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February 7, 2014

Via Hand Delivery

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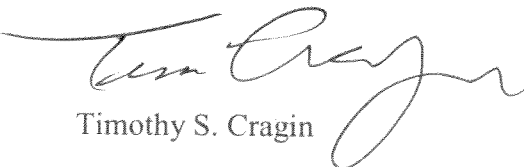
Re: *In Re*: Resolution Regarding Proposed Rulemaking to Establish Integrated Resource Planning Components and Reporting Requirements for Entergy New Orleans, Inc.
(Docket No. UD-08-02)

Dear Ms. Johnson

Enclosed please find an original and three copies of the Joint Comments of Entergy New Orleans, Inc. and Entergy Louisiana, LLC Regarding Revenue Decoupling Pursuant to Council Resolution R-13-363 in 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.

Thank you for your assistance with this matter.

Sincerely,



Timothy S. Cragin

TSC
Enclosures

cc: Official Service List UD-08-02 (via electronic mail)

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BY: Qmw

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

IN RE: RESOLUTION REGARDING)	
PROPOSED RULEMAKING TO)	
ESTABLISH INTEGRATED RESOURCE)	DOCKET NO. UD-08-02
PLANNING COMPONENTS AND)	
REPORTING REQUIREMENTS FOR)	
ENERGY NEW ORLEANS, INC.)	

**JOINT COMMENTS OF
ENERGY NEW ORLEANS, INC. AND ENERGENCY LOUISIANA, LLC
REGARDING REVENUE DECOUPLING
PURSUANT TO COUNCIL RESOLUTION R-13-363**

Energy New Orleans, Inc. (“ENO”) and the Council-jurisdictional portion of Energy Louisiana, LLC (“ELL-+-Algiers”) (collectively, the “Companies”), pursuant to Council Resolution R-13-363, dated October 10, 2013, respectfully submit these Joint Comments addressing the issue of revenue decoupling as raised in the June 2013 “Memorandum on Regulatory Options for Advancing Energy Efficiency” (the “RAP Memorandum”) prepared by the Regulatory Assistance Project (“RAP”) and filed with the Council of the City of New Orleans (the “Council”) on September 6, 2013 as Appendix D to the Advisors’ Report on the ENO and ELL-Algiers Integrated Resource Plan (“IRP”) Filings.

I. INTRODUCTION

A. Procedural Background

In Docket No. UD-08-02, which relates to long-term utility integrated resource planning, the Council issued Resolution R-13-363 on October 10, 2013. As part of Resolution R-13-363, the Council directed the Companies, among other matters, to address the potential for “decoupling.” More specifically, Paragraph 13 of Resolution R-13-363 provides that:

[T]he Companies are directed to file decoupling proposals for subsequent consideration by the Council all issues attendant to decoupling as a policy matter and future consideration in a redesign of rates for the Companies. The Companies' decoupling proposals shall address all of the issues raised in RAP's [the Regulatory Assistance Project] memorandum (Appendix D of the Advisors' IRP Report). To the extent that ENO files a general rate case before the 120-day period expires, ENO shall incorporate its decoupling proposal in its rate application. Correspondingly, ELL is directed to file its proposal in Council Docket No. UD-13-01 for consideration by the Council in said docket.

As ENO did not file a general rate case within the 120-day period, these Joint Comments are being filed in Council Docket No. UD-08-02 (the "IRP Docket"). These same Joint Comments are also being filed simultaneously in Council Docket No. UD-13-01, the ELL-Algiers Rate Case Docket as required by the Resolution; however, ELL-Algiers asserts that it is improper to import into a mature rate case proceeding such as the ELL-Algiers rate case that was filed in March 2013, an October 2013 *ex post facto* requirement to consider a decoupling mechanism therein. Therefore, ELL-Algiers respectfully requests that decoupling issues be addressed instead in the IRP Docket together with the ENO decoupling issues. Once the decoupling issues are fully discussed and vetted in the IRP Docket, the Council can consider whether any decoupling or related mechanism should be implemented and what ratemaking changes might be necessary to implement any such mechanism for ENO's electric and/or gas service and for ELL-Algiers' electric service.

II. JOINT COMMENTS OF ENO AND ELL-ALGIERS

A. Overview of Revenue Decoupling

Revenue decoupling is a ratemaking mechanism that can take a variety of forms, but that is designed generally to eliminate or reduce the dependence of a utility's revenues on volumetric sales (i.e., kWh sales). Revenue decoupling is typically implemented to reduce a utility's disincentive to implement and promote energy efficiency ("EE") and demand-side management

“DSM”) programs by facilitating the recovery of an appropriate amount of “allowed revenue” that is not directly tied to the utility’s volumetric sales.¹

There are three general approaches to decoupling that are well-established:

(1) decoupling true-up plans; (2) lost revenue or lost contribution to fixed cost (“LCFC”) adjustment mechanisms; and (3) fixed variable pricing. In practice, there are numerous variations in the way that each of these general approaches has been and may be implemented. Each approach is discussed briefly below, along with some of the variables that should be considered prior to any implementation.

1. Decoupling True-Up Plans

Decoupling true-up plans adjust rates periodically to ensure that a utility’s actual non-fuel, non-rider revenue for a given period is adjusted prospectively to the non-fuel, non-rider revenue authorized by regulators for that period. Decoupling true-up plans often are comprised of two basic elements: a revenue decoupling mechanism (“RDM”) and an allowed revenue adjustment mechanism (“RAM”). The RDM tracks variances between actual and authorized revenue and makes periodic true-ups over some prospective period.² The RAM typically escalates authorized revenue between rate cases to prevent the financial attrition that would

¹ Energy efficiency programs are designed to reduce customer usage (kWh) over all time periods, not just peak periods. Demand-side management programs are designed primarily to reduce demand (kW) during peak periods, and may result in shifting usage from peak periods to off-peak periods.

² For example, if at the end of the agreed-upon period (say, Year 1), the utility is determined to have received less than its allowed level of non-fuel, non-rider revenues, the utility would be allowed to implement a surcharge on customers’ bills to recover the difference over the agreed-upon period (say, Year 2). The same tracking of actual versus authorized revenues would take place for Year 2. If at the end of Year 2, the utility had received more than its authorized revenues, the rider surcharge for Year 3 would be decreased, or if the magnitude of the excess of actual revenues over authorized revenues was sufficient, the surcharge may become a credit to customers’ bills to be distributed to customers over Year 3. This process would continue in this manner for as long as the decoupling plan is in place. It is important to note that decoupling in and of itself does not necessarily involve any changes to the utility’s existing rate design and can be accomplished through a tracker mechanism and a corresponding line item surcharge or credit on customer bills to implement the mechanism and periodic true-ups.

otherwise result if allowed revenues were kept static as utility costs rise due to inflation and/or other factors such as capital investment.

There are several variables that should be taken into account in designing an RDM. Specifically, factors to be considered include, but may not be limited to: the frequency of any true-up (*e.g.*, annually, semi-annually, monthly); whether a cap should be imposed on the magnitude of the true-ups; how any amount above any cap should be treated prospectively; which customer classes or rate schedules should be included in the decoupling; whether any functional costs (*i.e.*, generation, distribution, or transmission) should be excluded when determining the fixed cost revenue requirement; whether all sources of demand variance (*e.g.*, weather, economy, EE/DSM savings, etc.) are included in the decoupling (referred to as “full decoupling”) or whether certain kinds of demand fluctuations are excluded from decoupling (“partial decoupling”).

Similarly, the RAM component of decoupling can take a variety of forms. It may be broad-based and provide enough revenue growth to compensate the utility for several kinds of cost pressures, or it may be more narrowly based, in which case the utility will typically retain the right to file rate cases during the decoupling plan and often will file such cases. An example of a more narrowly-based RAM that is popular is the revenue per customer freeze, where revenue grows at the same gradual pace as customer growth. Historically, RAMs for electric utilities have tended to be broad-based, whereas most RAMs for gas distributors have been revenue per customer freezes.

The use of decoupling plans in the United States are significantly more prevalent for gas utilities than for electric utilities, likely reflecting the fact that gas distributors historically have been more likely to experience declining average use than electric utilities. For example, a May

2013 report entitled “A Decade of Decoupling for U.S. Energy Utilities: Rate Impacts, Designs, and Observations,” prepared by Pamela Morgan on behalf of Graceful Systems, LLC (<http://www.gracefulsystems.com/user-files/Decoupling%20report%20Final%20-%20pdf.pdf>, at p. 3), reflects that decoupling plans for electric utilities were then in place in only 14 states and the District of Columbia, whereas gas utility decoupling plans existed in 22 states.

2. Lost Revenue Adjustment Mechanisms

Lost Revenue Adjustment Mechanisms (“LRAM”) (sometimes referred to as LCFC mechanisms) are established to compensate a utility for base rate revenues that are estimated to be lost due to specific EE and DSM programs, or other specific causes. Compensation for lost revenues due to the specific programs is usually effected through a rider based on estimates of energy and/or peak load savings from the EE and DSM programs, respectively. The utility typically remains at risk for fluctuations in volumes and peak load due to weather, the local economy, and other volatile demand drivers.

The well-established rationale for including an LRAM when designing EE/DSM programs is that residential and commercial customer rates predominantly rely upon designs that utilize variable charges (*i.e.*, cents/kWh), such that when usage declines, the utility will not earn sufficient base rate revenues to cover its fixed costs. Therefore, without a reasonably compensatory LRAM, it is generally believed that a utility will have an inherent financial disincentive to implement and/or expand EE/DSM programs.

3. Fixed Variable Pricing

A fixed variable pricing approach is a design of base rates that uses fixed customer charges (*i.e.*, charges that do not vary with the sales volume or peak demand) to recover all or at least a high percentage of fixed costs. For example, a straight fixed variable (“SFV”) rate design

recovers all fixed costs through fixed charges. A rate design that recovers a substantial amount, but less than 100% of fixed charges, is referred to as modified fixed variable pricing.

For smaller residential and commercial customers, traditional rate design largely recovers fixed costs through volumetric rates. A fixed variable approach results in a re-design of rates such that the utility's fixed costs are recovered through higher fixed charges and lower volumetric charges. The rationale for implementing a fixed variable rate design is that (1) it is the most effective way to remove any throughput incentive for the utility because sales volume has virtually no relationship to utility profitability, and (2) it is a more conceptually pure way to design rates in that fixed costs are recovered through fixed charges. Nevertheless, implementation of an SFV approach with virtually all fixed costs being recovered through fixed customer charges, may result in higher rates and monthly bills for lower usage customers. Further, lower volumetric charges could reduce the financial incentive for customers to conserve energy.

B. The EnergySmart Programs

It is generally recognized that EE and DSM programs can decrease utility revenues, and consequently, utility earnings, unless certain measures are implemented to counteract this effect. Put more succinctly, all other things being equal, and given current rate designs for smaller residential and commercial customers, when customer usage decreases, utility revenues decrease and utility net income can likely be expected to follow suit. Ultimately, the lower revenues and profits will adversely affect the financial health of the utility.

In order to counteract the potential adverse effect on utility financial health and to foster utility support for EE/DSM programs, there is widespread agreement among stakeholders that three elements should be present when considering EE and DSM programs:

(1) The utility should be allowed to recover its cost of implementing and maintaining utility-sponsored EE/DSM programs;

(2) The utility should be compensated for (*i.e.*, “made whole” for) lost revenues resulting from the EE and DSM programs (often also referred to as LCFC);

(3) The utility should be given an opportunity to earn incentives tied to program goals.³

In designing the EnergySmart programs that have been in place for ENO since 2011, the Council provided for each of the three important program elements mentioned above (*i.e.*, recovery of program cost, recovery of lost revenues related to the programs, and financial incentives for meeting program goals). ENO believes that the inclusion of those elements have contributed significantly to the success of those programs.

The recovery of lost revenues due to the EnergySmart programs is accomplished through an LRAM that is designed to compensate the Companies for lost revenues attributable to the EnergySmart programs. This LRAM (or LCFC mechanism) is a part of ENO’s Electric Formula Rate Plan (“EFRP”) Rider Schedule and is described in section III(E)(1) of the EFRP.

ENO includes in its annual EFRP Evaluation Report filing an estimate of LCFC in the year of the filing. ENO’s EFRP Evaluation Report filing in a given year (with an evaluation period of the prior calendar year) includes an estimate of the LCFC expected to occur from energy efficiency programs in the year of the filing. This amount is reflected in the EFRP rider outside the Return on Equity (“ROE”) dead band. In the subsequent annual EFRP Evaluation Report filing, the filing year estimates are trued up to the actual LCFC that occurred in the

³ RAP acknowledges the importance of these elements in its Memorandum at p. 2.

evaluation period. Any difference between the actual and the estimated LCFC is reflected as an adjustment to the incremental estimate of LCFC in that subsequent period.

The estimate of LCFC for a filing year is the product of the Company's Adjusted Gross Margin per kilowatt-hour ("AGM per kWh") multiplied by the deemed energy savings from estimated EE program participants. This estimate is the incremental amount related to the programs and incremental penetrations estimated to occur in the filing year.

Actual LCFC for an evaluation period are the product of the Company's AGM per kWh multiplied by the deemed savings from actual program participants. The deemed energy savings is based on the projected savings in kWh used in determining the cost effectiveness of each Energy Smart energy efficiency program as approved by the Council. Attachment "G" to ENO's EFRP Rider Schedule contains an example of the calculations required by the LCFC provision.

C. Consideration Regarding Further Decoupling

ENO and ELL-Algiers are in the process of conducting a in-depth review of issues related to decoupling, but have not completed that review and, as such, have not settled on a point of view regarding whether implementing decoupling beyond the Council-approved mechanisms currently in effect in conjunction with the EnergySmart programs is in the best interest of the Companies and their respective customers. Generally, the Companies are concerned that implementing more extensive full or partial decoupling mechanisms could result in unforeseen and unintended consequences, including more volatile rates for customers, potentially higher bills, and/or more unpredictable recovery of costs for the Companies. Additionally, it remains to be seen whether more extensive decoupling would be superior to the mechanisms currently in place combined with a properly structured formula rate plan.

As noted above, implementation of decoupling among electric utilities in the U.S. is not extensive and several regulators that have implemented decoupling in their jurisdictions have subsequently discontinued those programs because they resulted in unpalatable rate increases or other problems were encountered in administering the programs. Given the significant number of low-income customers in the respective ENO and ELL-Algiers service areas, as well as the risk that hurricanes and tropical storms can have a significant effect on revenues in any one year, the Companies are concerned that implementation of a more extensive decoupling mechanism could introduce additional volatility in or unpredictability of rates or cost recovery that would adversely affect these and other customers and/or the financial health of the Companies. RAP, in its Memorandum, acknowledges that “there has not been much public debate”⁴ regarding implementation of decoupling by the Council, and the Companies strongly urge that such debate take place before the Council makes any decision regarding decoupling. Therefore, ENO and ELL-Algiers respectfully request that the decoupling issues be fully discussed, aired and vetted in the IRP docket, that a status conference be held to determine an appropriate procedural schedule for such consideration, and that any ratemaking aspect of decoupling be considered only after those issues have been fully explored therein.

To assist the Council with further background information on decoupling, we provide the following online links to several articles and presentations related to decoupling that may help the Council more fully understand the advantages and disadvantages of decoupling, as well as its risks and potential benefits:

1. “A Decade of Decoupling for US Energy Utilities: Rate Impacts, Designs, and Observations,” by Pamela Morgan, Graceful Systems LLC, dated May 2013;

⁴ RAP Memorandum, at p. 5.

available online at <http://www.gracefulsystems.com/user-files/Decoupling%20report%20Final%20-%20pdf.pdf>. In addition to providing state-by-state details on existing decoupling mechanisms, the report highlights the vast number of intricacies involved with designing and implementing a decoupling mechanism.

2. “Alternative Regulation for Evolving Utility Challenges: An Updated Survey,” by Pacific Economics Group Research LLC (Mark Newton Lowry, Ph.D., Matthew Makos, and Gretchen Waschbusch, MBA), prepared for the Edison Electric Institute; http://www.eei.org/issuesandpolicy/stateregulation/Documents/innovative_regulation_survey.pdf.
3. “Advantages and Drawbacks of Revenue Decoupling: Rate Design and Regulatory Implementation Does Matter,” by Paul M Sotkiewicz, Ph.D., Director of Energy Studies for the Public Utility Research Center at the University of Florida; http://bear.warrington.ufl.edu/centers/purc/docs/presentations/sotkiewicz/p1107_sotkiewicz_Advantages_and_Drawbacks.pdf.

III. CONCLUSION

For the reasons discussed herein, ENO and ELL-Algiers respectfully request that the decoupling issues be fully discussed, aired and vetted in the IRP docket, that a new procedural schedule be established that allows for such detailed discussion, and that any ratemaking implementation aspect of decoupling be addressed, if necessary, after the other decoupling issues have been fully explored.

Respectfully Submitted,

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BY:



ATTORNEYS FOR
ENERGY NEW ORLEANS, INC. AND
ENERGY LOUISIANA, LLC

CERTIFICATE OF SERVICE

Docket No. UD-08-02

I hereby certify that I have this 7th day of February 2014, served the required number of copies of the foregoing report upon all other known parties of this proceeding, by: electronic mail, facsimile, overnight mail, hand delivery, and/or United States Postal Service, postage prepaid.

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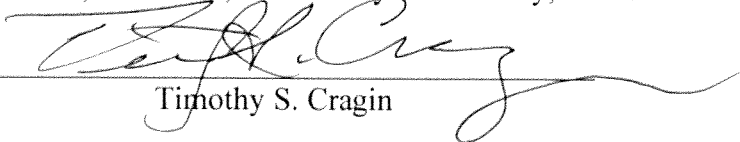
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New Orleans, Louisiana, this 7th day of February, 2014.



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