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January 21, 2020

By Hand Delivery

Ms. Lora W. Johnson, CMC, LMMC
Clerk of Council
Council of the City of New Orleans
Room 1E09, City Hall
1300 Perdido Street
New Orleans, LA 70112

Re: **In Re: 2018 Triennial Integrated Resource Plan of Entergy New Orleans, Inc.**
Docket No. UD-17-03

Dear Ms. Johnson:

Entergy New Orleans, LLC ("ENO") respectfully submits its Reply Comments Concerning the 2018 Integrated Resource Plan Report in connection with the above referenced Docket. Please file an original and two copies into the record in the above referenced matter, and return a date-stamped copy to our courier.

Should you have any questions regarding the above, I may be reached at (504) 576-2984. Thank you for your assistance with this matter.

Sincerely,


Harry M. Barton

HMB/ddm
Enclosures

cc: Official Service List (*via email*)

**BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS**

**EX PARTE: IN RE: 2018 TRIENNIAL)
INTEGRATED RESOURCE PLAN OF) DOCKET NO. UD-17-03
ENTERGY NEW ORLEANS, INC.)**

**ENTERGY NEW ORLEANS, LLC'S REPLY COMMENTS
CONCERNING THE IMPLEMENTATION PLAN FOR PROGRAM YEARS 10
THROUGH 12 OF THE ENERGY SMART PROGRAM**

Entergy New Orleans, LLC (“ENO”) respectfully submits its Reply to Comments Concerning ENO’s Implementation Plan for Program Years 10 through 12 of the Energy Smart Program (“Implementation Plan”). ENO filed its Application for Approval of the Implementation Plan (“Application”) on December 9, 2019. On January 6, 2020, the Alliance for Affordable Energy (the “AAE”) filed Reply Comments concerning the Implementation Plan and ENO’s Application. The AAE was the only party to Docket UD-17-03 to file comments in reply to ENO’s Application and the Implementation Plan. The AAE’s Reply Comments are largely supportive of the Implementation Plan and the Application; but do express concerns with some aspects of ENO’s filing, namely the Utility Performance Incentive (“UPI”) proposed by ENO, issues related to the Demand Response (“DR”) aspects of the Implementation Plan, and the Appliance Recycling Pilot. ENO’s Reply Comments are limited to these issues.

I. ENO’s Requested UPI is Consistent with Best Practices for Demand Side Management (“DSM”) Programs; the AAE’s Recommendation is Not.

As ENO noted in the Application, the appropriate mechanism for calculating a UPI was the subject of extensive testimony, analyses, and briefing in the 2018 Combined Rate Case.¹ The

¹ The evidence submitted in the 2018 Rate Case included the Direct Testimonies of D. Andrew Owens and Dr. Ahmad Faruqui, submitted September 21, 2018 and Rebuttal Testimony from those same witnesses, submitted on March 22, 2019. Given that ENO initially proposed to modify the UPI mechanism as part of the 2018 Combined Rate Case and the fact that the Council, in Council Resolution No. R-19-457, deferred resolution of that issue to this proceeding, ENO believes it is appropriate for the Council to take administrative notice of evidence submitted

primary objective of ENO's proposal for updating the UPI mechanism, both in the 2018 Rate Case and in the Application, was achieving the Council's long-standing goal of establishing a UPI that would "align incentives equally for [energy] efficiency and supply side resources," and "provide an opportunity to earn a comparable profit for saving energy as is generally available for generating or delivering energy."² While parties to the 2018 Rate Case generally agreed on the importance of the Council's objectives in this regard, but the Council deferred action on addressing the UPI mechanism until the filing of ENO's Implementation Plan.³

With the Application, ENO proposed a simple mathematical formula that would (i) be transparent to all stakeholders and the public, (ii) hold ENO accountable for achieving the Council's DSM savings goals, and (iii) address the Council priorities identified above. ENO proposed that it begin earning a UPI of 9.5% of program costs when it achieves 95% of the Council's savings targets and that this UPI percentage would increase by 0.1% for each additional percentage of savings target achieved, *i.e.*, 9.6% of program costs at 96% of goal, and so on. The UPI would be capped at 12% of program costs for achieving 120% of goal. As in the past, if ENO fails to achieve 60% of the Council's savings goals, penalties could be assessed.

The AAE's Reply Comments agree that the multiplier framework of ENO's proposed formula should be implemented to replace the fixed dollar amount UPI mechanisms that have been used in the past, and which the AAE described as "opaque." ENO agrees with the AAE and is pleased that the AAE supports this important and necessary improvement to the method of

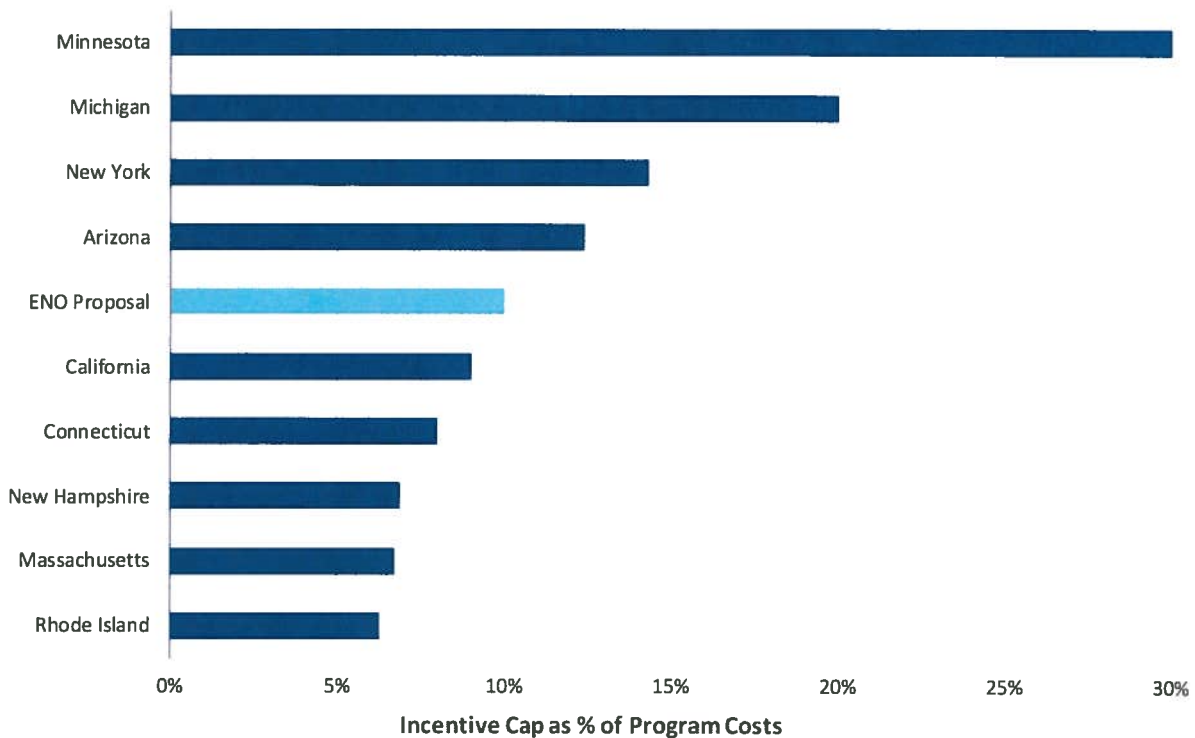
in Docket UD-18-07. However, to the extent necessary, ENO incorporates those filings by reference herein, rather than attaching voluminous Testimonies as exhibits to this filing.

² See, Council Resolution No. R-07-600, cited in Mr. Owens' Direct Testimony at pg. 11.

³ See, Council Resolution No. R-19-457, at pg. 155. The AAE claims that ENO has offered no evidentiary support for the UPI mechanism proposed in the Application. However, ample evidence in support of a revised UPI mechanism was offered in the 2018 Combined Rate Case, but the issue was deferred to the instant proceeding. Moreover, the AAE's citation to testimony from its own witness from the 2018 Rate Case confirms that the AAE believes evidence offered in that proceeding on the UPI issue is relevant to consider in the instant Docket.

calculating the UPI. ENO hopes that the Council and its Advisors will also see the benefit of a transparent formula that holds ENO accountable for achieving the Council’s Savings goals.

ENO disagrees, however, with the AAE’s recommendation that achieving 100% of the Council’s savings goals should result in a UPI of 5% of program costs, rather than 10%. The evidence submitted in the 2018 Rate Case helps to illustrate the unreasonableness of that recommendation. The Rebuttal Testimony of Dr. Ahmad Faruqui included the following figure:



The figure reflects Dr. Faruqui’s research of the American Council for an Energy Efficient Economy’s (“ACEEE”) 2018 Scorecard for energy efficiency programs and was derived from the top 15 states, pared down to reflect performance incentives. It is illustrative of the point that ENO’s proposal would make ENO’s allowed UPI a somewhat moderate allowance, while the AAE’s 5% proposal would place the Energy Smart near the bottom level of UPIs allowed by regulators when evaluated on a percentage of program costs basis.

The AAE's primary argument in support of creating a UPI for Energy Smart that is among the lowest in the nation is the statement that ENO's proposal would "more than double" the UPI at 100% of goal in terms of dollar amounts. The AAE's own chart illustrates the mathematical error in this argument. Under the "Historic UPI Formula" column in the AAE's chart for Scenario 1- PY 10, the UPI is listed as \$829,000. Under the "10% ENO Proposal" the PY 10 UPI is listed as \$1,602,120; for PY 11 it is listed as \$1,591,496.⁴ Doubling \$829,000 yields \$1,658,000.

The AAE's chart also shows that for PYs 10 and 11 under Scenario 1, the AAE's 5% of program costs would yield a decrease in the UPI, even as savings targets and program budgets are increased to keep pace with the Council's 2% goal.⁵ Finally, the AAE's chart shows that its proposed 5% UPI is less than ENO's weighted average cost of capital ("WACC"). Thus, under the AAE's proposal, even if it achieved 100% of the Council's savings targets, ENO would be unable to earn a UPI equivalent to the cost of capital that is necessary to achieve the Council's targets. The AAE's arbitrary selection of 5% of program costs would thus be detrimental to the Council's goal of establishing a UPI mechanism that "align[s] incentives equally for [energy] efficiency and supply side resources" and "provide[s] an opportunity to earn a comparable profit for saving energy as is generally available for generating or delivering energy."⁶

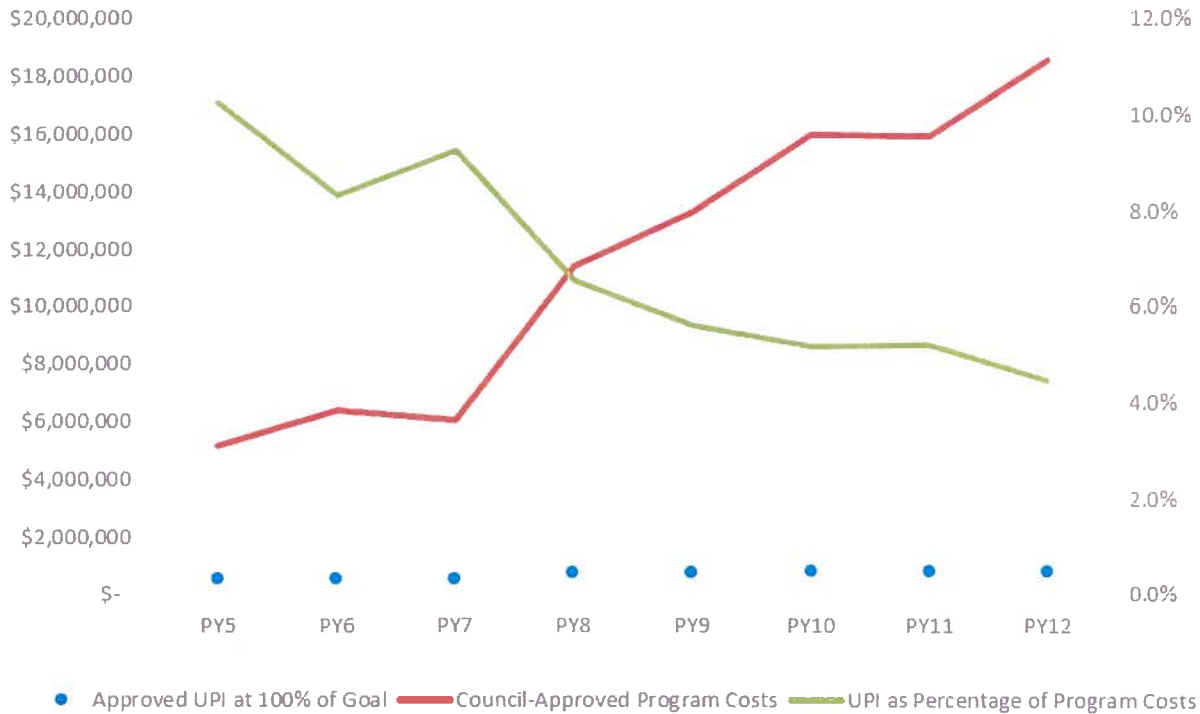
The AAE comparison of the dollar amounts of historic fixed UPIs to UPIs under ENO's proposal seems designed to create a stark contrast between the two and thus depict ENO's request as unreasonable. But this representation only helps to illustrate the point made in ENO's Application that the fixed dollar amount UPI from past years has caused the UPI, as a percentage

⁴ See, AAE Reply Comments filed January 6, 2020, at pg. 5.

⁵ In Council Resolution No. R-15-140, the Council introduced a goal of increasing kWh savings targets by 0.2% relative to total annual sales until such time that the kWh savings goal is 2.0% of total annual sales.

⁶ See, Council Resolution No. R-07-600.

of program costs, to decline to unacceptable levels, which was illustrated in the figure below from the Application.⁷



Given the concerning trend illustrated above, ENO’s proposal to return the UPI to 10% of program costs, last seen in PY5, necessarily means that the dollar amount of the UPI under ENO’s proposal will noticeably increase from PY9 to PY10. But ENO believes, and evidence from the 2018 Rate Case demonstrates that, this contrast more accurately shows the PY9 UPI was unreasonably low as a percentage of program costs, rather than proving that the proposed PY 10 UPI is too high in terms of dollar amount.

The AAE also claims that its unreasonably low UPI is necessary to avoid dramatic increases to customer bills, without providing any support for the statement. In terms of residential customers’ monthly bills, the average monthly bill impacts of ENO’s proposed UPI, assuming

⁷ Both the figure below and a table of the corresponding data points were included in the Application.

achievement of 100% of the Council’s savings targets under each Scenario, is identified in the table below.

Typical Residential Bill Impact of UPI on Average Monthly Basis by Program Year		
	Scenario 1 10% UPI	Scenario 2 10% UPI
PY10	\$0.26	\$0.29
PY11	\$0.28	\$0.31
PY12	\$0.32	\$0.36

Even under the most aggressive spending scenario contained in the Implementation Plan, the average monthly bill impact of ENO’s proposed 10% UPI on a typical residential customers’ bill would be only \$0.36. Moreover, given that earning the UPI would require ENO to achieve the Council’s savings targets, thus reducing energy consumption and presumably saving customers money on their bills, customers may not even perceive this bill impact. Regardless, idea that an added \$0.26-\$0.36 per month will create “bill shock” for customers is not based in fact and does not support the AAE’s proposal for creating an unreasonably low UPI for Energy Smart.

It should also be noted that ENO’s proposed mechanism generally contains more risk for ENO than the mechanisms of other utilities. ENO’s proposed mechanism would continue the Council’s policy of penalizing ENO for achieving less than 60% of the kWh savings target in a given year and not awarding any incentive until 95% of savings targets have been achieved. Many of the states that rank highly in energy efficiency have mechanisms that do not have penalties at all.⁸ In contrast, for ENO, the risk of not achieving 60% of the kWh targets (and by consequence,

⁸ Dr. Faruqui’s Rebuttal Testimony addressed this issued when referencing a study performed by the AAE’s witness, Justin Barnes. See Faruqui Rebuttal Testimony, filed March 22, 2019, at pg. 13. (“In his Direct Testimony, AAE witness Barnes references five states (Massachusetts, Rhode Island, California, Vermont, and Connecticut) which rank highest on ACEEE’s 2018 Energy Efficiency Scorecard. Among these states, all five offer a performance incentive, none of which includes a penalty mechanism.”).

being assessed a penalty) increases each year as the kWh savings goal increases under the Council’s 2.0% path.

There is additional risk in that under the proposed UPI mechanism, ENO does not begin receiving any incentive until 95% of the Council’s kWh goal is attained. This means that ENO could have a year where the program performance achieves a high percentage of the kWh savings goal (up to 94%) and does not receive any incentive. As seen in the table below,⁹ many UPI mechanisms begin paying out incentives at much lower percentages of their respective savings targets.

State	Incentive Threshold
Connecticut	Incentives begin at 75% of goal
Georgia	Incentives begin at 50% of goal
Hawaii	Incentives begin at 75% of goal
Indiana	Incentives can begin at 75% of goal
Missouri	Incentives begin at 70% of goal
Ohio	Incentives begin at 65% of goal
Oklahoma	Incentives begin at 85% of goal
Rhode Island	Incentives begin at 75% of goal

ENO believes that the data points and analysis provided above, coupled with the risk of being assessed a penalty for falling below 60% of the kWh savings target and the risk of possibly not achieving a performance incentive at all despite saving a large amount of kWh (up to 94%), illustrate that a UPI that provides ENO 10% of approved program costs for achieving 100% of the kWh savings goal is not “too rich.”

ENO appreciates the AAE’s support for redefining the UPI mechanism to be one based on a transparent formula that holds ENO responsible for achieving the Council’s goals, but believes

⁹ Information referenced in the table is from the National Conference of State Legislatures, “*State Policies for Utility Investment in Energy Efficiency*,” Megan Cleveland, Logan Dunning and Jesse Heibel (April 2019).

that the percentage of program costs value of 5% at 100% of the Council's savings targets is unreasonably low and regressive for the Council's goals for Energy Smart. Given that the AAE's proposal would not result in any perceptible savings to customers but would significantly detract from the Council's policy goals for Energy Smart, ENO asks that the AAE's proposal be rejected.

II. Demand Response Issues

The AAE has commented on the average customer load curtailment assumption for ENO's Small C&I DR offering, noting that planning assumptions appear low relative to customer demand. ENO notes that the load curtailment estimates built into planning assumptions were initially based on market potential studies conducted by Navigant and Optimal Energy. Specifically, the Optimal Energy study estimates an average customer demand savings of 1.7 kW for Large Commercial & Industrial customers under the Direct Load Control offering (the nearest analogue to the "Bring Your Own Thermostat" archetype ENO will implement through the Small C&I offering). Because the study made no distinction between "small" and "large" C&I customers according to Energy Smart program definitions (<100 kW and \geq 100 kW, respectively), a down-rated planning assumption of 1.5 kW demand curtailment was used for small business program participants. This assumption varies from the 0.83 kW per-customer average cited by AAE in its comments, and ENO would welcome the opportunity to coordinate further with AAE to resolve the variance in estimated customer load reduction.

As the program sees participation in the market, it is likely that the actual demand reduction delivered by participating small businesses may evolve from initial program planning assumptions. The software platform that will be used by ENO for program implementation will show actual demand in comparison to a customer-specific baseline, and as participant data flows through the program, ENO will update its demand reduction assumptions accordingly. Similarly, results of ongoing evaluation efforts by ADM may also bear results that will be incorporated into future

planning efforts to make future demand reduction projections increasingly accurate.

ENO also notes that, in the program's initial form, smart thermostats make up the sole measure eligible to deliver peak demand reduction capabilities. As the program continues in future years, we foresee the introduction of other DR-capable technologies into the program. Adding new measures to the program will broaden the population of customers able to participate and deepen the demand reduction opportunity for small businesses able to dispatch multiple demand reduction measures simultaneously.

III. Appliance Replacement and Recycling Program

Regarding the Appliance Recycling Program, ENO agrees that the Appliance Recycling Program should be a one-year pilot program, the benefits of which should be assessed to determine whether to continue the program in future years. Replacement and Recycling programs generally struggle to achieve cost-effectiveness, so their inclusion in a suite of DSM programs is generally a decision based upon policy rather than cost-effectiveness as other programs are measured. Given that Hurricane Katrina resulted in many New Orleanians replacing their refrigerators in the 2005-2006 timeframe, ENO believed that now is an optimal time to assist residents in removing (and in some cases replacing) approximately 15-year-old refrigerators. ENO's revised PY10 filing will list the Appliance Replacement and Recycling Program as a one-year pilot.

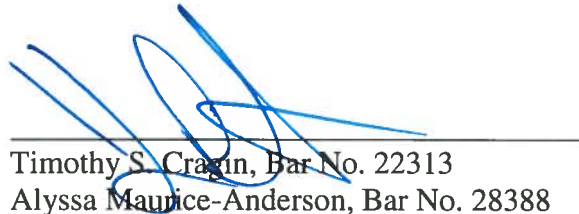
IV. Conclusion

In the 2018 Base Rate Case and in the Implementation Plan and accompanying Application, ENO adequately demonstrated the need to revise the mechanism for calculating the Energy Smart Utility Performance Incentive. ENO respectfully requests that the Council adopt the transparent formula and multiplier mechanism that ENO has proposed, and that the AAE supports. While ENO and the AAE differ on the appropriate UPI for achieving 100% of the Council's savings targets, we agree on the need for a transparent formula that will hold ENO

accountable to achieving the Council's goals. ENO believes that the information provided above and detailed in the 2018 Rate Case show that ENO's proposal for earning 10% of program costs at 100% of targets is reasonable and in line with best practices for DSM. The AAE's 5% proposal is unreasonably low and would be counter-intuitive to the Council's policy goal of a UPI mechanism that will "align incentives equally for [energy] efficiency and supply side resources," and "provide an opportunity to earn a comparable profit for saving energy as is generally available for generating or delivering energy."

Respectfully submitted:

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NEW ORLEANS, LLC**

CERTIFICATE OF SERVICE

Docket No. UD-17-03

I hereby certify that I have served the required number of copies of the foregoing report upon all other known parties of this proceeding, by the following: electronic mail, facsimile, overnight mail, hand delivery, and/or United States Postal Service, postage prepaid.

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New Orleans, Louisiana, this 20th day of January, 2020.



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