BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

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

SURREBUTTAL TESTIMONY

OF

THOMAS J FERRIS

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

APRIL 26, 2019
PREPARED SURREBUTTAL TESTIMONY

OF

THOMAS J FERRIS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.
A. My name is Thomas J. Ferris. My business address is 1 Sugar Maple Trail, Madison, Wisconsin. I am a Certified Public Accountant in the state of Wisconsin and a self-employed Regulatory Utility Accounting Consultant working as a sub-contractor to Bruno & Tervalon LLP, CPAs, New Orleans.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?
A. Yes. I filed direct testimony on behalf of the Council of the City of New Orleans ("Council") Accounting Advisors\(^1\) ("Accounting Advisors"). The Council regulates the rates, terms, and conditions of electric and gas service of Entergy New Orleans, LLC ("ENO"). ENO is a subsidiary of Entergy Utility Holding Company, LLC ("EUH"). EUH is itself directly and indirectly owned by Entergy Corporation ("Entergy").

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?
A. The purpose of my Surrebuttal Testimony is to respond to the rebuttal testimony of ENO witness Mr. Joshua Thomas. Specifically, I will respond to Mr. Thomas’ rebuttal testimony regarding my adjustment related to Entergy’s Restricted Stock Incentive Plan.

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\(^1\) Council Accounting Advisors refers to the accounting firm Bruno & Tervalon, LLP, CPAs.
Q. PLEASE SUMMARIZE THE RECOMMENDATION IN YOUR SURREBUTTAL TESTIMONY.

A. ENO’s Restricted Stock Incentive Plan, Project F5PPZZ4091, is a stock ownership plan tied to the long-term performance of Entergy Corporation common stock and is, therefore, of significant benefit to its shareholders. ENO has failed to show how this plan benefits ratepayers and, therefore, has not provided any justification for recovering the cost of the Restricted Stock Incentive Plan in rates. As such, the cost of the Restricted Stock Incentive Plan should not be recovered in rates.

Q. MR. THOMAS STATES THAT YOU HAVE NOT DEMONSTRATED THAT ENO’S COMPENSATION PLANS ARE UNREASONABLE. WHAT IS YOUR RESPONSE TO THIS STATEMENT?

A. How a company compensates its employees is up to each company. As an Advisor to the Council, it is not my role to micro-manage the company’s compensation plans. The issue here is who benefits from and who should pay for the cost of each component of the company’s compensation plans, the ratepayers or shareholders.

Q. MR. THOMAS STATES THAT YOU HAVE NOT STATED AN INDEPENDENT BASIS FOR WHY THE RESTRICTED STOCK INCENTIVE PLAN EXPENSES SHOULD BE DISALLOWED. DO YOU AGREE WITH THIS STATEMENT?

A. No, I do not. In my direct testimony I noted that Project F5PPZZ4091, Restricted Stock Incentive, was a new incentive plan in 2011. According to the Entergy scope statement for this project, the overall purpose of this project is to capture and manage costs associated with Entergy's new long-term incentive Restricted Stock program. The Restricted Stock program is a stock ownership plan associated with the incentive
compensation plan for management levels 1 through 5. Since the participants' compensation is tied to the long-term performance of Entergy Corporation common stock, it provides incentive to focus on the future impacts of current policies and decisions.

As I discuss below and in my direct testimony, incentive compensation plans and stock options may be recovered in rates only to the extent that the company demonstrates that such plans benefit ratepayers. In any review of a company’s incentive plan we examine the basis for the plan and evaluate whether the incentive compensation was related strictly to the company’s stock price and financial performance criteria, or on cost control, safety, and customer service criteria in addition to financial performance measures.

Based on Entergy’s scope statement for the Restricted Stock Incentive Plan, this plan is a stock ownership plan tied to the long-term performance of Entergy Corporation common stock and is, therefore, of significant benefit to its shareholders. As such, the Advisors recommend that 100 percent (100%) of the revenue requirements associated with the Restricted Stock Incentive Plan should be removed from rate recovery.

Q. DOES MR. THOMAS DEMONSTRATE THAT ENO’S RESTRICTED STOCK INCENTIVE PLAN BENEFITS RATEPAYERS?

A. No, Mr. Thomas does not provide any justification for recovering the cost of the Restricted Stock Incentive Plan in rates. The Company has failed to meet its burden of showing that the Restricted Stock Incentive Plan benefits ratepayers.
Q. MR. THOMAS CLAIMS THAT YOU ARE TRYING TO REWRITE THE 2010 AGREEMENT IN PRINCIPLE (“AIP”), WHICH GOVERNS THE RECOVERY OF EXECUTIVE INCENTIVE COMPENSATION. DO YOU AGREE WITH THIS CLAIM?

A. No, I am not trying to rewrite the 2010 AIP regarding the recovery of executive incentive compensation. As Mr. Thomas points out, this provision was only precedential for the term of the FRP, which has lapsed. As explained in my response to the next question, I am only referring to this provision as an example of how the Council decided a similar issue in a previous case. It is a decision that the Council may consider when deciding on the recovery of the Restricted Stock Incentive Plan costs in this proceeding.

Q. DO YOU AGREE WITH THE ADVISORS POSITION DISCUSSED IN DOCKET NO. UD-08-03 AND DO YOU BELIEVE IT APPLIES TO ENO’S RESTRICTED STOCK INCENTIVE PLAN?

A. Yes, I not only agree with this position but also believe that it still applies today related to the Restricted Stock Incentive Plan. I noted in my direct testimony that similar to Project F5PPZZ4091, Project F5PCZZ4080, Equity Awards, and Project F5PCZZ4090, Restricted Share Awards, are stock ownership plans. Since the participants’ compensation is tied to the long-term performance of Entergy Corporation common stock, it provides incentive to focus on the future stock price impacts of current policies and decisions.

I also noted in my direct testimony that Project F5PCZZ4045, Long-Term Incentive Plan, is a long-term restricted unit plan. According to the Entergy scope statement for this project, the primary products or deliverables of this project code is to
maximize the quality of operating efficiency and fiscal responsibility of the Entergy
System in the long-term by tying the participants to the long-term performance of
Entergy Corporation common stock.

In its review of various forms of incentive compensation in Docket No. UD-08-03, Council’s Advisors examined the basis for each incentive and evaluated whether the
incentive compensation was related strictly to Entergy’s stock price and financial
performance criteria, or on cost control, safety, and customer service criteria in addition
to financial performance measures. The Council’s Advisors found that the financial
performance measurement criteria used in these Entergy incentive compensation plans
was based on Entergy’s cash flow and earnings per share, thus, based on elements
directly affecting Entergy’s stock price. The Advisors found that incentive compensation
based solely on Entergy’s stock price was of significant benefit to its shareholders. As
such, the Advisors removed 100 percent (100%) of the revenue requirements associated
with the Long-Term Incentive, Equity Awards, Stock Options Incentive, and Restricted
Share Awards Plans.

As I said, I not only agree with this position but believe that it still applies today
related to the Restricted Stock Incentive Plan. As such, the same as Long-Term
Incentive, Equity Awards, Stock Options Incentive, and Restricted Share Awards Plans, I
continue to recommend that 100 percent (100%) of the revenue requirements associated
with the Restricted Stock Incentive Plan should be removed from rate recovery.
As I also discussed in my direct testimony, in making its recommendation to
disallow the above stock options and incentive compensation, the Council’s Advisors in
Docket UD-08-03 relied in part on precedents established by other retail regulators that
regulate Entergy Operating Companies and on sound regulatory practices. As a result,
the Council’s Advisors recommended that the Council should take administrative notice
of orders issued in the regulatory jurisdictions of other Entergy affiliates wherein the
issue of incentive compensation was examined and resulted in the removal of a
significant portion of these costs from eligible revenue requirements. These regulatory
jurisdictions were the Arkansas Public Service Commission in Docket No. 06-101-U,

Q. **DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. THOMAS’
REBUTTAL TESTIMONY?**

A. Yes, Mr. Thomas also points out that the Council Advisors did not seek to disallow the
restricted stock incentive plan expenses in conjunction with the 2012 FRP filings.
Apparently, Mr. Thomas believes that if the Advisors fail to seek a disallowance of an
expense in one case, they are prevented from ever seeking such a disallowance. The fact
that the Advisors haven’t sought a disallowance for the Restricted Stock Incentive Plan
only means that the Council has never ruled on the allowability in rates of these expenses.
In addition, the parties reached an agreement in principle regarding the referenced FRP
filings. It is my understanding, therefore, that in lieu of a specific finding by the Council
on the issue, the issue is still open for Council determination of its allowability in rates.
1 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes, it does.