Entergy

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October 30, 2019

(Via Electronic Mail Only)

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Re: ***Entergy New Orleans, LLC's Response to Proposed Resolution R-19-XX Revised Application of Entergy New Orleans, LLC for a Change in Electric and Gas Rates Pursuant to Council Resolutions R-15-194 and R-17-504 and for Related Relief***

Dear Councilmembers:

If passed by the full Council, Resolution R-19-XX will force customers to pay more on their utility bills in the long run, severely limit our plans to invest in certain reliability projects, customer service projects, cleaner generation options, and prevent us from providing assistance to the Sewerage & Water Board.

In a separate letter, our legal counsel has written the Council outlining a number of important ratemaking issues that must be addressed in order to provide customers with more certainty and to create an environment where New Orleans can continue to thrive.[1]

In our Path to Progress rate plan, we committed to delivering significant benefits to customers through improved reliability and more customer options. Most importantly, our plan resulted in lower bills for virtually all of our electric and gas customers without compromising our ability to deliver the utility of the future. In contrast, a number of provisions in the proposed version of R-19-XX have jeopardized the balance created by the Path to Progress. Central among these is the inadequate return on equity of 9.35%. Our capability to fund the desired investments to move New Orleans forward depends upon our ability to compete with far less-risky utilities for capital.

Already, ENO's business risks are evidenced by its being one of only three utilities in the U.S. with a below-investment-grade credit rating, according to Moody's Investors Service. One of the other two utilities rated this low is Pacific Gas & Electric, which has filed for bankruptcy. Simply put, investors will not choose to fund a riskier company with an ROE that is well below all other utilities in the region with much lower risks. The unfortunate reality is that if ENO cannot attract capital and debt at a reasonable cost, then its ambitious plan for beneficial projects in New Orleans over the next five years will need to be adjusted.

ENO is willing to reduce its current 11.1% significantly as a compromise, but having an acceptable ROE is critically important to ENO's ability to deliver on its plan to add renewable resources, invest in reliability and grid modernization, energy efficiency, and distributed energy resources. At the same time, providing a reasonable ROE comes at a very low cost to customers. In fact, by way of example, both a 9.35% ROE proposed in the Resolution and a 10% ROE would provide customers with bill reductions, with the difference being approximately 78 cents per month (or just over 2.5 cents per day) for an average residential electric customer.

Yet another unfortunate reality is that imposing the rate structure contemplated by the proposed Resolution would force ENO to file rate cases for at least the next three years instead of taking advantage of the more efficient formula rate plan process. Rate case proceedings generally cost customers about $7 million per year for a fully vetted case; meaning the short-term savings from the lower ROE in the current resolution will quickly be exceeded by the increases that customers will pay for annual rate case proceedings.

The risk foisted on ENO is further exacerbated by the recommendation in the proposed resolution for a 50% hypothetical equity ratio, which is addressed more fully in ENO's attached legal letter. Constraining the capital structure further restricts ENO's ability to generate the cash flow needed to support desired investments, as well as to meet other obligations.

As set forth in the letter from our legal counsel, the proposed Resolution contains several other serious deficiencies in addition to the concerns with ROE and capital structure that I have highlighted. These deficiencies further impair ENO's ability to deliver on the goals that the City has laid out and will raise costs to customers over the long term. Simply put, the path offered by

[1] These issues include ENO's return on equity, equity ratio, income tax normalization violations, power plant depreciation rates, among others.

the proposed Resolution will reduce service levels and cost customers far more over the long term than our Path to Progress proposal.

We hope the Council and its advisors will see the wisdom in returning to the negotiating table so that we can develop a more effective plan that provides material benefits to customers while keeping the electric and gas utility financially viable. We are prepared to work collaboratively through the details of such a plan to achieve agreement that truly provides for more acceptable outcomes.

Sincerely,

David D. Ellis
President & CEO

Attachment