

May 18, 2022

BY ELECTRONIC 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 Certification of Costs Related to Hurricane Zeta,*
Docket UD-21-02

Dear Ms. Johnson:

Enclosed please find the Advisors' *Investigation and Review of Entergy New Orleans, LLC's Application for Certification of Costs Related to Hurricane Zeta* in the above referenced matter, which is being submitted for filing into the record along with this letter. As a result of the remote operations of the Council's office related to COVID-19, the Advisors submit this filing electronically and will submit the requisite original and number of hard copies once the Council resumes normal operations, or as you direct. Please file this submission in accordance with the Council's current regulations. Thank you.

Sincerely,



Jay Beatmann
Counsel

JAB/dpm
Attachment

cc: Official Service List

**INVESTIGATION AND REVIEW
OF
ENTERGY NEW ORLEANS, LLC'S
APPLICATION FOR CERTIFICATION OF COSTS
RELATED TO HURRICANE ZETA**

COUNCIL RESOLUTION NO. R-21-296

DOCKET NO. UD-21-02

May 18, 2022

Legend Consulting Group Limited

BACKGROUND

On May 21, 2021, Entergy New Orleans, LLC (“ENO”) filed its *Application of Entergy New Orleans, LLC, For Council Certification of Costs Related to Hurricane Zeta* (“Application”), totaling 298 pages and which involved the testimony of six ENO witnesses. On August 5, 2021, the Council adopted Council Resolution No. R-21-296 (“Resolution”) establishing the instant docket (UD-21-02) and proceeding to review the Application. Among the procedural deadlines in the instant proceeding: Intervenor comments due April 18, 2022, and the Advisors’ Report (this report) due May 18, 2022. The Council directed the Advisors in their report to address,

- a. whether the restoration costs presented in the Application are accurate, reasonable, and necessary to rebuild ENO’s electric infrastructure and to restore power to its customers,
- b. what restoration costs, if any, are appropriately eligible for recovery from the ENO customers,
- c. what restoration costs, if any, were already recovered or are being recovered in retail rates, other rate mechanisms, or sources of funding, and therefore not properly recoverable,
- d. the Advisors’ recommendation as to the disposition of any funds withdrawn from the storm reserve fund escrow accounts in excess of costs properly recoverable through such withdrawals, and
- e. any additional issues that the Advisors may find germane to the issues raised by the Application, which may include ENO’s methodologies for categorizing costs as either capital or O&M and ENO’s recovery through storm reserve escrow withdrawals of costs related to other storms and weather events.

The proceeding’s sole intervenor, the Alliance for Affordable Energy (“Alliance”), timely filed comments in the instant proceeding.

SUMMARY OF THE ADVISORS’ CONCLUSIONS AND RECOMMENDATIONS

Based on our review of available information, including that obtained through discovery,

- We conclude that ENO’s system restoration activities both pre- and post- Zeta were reasonable and necessary to rebuild ENO’s electric infrastructure and to restore power to its customers.
- We conclude that ENO has reasonably demonstrated that the accounting for its costs incurred to restore electric utility service following Zeta (“Storm Costs”) was accurate in all material respects and based on appropriate accounting practices and controls.
- We have found no evidence to suggest ENO’s Storm Costs were other than prudently incurred.
- We conclude that ENO’s as filed Storm Costs totaling \$35,798,619 included estimates that turned-out to be overstated. ENO’s actual final Storm Costs totaled \$32,594,926. This latter amount represents the recoverable Storm Costs related to Zeta. However, approximately \$304,424 of these Storm Costs are costs that are deemed recovered through ENO’s base

rates (i.e., “Straight Time”) and ENO should not be afforded additional recovery from its Storm Reserve for this amount.

- We conclude that ENO’s withdrawal of \$44,200,000 in Storm Reserve escrow funds, which was based in part on an initial estimate of ENO’s Storm Costs for Hurricane Zeta and previous storms, was in excess of ENO costs for the identified purposes.

Based on our review, we offer the following recommendations to the Council,

- We recommend that the Council find that ENO’s system restoration activities both pre- and post- Zeta were reasonable and necessary to rebuild ENO’s electric infrastructure and to restore power to its customers.
- We recommend that the Council find that ENO acted prudently in restoring electric utility service following Zeta; and find that ENO’s Storm Costs totaling \$32,594,926 are presumed prudently incurred and therefore recoverable.
- We recommend that the Council find that ENO’s Storm Costs involving “Straight Time” are already allowed recovery through ENO’s base rates and are not recoverable through an escrow withdrawal.
- We recommend that the Council direct ENO to record a regulatory liability equal to the “Straight Time” amount of ENO’s Storm Costs, totaling \$304,424, and that such regulatory liability shall be considered in the docket to evaluate ENO’s anticipated application for certification of costs related to Hurricane Ida.
- We recommend that the Council direct ENO in any future system restoration not to seek to recover costs from categories that are allowed recovery through base rates.
- With respect to the excess withdrawal of \$6,688,734 from the Storm Reserve following Hurricane Zeta, we recommend that the Council consider this amount in the docket to evaluate ENO’s anticipated application for certification of costs related to Hurricane Ida.
- In the construction of any future Storm Reserve Funds (all such funds are presently fully depleted), we recommend the incorporation of provisions to reasonably prevent the withdrawal of funds intended to recover:
 - Estimates of costs for which ENO has not yet received an invoice or firm knowledge of the timing and amount of cash disbursement.
 - Storm Costs involving costs that are already allowed recovery through ENO’s base rates, such as costs identified as “Straight Time.”

STORM DAMAGE AND RESTORATION

Zeta became a named-weather event on October 25, 2020, then named Tropical Storm Zeta. Tropical Storm Zeta intensified and became a hurricane early on October 26, 2020. After passing over the Yucatan Peninsula, Zeta regained strength and made landfall near Cocodrie, Louisiana the evening of October 28, 2020 as a Category 3 hurricane, causing widespread damage across southeastern Louisiana. Significant wind damage was noted in many parishes south of Lake Pontchartrain, including Orleans Parish. Zeta’s storm center moved directly over New Orleans,

causing significant damage to ENO’s electric utility plant. The damage to ENO’s electric plant was primarily to ENO’s distribution system; ENO’s data show that 98 percent of Storm Costs were to distribution plant. ENO reports that the peak number of customer outages following Zeta was 178,171, or approximately 87 percent of ENO’s electric customers, which occurred at 9PM on October 28, 2020.

ENO summarized the damage to its electric distribution system resulting from Zeta:

- 323 distribution poles;
- 192 transformers;
- 201 spans of distribution wire; and
- 173 cross-arms.

ENO’S RESPONSE TO ZETA

ENO summarized the chronology of its post-Zeta system restoration:

Table 1			
Chronology of Service Restoration			
Date	Day of Restoration	Number of Outages Remaining	% Restored
October 28, 2020 (as of 9 p.m.)	Day 0	178,171	0%
October 29, 2020 (as of 5 a.m.)	Day 1	135,405	24%
October 30, 2020 (as of 6 a.m.)	Day 2	107,634	40%
October 31, 2020 (as of 6 a.m.)	Day 3	68,446	62%
November 1, 2020 (as of 6 a.m.)	Day 4	23,956	87%
November 2, 2020 (as of 6 a.m.)	Day 5	7,350	96%
November 3, 2020 (as of 6 a.m.)	Day 6	2,785	98%

ENO further states that 100% of customers whose property was able to accept ENO’s electric utility service were restored within seven days.

ENO summarizes its dollar system restoration costs following Zeta in the below Table 2. Of note, a relatively small amount of ENO’s Storm Costs is attributed to ENO’s transmission system.

Table 2			
Summary of Storm Costs by Category			
ENO's Application			
Description	Distribution	Transmission	Total
Direct Costs			
Contract Work	19,746,781	374,183	20,120,964
Labor	1,021,070	0	1,021,070
Employee Expenses	3,521,730	823	3,522,553
Materials	1,985,748	21,823	2,007,571
Other	258,075	46,464	304,539
Affiliated Costs			
ESL Billings	621,970	26,735	648,705
Loaned Resources	1,122,841	92,219	1,215,060
Total Costs Through 3/31//21	\$28,278,215	\$562,247	\$28,840,462
Estimates (Mutual Assistance)	6,958,157	0	6,958,157
Total Storm Costs	\$35,236,372	\$562,247	\$35,798,619

Table 2 reflects ENO's requested amount of \$35,798,619 as of August 5, 2021. Through discovery, the Advisors received a final value of \$32,594,926.¹ This final cost accounting is summarized in Table 3.

Table 3			
Summary of Storm Costs by Category			
Final Cost Accounting			
Description	Distribution	Transmission	Total
Direct Costs			
Contract Work	23,194,942	374,183	23,569,124
Labor	1,020,603	0	1,020,603
Employee Expenses	3,461,624	833	3,462,456
Materials	2,004,889	21,936	2,026,824
Other	319,385	46,488	365,873
Affiliated Costs			
ESL Billings	888,336	27,067	915,404
Loaned Resources	1,142,422	92,219	1,234,642
Total Storm Costs	\$32,032,200	\$562,726	\$32,594,926

¹ See ENO's response to DR CNO 3-2.b.iv.

A comparison of Table 2 with Table 3 indicates that ENO’s actual Storm Costs were \$3,203,693 less than ENO’s estimates as of the Application. Through discovery, ENO asserts that the \$28,840,462 value of total costs through March 31, 2021, which was reviewed by an independent auditor, remains valid,² and \$3,754,464 in additional actual Storm Cost transactions replaced \$6,958,157 of estimated costs since the Application to reach the final Storm Cost total amount of \$32,594,926.³ The Advisors have reviewed the cost accounting in coordination with the initial cost accounting, and have verified that the accounting entries related to the audited \$28,840,462 value remain unchanged.

The Application includes the testimony of two witnesses focused on ENO’s operational response to Zeta: Mr. John W., Hawkins, Jr., who discusses ENO’s system restoration efforts, and Ms. Sandra Diggs-Miller, who discusses ENO’s customer-interaction response.

Mr. Hawkins, whose title is Vice President, Distribution Operations – Louisiana, is, among other duties, the Louisiana State Incident Commander. In this capacity, and relevant to Zeta, Mr. Hawkins testifies that his duties encompass the expected pre-storm preparation and post-storm system restoration activities performed by and on behalf of ENO.

Mr. Hawkins’s testimony describes a coordinated response to Zeta, including pre-storm preparation and staging, as well as post-storm system restoration activities. Mr. Hawkins reports that 1,670 persons participated in system restoration of ENO’s distribution system following Zeta. The below Table 4 summarizes these persons’ roles in that effort.

Table 4	
Zeta System Restoration Personnel	
ENO Line Workers	108
Entergy Line Workers	84
ENO Scouts	23
Off-System and Base-load Line Contractors	594
Off-System and Base-load Scouts	81
Mutual-Assistance Personnel	178
Vegetation Workers	492
Other Support	110
Total	1,670

Mr. Hawkins discusses various challenges ENO faced regarding system restoration following Zeta, which in his opinion ENO properly addressed. There is no credible dispute that the men and women who work to restore utility service in New Orleans work diligently in difficult circumstances and are worthy of praise. However, the scope of our review in the instant proceeding involves the accuracy, reasonability, and recoverability of ENO’s Storm Costs.

² See ENO’s response to DR CNO 3-2.a.

³ Id.

Mr. Hawkins discusses various ENO programs intended to prevent and mitigate damage to ENO's utility system following a major weather event. We note that many of these programs are being addressed in Docket No. UD-17-04 on distribution reliability and future efforts may be addressed further in Docket No. UD-21-03, which addresses system resiliency and storm hardening.

ENO's response to Zeta, as described by Mr. Hawkins, in terms of structure and resources, is consistent with such past responses involving ENO, and nothing from the Application, Mr. Hawkins's testimony, or our review thereof through discovery identified anything other than a prudent undertaking. As such, ENO's planning-for and execution post-Zeta, is properly presumed prudent and therefore the costs incurred as a result of Zeta are recoverable. We do, however, discuss elsewhere in this report, certain Storm Costs have already been allowed recovery through base rates.

The Resolution directs the Advisors to report on issues related to the accuracy, reasonableness, and necessity of ENO's Storm Costs. As such, our review investigated the scope and timeliness of system restoration efforts to the extent they indicate reasonableness and necessity of the Storm Costs incurred. As we conclude later in this report, this standard has, in our opinion, been met.

ACCURACY OF ENO'S STORM COSTS

ENO's Cost Accounting

ENO Witness Mr. Joshua B. Thomas describes how ENO categorizes costs according to projects. Each ENO Zeta Storm Cost transaction has a project code, a unique identifier for a project, in this case projects related to Zeta Storm Costs. In our experience, this project code methodology is a standard cost accounting control throughout Entergy's regulated subsidiaries and is a reasonable method for determining which costs are Zeta Storm Costs as opposed to ordinary operating costs.

Mr. Thomas's testimony also discusses ENO's vendor invoice processing and controls. Mr. Thomas describes controls calculated to ensure Zeta Storm Cost vendor invoices were accurate and appropriately payable by ENO. These controls involved statistical tests, invoice approval controls, audit controls, and in some cases further communications with vendors. In our opinion, ENO's vendor invoice processes and controls, as described by Mr. Thomas, reflect accepted industry management practices reasonably calculated to both restore utility service following Zeta and protect against the payment of inappropriate invoice amounts.

Independent Review

The Application includes testimony sponsored by Ms. Amy M. Parker, a partner at Deloitte & Touché ("Deloitte"), Entergy's public auditor. The purpose of her testimony is to describe Deloitte's Attestation Examination ("Examination") related to ENO management's assertion that its "Summary of Hurricane Costs for Hurricane Zeta",⁴ essentially ENO's Storm Costs through

⁴ Exhibit AMP-1 at 6-8.

March 31, 2021, is complete and accurate. Of note, the Examination relates only to the \$28,840,462 Storm Costs incurred through March 31, 2021, and not ENO's estimates totaling \$6,958,157 presented in the Application. Also of note, Ms. Parker's testimony and Deloitte's opinion relate to relevant accounting controls and the reliability of ENO's Storm Cost presentation, but do not relate to appropriate regulatory ratemaking treatment thereof, in particular the recovery of such costs.

Reliance on the accuracy of data generated by ENO's accounting systems and controls is foundational to the regulatory process. As such, reliable independent audits and examinations of ENO's accounting systems and controls are essential. Deloitte has the requisite experience and capabilities for such audits and is of national repute.

The Deloitte examination, as described by Ms. Parker, is consistent with our expectations of such an examination. Ms. Parker specifically cites certain relevant American Institute of CPAs standards for such examinations, which she testifies Deloitte employed. She goes on to describe how Deloitte complied with these standards in its examination. Deloitte's objective was to reach a reasonable assurance that ENO's assertions are materially accurate. To accomplish this, she describes criteria for examination calculated to allow Deloitte to reach this reasonable assurance.

Based on Ms. Parker's testimony, Deloitte's examination relied on testing ENO's accounting controls generally consistent with those proscribed by Sarbanes-Oxley, a law mandating companies such as Entergy to maintain controls providing assurances as to the reliability of their financial reporting. Sarbanes-Oxley requires documented procedures and controls to this end, which Deloitte reports it tested and determined were in effect relative to ENO's Storm Costs. This determination in part relates to Deloitte's annual public audit of Entergy related to Entergy's annual Form 10-K report to the SEC.

Ms. Parker also discusses additional controls of Storm Cost invoices as compared to ENO's regular operation. Ms. Parker testifies that ENO internally audits each Storm Cost invoice prior to payment. Given the understandably urgent nature of system restoration following a major weather event, in our opinion, such additional controls are appropriate.

Deloitte's examination involved a substantive testing process, which involved testing whether ENO's controls were effective for 8,850 transactions through March 31, 2021 (representing the \$28,840,462 value). Deloitte specifically tested ENO's controls related to 39 transactions that it considered individually significant (*i.e.*, significant dollar amounts) and 63 transactions selected through a statistical sampling. There is no indication that Deloitte sought to test any of the 2,320 additional transactions totaling \$3,754,464 that were recorded after Deloitte's review.

Deloitte did not identify any exceptions to ENO's documented accounting controls as part of the substantive testing process. Deloitte opines that ENO's assertion related to \$28,840,462 in Storm Costs is fairly stated in all material respects.

STORM COST ESTIMATES AND WITHDRAWALS

ENO made two Storm Reserve escrow withdrawals following Zeta: \$28,614,195 on March 29, 2021, and \$15,585,805 million on March 31, 2021, or \$44,200,000 total. On September 17, 2021, in relation to Hurricane Ida, ENO withdrew a total of \$38,845,099 to fully deplete its Storm Reserve escrow funds. As noted in our conclusions and recommendations to the Council, we have certain concerns regarding the conditions upon which ENO may access its storm reserve escrow funds. However, as ENO's funds are now depleted, the reasonably appropriate venue to address how ENO may in the future access reserve escrow funds is the proceeding(s) that may create and fund new storm reserves, specifically Docket No. UD-22-01.

ENO's basis for its \$44,200,000 storm reserve escrow withdrawal total was its then estimated Zeta's storm costs, \$39,400,000, plus an estimated \$4,800,000 as recovery for prior miscellaneous storms restoration costs ($39.4+4.8=44.2$). Through discovery, ENO accounting for pre-Zeta storm costs that it recovered through Storm Reserve escrow withdrawals was \$4,916,340, and ENO's actual recoverable Storm Costs are \$32,594,926. Table 5 summarizes ENO's Zeta Storm Reserve escrow withdrawals when evaluating actual costs.

Table 5	
Accounting for ENO's Storm Reserve Escrow Withdrawals	
Storm Reserve Escrow Withdrawals	
Withdrawal on March 29, 2021	\$28,614,195
Withdrawal on March 31, 2021	\$15,585,805
Total Storm Reserve Escrow Withdrawals	\$44,200,000
Actual Costs	
Actual prior miscellaneous storms' restoration costs (pre-Zeta)	\$4,916,340
Actual Zeta Recoverable Storm Costs	\$32,594,926
Total Actual Costs related to the stated purpose of the March 2021 Withdrawals	\$37,511,266
Excess Storm Reserve Escrow Withdrawals available for Hurricane Ida costs	\$6,688,734

ENO has not filed for certification of its Hurricane Ida storm costs, however, ENO's preliminary cost estimates with respect to Hurricane Ida storm costs are well in excess of Table 5's \$6,688,734 plus ENO's Storm Reserve escrow withdrawal following Hurricane Ida of \$38,845,099 (\$45,533,833 total).

This excess withdrawal of \$6,688,734 from the Storm Reserve following Hurricane Zeta, can be appropriately addressed in the future docket evaluating ENO's anticipated application for certification of costs related to Hurricane Ida. In that docket, the Advisors, on behalf of the Council, and any other parties, will have an opportunity to review the accounting for this excess withdrawal, as well as the Hurricane Ida storm costs.

Final Storm Costs

The Application (filed May 21, 2021) states that ENO has incurred \$35,798,619 in Storm Costs through March 31, 2021. However, ENO's actual such costs as presented in the Application through March 31, 2021, were \$28,840,462, which amount was verified by ENO's auditor, Deloitte. The remaining \$6,958,157 was an estimate. Our review of ENO's final accounting of these amounts validates the \$28,840,462 amount, but shows total Storm Costs of \$32,594,926,⁵ or \$3,203,693 less than ENO's filed amount in the Application.

⁵ Value from ENO's response to DR CNO 1-2.

Because ENO withdrew funds in excess of its actual Storm Costs, a mechanism to return these funds to ratepayers or the storm reserve account would have typically been necessary. However, Hurricane Ida struck New Orleans on August 29, 2021, approximately five months after the withdrawals, overwhelming this excess amount with new storm costs. While we recommend that excess withdrawals from the Storm Reserve following Hurricane Zeta be addressed in the future docket evaluating ENO’s anticipated application for certification of costs related to Hurricane Ida, we also believe it would be beneficial to mitigate the potential for excess withdrawals with respect to future storms. Prospectively, and appropriately in Docket No. UD-22-01, the Council may wish to limit the extent to which ENO may make storm reserve escrow withdrawals based on estimated costs. Also, prospectively and in Docket No. UD-22-01, the Council may wish to consider the appropriateness of ENO’s past practice of recovering costs related to multiple unrelated storms through periodic Storm Reserve escrow withdrawals under the theory that storms, sometimes spanning periods of years, constitute a “series” of weather events, which cumulatively reach the cost threshold for withdrawal.

ADVISOR ANALYSES

Scope of Advisor Review

ENO presented a detailed accounting of the transactions constituting its Storm Costs, HSPM Exhibit JBT-4. Through DR CNO 1-2, ENO provided a version of this exhibit reporting the final accounting of the Storm Costs, which the Advisors scrutinized. Through discovery, we examined concerns such as,

- The completeness of data presented in each transaction record.
- Ensuring that all transactions reflect dates reasonably associated with Zeta.
- Ensuring that all transaction geographic data properly reflect costs attributable ENO’s Zeta Storm Costs.
- Ensuring that capital-related costs will be properly recorded on ENO’s books of account.
- Investigating ENO’s anticipated accounting for capital-related costs in ENO’s rate action filings. The Advisors will scrutinize such treatment in ENO’s 2022 FRP evaluation, which is ongoing as of the date of this report.
- Reviewing the appropriateness of certain contract work categorization (*e.g.*, baseload contractors).
- Investigating the net plant in service dollars removed as a result of Zeta (\$2,319,165).
- Investigating amounts coded by ENO as customarily below-the-line expenses and received confirmation that such costs were miscoded and were for above-the-line expenses.

We believe that the discovery propounded to ENO and ENO’s responses thereto, along with data from the Application, were sufficient to allow our review of the topics requested in the Resolution and to support our conclusions and recommendations to the Council in this report.

Retired Plant

Per FERC accounting guidance (General Instruction No. 10), which is applicable to ENO's accounting, when ENO retires plant (*e.g.*, removes a pole damaged by Zeta), it moves the retired plant's net book value (*i.e.*, original cost less accumulated depreciation) to accumulated depreciation (as a debit). This effectively places this net plant amount in ENO's rate base indefinitely, with a carrying cost to ratepayers at ENO's before-tax Weighted Average Cost of Capital as a plant reserve deficiency. Plant retired as part of ENO's Zeta Storm Costs totaled \$2,319,165 and can be viewed as an additional Storm Cost for ENO, because it must be amortized to allow ENO recovery of this capital cost.

ENO's base rates presently provide for amortizing ENO's General Plant Reserve Deficiency at an annual rate of \$510,571, which was calculated to amortize ENO's General Plant Reserve Deficiency as of December 31, 2017 over a 20-year period. At this rate, this additional \$2,319,165 plant reserve deficiency requires approximately 4.5 years to amortize.

It is our understanding that ENO is considering requesting authorization to issue a securitization bond issuance to recover storm costs, such as those related to Hurricane Ida. As part of that authorization, the Council should consider and determine if any plant reserve deficiency balances related to storm costs can be recovered through this potential bond issuance.

Costs Allowed Recovery in Base Rates

ENO's base rates are calculated to allow ENO the reasonable opportunity to recover its operating costs, plus a reasonable return on its net investments in its utility (*i.e.*, ENO's rate base). The amount of revenues ENO requires to recover these costs plus a reasonable return on its rate base is called ENO's revenue requirement. ENO's revenues may be higher or lower than its revenue requirement, which is a risk ENO's shareholders bear. ENO's actual operating costs may be higher or lower than the estimates used to set its rates, which is a risk ENO's shareholders bear and which incentivizes ENO to operate efficiently. ENO's rates are reset to reflect its cost of operations with each Council rate action, which includes complete rate cases and FRP evaluations. A FRP evaluation is underway as of the date of this report.

Regardless of whether ENO's actual revenues fall above or below ENO's cost of service, those costs are deemed recovered because ENO's rates allowed ENO the reasonable opportunity for recovery. As such, any Storm Costs that fall in cost categories that are allowed recovery from ENO's base rates are already deemed recovered and should not be allowed double-recovery through Storm Reserve escrow withdrawals. We identified 520 transactions totaling \$304,424. These costs were categorized as "Straight Time" by ENO and reflect Salaries & Wages of Entergy employees, but excluding "Loaned Labor," which most likely would not be reflected in ENO's base rate cost of service. As the \$3,754,464 in Storm Costs recorded after the Application constituted estimated "Loaned Labor," our expectations were confirmed that none of the "Straight Time" entries totaling \$304,424 were part of this \$3,754,464.

INTERVENOR COMMENTS

The Alliance filed its comments on April 18, 2022, timely according to the procedural schedule in the instant proceeding. The Alliance's comments begin by observing a link between global warming and the frequency and severity of weather impacting New Orleans and ENO's utility system.

The Alliance's comments note that Entergy Corporation had applied for federal grants for improvements to its distribution and transmission systems. The Alliance recommends the Council require of Entergy an accounting for any such federal grant dollars it receives. The Alliance further recommends that any such funds serve to offset Hurricane Zeta storm costs.

The Alliance's comments address ENO's application to issue an approximately \$155 million principle-amount securitization bond for the purpose of funding a \$150 million storm reserve escrow fund (with \$5 million in estimated up-front issuance costs). The Council is considering ENO's request in Docket No. UD-22-01; discovery is underway in that proceeding. The Alliance views this proposed funding of a storm reserve escrow as ratepayers' bearing the risks of investors, noting that shareholders are Entergy's investors, not its customers.

The Alliance's comments argue that climate change has made Entergy's current approach to disaster planning and recovery unfair to ratepayers. The Alliance argues that prudent utility planning should change to include energy efficiency, local renewable energy, and battery storage. Further, Entergy should strengthen and expand existing transmission infrastructure, and underground certain distribution lines as opposed to simply hardening poles. The Alliance asserts future storm cost approvals should be contingent on such changes to Entergy's planning.

Advisor Observations

The Alliance raises concerns and makes recommendations to the Council that are not explicitly related to the issues identified in the Resolution. As such, consistent with the direction given us by the Council, we have not evaluated the costs and benefits of the Alliance's recommendations. However, we note that, should ENO receive any federal grant funds, a complete Council review of their use and regulatory treatment is within the Council's authority. We further note that other ongoing Council proceedings provide for the Council's consideration of the Alliance's other recommendations, specifically Docket No. UD-22-01 regarding securitization to fund a storm reserve escrow account⁶ and Docket No. UD-21-03 regarding system resiliency and storm hardening.⁷

⁶ The Alliance filed a motion to intervene in this proceeding on April 29, 2022, after the filing of its comments in the instant proceeding.

⁷ The Alliance filed a motion to intervene in this proceeding on November 16, 2021.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on our review of available information, including the Application, Intervenor comments, and information we obtained through discovery, we report the following conclusions to the Council.

1. We conclude that ENO's system restoration activities both pre- and post- Zeta were reasonable and necessary to rebuild ENO's electric infrastructure and to restore power to its customers.
2. We conclude that ENO has reasonably demonstrated that the accounting for its costs incurred to restore electric utility service following Zeta ("Storm Costs") was accurate in all material respects and based on appropriate accounting practices and controls.
3. We have found no evidence to suggest ENO's Storm Costs were other than prudently incurred.
4. We conclude that ENO's as filed Storm Costs totaling \$35,798,619 included estimates that turned-out to be overstated. ENO's actual final Storm Costs totaled \$32,594,926. This latter amount represents the recoverable Storm Costs related to Zeta. However, approximately \$304,424 of these Storm Costs are costs that are deemed recovered through ENO's base rates (*i.e.*, "Straight Time") and ENO should not be afforded additional recovery from its Storm Reserve for this amount.
5. We conclude that ENO's withdrawal of \$44,200,000 in Storm Reserve escrow funds, which was based in part on an initial estimate of ENO's Storm Costs for Hurricane Zeta and previous storms, was in excess of ENO costs for the identified purposes.

Recommendations

Based on our review, we offer the following recommendations to the Council,

1. We recommend that the Council find that ENO's system restoration activities both pre- and post- Zeta were reasonable and necessary to rebuild ENO's electric infrastructure and to restore power to its customers.
2. We recommend that the Council find that ENO acted prudently in restoring electric utility service following Zeta; and find that ENO's Storm Costs totaling \$32,594,926 are presumed prudently incurred and therefore recoverable.
3. We recommend that the Council find that ENO's Storm Costs involving "Straight Time" are already allowed recovery through ENO's base rates and are not recoverable through an escrow withdrawal.
4. We recommend that the Council direct ENO to record a regulatory liability equal to the "Straight Time" amount of ENO's Storm Costs, totaling \$304,424, and that such regulatory liability shall be considered in the docket to evaluate ENO's anticipated application for certification of costs related to Hurricane Ida.

5. We recommend that the Council direct ENO in any future system restoration not to seek to recover costs from categories that are allowed recovery through base rates.
6. With respect to the excess withdrawal of \$6,688,734 from the Storm Reserve following Hurricane Zeta, we recommend that the Council consider this amount in the docket to evaluate ENO's anticipated application for certification of costs related to Hurricane Ida.
7. In the construction of any future Storm Reserve Funds (all such funds are presently fully depleted), we recommend the incorporation of provisions to reasonably prevent the withdrawal of funds intended to recover:
 - a. Estimates of costs for which ENO has not yet received an invoice or firm knowledge of the timing and amount of cash disbursement.
 - b. Storm Costs involving costs that are already allowed recovery through ENO's base rates, such as costs identified as "Straight Time."