatility by having ENO give notice when adjustment is going to be above a certain %.
3. **New incentives for ENO.** The program would include financial incentives to reward Energy for success in the achievement of specified goals. Bonus amounts would be earned above the authorized revenue as adjusted.
- a. For progress toward goals for ENO-operated efficiency programs, the Council will define an incentive formula.
 - b. Examples of energy efficiency incentives. This is intended to be an illustrative list, not a complete or exclusive list. The amount of the bonus is basis points of ROE (amount and other details to follow if sufficient interest). Incentives for current Energy Smart program would have to be considered by Council.
 - i. x bps for each 100,000 square feet of existing commercial offices that are certified as Energy Star.
 - ii. x bps for each 100 units of existing multifamily units that are upgraded to Enterprise Green Community Standards (or other EE certification).
 - iii. x bps for each 100 building operators who complete ENO-supported energy management training (for buildings over xxx sq. feet or with demand of xxx kw).
 - iv. x bps for improving EE performance of city owned buildings by x %.
 - v. x bps reducing average usage per household in residential by 2%.
 - vi. x bps for reducing EUI of 10 large customers (e.g., air products or cold storage or hotels).
 - c. The Council might consider incentives tied to other measurable goals for ENO, such as (but not limited to):
 - i. A customer satisfaction metric.
 - ii. A reliability metric.
 - iii. A grid hardening metric.

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- d. No incentive should be duplicative.
 - e. The incentive goal should be clear and concise.
 - f. ENO should have control over the ability to meet the goal.
4. **Additional points to be addressed. It is helpful to outline certain additional expectations for the decoupling program.** Regardless of the timeframe for implementing baseline/test year and adjustments, we expect to following issues addressed:
- a. Using an agreed upon data set for costs and revenues when setting the baseline year. In the second decoupling technical conference, it was suggested to use FERC Form 1 data.
 - b. Applying the periodic adjustments to rates for all customer classes.
 - i. Allowing classes to be excluded would not be, in the opinion of the Alliance, a full decoupling program. If there are reasons not to adjust rates of any class of customers (up or down), we should discuss.
 - c. Agreement on why to and whether to normalize usage and revenues for weather and extreme weather events.
 - d. Timeframe and frequency of adjustments.

To Keep in Mind . . .

1. ENO and Entergy Inc. serve a valuable role in promoting regional economic growth. One option is to add an adjustment factor to allow ENO to earn authorized revenue from sales attributable to new customers added between rate cases.
2. Necessitates continuing M&V of energy efficiency programs for purposes of cost-effectiveness testing, savings goals, etc. Agree upon what will be measured and how and by whom and coordinate with IRP.
3. Council can make adjustments in the event of serious events such as hurricanes or floods, just as they could and would under the prior 2009-2012 FRP.
4. Pamela Morgan's paper ("A Decade of Decoupling") includes actual rate adjustments in decoupled states. Shows persuasively that there is no basis for worry that decoupling will result in volatile rates for any rate class. Very small adjustments of 1% and 2% are typical, and almost all are less than 3% annually.
5. Approve as a three-year implementation with understanding the Council is empowered at all times to suspend with a new rate case or no rate case (as is the case under prior Formula Rate Plan and in the status quo).
6. Current protective financial mechanisms in place will remain unchanged. These include the storm reserve rider and the securitization.