BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION OF ENTERGY NEW ORLEANS, INC. FOR APPROVAL TO DEPLOY ADVANCED METERING INFRASTRUCTURE, AND REQUEST FOR COST RECOVERY AND RELATED RELIEF

DOCKET NO. UD-16-04

PUBLIC REDACTED VERSION

DIRECT TESTIMONY

OF

BYRON S. WATSON, CFA, CERRA

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

May 26, 2017
I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Byron S. Watson. My business address is 8055 East Tufts Avenue, Suite 1250, Denver, Colorado, 80237. I am a Senior Consultant in the firm Legend Consulting Group Limited of Denver, Colorado (“Legend”).

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. I am presenting testimony on behalf of the Advisors to the Council of the City of New Orleans (“Council”). The Council regulates the rates, terms, and conditions of electric and gas service of Entergy New Orleans, Inc. (“ENO” or “Company”), which is a subsidiary of Entergy Corporation (“Entergy”).¹

Q. PLEASE SUMMARIZE YOUR RELEVANT EDUCATIONAL BACKGROUND AND TESTIMONY EXPERIENCE.

¹ The Entergy Operating Companies (“Operating Companies”) are comprised of: Entergy Arkansas, Inc. (“EAI”), Entergy Mississippi, Inc. (“EMI”), Entergy Louisiana, LLC (“ELL’), ENO, and Entergy Texas, Inc. (“ETI”).
A. Exhibit No. ____ (BSW-2) provides a summary of my relevant education and professional experience and Exhibit No. ____ (BSW-3) lists my previous testimony experience.

II. PURPOSE OF TESTIMONY AND SUMMARY

Q. CAN YOU PLEASE IDENTIFY THE APPLICATION THAT CAUSED THIS DOCKET TO BE INITIATED?

A. Yes. On October 18, 2016, ENO filed its *Application for Approval to Deploy Advanced Metering Infrastructure, Request for Cost Recovery and Related Relief* (“Application”) with the Council. On January 12, 2017, the Council adopted Resolution R-17-7 which opened the instant docket and established the procedural schedule to consider the Application. My testimony is being filed in accordance with that procedural schedule, as subsequently adjusted by the Hearing Officer.

Q. PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.

A. My testimony discusses and makes recommendations to the Council regarding ENO’s request for a cost deferral, the regulatory ratemaking treatment of stranded costs, ENO’s request for a special cost recovery mechanism, ENO’s proposed Advanced Metering Infrastructure (“AMI”) opt-out program, data security and customer data privacy, and ENO’s planned pre-pay program.

Q. WHAT ARE THE MAIN COMPONENTS OF ENO’S PROPOSED AMI DEPLOYMENT?
A. As Advisor Witness Mr. Victor M. Prep, P.E. discusses in detail, ENO is proposing a multi-year AMI deployment schedule having three primary components: advanced electric meters for electric customers and gas meter communication modules for gas customers, a communications network serving the advanced meters and communication modules, and supporting software systems integrating the networked advanced meters into ENO’s information technology system. Collectively, ENO refers to these components as the “AMI deployment.”

III. COST DEFERRALS

Q. WHAT IS A COST DEFERRAL?

A. A cost deferral occurs when a utility incurs a cost, such as an Operations and Maintenance (“O&M”) cost, but with its regulator’s approval, capitalizes such costs for later recovery. Such authorizations to recover retroactive costs are recorded on ENO’s books as regulatory assets, reflecting an expectation based on such authorization of receiving revenues in a future period. As of December 31, 2016, ENO reports $30.5 million in non-pension, non-energy related regulatory assets.²

Q. WHAT COST DEFERRAL IS ENO REQUESTING IN ITS APPLICATION?

² See ENO’s 2016 FERC Form 1 Annual Report, page 232.
A. ENO requests that the Council allow it to defer certain O&M costs related to its AMI deployment totaling [redacted] electric and [redacted] gas. ENO requests that these amounts be recovered through its proposed AMI Customer Charge, amortized over the AMI Customer Charge’s duration, and allowed a return on their related rate base at ENO’s Weighted Average Cost of Capital (“WACC”). ENO estimates the total revenue requirement related to these deferrals to be [redacted] electric and [redacted] gas.  

Q. IS ENO’S REQUEST FOR A COST DEFERRAL APPROPRIATE? 

A. No. ENO is subject to a base rate freeze, and ENO’s requested cost deferral is contrary the terms of ENO’s current base rate freeze. 

Q. PLEASE EXPLAIN THE BASIS FOR YOUR STATEMENT THAT ENO IS SUBJECT TO A BASE RATE FREEZE. 

A. ENO’s base rate freeze is the result of negotiated Agreement in Principle (“AIP”) settling Council Docket No. UD-14-02 (Algiers Transaction), and adopted in Council Resolution No. R-15-194, ENO is subject to a base rate freeze:

ENO will not initiate and the Council shall not take any base rate action specific to Legacy-ENO or Algiers customers requesting any changes to base rates set forth in existing Legacy-ENO or Algiers base rate schedules,

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3 See HSPM Exhibit OT-1, Excel Tab WP 2.B for electric and HSPM Exhibit OT-2, Excel Tab WP 2.B for gas. 
4 Id.
prior to ENO's filing a full cost of service study based on combined ENO operations on both the east bank and west bank of the Mississippi River (the "Combined Rate Case"). The Combined Rate Case shall not be submitted to the Council prior to the first quarter of 2018 and shall be based on a 12-month historical test year (Period I) ended December 31, 2017.5

And:

ENO may experience a specific action, event, or circumstance, including those beyond the control of the Company, that results in an exceptional cost increase or decrease. Should ENO experience such an exceptional increase or decrease in costs, excluding costs recovered via the Fuel Adjustment Clause and other applicable riders, having a revenue requirement effect exceeding $3.2 million on a total Company basis, including but not limited to, changes in revenue requirement associated with any Council-approved capacity addition, including purchased power contracts determined by the Council to be in the public interest, major storms/weather events of the type identified as Triggering Weather Events in Council Docket UD-14-01, and nuclear decommissioning, then the Company may initiate a filing with the Council seeking consideration of whether a mechanism for recovery or return of such exceptional cost increases or decreases is appropriate. Such

Council consideration may take into account ENO's overall financial health/performance, including but not limited to its earned return on equity for the most recent calendar year ending December 31.\(^6\)

In 2018, ENO may request the Council set new rates as part of the above-referenced Combined Rate Case. ENO anticipates that such new rates could take effect in August 2019.\(^7\)

**Q. WHY IS ENO’S COST DEFERRAL CONTRARY TO THE PROVISIONS OF ENO’S BASE RATE FREEZE?**

**A.** O&M costs, such as the ones underlying ENO’s proposed cost deferral, are fixed costs that are customarily recovered through base rates. While ENO states that these deferred costs are incremental to its current cost of service,\(^8\) the incurrence of such costs does not necessarily mean ENO is not being allowed to earn a reasonable rate of return on said costs, absent a consideration of all of ENO’s costs and revenues. Furthermore, no part of the terms of the base rate freeze discusses special ratemaking treatment simply because some costs may be considered incremental. Implicit to the base rate freeze is that ENO would continue to prudently operate its utility in accordance with the terms of its franchise with the City of New Orleans (“City”), which necessarily involves expenses and investments that may vary. No part of the base rate freeze suggests ENO may delay prudent

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\(^6\) Id. pages 11-12.

\(^7\) See the Direct Testimony of Orlando Todd, the answer to question Q12 at page 9.

\(^8\) See ENO’s responses to the Advisors’ RFIs CNO 1-28 and 2-14.
expenditures in support of its operations until regulatory ratemaking treatment might be more favorable to its shareholders. Furthermore, the base rate freeze explicitly allows ENO to request special recovery of costs related to specified matters or having a $3.2 million or greater revenue requirement impact. ENO’s request for a cost deferral is a base rate action and is specifically not allowed under the portions of Council Resolution No. R-15-194 cited above.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO’S REQUEST FOR A COST DEFERRAL?

A. As ENO is subject to a base rate freeze to which it voluntarily agreed and which has allowed it to earn more than the just and reasonable Returns on Equity (“ROE”) last approved by the Council, as I discuss elsewhere in this testimony, I recommend the Council deny ENO’s request for a cost deferral as part of any approval of AMI deployment.

IV. SINGLE ISSUE RATEMAKING

Q. WHAT IS THE CUSTOMARY METHOD FOR ESTABLISHING BASE RATES?

A. A principle of customary regulatory ratemaking is that a utility’s rates should be based on its overall prudently-incurred cost to provide service including costs such as taxes, plus a reasonable return on shareholder investment in the utility. The Code of the City of New Orleans, Louisiana (“Code”) reflects this principle by requiring a total company and
jurisdictional income statement part of rate case applications. The Louisiana Supreme Court has stated: “The general approach of a regulatory agency in determining whether an existing rate structure is producing inadequate or excessive revenues is well established. The agency first selects a ‘test year,’ normally the most recent annual period for which complete financial data are available, and calculates the utility's revenues, expenses and investments during the test period.” A utility’s rates should offer the utility the reasonable opportunity to recover its prudently incurred costs in the aggregate, including a reasonable return on shareholder investment in the utility.

Q. WHAT IS SINGLE ISSUE RATEMAKING?

A. Single issue ratemaking is a deviation from the accepted regulatory ratemaking principle that rates should generally be based on a utility’s overall costs and risks. The Supreme Court of Louisiana has found that: “Single issue ratemaking occurs when a utility’s rates are altered on the basis of only one of the numerous factors that are considered when determining the revenue requirements of a regulated utility.” (Emphasis added). Said differently, single issue ratemaking occurs when particular portions of a utility’s revenue requirement are considered for recovery in isolation from the utility’s total costs and revenues.

9 Code, Sec. 158-134
10 Supreme Court of Louisiana, South Central Bell Telephone Co. v. Louisiana Public Service Commission, 352 So. 2d 964 (1977).
11 Supreme Court of Louisiana, Entergy Louisiana, LLC v. Louisiana Public Service Commission, et al., No. 2008-CA-0284, 990 So.2d 717, Section 2.
Q. **IS SINGLE ISSUE RATEMAKING GENERALLY APPROPRIATE?**

A. No. Single issue ratemaking is generally not appropriate because its application is contrary to the generally accepted regulatory ratemaking principle that a utility’s rates that produce its revenues should be based on a utility’s overall costs. Single issue ratemaking may not capture the overall impact of the portion of a utility’s revenue requirement under special consideration by potentially not reflecting offsetting changes in other areas of the utility’s operations. Further, single issue ratemaking may reduce a utility’s incentive to control its costs to the extent such ratemaking guarantees cost recovery through a true-up mechanism.

Q. **DOES ENTERGY AGREE THAT SINGLE ISSUE RATEMAKING IS INAPPROPRIATE?**

A. Yes. ELL defines single issue ratemaking, saying: “Single-issue ratemaking occurs when a utility's rates are altered on the basis of only one of the numerous factors that are considered when determining the revenue requirements of a regulated utility.”  

ELL said the Louisiana Supreme Court “is the ultimate arbiter of legal issues, including issues relating to the application of regulatory principles such as the rule against retroactive ratemaking and the prohibition against single issue ratemaking, which are well-established in the jurisprudence of this Court.”

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12 Louisiana Supreme Court, Entergy Louisiana, LLC v. Louisiana Public Service Commission, et al., Original Brief on the Merits on Behalf of Appellant Entergy Louisiana, LLC, page 17.

13 Id., page 13.
from engaging in single issue ratemaking.”¹⁴ I note that ELL was subject to Council
regulation in Algiers at the time it made these statements. While the Council is a distinct
regulatory body from the Louisiana Public Service Commission, the Council should give
strong weight in its consideration of ENO’s proposed AMI Customer Charge to the
Louisiana Supreme Court’s rulings that single-issue ratemaking is prohibited, especially as
ENO’s operating affiliate ELL has accepted this prohibition.

Q. IS ENO REQUESTING SPECIAL COST RECOVERY IN ITS APPLICATION
THAT YOU BELIEVE CONSTITUTES SINGLE ISSUE RATEMAKING?

A. Yes.

Q. PLEASE DESCRIBE THE SPECIAL COST RECOVERY ENO IS REQUESTING.

A. ENO is requesting an “AMI Customer Charge” that would provide contemporaneous cost
recovery of its newly incurred costs related to AMI deployment and credit certain costs
avoided as a result of AMI deployment to ratepayers. ENO’s proposed AMI Customer
Charge would be affected through special out-of-period (i.e., a projection of the future
beyond the evaluation period) pro-forma adjustments to ENO’s Combined Rate Case cost
of service study and three annual adjustments thereafter. ENO’s proposed AMI Customer
Charge could appear as a line-item on customer bills. ENO proposes that its AMI Customer

¹⁴ Id.
Exhibit No. ___ (BSW-1)
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Charge persist beyond the AMI deployment’s completion and until new rates may be set
as part of the next Council base rate action undertaken thereafter.

Q. DOES ENO’S PROPOSED AMI CUSTOMER CHARGE REPRESENT SINGLE
ISSUE RATEMAKING?

A. Yes. ENO’s proposed AMI Customer Charge constitutes single issue ratemaking because it seeks to single-out for recovery AMI-related costs and select credits without the consideration of ENO’s overall costs, revenues, and its ability to earn a reasonable return on its investment.

Q. IF THE COUNCIL DENIES ENO’S REQUEST FOR AN AMI CUSTOMER CHARGE, HOW MAY ENO RECOVER ITS AMI-RELATED COSTS?

A. ENO may recover its prudently-incurred AMI-related costs through customary regulatory ratemaking, in particular through ENO’s opportunity to file a Combined Rate Case cost of service study in 2018 which may take into account prospective AMI-related costs.

Q. SINCE THE IMPLEMENTATION OF THE AIP IN COUNCIL DOCKET NO. UD-14-02 (ALGIERS TRANSACTION), HAS ENO BEEN ALLOWED TO EARN A REASONABLE RETURN ON EQUITY FOR ITS PRUDENTLY INCURRED COSTS OF SERVICE?

A. Yes. My analysis of data presented in ENO’s FERC Form 1 annual reports to FERC for the last three years shows ENO has likely earned in excess of the Council’s last authorized ROEs.
Q. WHAT HAVE BEEN ENO’S RECENT EARNING LEVELS?

A. The below table presents approximate estimates of ENO’s regulatory Earned ROE and resulting revenues in excess of those required for it to earn the Council’s last allowed ROEs (i.e., excess revenues) for the years 2016, 2015, and 2014 based on an analysis of ENO’s FERC Form 1 data for these years. Workpapers supporting the 2016 values presented in the below are provided as Exhibit No. (BSW-4).

<table>
<thead>
<tr>
<th>Table 1: ENO’ Estimated Financial Performance (Gas and Electric)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess Revenues</td>
</tr>
<tr>
<td>Earned ROE</td>
</tr>
</tbody>
</table>


I note that in 2016, following discussions among ENO representatives and the Advisors to the Council (“Advisors”) related to ENO’s 2015 excess revenues, ENO voluntarily credited ratepayers $5 million outside of its Council-authorized rates pursuant to Council Resolution No. R-16-333. Had ENO not done so, its 2016 excess revenues as estimated based on an analysis of ENO’s FERC Form 1 data would have been $16.2 million and its Earned ROE 13.6%. Also, the Advisors requested that ENO provide its estimate of its regulatory earnings so they could be placed into the instant docket’s record, but ENO objected to this request and refused to provide such an estimate. As the above table

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15 ENO has correctly noted that estimating its earned ROE based on an analysis of FERC Form 1 data is not “regulatory grade” suitable for ratemaking purposes. Such estimates provide reasonable guidance as to ENO’s financial condition.

16 See the Advisors’ RFIs CNO 2-18 and 2-19
demonstrates, ENO’s estimated excess revenues for each of 2016, 2015, and 2014 exceed
the revenue requirement underlying ENO’s proposed AMI Customer charge.

Q. IS THE COUNCIL’S APPROVAL OF SPECIAL RECOVERY OF ENO’S FIXED
COSTS RELATED TO UNION PB1 THROUGH RIDER PPCACR
PRECEDENTIAL?

A. No. ENO Witness Todd discusses the Council’s allowance of recovery of fixed costs related to Union Power Block 1.17 The terms of ENO’s base rate freeze agreed to by ENO explicitly excluded from the base rate freeze “the proposed capacity rider pending in Council Docket UD-15-01.”18 This rider, as renamed at the suggestion of ENO, is Rider PPCACR. As such, Mr. Todd’s example of the Council allowing special cost recovery is based on a non-precedential19 compromise20 negotiated settlement to a Council Docket, and the Council is not required to give such any weight in its consideration of ENO’s request for special cost recovery in the instant docket.

Q. PLEASE DESCRIBE THE ALTERNATIVE ENO OFFERS TO ITS PROPOSED
AMI CUSTOMER CHARGE?

A. Mr. Todd’s direct testimony presents, and then generally dismisses as inappropriate, an alternative to the AMI Customer Charge wherein ENO defers recovery of capital additions

17 See the Direct Testimony of Orlando Todd, the answer to Question Q9 at page 7.
19 Id., paragraph 6 at page 15.
20 Id., paragraph 3 at page 14.
until ENO’s proposed AMI deployment is complete. Mr. Todd’s alternative would involve accrued for later recovery of carrying charges from the time of capital spending to the commencement of recovery.  

Q. WHAT DO YOU BELIEVE ABOUT THE ALTERNATIVE ENO PROPOSES AND DISMISSES?

A. The alternative Mr. Todd discusses is inappropriate. As with ENO’s request for an O&M cost deferral that I recommend the Council deny, deferring recovery of and on capital investments for later recovery is a base rate action that is contrary to the terms of ENO’s current base rate freeze.

Q. IS THERE ANOTHER ALTERNATIVE TO THE AMI CUSTOMER CHARGE THAT MR. TODD DOES NOT DISCUSS?

A. Yes. The proper alternative to the inappropriate single issue ratemaking constituted by the AMI Customer Charge is to allow ENO the opportunity to recover through rates its prospective prudently incurred costs as a whole, including AMI-related costs, through customary regulatory ratemaking mechanisms and according to the provisions of the Code of the City of New Orleans (“Code”) Section 158-41 et. seq.

_________________________________

21 See the Direct Testimony of Orlando Todd, the answer to question Q11 at pages 8-9.
Q. WOULD ALLOWING ENO TO RECOVER ITS AMI-RELATED COSTS THROUGH CUSTOMARY RATEMAKING JEOPARDIZE ENO’S FINANCIAL CONDITION?

A. No. As demonstrated above, ENO’s proposed AMI deployment capital additions are in-line with other capital additions ENO makes as part of its ongoing operations. The below table presents ENO’s recent capital additions to plant, for which ENO has not requested any special cost recovery mechanism.

<table>
<thead>
<tr>
<th>Table 2: ENO’s Gross Additions to Utility Plant by Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Gross Additions to Utility Plant (millions) [1]</td>
</tr>
</tbody>
</table>


As the above table demonstrates, during a period affording no base rate adjustments (i.e., the current base rate freeze), ENO has proven to have the financial ability to make additions to plant in excess of the $23.2, $7.7, $18.3, and $12.5 million AMI-related capital additions ENO is forecasting for 2018, 2019, 2020, and 2021 respectively.22 As such, and given the reasonable expectation that ENO will be afforded recovery of its prospective overall costs according to customary ratemaking mechanisms as part of the Combined Rate Case, allowing ENO recovery of its prudently incurred AMI-related costs through customary ratemaking should not jeopardize either ENO’s financial condition or its access to financial markets.

22 See the Direct Testimony of Orlando Todd, Table 1 at page 3.
Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL WITH REGARD TO ENO’S AMI CUSTOMER CHARGE?

A. I recommend that the Council, as part of any AMI deployment approval, deny ENO’s request for interim special cost recovery. In particular, I recommend that the Council deny ENO’s request for an AMI Customer Charge.

V. STRANDED COSTS

Q. WHAT ARE STRANDED COSTS?

A. A useful definition of stranded costs for the purposes of AMI deployment is that stranded costs are the result of a utility’s investments either ceasing to be or never becoming “used and useful” in the provision of service to ratepayers. Stranded costs may be measured in terms of their net book value (i.e., historical cost less accumulated depreciation).

Q. WHAT COSTS MAY BE STRANDED AS A RESULT OF ENO’S PROPOSED AMI DEPLOYMENT?

A. The below table summarizes stranded costs related to an AMI deployment as of December 31, 2016. ENO’s actual stranded costs may differ depending on the timing of asset retirements and any further investments in legacy-technology equipment from 2017 through final AMI deployment. ENO does not expect to realize any salvage value related
to the above plant. To the extent any salvage value is realized, ENO intends to record a credit against net book value.\(^{23}\)

<table>
<thead>
<tr>
<th></th>
<th>Plant in Service</th>
<th>Accumulated Reserve</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Meters</td>
<td>25.4</td>
<td>4.4</td>
<td>21.0</td>
</tr>
<tr>
<td>Electric AMI Meters</td>
<td>0.5</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total Electric</strong></td>
<td>25.9</td>
<td>4.6</td>
<td><strong>21.3</strong></td>
</tr>
<tr>
<td>Gas Meters</td>
<td>21.5</td>
<td>1.1</td>
<td>20.5</td>
</tr>
<tr>
<td>Gas Meters Inst</td>
<td>4.8</td>
<td>3.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Gas Regulators</td>
<td>1.5</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Gas Regulators Inst</td>
<td>0.4</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total Gas</strong></td>
<td>28.2</td>
<td>5.7</td>
<td><strong>22.5</strong></td>
</tr>
<tr>
<td><strong>Total Electric and Gas</strong></td>
<td>54.1</td>
<td>10.3</td>
<td><strong>43.8</strong></td>
</tr>
</tbody>
</table>

Table 3: AMI-Deployment Stranded Costs

($ millions)

Source: ENO’s Response to the Advisors’ RFI CNO 2-22, part a.

The Advisors asked ENO if any of the amounts presented in the above table include plant that will continue in service after the AMI deployment and to present data only for plant that is expected to be retired. ENO’s response was that net book value of $28.2 million related to gas plant is based on what ENO refers to as “the estimated value of Retirement Units that will be partially retired.”\(^{24}\) The Advisors specifically asked ENO for net book value data only for plant ENO intends to retire as part of the AMI deployment, and ENO referenced the data in the above table as its response.\(^{25}\) ENO Witness Bourg estimates that approximately 8,000 gas meters will be retired and that for other gas meters, only their

\(^{23}\) See ENO’s response to the Advisors’ RFI CNO 1-22.

\(^{24}\) ENO’s response to the Advisors’ RFI CNO 2-22, part b.

\(^{25}\) Id., part c.
index would be removed. ²⁶ 8,000 meter retirements, when divided into ENO’s net book value of gas meters to be retired from the above table yields $2,563 per meter ($20.5 million ÷ 8,000 = $2,563).

Q. WHAT IS THE REMAINING DEPRECIABLE LIFE OF THE PLANT ENO PLANS TO RETIRE EARLY?

A. The below table summarizes the remaining useful life, as of December 31, 2016, of the plant ENO plans to retire as part of its AMI deployment.

<table>
<thead>
<tr>
<th>Table 4: Stranded Costs Remaining Life ($ millions)</th>
<th>Depreciable Life (yr)</th>
<th>Estimated Remaining Life (yr)</th>
<th>Percent Depreciable Life Remaining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Meters</td>
<td>32</td>
<td>27</td>
<td>83%</td>
</tr>
<tr>
<td>Electric AMI Meters</td>
<td>10</td>
<td>5</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Gas Meters</strong></td>
<td><strong>41</strong></td>
<td><strong>39</strong></td>
<td><strong>95%</strong></td>
</tr>
<tr>
<td>Gas Meters Inst</td>
<td>56</td>
<td>15</td>
<td>27%</td>
</tr>
<tr>
<td>Gas Regulators</td>
<td>50</td>
<td>21</td>
<td>43%</td>
</tr>
<tr>
<td>Gas Regulators Inst</td>
<td>52</td>
<td>10</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: ENO’s Response to the Advisors’ RFI CNO 2-22, part a.

As the above table demonstrates, the percent remaining depreciable lives of Electric Meters (83%) and Gas Meters (95%) can be viewed as unexpectedly high for an established technology that I understand ENO has employed for longer than the five-year average depreciation age of Electric Meters and the two-year average depreciation age of Gas

²⁶ See the Direct Testimony of Michelle P. Bourg, the answer to Question Q9 at pages 4-5.
Meters. The Advisors asked ENO to explain the reasons for these remaining-life values. ENO objected to this question and referenced generally its accounting policies used to track and report accumulated depreciation, but was unresponsive as to the reasons Electric Meters and Gas Meters plant should have their reported remaining life values. The Advisors have served further discovery upon ENO related to the remaining lives of Electric Meters and Gas Meters. It is reasonable to rely on ENO’s accounting for meter plant as being consistent with generally accepted accounting principles and FERC accounting guidance, however the high reported remaining lives of Electric Meters and Gas Meters is indicative of the ratepayer burden ENO is proposing related to stranded costs and should be further justified by ENO prior to the Council’s treatment of its AMI-related stranded cost request.

Q. WHAT IS THE ANNUAL REVENUE REQUIREMENT ASSOCIATED WITH THE EARLY RETIREMENT OF THE PLANT PRESENTED IN TABLE 3?

A. The early retirement of currently existing meter plant will result in stranded costs whose net-book value as of December 31, 2016 is $43.8 and whose 2016 annual depreciation expense totals $1.5 million. While ENO has objected to the Advisors’ request for its current WACC and refused to provide this data that is required to estimate revenue requirement, in reliance on an older WACC provided as part of ENO’s October 18, 2016

27 See the Advisors’ RFI CNO 2-22, part i.
28 See ENO’s response to the Advisors RFI CNO 2-22, part b.
29 See the Advisors RFI CNO 2-20 and ENO’s response thereto.
Application, I estimate the annual revenue requirement of the plant in service presented in Table 3 to be approximately $4.7 million, and due to tax write-offs, the revenue requirement related to such plant if retired to be approximately $4.6 million. My analysis was performed in reliance on the data ENO provided in response to the Advisors’ RFI CNO 2-22. Should the actual net book value of the plant ENO may retire as part of an AMI deployment vary significantly from the data ENO provided in its response to RFI CNO 2-22, I reserve the right to adjust my recommendation to the Council regarding the amortization period for stranded costs.

Q. WHOM DOES ENO PROPOSE PAY FOR STRANDED COSTS ASSOCIATED WITH THE EARLY RETIREMENT OF PLANT AS A RESULT OF AMI DEPLOYMENT?

A. ENO’s Witness Todd proposes that ratepayers continue to pay the total amortization of this cost plus a return at its full weighted cost of capital as authorized by the Council, in addition to the new costs related to AMI deployment. Mr. Todd proposes that ENO recover from ratepayers stranded costs at their related plant’s current depreciation rate along with recovery on their related rate base at ENO’s full WACC.

I note that the referenced WACC value, as calculated by ENO, employed a hypothetical 50% common equity ratio, as was used in similar calculations related to Union PB1. The use of ENO’s actual recent common equity ratios would have resulted in a higher revenue requirement value.
Q. DO YOU ACT IN RELIANCE ON MR. PREP’S RECOMMENDATION THAT ENO’S STRANDED COSTS RELATED TO AMI DEPLOYMENT BE RECOVERABLE?

A. Yes. My recommendation elsewhere in my testimony that any regulatory asset created related to ENO’s AMI-related stranded costs be amortized over 15 years is in reliance on Mr. Prep’s recommendation that the Council allow recovery of ENO’s AMI-related stranded costs through the creation of a regulatory asset, but with a return on the related rate base at ENO’s debt-only WACC (i.e., ENO’s WACC, but calculated absent components for ROE and preferred stock dividends/preferred membership interest). As I discuss elsewhere, ENO’s existing Electric Meters and Gas Meters plant is relatively early into their average depreciable useful lives (i.e., 5 out of 27 years and 2 out of 41 years, respectively), so ENO is proposing ratepayers provide simultaneous recovery of both AMI-related costs and two largely-undepreciated sets of meter plant.

Q. ENO IS SUBJECT TO A BASE RATE FREEZE. WHEN SHOULD ENO’S AMI-RELATED STRANDED COST RECOVERY BEGIN?

A. ENO’s AMI-related stranded cost recovery should begin with the Council’s setting of new rates as part of the Combined Rate Case. As I discuss elsewhere in this testimony, ENO is subject to a base rate freeze, which encompasses ENO’s revenue requirement related to its metering and related plant. As such, until the Council sets new rates as part of the Combined Rate Case, ENO should amortize its stranded costs by applying the full depreciation expense rates for such plant approved in Council Docket No. UD-08-03 and
Council Docket No. UD-13-01 for Legacy-ENO and Algiers plant respectively. As part of its cost of service study in its Combined Rate Case Filing, ENO should present the then AMI-related stranded cost rate base component (i.e., net book value less related ADIT) for recovery through base rates. As further plant is early-retired as a result of AMI deployment, with each subsequent relevant rate action, such stranded costs should be afforded similar treatment.

Q. **OVER WHAT PERIOD SHOULD ENO AMORTIZE ITS AMI-RELATED STRANDED COSTS?**

A. Elsewhere in my testimony, I estimate the 2016 annual revenue requirement of plant that may become stranded costs as part of any AMI deployment to be approximately $4.7 million. If such plant were retired and allowed recovery on its rate base at ENO’s current debt-only WACC, I estimate that an amortization period of 14-15 years would maintain rough correspondence with this $4.7 million revenue requirement. Further, a reduced debt-only WACC for recovery on such stranded costs is consistent with a shorter amortization period than the up-to 39 years’ remaining life of this plant in service. Finally, ENO is requesting a 15-year depreciation life for its AMI investments, and a 15-year stranded cost amortization period would match recovery of such costs with AMI’s overall benefits. As such, a 15-year amortization period for stranded costs is appropriate.

Q. **WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO’S AMI-RELATED STRANDED COSTS?**
A. In reliance on Mr. Prep’s recommendation to the Council that ENO be allowed recovery of its AMI-related stranded costs and recovery on such costs at ENO’s debt-only WACC, I recommend that, as part of any AMI deployment approval, the Council find that the then net book value of ENO’s prudently incurred, but stranded, costs related to AMI deployment, less any realized salvage receipts, be recoverable in base rates through a regulatory asset amortized over 15 years on a straight-line basis. I recommend such ratemaking treatment of AMI-related stranded costs commence with the Council setting new base rates as part of the Combined Rate Case and that such treatment be applied in subsequent relevant rate actions to reflect AMI-related retirements subsequent to the Combined Rate Case. Further, I recommend, as part of any AMI deployment approval, that ENO be directed to separately identify such stranded costs, including related ADIT balances, in its cost of service studies to allow Council evaluation of such costs and their recovery.

VI. OPT-OUT PROGRAM

Q. PLEASE DESCRIBE ENO’S PROPOSED OPT-OUT PROGRAM.

A. ENO Witness Lewis describes a program whereby customers may choose to not have a smart meter installed for their utility services (i.e., opt-out of AMI). Mr. Lewis, on page 34 of his direct testimony, presents estimated up-front fees of up-to $102.89, and monthly fees of $14.34 for customers who opt-out of AMI. These fees are intended to enable ENO to recover its estimated cost to provide utility service to customers who opt-out of AMI.

Q. HOW MANY CUSTOMERS DOES ENO ESTIMATE WILL OPT-OUT OF AMI?
A. ENO estimates that approximately 769 customers, or 0.24% of customers, will opt-out of AMI. ENO’s derivation of this estimate is presented in Exhibit AF-3 which presents ten utilities’ AMI opt-out rates ranging from 0.95% to 0.00%, the average of which is 0.24%.

Q. IS ENO’S AMI OPT-OUT RATE ESTIMATE OF 0.24% RELIABLE FOR PLANNING PURPOSES?

A. No. I note that of the ten utilities upon which ENO based its AMI opt-out rate estimate, several of the higher opt-out rates were for utilities serving areas distant from Louisiana (i.e., PG&E – 0.95%, Southern California Edison – 0.45%). Utilities serving customers closer to Louisiana showed a lower opt-out rate (i.e., Georgia Power – 0.02%, AEP Texas – 0.01%, Oncor – 0.01%, CenterPoint – 0.00%). Further, a visual inspection of Exhibit AF-3 shows the subject utilities with higher opt-out fees had lower opt-out rates.31 Assuming opt-out fees do impact opt-out rates consistent with ENO’s presented subject utilities’ fees and rates, and placing ENO’s estimated opt-out fees on the scale of the ten utilities presented in Exhibit AF-3 suggests an opt-out rate of between 0.02% and 0.13%. ENO’s method of using a simple average of the ten utilities’ AMI opt-out rates to estimate its AMI opt-out rate may not be reliable for planning purposes.

Q. WHY IS THE ESTIMATED AMI OPT-OUT RATE IMPORTANT?

31 ENO has not performed an evaluation of the correlation between opt-out fees and opt-out rates, nor has ENO regressed such data to estimate its expected opt-out rate. See ENO’s responses to the Advisors’ RFI CNO 1-18, parts a and b.
A. ENO’s presentation of AMI opt-out program costs in Mr. Lewis’s testimony involves certain fixed costs that are presented as not varying with the number of customers who opt-out of AMI. As such, should the number of actual ENO customers who opt-out of AMI be fewer than ENO’s projections, the per-customer fee required to recover ENO’s costs would need to be higher than Mr. Lewis’s estimate. Based on a review of Exhibit AF-3, should ENO’s per-customer AMI opt-out fee increase substantially from the fees estimated by Mr. Lewis, such an increase in fees could cause a smaller AMI opt-out rate than estimated by ENO. Should ENO’s opt-out rate approach those reported for Oncor or CenterPoint, ENO might have difficulty recovering fixed opt-out-related costs from customers who opt-out.

Q. HOW SHOULD ENO ESTIMATE ITS AMI OPT-OUT RATE AND AMI OPT-OUT FEES?

A. ENO should estimate an AMI opt-out rate taking into account regionally local utilities’ opt-out rates and based upon an evaluation of any inverse relationship between opt-out fees and opt-out rates. ENO should employ such an estimate as the basis for the AMI opt-out fees it presents to customers who intend to opt-out of AMI.

Q. HOW SHOULD ENO RECOVER ITS COSTS ASSOCIATED WITH ANY AMI OPT-OUT PROGRAM THE COUNCIL MAY APPROVE?

A. As opting-out of AMI is an optional personal choice for the small minority of customers expected to do so, all the costs related to any AMI opt-out program should be recovered from customers who opt-out. Any AMI opt-out program should not serve to increase
ENO’s net revenue requirement recoverable from customers or customer classes who do not opt-out.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO’S PROPOSED AMI OPT-OUT PROGRAM?

A. As part of any approval to deploy AMI, I recommend the Council direct ENO to ensure that its AMI opt-out program’s costs are not recoverable from customers who do not opt-out of AMI.

VII. PREPAID SERVICE

Q. PLEASE DESCRIBE ENO’S PRE-PAY PROGRAM.

A. ENO Witness Dawsey notes that ENO’s pre-paid service is still under development, but describes a typical pre-pay program. As the name suggests, customers choosing to take utility service under a pre-pay service schedule would deposit cash with ENO prior to receiving service. As such customers utilize utility service, their credit balances with ENO would decline, and should that balance reach zero, service would be remotely disconnected using AMI-enabled technology. Once a credit balance is restored through a customer payment, service would be reestablished.

Q. HAVE PARTIES TO THE INSTANT DOCKET EXPRESSED CONCERNS REGARDING ENO’S PRE-PAY PROGRAM?
A. Yes. The Alliance for Affordable Energy ("Alliance"), in its April 7, 2017 comments, expresses concern that low-income and "energy burdened" ratepayers could suffer from excessive disconnections of utility service.

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING ENO’S PRE-PAY PROGRAM?

A. Yes, the Alliance’s concerns notwithstanding, the implementation of a voluntary pre-pay program could affect ENO’s cost of service and the allocation of costs among the customer classes. For example, should the rate of bill write-offs for pre-pay customers be less than for other residential customers, the Council may wish to evaluate the allocation of costs associated with write-offs. Also, pre-payment credits could be considered a credit similar to customer deposits, affecting ENO’s rate base and revenue requirement.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL WITH REGARD TO ANY PRE-PAY PROGRAM ENO MAY PROPOSE?

A. To the extent ENO may propose a pre-payment program similar to the one described by Mr. Dawsey, the Council may wish to consider whether the implementation of any pre-pay program ENO may propose and the Council may approve should be as a part of a future rate action involving a fully-allocated cost of service study that may allow a comprehensive consideration of concerns such as the ones expressed by the Alliance and in my testimony.

VIII. DATA SECURITY AND CUSTOMER DATA PRIVACY

Q. WHAT IS DATA SECURITY?
A. In the context of AMI, data security refers to systems and controls intended to ensure that customer data, including AMI-related meter data, are properly collected, recorded, maintained, and secured from unwanted or unintended disclosure or transmittal to unauthorized parties while still allowing timely and useful access to data required to support to the wide range of AMI-related beneficial goals as discussed by Mr. Prep.

Q. **DOES ENO DISCUSS ITS PLAN TO ENSURE DATA SECURITY?**

A. Yes. ENO Witness Rodney W. Griffith lists several industry data security standards as the basis for the design of its proposed AMI system. Mr. Griffith states in his testimony that ENO “... already has cyber security controls in place with respect to its current customer data storage systems, controls related to the new advanced meters and related infrastructure are being developed as part of the AMI design phase. These new controls will be implemented during the build, test and deployment phases of the project to ensure continued protection of Company and customer data after AMI is deployed.”32 As Mr. Griffith indicates, ENO does not have a final data security system in place, and the development of such is planned as part of the multi-year AMI deployment schedule.

Q. **ARE ENO'S PRESENT EFFORTS REGARDING DATA SECURITY WITH RESPECT TO AMI REASONABLE?**

A. Yes. My review of the Application indicates that ENO considers data security to be a component of AMI and that ENO has engaged reputable vendors that ENO considers...

32 Direct Testimony of Rodney W. Griffith, the answer to question Q51 at page 37.
experienced in data security, such as IBM,\textsuperscript{33} to provide data security as part of the AMI deployment. A review of the daily news may conclude that data security is an evolving profession that must confront ongoing ever-new and unpredictable data security threats. As such, it is likely not possible to design today a distributed data collection and data network system, such as AMI, that will be secure from the data security threats that may arise by ENO’s 2022 full-deployment milestone or over the 15-year useful life of ENO’s proposed AMI. Based on this observation, I conclude it is reasonable for ENO at this time to state its general plan and guiding standards for data security with the understanding that a robust data security system will be in place before the AMI system begins to handle customer data and that the system will be regularly enhanced as needed thereafter.

Q. SHOULD THE COUNCIL MONITOR ENO’S DATA SECURITY SYSTEM?

A. Yes. As Mr. Prep discusses, AMI will enable the collection and retention of detailed customer behavior data not currently available to ENO. The Council should exercise its supervision and regulation control over ENO in monitoring its ongoing maintenance and development of its data security system. The Council should be informed of all matters relevant to this issue, including: a) the state of and any changes to vendors and contractors tasked with providing data security products and services, b) the dollar amount of internal and external resources expended over the past fiscal year in ensuring data security, c) ENO’s policies and controls related to data security and any changes thereto, d) new and

\textsuperscript{33} See the Direct Testimony of Rodney W. Griffith, the answer to question Q40 at page 29.
evolving relevant data security threats known to ENO, e) adverse events related to data
security and ENO’s responses thereto, and f) the findings of any relevant internal review
of data security, such as those that may be performed in compliance with the Sarbanes-
Oxley Act and the rules that proceed therefrom. I note that the data contemplated in the
above matters for Council monitoring could be appropriately subject to protection
according to the provisions of Council Resolution No. R-07-432 (HSPM) or FERC’s
protections for Critical Energy/Electric Infrastructure Information.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING
DATA SECURITY?

A. As the public interest, as defined by Mr. Vumbaco, clearly involves the security of the data
ENO collects, maintains, uses internally, and disseminates, and as Mr. Prep discusses, AMI
enables the collection and retention of detailed and potentially sensitive customer data, I
recommend that as part of any AMI approval, the Council direct ENO to provide periodic
reports on data security, either upon the occurrence of any adverse data security event, or
under any event, at least annually. Such reports should discuss all relevant matters affecting
ENO’s data security system, but at a minimum report on the data security issues for Council
monitoring I enumerate above. I recommend that the Council allow the data in such reports
to be protected according to the most appropriate protective means.

Q. WHAT DO YOU MEAN BY CUSTOMER DATA PRIVACY?

A. Apart from data security, the failure of which may involve the involuntary loss or
dissemination of private customer data, customer data privacy relates to ENO’s
maintenance, use, and dissemination of customer data as part of its normal operations and
according to established policies and controls.

Q. DOES THE COUNCIL HAVE THE AUTHORITY TO REGULATE ENO’S USE
OF CUSTOMER DATA?

A. Yes, and the Council has done so in the past without objection. La. R.S. 45:1176 provides
that the Council “shall investigate the reasonableness and justness of all contracts,
agreements and charges entered into or paid by such public utilities.” As customer data is
an item of value that is often traded for compensation by unregulated companies, the
Council has the authority to investigate the reasonableness of any agreement to disseminate
AMI-related customer data. The Council has already resolved that “all meter data,
including data generated, provided, or otherwise made available by advanced meters and
meter information networks, shall belong to a customer. . .”34 ENO’s service regulations
protect customer data: “Unless specific written permission is obtained from the Customer
to release the information regarding the Customer, the Company shall insure that Customer
information, including payment history and consumption patterns will be kept
confidential.”35 Other jurisdictions have considered customer data privacy as well.36

34 Council Resolution No. R-10-234, ordering paragraph 8, part a.
35 Service Regulations Applicable to Electric and Gas Service by Entergy New Orleans, Inc. paragraph 53 at pages
34-35.
36 For example, see the Colorado Public Utility Commission Dockets 10R-799E and 10I-099EG and Decision C11-
0406 and the California Public Utilities Commission Docket R.08-12-009 and Decision 11-07-056.
Q. **HOW MAY AMI INCREASE CONCERNS REGARDING CUSTOMER DATA PRIVACY?**

A. As Mr. Prep discusses, AMI enables ENO to collect and maintain interval load and consumption data by customer – data that it generally is not able to collect today. Such data is more indicative of individuals’ behaviors and patterns of behavior than the data ENO currently collects. As such, the proper use of AMI-related customer data is an area for Council consideration.

Q. **HOW DOES ENO ADDRESS CUSTOMER DATA PRIVACY IN ITS APPLICATION?**

A. ENO Witness Dawsey discusses the EOCs’ existing policies and practices related to customer data confidentially. Mr. Dawsey argues that AMI deployment currently does not necessitate changes to existing policies. Mr. Dawsey notes that Company policies are periodically reviewed by the Company and updated as needed.

Q. **HAVE OTHER REGULATORY JURISDICTIONS ESTABLISHED CUSTOMER DATA PRIVACY POLICIES?**

A. Yes. For example, in 2011 the Public Utilities Commission of the State of California (“CPUC”) issued rules to protect the privacy and security of customer usage data. The

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37 See the Direct Testimony of Dennis P. Dawsey, the answer to question q37 at page 29.

38 CPUC Rulemaking 08-12-09, Decision 11-07-056.
CPUC’s rules, whose pages number 168, address the privacy and security of customer data generated by smart meters.

Q. WHAT DO YOU RECOMMEND THE COUNCIL CONSIDER WITH RESPECT TO PROTECTIONS AND USE OF CUSTOMER DATA?

A. As AMI affords the collection, retention, and potential dissemination of larger and more detailed amounts of customer data currently possible for ENO, the Council should establish a policy, as has occurred in other regulatory jurisdictions, on the ownership, use, and protection of AMI-based data in concert with the existing provisions of ENO’s service regulations, protection of information policy, and other relevant controls and policies.

Furthermore, ENO should be directed to provide periodic reports upon any change to ENO customer data privacy policy or a customer data privacy adverse event, but in any event not less than annually, related to its customer data privacy policy and practices. Such reports should discuss all developments relevant to customer data privacy, but at a minimum provide: a) any privacy notices sent to customers in specie and a discussion of issues relevant to such notices, b) copies of internal customer data privacy-related policies or changes thereto, c) reports presenting categories of third parties who are authorized to receive customer data, and counts of such by category, d) copies of any authorizations for third parties receiving customer data to then release such data to other parties for secondary use, e) identification and discussion of any release or dissemination of customer data not according to Council authorization to do so, including an accounting of the number and type of customers affected, and f) the findings of any internal review or audit of ENO’s
customer data policies and controls. With regard to the minimum reporting requirement involving inappropriate dissemination or release of customer data, such report sections should be made public absent ENO’s demonstration to the Council’s satisfaction of reasons why such information should be protected.

Q. **WHAT ARE YOUR RECOMMENDATIONS TO THE COUNCIL REGARDING CUSTOMER DATA?**

A. Should the Council authorize ENO’s AMI deployment, I recommend the Council establish a policy on the ownership, use, and protection of AMI-based data. Further, as part of any AMI approval, I recommend that the Council order ENO to make periodic reports to the Council, but no less frequently than annually, discussing all developments relevant to customer data privacy, but always discussing the minimum issues I enumerate earlier in my testimony.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.
AFFIRMATION

STATE OF COLORADO  

COUNTY OF DENVER  

I, Byron S. Watson, am the person identified in the attached Testimony and such testimony was prepared by me or under my direct supervision; the answers and information set forth therein are true to the best of my knowledge and belief, and if asked the questions set forth therein, my answers thereto would, under oath, be the same.

Byron S. Watson

Subscribed and sworn to before me this 26th day of May, 2017.

NOTARY PUBLIC