

**RESOLUTION
R-17-627**

CITY HALL: December 14, 2017

BY: COUNCILMEMBERS WILLIAMS, HEAD, GUIDRY, BROSSETT AND GRAY

**APPLICATION OF ENTERGY NEW ORLEANS, INC.
FOR APPROVAL REGARDING
CONTINUED PARTICIPATION IN THE MIDCONTINENT INDEPENDENT
SYSTEM OPERATOR, INC. REGIONAL TRANSMISSION ORGANIZATION**

**RESOLUTION AND ORDER CONDITIONALLY APPROVING AN AGREEMENT IN
PRINCIPLE FOR THE APPLICATION OF ENTERGY NEW ORLEANS, INC.
REGARDING CONTINUED PARTICIPATION IN THE MIDCONTINENT
INDEPENDENT SYSTEM OPERATOR, INC. REGIONAL TRANSMISSION
ORGANIZATION**

DOCKET NO. UD-17-02

WHEREAS, pursuant to the Constitution of the State of Louisiana and the Home Rule Charter of the City of New Orleans (“Charter”), the Council of the City of New Orleans (“Council”) is the governmental body with the power of supervision, regulation and control over public utilities providing service within the City of New Orleans; and

WHEREAS, pursuant to its powers of supervision, regulation and control over public utilities, the Council is responsible for fixing and changing rates and charges of public utilities and making all necessary rules and regulations to govern applications for the fixing and changing of rates and charges of public utilities; and

WHEREAS, Entergy New Orleans, LLC (“ENO” or “Company, which pursuant to a Council-approved restructuring that was effective December 1, 2017, is a public utility providing electric and natural gas service to all of New Orleans; and

WHEREAS, ENO is a wholly-owned operating company subsidiary of Entergy Corporation (“Entergy”). The other four operating companies are Entergy Arkansas, Inc. (“EAI”), Entergy Louisiana, LLC (“ELL”), Entergy Mississippi, Inc. (“EMI”), and Entergy Texas, Inc. (“ETI”). These five operating companies are referred to collectively as the (“Entergy Operating Companies”); and

Background

WHEREAS, on April 25, 2011, Entergy formally announced its decision that the entire Entergy System would join the Midcontinent Independent System Operator, Inc. (“MISO”) (formerly named as the Midwest Independent System Operator, Inc.) regional transmission organization (“RTO”); and

WHEREAS, on May 12, 2011, ENO and ELL submitted an Evaluation of Alternative Transmission Arrangements Available to the Entergy Operating Companies and Support for Proposal to Join MISO (“Evaluation Report”) and supporting testimony to the Council containing information and analyses that they contend formed the basis for Entergy’s recommendation to join MISO; and

WHEREAS, according to Entergy, based on comprehensive review and analysis, it concluded that joining MISO will provide meaningful long-term benefits for the customers of the Entergy Operating Companies; and

WHEREAS, on November 14, 2011, ENO and ELL filed their *Joint Application of Entergy New Orleans, Inc. and Entergy Louisiana, LLC Regarding Transfer of Functional Control of Certain Transmission Assets to the Midwest Independent Transmission System Operator, Inc. Regional Transmission Organization, for an Accounting Order Deferring Related Implementation Costs and Request for Timely Treatment* (“Joint MISO Application”); and

WHEREAS, the Joint MISO Application requested that the Council find that the transfer of functional control of ENO's and ELL's electric transmission assets to MISO to facilitate ENO's and ELL's membership therein is in the public interest; and

WHEREAS, the Joint MISO Application estimated that, with Entergy and CLECO Power, LLC joining the MISO RTO, ENO would have an approximate total of \$32 million to \$46 million in net benefits, in terms of net present value, over a ten-year period; and

WHEREAS, the Joint MISO Application estimated that ELL-Algiers' portion of ELL's estimated net benefits would be approximately \$7 million to \$9 million over the same time frame; and

WHEREAS, on November 15, 2012, the Council, in Docket No. UD-11-01, adopted Council Resolution No. R-12-439 that approved the Stipulation and Settlement Agreement ("Settlement Agreement") entered between ENO, ELL, the Council Advisors, and MISO agreeing to the transfer of functional control of ENO's and ELL's transmission assets to MISO. In doing so, the Council found that ENO and ELL joining MISO was in the public interest, subject to certain conditions and contingencies; and

WHEREAS, on December 19, 2013, ENO, along with the other Entergy Operating Companies, joined MISO; and

WHEREAS, the Settlement Agreement was subject to several conditions. One condition was for the Council to conduct a supplemental review of ENO's continued membership in MISO prior to the end of the five-year transition period (*i.e.*, December 18, 2018).¹ For purposes of this

¹ Effective September 1, 2015, ELL officially transferred its residential, commercial, and industrial electricity customers and assets located in the Fifteenth Ward of New Orleans, known as Algiers, to ENO. Accordingly, ELL is no longer subject to the regulatory jurisdiction of the Council.

supplemental review, ENO is required to submit an application with the Council on or before December 18, 2017, seeking to extend, modify, or terminate MISO participation; and

ENO's Application and Testimony

WHEREAS, on May 24, 2017, ENO filed its *Application of Entergy New Orleans, Inc. Regarding Continued Participation in the Midcontinent Independent System Operator, Inc. Regional Transmission Organization* (“Application”); and

WHEREAS, ENO's Application asked for an extension, beyond December 19, 2018, of the Council's finding that ENO's continued membership in MISO is in the public interest; and

WHEREAS, ENO asserted in its Application that the purpose of this proceeding is to ensure that MISO is delivering the expected benefits to ENO's customers and to determine the effects of continued MISO participation; and

WHEREAS, in support of its Application, ENO submitted the Direct Testimonies and Exhibits of Charles L. Rice, Jr., Matthew T. Brown, Michael J. Goin, Anthony P. Walz, Kenneth F. Gallagher, and Charles E. DeGeorge; and

WHEREAS, consistent with the terms of the Settlement Agreement, ENO's Application contained both a backwards analysis of the costs and benefits of ENO's participation in MISO to date and a forward-looking analysis of the costs and benefits of continued MISO membership. The Application contended that ENO's participation in MISO has resulted in both quantitative and qualitative benefits for ENO's customers and that, in ENO's view, ENO's customers will receive benefits from continued MISO membership after the transition period (*i.e.*, December 19, 2018), as opposed to ENO exiting MISO and establishing a stand-alone Balancing Authority; and

WHEREAS, ENO's Application included a historical cost-benefit analysis of both energy- and capacity-related benefits. For energy benefits, ENO argued that the reduction in the implied heat rate for non-baseload resources and increased efficiency from MISO participation resulted in

\$27 million in savings from 2014-2016. For capacity benefits, ENO argued that its reduced annual planning reserve requirement from MISO participation resulted in \$13 million in savings from 2014-2016. ENO noted that these savings were offset by \$4 million in MISO's administrative costs for 2014-2016. Accordingly, ENO's quantitative cost/benefit analysis showed that ENO's customers have received a net benefit of \$36 million from 2014-2016; and

WHEREAS, ENO's Application included a forward-looking analysis on capacity-related benefits that looked at the cost difference in the reserve requirement between ENO staying in MISO and ENO exiting MISO and forming a stand-alone Balancing Authority. ENO argued that staying in MISO will result in \$317 million, on a present value basis (in 2016 dollars), in net benefits from 2019-2028, or at least \$32 million per year (in 2016 dollars), on average, over this period. This included \$261 million in capacity-related savings and \$56 million in avoided exit costs and obligations from leaving MISO, which included ENO's exit obligations under MISO's tariff and Transmission Owners Agreement and ENO's internal costs of transitioning to a stand-alone Balancing Authority; and

WHEREAS, ENO noted that it had not completed its forward-looking analysis on energy-related benefits (*i.e.*, AURORA results) and would supplement its Application when those results were available; and

WHEREAS, ENO's Application also listed several qualitative benefits from MISO participation, *e.g.*, increased price transparency, increased transmission planning processes and coordination, seams management, market oversight, congestion management, access to ancillary service providers; and

WHEREAS, ENO also argued there are qualitative risks from exiting MISO and continued MISO participation; and

WHEREAS, ENO clarified that it was not seeking a “long-term” commitment for participation in MISO, just a finding that it is currently in the public interest for ENO to continue in MISO. ENO noted that going forward, ENO’s participation in MISO is subject to a 1-2 year exit notice requirement; and

WHEREAS, ENO proposed to continue providing the Council with annual reports giving an overview of ENO’s experience in MISO for the year and an analysis of the total benefits (*i.e.*, energy- and capacity-related) that customers realized during the year; and

WHEREAS, in addition to a finding that its continued membership in MISO beyond December 19, 2018, is in the public interest, ENO also requested approval of a procedural schedule to permit Council approval by December 31, 2017, so as to allow for sufficient time for ENO to provide notice that it planned to exit MISO. Under the terms of the MISO Transmission Owners Agreement, ENO is required to give notice of its exit by no later than December 31, 2017, if the Council determines that ENO should not continue in MISO beyond December 31, 2018; and

WHEREAS, ENO specifically requested that the Council grant the following approvals and relief:

1. Find that ENO’s continued participation in MISO is in the public interest, in accordance with Council Resolution No. R-06-88;
2. Find that, with respect to the matters raised in the Application, ENO has complied with, or is not in conflict with, the conditions and other provisions of all applicable Council resolutions, including but not limited to Resolution No. R-12-439;
3. Authorize that any confidential testimony, exhibits, and other materials referenced in the Application shall be exempt from public disclosure, consistent with Council Resolution No. R-07-432;
4. Authorize ENO to submit, on an annual basis, a more streamlined report containing a general overview of its experience in MISO throughout the year, as well as an analysis of the total benefits (both energy-related and capacity-related) that its customers have realized during the year as a result of ENO’s continued participation in MISO; and

5. Grant ENO all general and equitable relief that the law and the nature of the case may permit; and

Council Resolution R-17-330

WHEREAS on July 13, 2017, the Council adopted Council Resolution R-17-330 that designated the current docket for review of the Application, appointed the Honorable Jeffrey Gulin as the Hearing Officer to preside over these proceedings, approved a period for intervention and discovery, and directed other procedural requirements to establish a record upon which the Council may use to render a decision regarding ENO's Application; and

WHEREAS, Council Resolution R-17-330 directed the Advisors and Intervenors to file comments no later than September 22, 2017. Subsequently, the Hearing Officer granted the Advisors' unopposed motion to extend its comment date to October 6, 2017; and

WHEREAS, Council Resolution R-17-330 directed the Parties to file Reply Comments no later than October 27, 2017. Subsequently, the deadline for ENO's Reply Comments was extended to November 3, 2017; and

ENO's Supplemental Testimony

WHEREAS, on August 23, 2017, ENO submitted the Supplemental Direct Testimony of Anthony P. Walz and Charles F. DeGeorge.

WHEREAS, ENO's Supplemental Testimony contained the forward-looking analysis of the energy-related benefits using the AURORA production cost modeling and simulations to compare the estimated variable supply cost effects of ENO staying in MISO and ENO exiting MISO and operating as a stand-alone Balancing Authority. ENO argued that the results of this analysis showed that staying in MISO resulted in \$209 million (in 2016 dollars) in energy-related net-benefits from 2019-2028; and

WHEREAS, ENO argued that the total net-benefits of the forward-looking analysis, inclusive of the forward-looking energy-related benefits, now resulted in a net-benefit of \$526 million, on a present value basis (in 2016 dollars), or \$53 million per year (in 2016 dollars), on average, over the 2019-2028 period; and

Advisors' Comments

WHEREAS, on October 6, 2017, the Advisors filed their comments and recommendation regarding ENO's Application; and

WHEREAS, the Advisors evaluated ENO's historical cost-benefit analyses and determined that the estimated savings might be overstated due to concerns with ENO's planning reserve and capacity value assumptions used in the historical capacity-related benefit analyses. Nevertheless, the Advisors concluded that, even if its concerns reduced ENO's estimated historical capacity-related benefits, ENO had demonstrated that its customers had received significant historical net-benefits as a result of ENO's participation in MISO; and

WHEREAS, the Advisors evaluated ENO's forward-looking cost-benefit analyses and, similar to ENO's historical cost-benefit analysis, determined that the benefits derived by ENO may be overstated due to the relatively high planning reserve margin assumption used in ENO's forward-looking capacity-related analysis for ENO exiting MISO and operating as a stand-alone Balancing Authority. Yet, the Advisors found that if the planning reserve margin used in ENO's analysis were more in line with traditional utility planning, ENO's forward-looking capacity benefits for staying in MISO (although smaller) would still be expected to be positive; and

WHEREAS, the Advisors noted that ENO's forward-looking cost-benefit analyses for ENO exiting MISO and operating as a stand-alone Balancing Authority represented "the most extreme option" as an alternative to MISO. Nevertheless, the Advisors found that ENO's analyses

showed significant savings from continued participation in MISO with the options available to ENO at this time; and

WHEREAS, the Advisors acknowledged that ENO's membership in MISO has provided qualitative benefits, including, among other things, greater transparency on market operations and transmission system conditions, regional transmission planning, and access to lower cost generation. The Advisors stated they expect these qualitative benefits to continue with ENO's continued membership in MISO; and

WHEREAS, the Advisors agreed that, at the direction of the Council, they will work with ENO to develop an appropriate framework to streamline ENO's annual reporting obligation. This reporting will provide an overview of ENO's experience in MISO throughout the prior year, as well as an analysis of the total benefits (both energy-related and capacity-related) that ENO's customers realized during the year from participation in MISO; and

WHEREAS, the Advisors noted that the conditions and contingencies contained in the Settlement Agreement approved by Council Resolution R-12-439 continue to remain in effect; and

WHEREAS, consistent with those conditions, the Advisors stated that any Council determination that ENO's continued participation in MISO is in the public interest shall retain a "most favored nations clause" such that any favorable benefits or conditions that may be extended to other Entergy Operating Companies' customers as result of other retail regulators' consideration of the individual Entergy Operating Company's continued MISO membership shall also be considered by the Council to determine whether equivalent benefits or conditions should be extended to ENO's customers under the Council's jurisdiction or the Council; and

WHEREAS, consistent with those conditions, the Advisors noted that the Council may, after an appropriate review, determine that ENO's continued participation in MISO is no longer in

the public interest and ENO would be required to take all necessary steps to exit MISO as directed by the Council; and

WHEREAS, the Advisors agreed that, based on the Application, the quantitative and qualitative cost-benefit analyses, and ENO's discovery responses, ENO's membership in MISO remains in the public interest; and

WHEREAS, the Advisors recommended that the Council find that ENO's request for continued participation in MISO remains in the public interest, subject to the recommended conditions and reporting requirements; and

ENO's Reply Comments

WHEREAS, on November 3, 2017, ENO filed Reply Comments to address the Advisors' concerns that ENO's calculations may have overstated benefits and to clarify a qualitative benefit of ENO's participation in MISO discussed in the Advisors' Comments; and

WHEREAS, ENO argued that using the cost of a combustion turbine as the capacity valuation assumption for its capacity-related savings analysis was reasonable because it was appropriate to reflect the cost of long-term capacity, not short-term capacity prices; and

WHEREAS, ENO argued that the high planning reserve margin assumption (i.e., 49.4 percent) used for analyzing ENO operating as a stand-alone Balancing Authority was reasonable because it was based on an actual loss of load expectation analysis performed on behalf of ENO. ENO also argued that ENO's unique circumstances contributed to its high reserve margin, including ENO's reliance on imports because no significant generation capacity is located on ENO's transmission system and physically situated near its load, and ENO's location within a load pocket; and

WHEREAS, ENO clarified that, despite the qualitative benefit of MISO using available resources to maintain reliability, ENO, as the load-serving entity, has the responsibility to serve its native load and ensure safe and reliable service to its customers; and

WHEREAS, ENO concurred with the Advisors' recommendation to the Council that ENO's participation in MISO remains in the public interest; and

Agreement In Principle

WHEREAS, subsequent to ENO's Reply Comments, the Advisors and ENO began discussions on the terms for an agreement in principle to approve ENO's Application for the Council to extend its finding that ENO's continued participation in MISO is in the public interest; and

WHEREAS, on December 8, 2017, ENO, MISO, and the Advisors executed an Agreement in Principle ("AIP") recommending ENO's continued participation in MISO; and

WHEREAS, the AIP specifically provides that, based on evidence and analyses presented in the current proceeding, ENO's participation in MISO has resulted in benefits to ENO's customers and that ENO's participation beyond December 19, 2018, the expiration of the five-year transition period for integration into MISO, is expected to provide further benefits to ENO's customers and is in the public interest at this time; and

WHEREAS, the AIP further provides that the Council's public interest determination, among other things, is subject to ENO filing a report on the impacts to ENO and its customers in the event that any of the other Entergy Operating Companies exercise their rights to exit MISO after the end of the transition period, and the Council may re-open its public interest determination based on a review of such report; and

WHEREAS, the parties to the AIP agree that the applicable conditions and contingencies of the Settlement Agreement adopted and approved by Council Resolution R-12-439 remain in

effect to ensure that ENO's continued participation in MISO does not adversely affect the reliability, availability, or cost of service of ENO and to provide the opportunity for the Council to re-open this docket for reconsideration of its public interest determination at any time; and

WHEREAS, the AIP includes a "most favored nations clause" to apply to the favored benefits or conditions that may be extended after the date of this AIP to the other Entergy Operating Companies' customers as a result of other retail regulators addressing the individual Entergy Operating Company's continued participation in MISO; and

WHEREAS, the AIP provides that the Council may, at its discretion, require ENO to demonstrate that its participation in MISO continues to be in the public interest after ENO's transitional membership period in MISO ends and ENO becomes a fully integrated member of MISO. This analysis may include, but is not limited to, a review of (i) additional alternatives to MISO that become available to ENO; and (ii) the impact on ENO's customers of actions taken by any Entergy Operating Company and/or MISO that alleged to have harmed ENO's customers, to have caused ENO's customers to incur costs in excess of the benefits they receive, or to have impinged on the Council's jurisdiction; and

WHEREAS, the AIP provides that ENO is relieved of its annual reporting obligation on the benefits to its customers relative to pre-MISO membership operations. Further, the AIP provides that the Advisors will work with ENO to establish the framework for a more streamlined reporting requirement that, on an annual basis, looks at ENO's experience in MISO throughout the prior year, as well as an analysis of the total benefits (both energy-related and capacity-related) that ENO's customers realized during the year from participation in MISO; and

WHEREAS, on the basis of the agreement between ENO, MISO, and the Advisors and the record before us, the Council wishes to approve the AIP including all terms and conditions

included therein and find that ENO's continued membership in MISO is in the public interest; now therefore:

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF NEW ORLEANS THAT:

1. The AIP filed by ENO on December 11, 2017 in Docket No. UD-17-02 is approved without modification.
2. ENO's continued membership in MISO is in the public interest at this time.
3. ENO has complied with, or is not in conflict with, the conditions and other provisions of Council Resolution No. R-12-439.
4. ENO is directed to submit, on an annual basis, a more streamlined report on the benefits of continued participation in MISO as set forth in the AIP.
5. The Advisors are directed to work with ENO to establish the framework for a more streamlined reporting requirement as set forth in the AIP.

THE FOREGOING RESOLUTION WAS READ IN FULL, THE ROLL WAS CALLED ON THE ADOPTION THEREOF AND RESULTED AS FOLLOWS:

YEAS: Brossett, Cantrell, Gray, Guidry, Head, Ramsey, Williams - 7

NAYS: 0

ABSENT: 0

AND THE RESOLUTION WAS ADOPTED.

THE FOREGOING IS CERTIFIED
TO BE A TRUE AND CORRECT COPY

Lera W. Johnson
CLERK OF COUNCIL