



April 26, 2019

Via Hand-Delivery

Ms. Lora W. Johnson, CMC  
Clerk of Council  
City Hall - Room 1E09  
1300 Perdido Street  
New Orleans, LA 70112

**Re: Revised Application of Entergy New Orleans, LLC for a Change in Electric and Gas Rates Pursuant to Council Resolutions R-15-194 and R-17-504 and for Related Relief**  
*City Council of New Orleans Docket No. UD-18-07*

Dear Ms. Johnson:

Please find enclosed one original and two copies of the public, redacted version of the **Surrebuttal Testimony of Justin R. Barnes on Behalf of the Alliance for Affordable Energy** in the above-captioned docket. The HSPM version of the Surrebuttal Testimony will be served in hard copy only to the appropriate parties who have executed Non-Disclosure Certificates pursuant to Council Resolution R-07-432.

Thank you for your attention to this matter. Please contact me if you have any questions with regards to this filing.

Sincerely,

*Logan A. Burke*

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Enclosures  
cc: Official Service List

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

**REVISED APPLICATION OF )  
ENERGY NEW ORLEANS, LLC )  
FOR A CHANGE IN ELECTRIC AND )  
GAS RATES PURSUANT TO ) DOCKET NO. UD-18-07  
COUNCIL RESOLUTIONS R-15-194 )  
AND R-17-504 AND FOR RELATED )  
RELIEF )**

**SURREBUTTAL TESTIMONY**

**OF**

**JUSTIN R. BARNES**

**ON BEHALF OF THE**

**ALLIANCE FOR AFFORDABLE ENERGY**

**PUBLIC VERSION**

**APRIL 26, 2019**

**TABLE OF CONTENTS**

**I. INTRODUCTION ..... 1**

**II. PURPOSE OF TESTIMONY..... 1**

**III. RESIDENTIAL CUSTOMER CHARGE ..... 2**

**IV. ELECTRIC AMI CHARGE..... 10**

**V. DSM PROGRAM DESIGN AND RIDER DSMCR..... 12**

**VI. CONCLUSION ..... 20**

**LIST OF TABLES**

Table 1: Income Tranche vs. Monthly Usage Tranche (HSPM).....10

1 **I. INTRODUCTION**

2 Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

3 A. My name is Justin R. Barnes. My business address is 1155 Kildaire Farm Rd., Suite 202,  
4 Cary, North Carolina, 27511. My current position is Director of Research with EQ  
5 Research LLC.

6 Q2. ON WHOSE BEHALF ARE YOU TESTIFYING?

7 A. I am testifying on behalf of the Alliance for Affordable Energy (“AAE”).

8 Q3. ARE YOU THE SAME JUSTIN R. BARNES WHO FILED DIRECT TESTIMONY IN  
9 THIS DOCKET ON FEBRUARY 1, 2019, ON BEHALF OF AAE?

10 A. Yes.

11 **II. PURPOSE OF TESTIMONY**

12 Q4. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimonies filed  
14 by Entergy New Orleans (“ENO” or “Company”) witnesses Andrew Owens, Myra L.  
15 Talkington, Dr. Ahmad Faruqui, and Joshua B. Thomas related to the Company’s  
16 residential customer charge proposal, the proposed Electric Advanced Metering  
17 Infrastructure (“AMI”) Charge, and the proposed Demand-Side Management (“DSM”) program  
18 structure and associated cost recovery rider (“Rider DSMCR”).

1 **III. RESIDENTIAL CUSTOMER CHARGE**

2 Q5. PLEASE SUMMARIZE THE COMPANY’S OBJECTIONS TO YOUR  
3 RECOMMENDED RESIDENTIAL FIXED CHARGE.

4 A. Company witnesses Talkington and Faruqui both address this aspect of my Direct  
5 Testimony. Ms. Talkington voices several objections. To paraphrase, Ms. Talkington  
6 contends that the comparisons I made to the fixed monthly charges of other utilities are not  
7 relevant and that the calculations I conducted in developing my recommended charge of  
8 \$8.13/month are incorrect because I excluded certain costs that are “fixed” in nature.<sup>1</sup> Dr.  
9 Faruqui disputes my contentions that increasing fixed charges will discourage energy  
10 efficiency and that such increases would adversely and disproportionately impact low-  
11 income customers.<sup>2</sup>

12 Q6. ARE MS. TALKINGTON’S ASSERTIONS REGARDING THE RELEVANCE OF  
13 AVERAGE RESIDENTIAL CUSTOMER CHARGES CONSISTENT?

14 A. I find them confusing. On the one hand, Ms. Talkington says that the customer charge  
15 should be based on the specific facts affecting ENO.<sup>3</sup> On the other hand, she states that a  
16 “totality of relevant factors” should be considered in setting the charge<sup>4</sup>, relates statistics  
17 from the national survey I conducted showing that some utilities have higher charges than  
18 my recommendation,<sup>5</sup> and describes the outcome of ratemaking practices for Entergy’s  
19 Arkansas and Texas affiliates which result in fixed customer charges covering a higher

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<sup>1</sup> Rebuttal Testimony of Myra L. Talkington at 15-18 (Mar. 2019) (“Talkington Rebuttal”).

<sup>2</sup> Rebuttal Testimony of Dr. Ahmad Faruqui at 22-24 (Mar. 2019) (“Faruqui Rebuttal”).

<sup>3</sup> Talkington Rebuttal at 15:8-9.

<sup>4</sup> *Id.* at 14:18-19.

<sup>5</sup> *Id.* at 15:9-16.

1 percentage of calculated customer unit costs.<sup>6</sup> Ms. Talkington cannot credibly argue that  
2 the residential customer charge should be based exclusively on ENO-specific factors, while  
3 at the same time selectively citing factors and statistics that are not specific to ENO to  
4 support her position.

5 Q7. HOW DO YOU RESPOND TO MS. TALKINGTON'S ASSERTIONS ON THE  
6 SUBJECT OF A NATIONAL PERSPECTIVE ON RESIDENTIAL CUSTOMER  
7 CHARGES?

8 A. I agree that setting the residential customer charge should consider a totality of factors,  
9 including cost causation, customer impacts, gradualism, consistency with overall energy  
10 and ratemaking policies, and the stability of rates and rate structure. My survey speaks to  
11 several of these factors but most specifically reflects the practice of gradualism in  
12 ratemaking as practiced on a national level. I note that the customer charge I recommended,  
13 \$8.13/month, is similar to the \$8.40/month current charge levied by Entergy Arkansas and  
14 the \$10/month charge levied by Entergy Texas, both of which Ms. Talkington cites. The  
15 distinction Ms. Talkington makes between ENO and these affiliates is that ENO's  
16 calculated customer unit costs are significantly higher. This raises an interesting question  
17 as to why that would be the case. It could be that both of these other jurisdictions use a  
18 more restrictive definition of customer-related costs, as is represented in my own  
19 calculations, or that ENO's costs are simply much higher than those of these two affiliates.

20 Leaving the issue of cost magnitude, Ms. Talkington is correct that some utilities  
21 levy higher customer charges and the national average is in fact higher than the amount I

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<sup>6</sup> *Id.* at 16:3-9.

1 recommended. I never suggested otherwise. However, my recommended charge is far more  
2 consistent with the broad benchmarks established by national statistics than ENO's  
3 proposal. The national average charge is \$10.40/month while the median is approximately  
4 \$9.40/month, the national average increase (per rate case) is \$0.96/month while the median  
5 increase in my data set is approximately \$0.34/month. These averages reflect the "totality"  
6 of factors that Ms. Talkington refers to, where the differences in specific facts and  
7 circumstances for each case even out by virtue of averaging.

8 Q8. DO YOU WISH TO AMEND YOUR DESCRIPTION OF ENO'S RESIDENTIAL  
9 CUSTOMER CHARGE PROPOSAL AS "EXTREME" GIVEN MS. TALKINGTON'S  
10 OBJECTION TO "SUCH A PEJORATIVE LABEL"?

11 A. Absolutely not. The Company proposes an increase of \$10.41/month or 129% considering  
12 the additive effect of the customer charge increase and the proposed Electric AMI Charge,  
13 relative to national average increases of \$0.96/month and 13.80%. The proposed increase  
14 would exceed the single *largest* monetary increase adopted in recent years by \$2.72/month  
15 and is more than nine times the average percentage increase. The only larger percentage  
16 increase was one granted to Duke Energy Kentucky (144%), which resulted in a charge of  
17 \$11.00/month. The outsized percentage increase is attributable to the fact that the prior  
18 fixed charge was only \$4.50/month. "Extreme" is the best description I can think of under  
19 the circumstances.

20

1 Q9. IS YOUR DERIVATION OF A REASONABLE CUSTOMER CHARGE CONSISTENT  
2 WITH COST CAUSATION?

3 A. Yes. Ms. Talkington disputes the exclusions I made in my calculation, focusing specifically  
4 on the exclusion of administrative and general costs and contending that several other costs  
5 I excluded do not vary with customer demand or consumption.<sup>7</sup> I do not disagree that these  
6 costs must be recovered, nor do I disagree that they do not necessarily vary with customer  
7 demand or energy consumption. Furthermore, I do not disagree that cost allocation may  
8 reflect the assignment of a portion of these costs on the basis of the number of customers  
9 in a class. What Ms. Talkington fails to address is that the costs I excluded do not vary with  
10 the *number of customers* either, and I did not exclude costs directly related to customer-  
11 specific functions such as billing, metering, and customer service.

12 Administrative and general plant costs always pose a quandary for cost causation  
13 evaluation because they cannot be said to vary according to any of the three traditional  
14 classifications (energy, demand, and customer). However, regardless of how those costs  
15 are allocated, according to the Regulatory Assistance Project, the most common method of  
16 determining the customer charge is to limit it to the costs associated with metering, billing,  
17 customer service, and service drops.<sup>8</sup> This is what I have done in my calculations, which  
18 produce a result broadly similar to average residential customer charges established in  
19 other jurisdictions. My method is not unusually or unduly restrictive.

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<sup>7</sup> *Id.* at 17:6-13.

<sup>8</sup> Frederick Weston *et al.*, *Charging for Distribution Utility Services: Issues in Rate Design*, at 19, REGULATORY ASSISTANCE PROJECT (Dec. 2000), <http://pubs.naruc.org/pub/536F0210-2354-D714-51CF-037E9E00A724>.



1           One reason for establishing limitations of this type is to avoid rendering the  
2           customer charge a “dumping ground” for costs that cannot be said to fall clearly within  
3           another classification. The case is particularly compelling when a jurisdiction has  
4           established energy efficiency as a high priority, as the Council has done by establishing  
5           energy efficiency as a “high-priority energy resource” and seeking to “align customer  
6           pricing and incentives to encourage investment in energy efficiency.”<sup>9</sup> Costs that are  
7           recovered via a fixed charge are costs that do not contribute to customer incentives for  
8           energy efficiency through increases the volumetric rate (*i.e.*, the “savings” rate for a  
9           customer that pursues energy efficiency).

10   Q10. DOES ECONOMIC EFFICIENCY OF RATES ARGUE FOR RECOVERY OF SO-  
11       CALLED FIXED COSTS VIA FIXED CHARGES?

12   A.   No. As I observed in my Direct Testimony, embedded cost of service studies are better  
13       suited to determining how much revenue should be collected from different groups of  
14       customers, not the rate design associated with collecting that revenue. Rate design should  
15       reflect an effort to produce consumer behavior that maximizes long-term economic  
16       efficiency and supports public policy goals. Many different rate designs are capable of  
17       producing a similar amount of revenue while not compromising public policy goals.

18   Q11. HOW DO YOU RESPOND TO DR. FARUQUI’S CLAIM THAT FIXED CHARGES DO  
19       NOT DEplete CONSUMER INCENTIVES TO BE MORE ENERGY EFFICIENT?

20   A.   Dr. Faruqui states that customers consider their total bill, rather than individual portions of  
21       their bill like the fixed charge, when considering whether to make investments in energy

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<sup>9</sup> Council Resolution No. R-07-600.

1 efficiency. Dr. Faruqui then notes that the consequence of weighting a rate towards fixed  
2 charges results in low demand elasticity.<sup>10</sup> I agree with both assertions, but they actually  
3 serve to reinforce rather than diminish my argument that high fixed charges deplete  
4 consumer efficiency incentives.

5 Low demand elasticity refers to circumstances where consumers are not sensitive  
6 to their energy consumption because changes in that consumption produce little change in  
7 their bill (*i.e.*, they save little money by making investments or changing their behavior).  
8 Stated another way, if customers are sensitive to changes in their total bill, relatively higher  
9 volumetric rates produce a higher bill at higher levels of use, therefore a customer that is  
10 sensitive to their total bill will be inclined to use less energy. The amount of a fixed charge  
11 that a customer sees on their electric bill is not the relevant factor here. The relevant factor  
12 is that under a given revenue requirement, increasing the fixed charge produces lower  
13 volumetric charges, reducing demand elasticity by diminishing the bill savings that energy  
14 conservation will produce.

15 Q12. DOES DR. FARUQUI PRESENT A COMPELLING CASE REFUTING YOUR  
16 ARGUMENT THAT STATES THAT RANK HIGH IN THE AMERICAN COUNCIL  
17 FOR AN ENERGY-EFFICIENT ECONOMY (“ACEEE”) RANKINGS SUPPORT  
18 THESE GOALS IN PART THROUGH LOW FIXED CHARGES?

19 A. No. Dr. Faruqui first notes that the three major investor-owned utilities (“IOUs”) in  
20 California presently have zero or very low fixed charges that drag down my calculated  
21 average charge of \$6.05/month for the top five states. He notes that each has made

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<sup>10</sup> Faruqui Rebuttal at 22:5-11.

1 proposals to increase the charge to up to \$10.00/month, and that the New York utilities  
2 (sixth in the ACEEE rankings) have relatively higher fixed charges.<sup>11</sup> Even if one assumed  
3 that the fixed charges for the three California IOUs will increase to \$10/month, the overall  
4 average would increase only to \$8.13/month. Coincidentally, that amount is identical to  
5 my recommended charge. Adding New York, which ranks sixth as Dr. Faruqui appears to  
6 suggest is appropriate, increases the average further to \$11.13/month, still assuming that  
7 the California utilities have fixed charges of \$10.00/month.

8 I think either addition is debatable, given that the California proposals have not  
9 been adopted and adding New York by itself resembles cherry-picking. For the sake of  
10 argument though, expanding the scope to the ACEEE top ten states by adding Oregon,  
11 Minnesota, Washington, and Maryland produces an average of \$10.36/month if the  
12 California increases are assumed, and \$9.55/month at the present fixed charges for the  
13 major California IOUs. The conclusion that states that prize energy efficiency tend to adopt  
14 low residential fixed charges remains the same, and one can also conclude that the states  
15 with the highest rankings employ, on average, lower fixed charges than those further down  
16 (though still relatively highly ranked).

17 Q13. HOW DO YOU RESPOND TO THE COMPANY'S CONTENTION THAT  
18 INCREASING FIXED MONTHLY CHARGES WOULD NOT HAVE  
19 DISPROPORTIONATE ADVERSE IMPACTS ON LOW-INCOME CUSTOMERS?

20 A. I strongly disagree with the Company's conclusions. Dr. Faruqui contends that there is no  
21 disproportionate impact because a minority of low-income customers, roughly 40%, are

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<sup>11</sup> Faruqui Rebuttal at 23:1-4.

1 made better off by higher fixed charges (*i.e.*, because they have above average electricity  
2 use). He also states that the distribution of usage for low-income customers is similar to  
3 the residential class overall, though he provides no data to support this assertion.<sup>12</sup>  
4 Company witness Thomas makes similar statements with respect to the proposed fixed  
5 monthly Electric AMI Charge, and additionally asserts that my conclusion that low-income  
6 customer impacts would be disproportionate “is predicated on the assumption that all low-  
7 income customers are low usage customers.”<sup>13</sup>

8 In response to both, I point to Table 3 of my Direct Testimony (redacted as HSPM  
9 material). Table 3 makes it quite clear that low usage customers are much more likely to  
10 fall at the lower end of the income spectrum than high usage customers, including within  
11 the lowest monthly usage tranche (500 kWh or less). Contrary to Mr. Thomas’s assertion,  
12 my analysis is not predicated on an assumption that all low-income customers are low-  
13 usage customers. I never made such a statement or even implied as much in my Direct  
14 Testimony. Rather, I maintain that the adverse effects of fixed charges on low-income  
15 customers are disproportionate because: (a) a significantly greater percentage of lower  
16 income customers are low-usage customers than the percentage for the class as a whole,  
17 and (b) a significantly greater percentage of lower income customers are in the lowest usage  
18 tranche (*i.e.*, those most adversely affected) than the percentage for the class as a whole.  
19 Table 1 presents this data in a different format, showing the percentage of customers with  
20 monthly usage of 500 kWh and 1,000 kWh or less sectioned with household income  
21 breakpoints of \$15,000, \$25,000, and \$35,000.

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<sup>12</sup> Faruqui Rebuttal at 23:11-16.

<sup>13</sup> Rebuttal Testimony of Joshua B. Thomas at 46:6-8 (Mar. 2019) (“Thomas Rebuttal”).

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**Table 1: Income Tranche vs. Monthly Usage Tranche**

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

2

The data provided in Table 1 represents the very definition of disproportionate, showing that lower income is associated with lower usage, and that the largest adverse effects are most pronounced for the lowest income segment.

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**IV. ELECTRIC AMI CHARGE**

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Q14. PLEASE SUMMARIZE THE RECOMMENDATIONS YOU MADE IN YOUR DIRECT TESTIMONY ON THE COMPANY’S PROPOSED AMI RIDER.

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A. I recommended that the Electric AMI Charge utilize a volumetric rate design rather than a fixed monthly charge design.

9

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Q15. HOW DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

11

A. Mr. Thomas maintains that the Company’s original proposal is appropriate, including the use of a fixed monthly charge to recover AMI costs.<sup>14</sup> Mr. Thomas contends that a fixed monthly charge is consistent with cost causation while a volumetric charge as I have recommended is not.<sup>15</sup> He also contends that because over 50% of the benefits of AMI flow through to customers via usage-based charges, “each customer individually should

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<sup>14</sup> Thomas Rebuttal at 44:3.

<sup>15</sup> *Id.* at 45:19–46:5.

1 bear the costs associated with the infrastructure producing those benefits, which costs are  
2 fixed.”<sup>16</sup>

3 Q16. IS MR. THOMAS’S ASSERTION THAT A VOLUMETRIC ELECTRIC AMI CHARGE  
4 CONFLICTS WITH COST CAUSATION CORRECT?

5 A. No. Cost causation is an exercise in evaluating *why* costs are incurred and *how they vary*  
6 according to different factors. In the case of AMI, the *why* is primarily related to the  
7 production of energy and demand savings, while *how they vary* is based on the number of  
8 customers. Mr. Thomas asserts that my analysis of cost causation for AMI rests on a  
9 “labored argument” against “traditional cost causation logic” with respect to metering rate  
10 design.<sup>17</sup> My argument is in fact quite simple and is entirely consistent with “traditional”  
11 cost causation evaluation, which considers both factors. When costs are incurred to produce  
12 energy or serve demand, those costs are considered energy- or demand-related. The  
13 incremental costs of AMI above traditional metering are primarily energy- and demand-  
14 related because they effectively serve the same purpose as generating an additional unit of  
15 energy or investing in infrastructure to serve additional demand.

16 Differentiating between how costs and benefits are experienced by customers  
17 distorts price signals and conflicts with the primary purpose of AMI. Furthermore, as I  
18 observed more generally in my Direct Testimony and earlier in my Surrebuttal Testimony,  
19 fixed charges have disproportionate adverse impacts on low-income customers, which  
20 should also be a consideration in rate design.

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<sup>16</sup> *Id.* at 44:12-16.

<sup>17</sup> *Id.* at 45:16-17.

1 Q17. DO YOU WISH TO RESPOND TO ANY OTHER ASSERTIONS MADE BY MR.  
2 THOMAS?

3 A. Yes. Mr. Thomas erroneously disputes a position that I did not take in my Direct  
4 Testimony, to wit, that ENO should not be permitted to recover the un-depreciated costs  
5 of retired legacy meters.<sup>18</sup> In fact, in my Direct Testimony, I expressly stated: “To be clear,  
6 I am not objecting to the recovery of the un-depreciated costs of legacy meters, as the  
7 Council has already ruled on this issue. I only address the mechanism for that cost recovery  
8 from the perspective of rate design.”<sup>19</sup>

9 Mr. Thomas’s assertion appears to stem from my statement that requiring  
10 customers to effectively pay two *fixed monthly metering charges* is fundamentally unfair.  
11 I maintain this position, but it has nothing to do with cost recovery. It relates to rate design.  
12 Since the Company is recovering the un-depreciated costs of traditional metering via the  
13 customer charge, the incremental costs of AMI at present are the full costs.

14 **V. DSM PROGRAM DESIGN AND RIDER DSMCR**

15 Q18. PLEASE SUMMARIZE THE COMPANY’S OBJECTIONS TO YOUR TESTIMONY  
16 ON ITS DSM PROPOSAL.

17 A. The Company collectively, via Dr. Faruqui and Mr. Owens, finds fault with virtually all  
18 aspects of my testimony on the topic, disputing my arguments that the Lost Contribution  
19 to Fixed Costs (“LCFC”) element should be eliminated in favor of full decoupling as well  
20 as disagreeing with my proposal for a DSM performance incentive structure with stricter  
21 requirements for the provision of additional earnings. In parts, Mr. Owens seems to take

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<sup>18</sup> *Id.* at 44:18–45:4.

<sup>19</sup> Direct Testimony of Justin R. Barnes at 7:9-12 (Feb. 1, 2019).

1 personal affront to my critiques. Among other things, he accuses me of “[d]ismissing  
2 ENO’s proposed model out of hand simply because ENO proposed it.”<sup>20</sup> He further states  
3 that I did not focus “on its merits or technical aspects” and characterizes my assertion that  
4 sometimes requirements are more effective than incentives as an “attack” that “undermines  
5 a view of utility regulation where collaboration is a foundation to identifying a model that  
6 will provide a ‘win’ for all stakeholders.”<sup>21</sup>

7 Q19. DO THE PASSAGES FROM MR. OWENS’ REBUTTAL TESTIMONY THAT YOU  
8 DESCRIBE ACCURATELY REFLECT THE INTENT AND CONTENT OF YOUR  
9 TESTIMONY?

10 A. No. Mr. Owens’ rhetoric is a distraction from substantive issues I have identified with the  
11 Company’s proposal. Contrary to his assertions, my critiques are not an exercise in “verbal  
12 gymnastics” to “find imaginary flaws.”<sup>22</sup> I find this characterization surprising because it  
13 seems that we actually agree on several core principles with respect to developing a solid  
14 DSM structure.

15 Mr. Owens perhaps objects to the frame I used in discussing energy efficiency  
16 performance incentives (*i.e.*, the use of “sticks” where appropriate). I fail to see why it is  
17 unreasonable to make this observation. Utility regulation has always been a balance of  
18 sticks and carrots, and the ACEEE data I relayed in my Direct Testimony suggests that  
19 minimum standards have historically performed well, while the results of performance

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<sup>20</sup> Rebuttal Testimony of D. Andrew Owens at 27:8-9 (Mar. 2019) (“Owens Rebuttal”).

<sup>21</sup> *Id.* at 27:12-16.

<sup>22</sup> *Id.* at 29:19–30:2.



1 incentives has been less clear. Nevertheless, I recommended that performance incentives  
2 be considered, as ACEEE also recommends, though with caution given the mixed results.<sup>23</sup>

3 Q20. PLEASE SUMMARIZE YOUR POINTS OF AGREEMENT AND DISAGREEMENT  
4 WITH ENO'S DSM PROPOSAL.

5 A. With the exception of disagreements on merits and drawbacks of the LCFC, which I will  
6 allow AAE witness Pamela G. Morgan to respond to, my recommended DSM program  
7 design is quite similar what ENO originally proposed. I agree with ENO that an  
8 indifference mechanism to address potential revenue attrition from energy efficiency  
9 should be adopted, and that the DSM program design should allow the Company to receive  
10 a performance incentive for successfully supporting increased customer energy efficiency.  
11 Where we appear to differ is on the amount of that incentive and how closely it ties to  
12 achieving energy efficiency savings goals.

13 In terms of differences, more specifically, the Company proposed a rate of return  
14 model where it would receive a return equivalent to its pre-tax weighted average cost of  
15 capital ("WACC") on DSM expenses, modified to lower the return for the return on equity  
16 ("ROE") component by 100 basis points if it achieves less than 60% of the savings target,  
17 while increasing the ROE component by 100 basis points for achieving 95-120% of the  
18 target or 200 basis points for savings in excess of 120% of the target. My recommended  
19 structure featured additional elements and modifications as follows:

20 1. A meaningful minimum savings threshold below which the Company recovers  
21 expenses but receives no return on those expenses, and is subject to a penalty

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<sup>23</sup> Barnes Direct at 47:18-20.

1 equivalent to the value of foregone cost savings for failing to achieve the minimum  
2 threshold.

3 2. A more granular formulaic incentive calculation system in place of the large “steps”  
4 in ENO’s proposal.

5 3. A cap on total incentive awards.

6 Modification (2) above does not appear to be in a point of significant contention,  
7 as Mr. Owens agrees that the performance incentive calculation could be made more  
8 granular, suggesting splitting the percentage targets into increments of 5% with a 20 basis  
9 point adder for each increment.<sup>24</sup> On modification (3), a cap on the incentive, Mr. Owens  
10 disagrees with establishing a cap, contending that the allowed maximum allowed ROE  
11 would create an effective cap and that an additional cap would add unnecessary  
12 complexity.<sup>25</sup> Modification (1) is the primary source of disagreement between myself and  
13 the Company, relating to the amount of the performance incentive in relation to program  
14 spending (*i.e.*, the percentage return allowed), minimum standards for receiving an  
15 incentive, and potential penalties for underperformance. All of these elements are in fact  
16 associated with the “technical merits” that Mr. Owens believes I have ignored. The  
17 Company disputes my assertion that the overall program design produces an incentive for  
18 ENO that I described as “too rich.”<sup>26</sup>

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<sup>24</sup> Owens Rebuttal at 32:16-22.

<sup>25</sup> *Id.* at 33:3-10.

<sup>26</sup> *See id.* at 29:19; Faruqui Rebuttal at 15:11.

1 Q21. PLEASE EXPLAIN YOUR USE OF THE PHRASE “TOO RICH” IN DESCRIBING  
2 THE PERFORMANCE INCENTIVE STRUCTURE.

3 A. I used this phrase as a general descriptor. The relative “richness” of the incentive can be  
4 evaluated from multiple perspectives, as follows:

- 5 1. The minimum level of performance at which an incentive is earned.
- 6 2. The relationship of a percentage award on expenditures in relation to savings  
7 achieved.
- 8 3. The total maximum incentive that ENO is permitted to earn.

9 My concerns center on the first two aspects. I recommended a total incentive cap  
10 be established, but as I discuss later, this can be effectuated as an offshoot of the percentage  
11 award that is permitted.

12 Q22. DOES A MINIMUM PERFORMANCE THRESHOLD DILUTE THE “WIN-WIN”  
13 OUTCOME THAT MR. OWENS SEEKS?

14 A. No. Ratepayers do not “win” if the costs they pay towards a program fail to produce good  
15 results. That is the purpose of setting a reasonable minimum threshold. The Company  
16 receives a “win” by being permitted to earn additional revenue for achieving a minimum  
17 goal where it would otherwise be permitted to recover program expenses and no more. As  
18 captured in ACEEE’s review of energy efficiency performance incentives, minimum  
19 threshold requirements are, for good reason, quite common. ACEEE’s summary depicts  
20 minimum thresholds ranging from 55% to 100% of savings or net benefits targets.<sup>27</sup> As I

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<sup>27</sup> Seth Nowak *et al.*, *Beyond Carrots for Utilities: A National Review of Performance Incentives for Energy Efficiency*, ACEEE, at 11-13 (May 2015), <https://aceee.org/sites/default/files/publications/researchreports/u1504.pdf>.

1 observed in my Direct Testimony, a minimum threshold should consider the ambitiousness  
2 of the targets in order to reward only good performance, and not be punitive to a utility in  
3 the context of highly ambitious targets.

4 ENO's proposal simply does not tie the performance incentive closely enough to  
5 results. Under the Company's proposal, if ENO met 50% of the target, it would earn a  
6 performance incentive nearly equivalent to its WACC, reduced only by 100 basis points  
7 for the ROE component of the calculation. I stand by my assertion that this result,  
8 equivalent to a reward for a failing grade, is not reasonable. It is "too rich" in relation to  
9 the results achieved and as such fails to constitute a "win" for ratepayers.

10 Q23. IS ROE AN ACCURATE MEASURE TO USE FOR A PERFORMANCE INCENTIVE  
11 IN ORDER THE "LEVEL THE PLAYING FIELD" BETWEEN SUPPLY-SIDE AND  
12 DSM INVESTMENTS?

13 A. No. Mr. Owens justifies an ROE-based system by arguing that "incentive mechanisms  
14 should seek to approximate what the utility would have earned by investing the same  
15 amount of capital in a traditional asset."<sup>28</sup> On a conceptual level, I agree that this is one  
16 flavor of what leveling the playing field can mean.<sup>29</sup> However, it is incorrect to assume, as  
17 Mr. Owens does, that fully 100% of DSM expenditures are associated with displaced  
18 capital investment.

---

<sup>28</sup> Owens Rebuttal at 29:12-13.

<sup>29</sup> This represents financial indifference on the part of the utility. The other aspect is *planning indifference*, referring to resource evaluations that consider the full life-cycle cost-effectiveness of supply-side and demand-side investments on an equal basis.

1           As I observed in my Direct Testimony, a portion of DSM expenditures displaces  
2           variable pass-through costs because DSM investments are justified through consideration  
3           of both capacity and energy costs. Only foregone capacity costs represent foregone  
4           investments, so capitalizing *all* DSM expenditures under a regulatory asset-based model  
5           goes beyond rendering a utility financially indifferent. The Council could perhaps justify  
6           this result as reasonable in order to make DSM the highest priority investment, but such a  
7           decision should be made with awareness of what that decision means in practice.

8   Q24.   HOW DOES THIS IMPLICATION AFFECT YOUR RECOMMENDATIONS FOR  
9           SETTING PERFORMANCE-BASED INCENTIVE LEVELS?

10   A.     Since the displacement of capital investment by DSM spending does not take place on a  
11           1:1 basis, the performance incentive should only award the equivalent of full ROE on DSM  
12           expenses for performance at, or above, savings targets. Regardless of one's interpretation  
13           of the meaning of creating a collaborative DSM framework, failing to meet savings targets  
14           should not produce an incentive award that is effectively already above the true financial  
15           indifference benchmark.

16   Q25.   WOULD THE APPROVED ROE FOR A PERFORMANCE INCENTIVE, AS MR.  
17           OWENS SUGGESTS, ESTABLISH A TRUE INCENTIVE CAP?

18   A.     This would hold true if total expenditures are also capped, since even if the percentage  
19           return on DSM investments is capped, the total incentive would still be sensitive to overall  
20           spending. To the extent that the budget is not subject to overages, I agree that the maximum  
21           percentage return establishes a firm cap.

1 Q26. DO YOU HAVE ANY FURTHER THOUGHTS ON THE ESTABLISHMENT OF A  
2 TOTAL INCENTIVE CAP AND THE LEVEL OF PERFORMANCE INCENTIVES?

3 A. Yes. Dr. Faruqui presents the results of his calculations of performance incentive caps for  
4 states ranked in the top 15 of ACEEE's energy efficiency scorecard rankings. The total  
5 number of states for which he shows a calculation is nine because some states do not award  
6 performance incentives and the cap in Illinois is stated in relation to ROE. Of these nine,  
7 five are below the maximum indicated by ENO's proposal, while four are higher.<sup>30</sup>

8 I observe several things from this graphic. First, the four states that cap incentives  
9 below what ENO proposes (California, Connecticut, Massachusetts, and Rhode Island)  
10 constitute four of the top five states in the ACEEE rankings. All of these states rely on both  
11 Energy Efficiency Resource Standards and performance incentives as part of their DSM  
12 policies (*i.e.*, both carrots and sticks). Furthermore, as I have previously discussed, all four  
13 support their efficiency goals with low fixed charges so as not to diminish consumer  
14 efficiency incentives. Second, performance incentives are not universal even among highly  
15 ranked states.

16 Collectively, I see these characteristics as pointing to a common theme of alignment  
17 between rate design and energy efficiency policy goals, and the use of all available policy  
18 tools to achieve those goals. A truly collaborative and effective approach encompasses all  
19 of these aspects on the part of a utility, other stakeholders, and regulators.

---

<sup>30</sup> Faruqui Rebuttal at 16, Figure 1.

1 **VI. CONCLUSION**

2 Q27. HAS THE COMPANY'S REBUTTAL TESTIMONY CAUSED YOU TO MODIFY  
3 ANY OF THE RECOMMENDATIONS YOU MADE IN YOUR DIRECT  
4 TESTIMONY?

5 A. No. My recommendations are unchanged. With respect to the contested issues, my  
6 recommendations are as follows:

- 7 • The residential customer charge should be set consistent with the costs of connecting a  
8 customer to the electric grid, which I have calculated to be \$8.13/month, in order to:  
9 (a) align the charge with costs that are definitively customer-related, (b) support the  
10 Council's policy on promoting energy efficiency, and (c) avoid significant adverse  
11 impacts on low-income customers.
- 12 • The Electric AMI Charge should use a volumetric design because the incremental costs  
13 of AMI are primarily energy- and demand-related and customers will still continue to  
14 pay a fixed monthly charge for the un-depreciated costs of retired meters.
- 15 • The Company's proposed DSM performance incentive structure should be rejected and  
16 the Council should instead adopt a structure that: (a) features a symmetrical system of  
17 rewards and penalties as dictated by a minimum savings threshold, (b) uses a more  
18 granular performance incentive calculation, and (c) scales the amount of the incentive  
19 in relation to efficiency targets in a manner that incentivizes truly good performance,  
20 with consideration of the relative ambitiousness of savings targets and the true level of  
21 financial indifference on the part of ENO.

22

1 Q28. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.



**AFFIDAVIT**

STATE OF VIRGINIA                    )  
  )  
COUNTY OF WISE                    )        ss.

I, Justin Barnes, do hereby swear under the penalty of perjury the following:

That I am the person identified in the attached prepared testimony and that such testimony was prepared by me under my direct supervision; that the answers and information set forth therein are true and accurate to the best of my personal knowledge and belief; and that if asked the questions set forth herein, my answers thereto would, under oath, remain the same.



Justin Barnes

**SWORN TO AND SUBSCRIBED BEFORE ME THIS 23 DAY OF April,  
2019**



KEDRIC WALTER MEADE  
NOTARY PUBLIC 7530864  
COMMONWEALTH OF VIRGINIA  
MY COMMISSION EXPIRES JANUARY 31, 2020



NOTARY PUBLIC

My commission expires: 1/31/2020

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing **Surrebuttal Testimony of Justin R. Barnes on Behalf of the Alliance for Affordable Energy** has been served on the persons listed below by electronic mail and/or U.S. First-Class mail, postage prepaid:

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