

December 26, 2018

BY HAND DELIVERY

Ms. Lora W. Johnson
Clerk of Council
Council of the City of New Orleans
City Hall, Room IE09
1300 Perdido Street
New Orleans, LA 70112

Re: Application of Entergy New Orleans, LLC for Approval of Renewables Portfolio and Request for Cost Recovery and Related Relief, CNO Docket No. UD-18-06

Dear Ms. Johnson:

Enclosed please find an original and four (4) copies of the *Advisors' Comments Regarding the Application of Entergy New Orleans, LLC for Approval of Renewables Portfolio and Request for Cost Recovery and Related Relief*, which we are requesting be filed on behalf of the Council's Utility Advisors. Please file the enclosed document and this letter in the record of this proceeding in accordance with your normal procedure.

Sincerely,



J. A. "Jay" Beatmann, Jr.
Counsel

JAB/dpm
Enclosures

cc: Official Service List

DEC 26 2 54

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

**APPLICATION OF ENTERGY NEW
ORLEANS, LLC FOR APPROVAL OF
RENEWABLES PORTFOLIO AND
REQUEST FOR COST RECOVERY
AND RELATED RELIEF**

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DOCKET NO. UD-18-06

**COMMENTS OF THE ADVISORS REGARDING APPLICATION OF
ENTERGY NEW ORLEANS, LLC FOR APPROVAL OF RENEWABLES
PORTFOLIO AND REQUEST FOR COST RECOVERY AND RELATED RELIEF**

The Utility Advisors (“Advisors”) to the Council of the City of New Orleans (“Council”) respectfully submit these comments regarding the *Application of Entergy New Orleans, LLC for Approval of Renewables Portfolio and Request for Cost Recovery and Related Relief* (“Application”). The Advisors believe that the Application shows promise, but the Advisors do have reservations regarding the cost of the proposals, and believe that the proposals in the Application could be improved upon in a manner beneficial to New Orleans utility customers.

The Advisors believe that consensus does not currently exist among the parties to recommend that the Council approve Entergy New Orleans, LLC’s (“ENO”) Application as filed, but that there is some potential to at least partially, if not fully resolve the case through settlement. To that end, the Advisors recommend a short extension of the period for settlement discussions, to determine whether a settlement or partial settlement agreement among the parties can be reached, to be followed, as necessary, by a brief procedural schedule that would allow the parties the opportunity to submit written testimony and/or their recommendations to the Council regarding ENO’s Application (a “paper hearing”) and an opportunity to respond to the arguments of other parties. It is the Advisors’ hope, in light of the Combined Rate Case currently under way, and the multiple ongoing cases related to the New Orleans Power Station (“NOPS”), that

this would allow the Council to develop a sufficient record to make a determination in this case without undergoing an extensive litigation. The Advisors will continue to work with the parties to bring forth a more specific proposal for further proceedings in this docket in the Joint Status Report due next week.

INTRODUCTION

After a much-drawn-out request for proposals (“RFP”) process, ENO on July 31, 2018 submitted its Application seeking approval of a renewable energy resources portfolio consisting of:

- (1) A 20 MW self-build solar project to be known as the New Orleans Solar Station (“NOSS”) located in New Orleans East at the National Aeronautics and Space Administration’s (“NASA”) Michoud Assembly Facility that would enter service in the second quarter of 2020;
- (2) A 50 MW solar electric generation facility located on an approximately 440 acre site in Washington Parish, Louisiana that will be constructed by a third-party and acquired by ENO (“Iris Solar Facility” or “ISF”), and is expected to be sufficiently completed to transfer to ENO in the first half of 2021; and
- (3) A long-term 20 MW purchase power agreement (“PPA”) from a to-be-constructed solar PV plant on a 200-acre site located in St. James Parish, Louisiana (“St. James PPA”).

In Resolution No. R-18-353, adopted by the Council on August 23, 2018, the Council set forth a procedural schedule to consider ENO’s Application, establishing a deadline for

interventions and opening a discovery period. In addition, because the Council believed ENO's Application might be a case that could be settled without protracted litigation, the Council directed the parties to file comments and/or position statements and then a joint status report indicating whether the parties would be able to reach an Agreement in Principle settling the case, or whether the case could not be settled, in which case the Advisors are to file a motion requesting that the Hearing Officer establish a procedural schedule that would allow for parties to submit evidence into the record and set a date for an evidentiary hearing on the merits of ENO's Application, upon receipt of which, the Hearing Officer is to set an accelerated procedural schedule and hearing date.

Interventions were filed by Air Products and Chemicals, Inc. ("Air Products"), the Alliance for Affordable Energy ("AAE"), and 350 New Orleans. Subsequently, on October 24, 2018, ENO filed a *Motion to Extend Settlement Schedule Deadlines* indicating that it would be filing supplemental testimony for its Application containing new information regarding the proposed portfolio and seeking an extension of time for the parties to file comments on it. On October 26, 2018, the Hearing Officer issued an *Order* granting the extension of time for the parties to file their comments.

ENO filed its *Supplemental Testimony and Exhibits of Michael J. Goin and Seth. E. Cureington* ("Supplemental Testimony") on November 9, 2018. Comments on the Application and the Supplemental Testimony were filed by Air Products,¹ and the AAE² on November 30, 2018.

¹ Air Products and Chemicals, Inc. Comments, Docket No. UD-18-06 (Nov. 30, 2018) ("Air Products Comments").

² Position of the Alliance for Affordable Energy, Docket No. UD-18-06 (Nov. 30, 2018) ("AAE Comments").

COMMENTS OF THE PARTIES

Air Products expresses concern that ENO's application seeks approval of renewable resources that have not been established to be the lowest reasonable cost resources to meet ENO's capacity and energy needs.³ Air Products points out that the resources were selected from a renewables-only RFP and are expensive compared to market prices of resources as forecasted by ENO.⁴ Air Products asserts that the economic impacts on customers of ENO's fulfilling its commitment to add 100 MW of renewable power to its portfolio must be considered and that any renewable resource pursued by ENO and approved by the Council should still be the lowest reasonable cost resource to meet an identified need and provide reliable power to ENO's captive ratepayers.⁵ Air Products also requests that future renewable RFPs include an option for brown power with the purchase of renewable energy credits ("RECs") or emission free energy certificates ("EFECs").⁶

Air Products also objects to the recovery of the capacity component of the St. James PPA through ENO's fuel adjustment clause ("FAC") because, while the "energy only" pricing of the PPA characterizes the pricing structure, it is not an accurate characterization of the products being provided under the proposed PPA, which are typically associated with fixed costs of the resources.⁷ Air Products asserts that recovery of costs associated with capacity benefits through a volumetric energy charge is not appropriate and should not be approved by the Council, and argues that this resource value component should be recovered on a base rate revenue basis.⁸

³ Air Products Comments at 1.

⁴ Air Products Comments at 1-2.

⁵ Air Products Comments at 2.

⁶ Air Products Comments at 2.

⁷ Air Products Comments at 2.

⁸ Air Products Comments at 2-3.

Finally, Air Products opposes NOSS, arguing that while the projected energy and capacity benefits of NOSS are similar to that of the St. James PPA, the net benefits of NOSS are significantly less than the St. James PPA due to the cost of NOSS being more than twice that of the St. James PPA.⁹

The AAE states that it is encouraged to see ENO moving forward with its commitment to 100 MW of clean and renewable resources that will provide New Orleans customers with multiple benefits over their life-cycle.¹⁰ AAE also notes that the multiple types of financing, ownership, and technologies outlined in the application provide stakeholders with a clear picture of the diverse paths to renewable energy.¹¹ AAE states that it is very concerned about the economics of the NOSS, particularly in comparison to the other projects in the portfolio. However, the AAE notes that net economic benefits were not an important metric in the Council's decision on NOPS, and renewable resources should not be held to a different standard.¹² AAE suggests that a third party perform an analysis of the costs and benefits of a large solar resource located within Orleans Parish, to develop a reasonable value of resilience, grid services, etc.¹³ AAE asserts that this analysis should be helpful as all stakeholder parties develop an understanding of the myriad benefits of a modern distributed system.¹⁴

The AAE also suggests that the Council could gain even more than ENO's proposed 20 MW through local investment in solar resources by establishing an incentive similar to the generous state tax credit that spurred the local solar boom.¹⁵ The AAE states that if the parties

⁹ Air Products Comments at 3.

¹⁰ AAE Comments at 1.

¹¹ AAE Comments at 1.

¹² AAE Comments at 2.

¹³ AAE Comments at 2.

¹⁴ AAE Comments at 2.

¹⁵ AAE Comments at 3.

cannot agree on the value and economics of NOSS, and are still interested in pursuing 20 MW of solar in New Orleans to reap the various benefits of local generation, the parties should discuss a solution that leverages both New Orleans' enthusiasm for rooftop solar and private investment.¹⁶ AAE argues that a utility-managed and financed incentive could be far smaller than the state tax incentive was, and could represent a win-win for all parties, with much lower overall costs and even greater benefits in terms of increased local employment, no additional costs for new substation and transmission upgrades, zero costs for land lease, and potentially even greater participation in the Energy Smart Program.¹⁷

Finally, the AAE notes that the Federal tax incentives are scheduled to sunset soon, and that it is prudent to move expeditiously to a decision that harnesses the value of the Federal incentive and does not delay the approval of cost-effective projects.¹⁸ The AAE suggests that the parties either convene a technical conference to discuss their positions after the Advisors and ENO response filing milestones next in the procedural schedule or to conduct conversations to find a conclusion without an expensive litigated proceeding.¹⁹

ADVISORS' COMMENTS

The Advisors have reviewed ENO's testimony and conducted discovery and performed analysis regarding ENO's proposed portfolio. The Advisors' conclusions are as follows:

(1) St. James PPA -- The Advisors find that the St. James PPA was the most highly ranked renewables project in terms of estimated benefits and that it can be expected to provide net benefits to ENO customers as compared to ENO's other options for procuring energy and

¹⁶ AAE Comments at 3.

¹⁷ AAE Comments at 3.

¹⁸ AAE Comments at 2.

¹⁹ AAE Comments at 2.

capacity to serve New Orleans. It also results in the lowest increase to ratepayer bills of the responses to ENO's RFP. The Advisors, therefore, believe that the St. James PPA would be in the best interest of ENO's customers. The St. James project is not in Orleans Parish, however, and will produce minimal, if any local economic benefits. The Advisors also note that it appears that ENO had an opportunity to increase this PPA to 50 MW, which would have potentially produced additional net benefits. This project will provide 20 MW of capacity and associated energy and have an initial year bill increase of approximately \$0.12 per month for a typical residential ratepayer, \$0.25 per month for a typical commercial (Small Electric) customer and \$9.30 per month for a typical industrial (Large Electric) customer.

(2) Iris Solar Facility -- The Advisors find that the Iris Solar Facility could, if modified, provide net benefits to customers as compared to some of ENO's other options for procuring energy and capacity to serve New Orleans, but that ENO does have less expensive options as compared to the Iris Solar Facility. The Advisors believe the Iris Solar Facility has potential to be in the interest of New Orleans customers, especially if it can be improved upon. The Advisors observe that it appears that ENO had an opportunity to enter into a PPA for power from the same facility at a lower cost that would have produced greater net benefits, but instead chose to enter into a build-own-transfer ("B-O-T") arrangement in order to give ENO "more control over the asset."²⁰ This project is also located outside of Orleans Parish and would be expected to have minimal, if any, local economic impact. This project would provide 50 MW of capacity and associated energy and have an initial year bill increase of approximately \$1.54 per month for a typical residential ratepayer, \$3.18 per month for a typical commercial (Small Electric) customer and \$118.64 per month for a typical industrial (Large Electric) customer.

²⁰ Exhibit SEC-5 at 19; *see also* Application at 16 citing Direct Testimony of Seth E. Cureington, 32:15 (July 2018).

(3) NOSS -- The Advisors note that the NOSS project has the lowest economic analysis ranking with substantial net costs to ratepayers as compared to other options available to ENO to serve New Orleans -- notably, while providing the same amount of capacity as the St. James PPA, the NOSS project would cost more than twice as much on a net present value basis. Like Air Products and AAE, the Advisors have concerns regarding the economics of the NOSS project. The Advisors are concerned that due to its high cost, NOSS may not be in the interest of New Orleans customers. However, the Advisors also observe that unlike the other two projects, this project would be located in Orleans Parish at the New Orleans NASA Michoud Assembly Facility and, according to ENO's testimony, would produce a significant positive impact on the local economy generating 537 jobs, labor income, and new spending to the area. This project would provide 20 MW of capacity and associated energy and have an initial year bill increase of approximately \$1.39 per month for a typical residential ratepayer, \$2.88 per month for a typical commercial (Small Electric) customer and \$107.32 per month for a typical industrial (Large Electric) customer.

In total, all three projects together will provide 90 MW of renewable energy at an estimated initial year additional cost of approximately \$36.59 to a typical residential customer, which would average approximately \$3.05 per month. The total estimated initial year additional cost for a typical commercial (Small Electric) customer would be \$75.64 per year and for a typical industrial (Large Electric) customer, it would be \$2,823.06 per year. While some ENO customers may not view this as a substantial rate impact, the Advisors believe that it is a significant impact which may be objectionable to some customers. The Advisors also note that as compared to other power supply options, the total portfolio does produce substantial net costs that could be avoided by investing in less expensive forms of renewable power, including

different renewables options that were bid into ENO's RFP such as by expanding the St. James PPA or pursuing the PPA from the Iris Solar Facility, rather than the build-own-transfer option. Those options, however, do not provide the local economic impacts that the NOSS project brings to the portfolio. The 90 MW portfolio does go a long way toward achieving ENO's commitment to add 100 MW of renewable resources to its generation portfolio by 2021. In addition, if the 90 MW of renewable resources is coupled with the construction of the New Orleans Power Station, ENO would no longer be projected to be short on capacity and would have a projected surplus through 2028.

CONCLUSION

The Advisors believe that there is likely to be general agreement among the parties that the economic St. James PPA should proceed, and if the opportunity still remains, perhaps even expanded. The Advisors also believe that, while there is not yet consensus around whether the Iris Solar Facility and NOSS projects should be approved, there is significant merit in those two proposals worth further discussion, particularly if a means to reduce the costs of those two projects can be found. The Advisors recommend that ENO reach out to the counterparty for the Iris Solar Facility to determine whether the costs related to that facility can be reduced in any way, including potentially by converting the B-O-T arrangement to a PPA. The Advisors also recommend that the parties continue to discuss whether there is any potential to reduce the cost of NOSS to ratepayers or any potential to obtain additional power from the St. James project at the same price contained in the St. James PPA. In the event that the parties are not able to reach agreement regarding the Iris Solar Facility and NOSS projects, the Advisors recommend that a

paper hearing be established to allow the Council to resolve the matter as quickly as possible, so that either the projects may proceed, or a new RFP may be issued.

Respectfully submitted:



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CERTIFICATE OF SERVICE

I hereby certify that on this date a copy of the foregoing has been sent to the official service list by email and/or served by United States mail, postage prepaid, through their representatives at the following addresses:

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New Orleans, Louisiana, this 21st day of December, 2018.



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