

August 19, 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 and the Louisiana Utilities Restoration Corporation for Authority to Fund and Finance Storm Recovery Reserves, and Related Relief*, Docket UD-22-01

Dear Ms. Johnson:

Enclosed please find the *Advisors' Report of Their Findings Regarding the Application of Entergy New Orleans, LLC and the Louisiana Utilities Restoration Corporation for Authority to Fund and Finance Storm Recovery Reserves, and Related Relief* in the above referenced matter, which we are requesting to be filed into the record along with this letter. 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.

Sincerely,



Jay Beatmann
Counsel

JAB/dpm
Attachment

cc: Service List for Docket No. UD-22-01

ADVISORS' REPORT OF THEIR FINDINGS
REGARDING THE

APPLICATION OF ENTERGY NEW ORLEANS, LLC, AND THE LOUISIANA UTILITIES
RESTORATION CORPORATION FOR AUTHORITY TO FUND AND FINANCE STORM RECOVERY
RESERVES, AND RELATED RELIEF
COUNCIL RESOLUTION No. R-22-142

DOCKET No. UD-22-01

AUGUST 19, 2022

INTRODUCTION

On February 4, 2022, Entergy New Orleans, LLC (“ENO”) filed with the Council its *Application of Entergy New Orleans, LLC, and the Louisiana Utilities Restoration Corporation for Authority to Fund and Finance Storm Recovery Reserves, and Related Relief* (“Application”).¹ The Application requests permission to establish a new Storm Recovery Reserve (“Storm Reserve”) and fund a related escrow account in the amount of \$150 million through the issuance of a securitization bond series (“Securitization Bonds”).

Council Resolution No. R-22-142 says, “The Advisors are directed to report their findings in the form of a written report (“Report”) on or before Friday, August 12, 2022.”² Our Report is prepared pursuant to this resolution and the Council’s direction.

The Application states that these \$150 million in proposed Storm Reserve funds can be used for interim and/or permanent financing of Hurricane Ida costs, whose unrecovered costs (both capital and O&M) total an estimated \$123.3 million out of \$169.6 million of total costs.³ While the Council has not adopted any resolution certifying any restoration costs related to Hurricane Ida, including the approximately \$46.3 million already applied against these costs from storm reserve escrow withdrawals, based on our review of Hurricane Ida costs and the Council’s history of reviewing ENO’s costs to restore service following major weather events, it is likely that the majority of these costs may be certified by a Council review.

As discussed in detail in this Report, we find substantial efficiencies and ratepayer savings through the issuance of a single securitization bond sufficient to, (1), allow recovery of all of ENO’s unrecovered system restoration costs following Hurricane Ida (subject to Council review and certification), including any carrying costs the Council may certify as recoverable; (2), fund the proposed Storm Reserve to a level of \$75 million; and (3) fund the bonds’ up-front issuance costs. In the interest of minimizing any carrying costs the Council may certify as recoverable, enhancing ENO’s financial position and creditworthiness, and funding a storm reserve, we recommend an expeditious approval and issuance of this new securitization bond.

Summary of Advisor Conclusions and Recommendations

This Report reaches the following conclusions and makes the following recommendations.

- Because the issuance of the proposed Securitization Bonds is reasonably expected to result in ratepayer savings and benefits to ENO, as compared to customary financing, we recommend the Council find that such an issuance is reasonably expected to offer benefits to both ENO and ratepayers and should be authorized.

¹ The Application is jointly filed by ENO and the Louisiana Utilities Restoration Corporation, but for convenience, this Report may refer to these Co-Applicants as ENO where relevant.

² Council Resolution No. R-22-142, Ordering Paragraph 10 at 4. On August 10, 2022, the Hearing Officer in the instant proceeding extended the Report’s filing deadline to August 19, 2022.

³ See ENO’s June 24, 2022 *Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida*, Prayer for Relief at 11.

- ENO’s proposed “Act 293” issuance mechanism is reasonably expected to offer benefits to ENO. As such, we recommend the Council adopt a financing order consistent with this issuance mechanism.
- New Orleans’ history of severe weather indicates that a Storm Reserve, with initial funding at the \$75 million level is appropriate and should be funded through the issuance proceeds of the Securitization Bonds.
- As securitization financing involves interest expense, while periodic storm reserve deposits from ratepayer collections do not, we recommend that the Council authorize an additional billing rider calculated to maintain a target Storm Reserve balance that caps ratepayer bill impacts for all Storm Reserve-related bill elements. An indicative example of such would be a Storm Reserve funding target of \$95 million with a rider whose rate varies such that the sum of the rates of all Storm Reserve-related riders (*i.e.*, SSCR, SSCR II, and this example rider) shall not exceed 7.5% of base revenues.
- The appropriate purpose of a Storm Reserve is to provide liquidity in the event of severe weather. The Council has other mechanisms at its disposal to allow recovery of smaller costs. ENO has interpreted the now exhausted Storm Reserve’s escrow language as allowing recovery of all storm-related costs, no matter their amount. As such, we recommend the Council adopt escrow language permitting withdrawal only in the event of a major storm event causing Storm Costs of at least \$6 million, which is the threshold authorized by the Council for extraordinary cost recovery in Rider EFRP.
- ENO has requested Council certification of \$169.6 million (plus an additional \$9.4 million in carrying charges through December 31, 2022) of Hurricane Ida Storm Costs, of which \$46.3 million has been recovered through storm reserve escrow withdrawals. The Council has not yet established a proceeding (*i.e.*, a docket) for the review of ENO’s application and to consider any related relief. However, based on ENO’s history of making Storm Cost certification filings that substantially reflect recoverable costs, and in order to avoid duplicative securitization bond issuance costs, we recommend the principal amount of the Securitization Bond include funds in this amount. Notwithstanding our recommendation to include funds related to Hurricane Ida Storm Costs as part of the principal of a single securitization bond issuance, the Council reserves its right to deny recovery of any Hurricane Ida costs that may not be certified by the Council review process.
- Based on our recommendation that the issuance proceeds of the Securitization Bond be used to fund, (1) an initial \$75 million Storm Reserve escrow balance, and (2) recovery of likely Hurricane Ida costs in the rough range of \$125 million, we recommend that the Council authorize a Securitization Bond in the principal amount of \$200 million plus up-front issuance costs.

BACKGROUND

Prior Storm Reserve Funds

New Orleans ratepayers have funded two storm reserves for ENO’s benefit, both of which are fully depleted:

1. Following the events of Hurricanes Katrina and Rita, the Council adopted Resolution No. R-06-459, which established a storm reserve (“2006 Storm Reserve”) and authorized riders designed to accumulate a storm reserve escrow balance of \$75 million over a ten-year period.⁴ With the issuance of ENO’s July 22, 2015 securitization bond series (“2015 Bonds”), the riders authorized in this resolution were terminated. The 2006 Storm Reserve’s escrow balance as of December 31, 2020 was \$15.6 million.⁵
2. Pursuant to Council Resolution No. R-15-193, ENO funded a storm reserve escrow in the amount of \$63.9 million using a portion of the net issuance proceeds of its 2015 Bonds (“Securitized Storm Reserve”).⁶ The Securitized Storm Reserve’s escrow balance as of December 31, 2020 was \$67.5 million.

ENO’s Use of Storm Reserve Funds

Table 1 summarizes each of ENO’s storm reserve withdrawals.

Table 1 ENO Storm Reserve Escrow Withdrawals		
Withdrawal Date	Amount	Weather Event
October 2008	\$10.0 million	Hurricanes Gustav and Ike
March 2010	\$9.9 million	Hurricanes Gustav and Ike
December 2011	\$0.3 million	Tropical Storm Lee
November 2012	\$10.0 million	Hurricane Isaac
June 2013	\$7.7 million	Hurricane Isaac
September 2015	\$4.9 million	Hurricane Isaac (Algiers)
October 2015	\$5.9 million	Various Minor Events
December 2017	\$2.5 million	Various Minor Events
March 2021	\$44.2 million	Hurricanes Zeta and Ida
September 2021	\$38.8 million	Hurricane Ida
Total	\$134.2 million	

Of note, a portion of the above withdrawals related to Hurricane Zeta represent ENO’s first recovery of capital costs from a storm reserve escrow withdrawal. Typically, ENO has only recovered deferred-O&M costs through a Storm Reserve escrow withdrawal.

As of December 31, 2021, ENO’s storm reserve escrow funds are depleted. At present, and subject to Council certification, ENO represents that it has approximately \$123.3 million in costs related

⁴ See Council Resolution No. R-06-459, Agreement in Principle Paragraph 15 at 5.

⁵ See Annual Report of Entergy New Orleans, Inc.’s Storm Reserve Fund Escrow Account, January 31, 2017 at 1.

⁶ See *Issuance Advice Letter*, July 16, 2015, Attachment 1, Calculation of Authorized Securitization Amount, which provided for \$31.7 million in Hurricane Isaac recovery and \$63.9 million in storm reserve funding.

to Hurricane Ida that are unrecovered,⁷ plus any carrying costs the Council may certify, substantially all of which are capital costs.

Interim Council Resolution

On August 10, 2022, the Utility, Cable, Telecommunications and Technology Committee advanced a Council Resolution for consideration by the full Council that approves the Louisiana Community Development Authority (“LCDA”) as the issuer of the Securitization Bonds. This Resolution is substantially procedural and is not expected to have any material impact on the Council’s review of the Securitization Bonds’ issuance or their expected benefits to either ENO or the ratepayers.

ENO’S APPLICATION

The Application is filed jointly by “Co-Applicants” ENO and the Louisiana Utilities Restoration Corporation (“LURC”). LURC is the government body that would own the right to collect funds required to service the proposed Securitization Bonds, although ENO ratepayers would be solely responsible for paying those bonds’ debt service requirements. ENO would not record a balance sheet liability related to the proposed Securitization Bonds. The Application requests the Council:

1. Approve and authorize LURC to finance through the issuance of storm recovery bonds the aggregate principal amount of approximately \$155 million to replenish and fund ENO’s storm recovery reserves, as well as to pay or reimburse the issuance and other costs with respect to the financing;⁸
2. Approve the proposed financing structure;
3. Approve the issuance of storm recovery bonds by an issuer (the “Issuer”), either the Louisiana Local Government Environmental Facilities and Community Development Authority (“LCDA”) or the Louisiana Public Facilities Authority (“LPFA”), whichever is selected by LURC and approved by the Council;
4. Create storm recovery property of ENO, including the right to impose, collect, and periodically adjust storm recovery charges sufficient to pay the storm recovery bonds and associated financing costs;
5. In accordance with La. R.S. §§ 45:1237(C) and 45:1239(A), authorize and require the LURC to use all of the net proceeds from the issuance of storm recovery bonds to purchase the storm recovery property from ENO; and
6. Approve tariffs for the Company to implement the storm recovery charges on behalf of the Corporation and to address effects related to the financing. The key aspect of the Application is the request for Council’s adoption of a Financing Order (*i.e.*, a Resolution

⁷ See ENO’s June 24, 2022 *Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida*, Prayer for Relief at 11 (\$169.6 million in Total Storm Costs less \$46.3 million in storm reserve withdrawals equals \$123.3 million).

⁸ See Application, Attachment 1 (Form of proposed Financing Order).

authorizing a bond issuance) authorizing a Securitization Bond issuance intended to generate \$150 million in net issuance proceeds to fund a new Storm Reserve.

The key practical elements of the Application’s requests are (1), the issuance of Securitization Bonds, (2), the adoption of a new rider (Rider SSCRII) to collect debt service funds, and (3), the establishment of an escrow and its operating procedures, including the conditions whereupon ENO may receive funds from that escrow account.

Table 2, below, presents ENO’s estimated typical bill impacts in the Application.

Table 2 ENO’s Estimated Initial Monthly Typical Bill Impact (Legacy Customers)			
Customer Type	Energy kWh	Demand kW	Change to Bill
Residential	1,000	-	\$3.94
Small Electric	9,125	50	\$41.65
Large Electric	91,250	250	\$290.60

We note that the above typical bill impacts from the Application are based on Securitization Bonds whose principal totals \$155 million and an indicative weighted average annual interest rate of the Securitization Bonds of 2.63%.⁹ Interest rates for securities such as the Securitization Bonds change daily, and if such bonds were issued today, we expect these typical bill impacts would be higher.

Proposed Securitization Bonds

The Application proposes to issue the Securitization Bonds under the authority of La. R.S. 45:1226-1240 (“Act 293”), which is a modification to LA R.S. 45:1226-1236 (“Act 64”), under which ENO issued the 2015 Bonds. Act 293 adds to the Louisiana law the option for ENO to not directly issue the Securitization Bonds, but rather to have issuance by a government instrumentality and corporation of the State of Louisiana. As such, for securitization bonds issued by such government corporations, ENO will not record their outstanding principal as a liability on its balance sheet.

Act 64 and Act 293 share much of the same sections of Louisiana Law. Act 293 can be viewed as an amendment and expansion of the law created by Act 64. However, for convenience, in this Report, we refer to securitization bonds issued by a government corporation as “Act 293 Bonds” and securitization bonds issued by a subsidiary of ENO as “Act 64 Bonds.”

BENEFITS OF SECURITIZATION

Financing through Securitization offers significant benefits to both ENO and ratepayers. The Council has, in Docket No. UD-14-01, investigated the benefits of securitization financing in general. In Resolution No. R-15-193, the Council concluded that the benefits of the 2015 Bonds would result in lower overall costs and mitigate rate impact as compared to traditional cost

⁹ See Application, Paragraph 16 at 11.

recovery (*i.e.*, allowing ENO a return on rate base and recovery of depreciation expense).¹⁰ The instant circumstances are substantially similar as those in Docket No. UD-14-01.

Financing Storm Costs

Compared to ENO's present before-tax Weighted Average Cost of Capital ("WACC") of 8.64%, ENO's indicated 2.630%¹¹ yield of the Securitization Bonds provides a significantly lower-cost means of financing ENO's storm-related costs. We note that interest rates have changed since ENO filed its Application, however, present rates remain attractive as compared to ENO's WACC, which itself can change upward as ENO's long-term cost of debt may also vary.

With regard to the financing of Storm Costs, securitization bond debt improves ENO's financial ratios as compared to traditional cost recovery. Plausibly, financing through securitization as compared to traditional cost recovery could have a positive effect on ENO's credit rating.

Initial versus Long-Term Ratepayer Benefits of Securitization

The costs of the proposed Securitization Bonds are to be recovered over a 15-year period, with the annual ratepayer cost being roughly equal in each year. However, based on ENO's 2021 FERC Form 1 filing, ENO's average depreciable life of distribution plant (which is substantially the category of plant investment in the unrecovered Hurricane Ida Storm Costs) is approximately 35.8 years. ENO's recovery *of* (*i.e.*, depreciation expense) these costs may be spread-out over a longer period with traditional cost recovery than with a 15-year Securitization Bonds. This difference is offset by significantly lower carrying costs under securitization versus traditional cost recovery (*i.e.*, the Securitization Bonds' yield versus ENO's WACC), and in many scenarios, securitization has a lower initial ratepayer impact as compared to traditional cost recovery.

Based on the Securitization Bonds' 15-year tenor and an assumed 25-year depreciable life of the capital Hurricane Ida Storm Cost-related plant, any Securitization Bond Yield less than 6.67% will result in an initial ratepayer savings versus traditional cost recovery. We are informed that the current indicative yield on the Securitization Bonds is significantly less than 6.67%, although bond yields vary daily, and the final issuance terms of the Securitization Bonds are not set. In all likely scenarios in the instant proceeding, securitization offers significant ratepayer savings versus traditional cost recovery over the life of the related plant.

A precise estimate of the relative initial ratepayer impact of securitization versus traditional cost recovery of capital Storm Costs is not possible because the depreciable life of the Hurricane Ida capital Storm Costs is not known, and the Securitization Bonds' indicative yield changes daily. However, at the Application's indicated 2.63% Securitization Bond yield and assuming a 35-year depreciable life of the capital Storm Costs, recovery through securitization suggest a first-year ratepayer benefit of roughly \$3.4 million, with a nominal lifetime ratepayer benefit of roughly \$150 million. If the Securitization Bonds' yield were at 6.67%, the initial ratepayer impact of securitization versus traditional cost recovery would be roughly zero, and the lifetime ratepayer benefit would be roughly \$97.7 million; this savings amount is primarily because once the bonds are paid-off, all ratepayer costs cease, while under traditional cost recovery, ratepayer costs would

¹⁰ See Council Resolution No. R-15-193 at 3 and Paragraph 31 at 21.

¹¹ See Application, Exhibit PJC-1 at 1. Market conditions for bonds have changed since ENO's Application, and current indicative rates may be significantly higher than 2.630%, but still substantially less than 8.64%.

continue for more than 15 additional years. Presently, the bond market suggests a Securitization Bond yield that can be expected to offer both initial and long-term ratepayer benefits.

Funding Storm Reserve

With regard to the funding of a Storm Reserve, there are two practical options for ENO and its ratepayers: (1) prefunding through securitization, and (2) the accrual of a Storm Reserve escrow balance through ratepayer collections (*i.e.*, through a rider). The rider option involves no financing costs, while the securitization option provides immediate funding. As ENO's storm reserve escrow accounts are depleted, and as New Orleans has a demonstrated history of periodic severe adverse weather and significant Storm Costs, it is appropriate to use the Securitization Bonds issuance proceeds to immediately fund a reserve. Without a funded Storm Reserve, ENO reasonably is at increased financial risk in the event of a severe adverse weather event.

To the extent ENO can accrue Storm Reserve funding through a rider, financing costs are avoided. Long-term, this funding approach offers the better ratepayer efficiency. As such, as discussed later in this Report, a funding rider with a target balance is an appropriate means of funding any Storm Reserve target the Council may authorize.

SECURITIZATION ACTS

Louisiana has four securitization acts¹² relevant to public utilities: LA R.S. 45:1311-1328 ("Act 55"), Act 64, Act 293, and LA R.S. 45:1251-1257 ("Act 988"). Act 55's potential tax benefits became inoperative with the passage of the Tax Cuts and Jobs Act of 2017, making Act 55 an impractical choice under current tax law. Act 988 addresses stranded utility costs and is irrelevant to this bond issuance. As such, the two securitization laws appropriate for consideration in the instant proceeding are Act 64 (under which ENO issued the 2015 Bonds) and Act 293 (ENO's proposed securitization law in the instant proceeding).

The key difference between a bond series issued pursuant to Act 293 versus Act 64 is that Act 293 bonds are not liabilities of Entergy Corporation or any of its subsidiaries, while Act 64 bonds are liabilities of a special purpose subsidiary of ENO and are presented as liabilities on ENO's and Entergy Corporation's consolidated balance sheets.

Compared to Act 64 Bonds, ENO's nominal financial metrics relative to its creditworthiness are improved with an Act 293 bond. However, ENO states through discovery:

- there would not be an expected differential in credit ratings between Act 64 bonds and Act 293 bonds;
- there is no expectation of any relative differential in yields to maturity between Act 64 bonds and Act 293 bonds; and
- There is no expectation of any relative difference of timeframes from Council approval of a financing order to the sale of bonds between Act 64 bonds and Act 293 bonds.¹³

¹² As discussed above, Act 64 and Act 293 share significant common sections of Louisianan law.

¹³ See ENO's response to DR CNO 1-6.

There is, however, a significant increase in the up-front issuance cost of bonds issued pursuant to Act 293 (“Act 293 Bonds”) compared to bonds issued pursuant to Act 64 (“Act 64 Bonds”). Compared to ENO’s estimate for its proposed Act 293 Bonds, the equivalent Act 64 Bonds would cost \$1,766,818 less.¹⁴ Further, annual ongoing financing costs are estimated to be \$182,369 more for Act 293 Bonds compared to Act 64 Bonds.¹⁵

However, Act 293 Bonds are still a substantial ratepayer benefit as compared to traditional cost recovery, and any delay to the ongoing process of approving and issuing the Securitization Bonds is reasonably likely to cost ratepayers more than the identified costs of Act 293 Bonds versus Act 64 Bonds; *e.g.*, ENO has requested certification of carrying costs on its unrecovered Hurricane Ida Storm Costs, whose cost would likely exceed the \$1.8 million up-front issuance cost differential after only a two-month delay. As such, we recommend the Council approve the Act 293 Bonds as requested in the Application.

SECURITIZATION TIMEFRAME

ENO has indicated that, if the Council issues a Financing Order authorizing the Securitization Bonds by September 15, 2022, the Securitization Bonds may be issued by December 14, 2022, which reflects a 90 calendar day issuance process. This indicative schedule is roughly comparable to that of the 2015 Bonds, but somewhat longer. Our review of a summary of ENO’s issuance timeframe document indicates that this 90-day timeframe is reasonable.

We note that the Gulf hurricane season is commonly regarded as June-November. As such, it is not plausible for the Securitization Bonds’ issuance proceeds to fund the Storm Reserve for the instant hurricane season. However, ENO has requested recovery of carrying costs on its Hurricane Ida Storm Costs, so the expeditious issuance of the Securitization Bonds may reduce the total amount of any carrying costs the Council may certify as recoverable.

STORM RESERVE FUND

ENO proposes to prefund a Storm Reserve escrow account at approximately \$150 million. The Council should consider what level of Storm Reserve funding is appropriate and the most appropriate mechanism or mechanisms to achieve such funding. Key to this consideration is an evaluation of (1) the appropriate role of a Storm Reserve, (2) ENO’s historical Storm Costs as an indicator of the Storm Reserve’s funding need, and (3) the appropriate role of securitization in achieving the Storm Reserve’s targeted funding.

ENO’s Historical Storm Costs

Table 3, below, summarizes ENO’s historical Storm Costs since Hurricane Katrina.

¹⁴ *See Id.*

¹⁵ *See Id.*

Table 3¹⁶				
Summary of ENO's Historical Storm Costs				
(Dollars in Millions, Nominal)				
Year	Storm	Capital	O&M	Total
2005	Hurricanes Katrina/Rita	\$108.0	\$ 97.0	\$205.0
2008	Hurricanes Gustav/Ike	31.3	20.2	51.5
2011	Tropical Storm Lee	0.9	0.3	1.2
2012	Hurricane Isaac	29.7	17.6	47.3
2017	Feb Storm/Tornado	9.0	1.3	10.3
2017	Hurricane Nate	0.7	0.6	1.3
2017	Tropical Storm Cindy	0.5	0.1	0.6
2020	Hurricane Sally	-	1.2	1.2
2020	Hurricane Delta	0.4	0.1	0.5
2020	Hurricane Laura	1.9	0.5	2.4
2020	Hurricane Zeta	25.6	7.0	32.6
2021	Winter Storm Uri	0.6	0.2	0.8
2021	Hurricane Ida	130.1	39.4	169.6
Total:		\$365.0	\$189.6	\$554.6
Annual Average:		\$19.9	\$10.9	\$30.8
Annual Average Post-Katrina-Rita:		\$14.4	\$5.5	\$20.0

ENO proposes a \$150 million Storm Reserve funding level using the issuance proceeds of a Securitization Bond having a 15-year period of scheduled principal debt service payments (*i.e.*, tenor). It is clearly disadvantageous, and contrary to the regulatory principle of prospective ratemaking, for such funds to be exhausted prior to the final debt service payment of the Securitization Bonds.

Accepting that the events of Hurricane Katrina were anomalous in that they involved flooding in addition to hurricane damage, ENO's post Hurricane Katrina and Hurricane Rita Storm Costs average \$20.0 million per year, while ENO's proposed 15-year funding averages \$10 million per year. At ENO's post Katrina-Rita annual average total Storm Cost, ENO would expend its entire \$150 Storm Reserve in roughly half of the proposed 15-year Securitization Bonds' tenor.

However, apart from Hurricane Zeta and ENO's potential recovery of Hurricane Ida costs through the issuance proceeds of the Securitization Bonds, ENO has never used storm reserve funds to recover capital Storm Costs. At ENO's post Katrina-Rita annual average O&M Storm Cost, ENO would not exhaust its \$150 Storm Reserve over the proposed 15-year Securitization Bonds' tenor. Our recommended \$75 million in initial Storm Reserve funding level, plus a rider with a targeted \$95 million funding amount is likely sufficient based on ENO's historical average Storm Costs.

¹⁶ Sources: ENO's Response to DR CNO 1-8. Regarding Hurricane Ida, *See* ENO's June 24, 2022 *Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida*, Table 1 at 4.

ENO's Storm Reserve Escrow Withdrawals

Table 4, below, presents ENO's Storm Reserve escrow withdrawals, through the exhaustion of all of ENO's Storm Reserves following the events of Hurricane Ida.

Year	Event Name or Type	Withdrawal Amount
2008	Hurricane Gustav and Hurricane Ike	\$10.0
2010	Hurricane Gustav and Hurricane Ike	9.9
2011	Tropical Storm Lee	0.3
2012	Hurricane Isaac	10.0
2013	Hurricane Isaac	7.7
2015	Thunderstorms	10.8
2017	Thunderstorms	2.5
2021	Hurricane Zeta and Hurricane Ida	83.0
Total:		\$134.2

Appropriate Storm Reserve Funding Target

In only one year (2021) since the Council first authorized a Storm Reserve has ENO withdrawn more than \$75 million (the Storm Reserve funding target the Council has set in the past).¹⁷ The historical evidence does not support a \$150 million Storm Reserve funding target.

Even ENO's proposed \$150 million Storm Reserve funding level would not have provided ENO full recovery of its Hurricane Zeta and Hurricane Ida Storm Costs (O&M and capital). In our opinion, prefunding through a Storm Reserve all potential Storm Costs does not balance all stakeholder interests. A Storm Reserve constitutes carrying costs if it is prefunded (*i.e.*, through the Securitization Bonds' issuance proceeds) and opportunity costs in all cases (*i.e.*, those funds, which earn de minimis returns, could be used for the benefit of ratepayers). The proper Storm Reserve funding target should provide ENO appropriate liquidity in the event of extreme weather and Storm Costs, but not necessarily complete recovery of all Storm Costs.

A reasonable target funding range may be \$95 million which is in excess of any prior year's withdrawal amount.¹⁸ Based on a balancing of ratepayer costs of funding a Storm Reserve versus the Council's historical policy of providing ENO liquidity in the likely event of extreme weather and related Storm Costs, the Advisors recommend an initial prefunding of \$75 million and a long-term funding target of \$95 million through a Storm Reserve funding accumulation rider ("Rider ESRESII")

¹⁷ See Council Resolution No. R-06-459, Ordering Paragraph 18 at 11. See also Council Resolution No. R-15-195 at 16.

¹⁸ See Bureau of Labor Statistics, CPI Inflation Calculator (https://www.bls.gov/data/inflation_calculator.htm) (\$75 million in May 2015, when the Council authorized ENO's 2015 Bonds, has the same buying power as does \$93.4 million today).

Storm Reserve Funding Rider (Rider ESRESII)

If, as we recommend, ENO's Storm Reserve initial funding through the Securitization Bonds' issuance proceeds is approximately \$75 million, an additional funding source is required to achieve and maintain our recommended \$95 million target, or any target funding level the Council may adopt. Rider ESRESII is beneficial because it spreads the ratepayer cost over several years, may be adjusted at the Council's discretion, and incurs no bond financing costs.

ENO's present securitization rider, Rider SSCR, is due to expire in mid-2024. Its present rate is 3.22% of base revenues.¹⁹ ENO estimates that SSCR's effect on a typical residential bill is \$2.64/mo.²⁰

ENO's proposed Securitization Bonds' Rider SSCRII, which would become effective while Rider SSCR is still in effect, has an indicated rate of 4.68% of base revenues.²¹ ENO states that the typical residential bill impact of this bond would be \$3.94.²² This bill impact reflects a \$155 million Securitization Bond. As we recommend the Council approve an additional \$50 million in principal for the purposes we discuss in this Report, we extrapolate this rate and typical residential bill impact to be approximately 6.18% of base revenues and \$5.21/mo. respectively.

ENO estimates that one percent (*i.e.*, 100bp) of a base rider's rate results in approximately \$3.77 million in collections.²³ To retain rate stability, the Council could establish Rider ESRESII whose rate is periodically reset according to a procedure:

1. Rider ESRESII would become effective with the expiration of Rider SSCR (*i.e.*, the final ratepayer collection of funds for the debt service payments of the 2015 Bonds). We are informed by ENO representatives that Rider SSCR will expire in mid-2024.
2. Rider ESRESII's rate (applied to base revenues similarly as with Riders SSCR and SSCRII) is zero when the sum of all ENO's Storm Reserve escrow balances is equal to or greater than \$95 million.
3. Rider ESRESII's rate, when not zero, shall be the lesser of,
 - a. A rate against base revenues equal to that required to collect \$9.5 million annually (a rate that would fund a depleted Storm Reserve to its target level of \$95 million over a 10-year period),²⁴ or
 - b. 7.5% of base revenues less the rate of Rider SSCRII. This caps the total Storm Reserve-related costs at 7.5% of base revenues, which equates to approximately a

¹⁹ See Rider SSCR, Attachment A at 1 (Effective 8/1/2022).

²⁰ See ENO's 2022 FRP Evaluation Filing, *Typical Bills, without Decoupling Bill Comparison*, summer rate.

²¹ See Application, Exhibit SMC-2 at 1.

²² See *id.*

²³ See Application, Exhibit SMC-5 at 2 (a 4.5782% rate collects \$12,956,738 over 9 months. $\$12,956,738 / 4.5782 * 12 / 9 = \3.77 million).

²⁴ See Council Resolution No. R-06-459, Ordering Paragraph 15 at 5 ("The Storm Reserve principal amount shall be accumulated by the collection over a ten (10) year period . . .").

\$6.31 maximum typical residential monthly bill impact when Rider ESRESII is effective.

We note that, based on the construction of ENO's 2006 Storm Reserve, established as part of Council Resolution No. R-06-459, and securitized Storm Reserve funded through the 2015 Bonds' issuance proceeds, it is likely that a separate Storm Reserve may be required to receive funds collected through our recommended Storm Reserve funding rider. We refer to Council Resolution No. R-06-459 and to the now-terminated Rider ESRES as to the construction of this new Storm Reserve, as may be required.

STORM RESERVE DESIGN

The Application provides a form of ENO's proposed Financing Order (a Council Resolution). The purpose of the Financing Order is to authorize ENO and LURC to proceed with the issuance of the Securitization Bonds, consistent with the requirements of Act 293. Our review of this document and certain Appendices thereto indicates that this draft Financing Order is consistent with the Council's last such Financing Order (Council Resolution No. R-15-193), which has proven to be successful in allowing ENO to issue and service the 2015 Bonds. Where the draft Financing Order differs from Resolution No. R-15-193, it appears to be in compliance with Act 293 and the role of state parties issuing the Securitization Bonds.

Of note, our review of proposed Rider SSCRII, which is the means by which ratepayers will provide the funds required to make debt service payments on the Securitization Bonds, indicates its mechanisms are the same as those of Rider SSCR.

We note that the proposed Financing Order is intended to satisfy specific legal requirements of an Act 293 Bond issuance, and as such, we do not recommend substantive edits to its language.

Regarding the Storm Reserve Escrow, Appendix E to the proposed Financing Order (which was not provided as part of the Application's filing), we do recommend certain edits, which we discuss below.

Storm Reserve Escrow Withdrawals

ENO has, in our opinion, misinterpreted Council directives as to which weather-related costs are recoverable through a storm reserve escrow withdrawal, specifically with respect to a defined term, "Triggering Weather Event."

Both Resolution Nos. R-06-459 (which governed ENO's 2006 Storm Reserve) and R-15-193 (which governed ENO's 2015 securitized storm reserve) define a Triggering Weather Event similarly. Resolution No. R-06-459's relevant language is presented below, with Resolution No. R-15-193's language presented in bold brackets where it differs.

Triggering Weather Event(s) shall consist of:

- a) A storm or weather event the occurrence or prospective occurrence of which prompted the issuance by the National Weather Service (or successor agency) of a "watch," "warning," or "advisory" covering at least a portion of ENO's service territory;*
- or*

b) A "named" hurricane or tropical storm named by the National Weather Service (or successor agency); or

c) A storm or weather event in any portion of ENO's service territory for which either 1) the President **[of the United States]** declares a "Federal Disaster Area" or makes a similar declaration and/or 2) the Governor of Louisiana declares a "State of Emergency" or makes a similar declaration; and

d) A storm or weather/weather-related event, or a series of such events, the occurrence of which causes ENO to incur at least \$500,000 **[\$1,500,000]** of costs in aggregate (such costs as would be accounted for as deferred O&M in Account 228 or as capital expenditures in Accounts 107 or 108 consistent with the Company's Storm Damage policy) to repair damage caused by that event and/or otherwise to restore electric and/or gas service and/or replace or remove tangible assets in ENO's service territory in the aftermath of such an event(s); or

e) other triggering events as may be defined in the Escrow Agreement. **[this language is absent in Resolution No. R-15-195]**

A "series" of weather incidents as moderate as a thunderstorm watch whose related recovery costs total at least \$500,000 and \$1,500,000, in the case of the 2006 Storm Reserve and securitized storm reserve respectively, constitutes a triggering weather event. ENO's interpretation of the term "series" has allowed ENO to make storm reserve escrow withdrawals consistent with interpreting a "series" as any number or type of weather events across any period of time, even if the weather events are unrelated. ENO has simply withdrawn the sum of such events' related Storm Costs.

As Table 4, above, shows, in addition to Storm Reserve escrow withdrawals for major weather events such as Hurricanes, ENO has recovered costs related to minor weather events such as thunderstorms through Storm Reserve escrow withdrawals.

Recommended Storm Escrow Language

We recommend that ENO be allowed Storm Cost recovery through a Storm Reserve escrow withdrawal for the purpose of providing ENO liquidity during periods following severe adverse weather events, but not for Storm Costs associated with minor weather events such as thunderstorms that do not pose a liquidity challenge to ENO. As such, we recommend the following language in any escrow agreement (*i.e.*, Appendix E to the Financing Order) the Council may adopt. The below language represents ENO's proposed language with our recommended modifications in red.

(2) A Triggering Weather Event is defined as:

(i) Hurricane Ida in 2021; or a "named" hurricane or tropical storm named by the National Weather Service (or successor agency), ~~and any other future storm or weather event the occurrence or prospective occurrence of which prompted the issuance by the National Weather Service (or successor agency) of a "watch," "warning," or "advisory" covering at least a portion of ENO's service territory;~~ or

(ii) A storm or weather event in any portion of ENO’s service territory for which either (1) the President of the United States declares a “Federal Disaster Area” or makes a similar declaration or (2) the Governor of Louisiana declares a “State of Emergency” or makes a similar declaration; and (*i.e.*, in addition to either condition (i) or condition (ii)

(iii) The occurrence of an event ~~or a series of events~~ related to a storm or weather/weather-related event, which causes ENO to incur at ~~least \$1,500,000~~ \$6 million of costs ~~in aggregate (such costs as would be accounted for as deferred O&M in Account 228 or at least \$12 million in costs~~ as capital expenditures in Accounts 107 or 108 consistent with ENO’s Storm Damage policy) to repair damage caused by that event or events and/or otherwise to restore electric service and/or replace and/or remove tangible assets in ENO’s service territory in the aftermath of such event or events.²⁵

The above edits to ENO’s proposed language significantly align our opinion as to the proper purpose of a Storm Reserve and ENO’s access to such funds. We note that our recommended \$6 million monetary triggering amount is consistent with Rider EFRP’s provision for special recovery of extraordinary costs.²⁶ The \$12 million monetary triggering amount recognizes that ENO regularly makes significant capital expenditures whose related costs are recoverable over time. As such, a larger triggering amount for capital costs is warranted. We also note that nothing in the above recommended language prevents ENO from requesting recovery of minor storm costs as part of Council rate actions (*e.g.*, FRP Evaluations); rather the above language limits ENO’s Storm Reserve escrow withdrawals at its own discretion.

RECOMMENDED SECURITIZATION STRUCTURE

The Application proposes a \$155 million securitization bond issuance that would fund a Storm Reserve at \$150 million. While ENO’s proposed Storm Reserve escrow language would allow a withdrawal to recover its Hurricane Ida Storm Costs, ENO has not specifically proposed this withdrawal. Should ENO do so, the Storm Reserve would have roughly \$25 million in remaining funding, which is arguably inadequate.

Further, the Application indicates up-front Securitization Bond issuance cost of \$5.1 million, most of which are substantially fixed and not variable with the bonds’ principal amount. Further annual ongoing administrative costs are estimated to total \$0.6 million.²⁷ ENO has suggested that it might request a second securitization bond issuance to provide recovery of its Hurricane Ida Storm

²⁵ Source: Supplemental Financing Order information from ENO, July 23, 2022 (Appendix E: Storm Recovery Reserve Escrow Agreement at 2-3).

²⁶ See Rider EFRP-6 Sec. III.A. at 30.5 (“Should ENOL experience such an extraordinary cost increase or decrease, excluding costs recovered via the Fuel Adjustment Clause, having an annual revenue requirement impact exceeding \$6 million on a total electric Company basis then either the Company or the Council may initiate a proceeding to consider a pass-through of such extraordinary cost increase or decrease.”)

²⁷ See Application, Exhibit SCM-1 at 1.

Costs.²⁸ Such a second issuance reasonably might involve duplicative up-front issuance costs and ongoing servicing fees.

As such, a single securitization bond issuance likely offers substantial efficiencies versus two bond issuances in terms of up-front issuance costs and ongoing servicing costs.

We recommend a single Securitization Bond issuance in the principal amount of approximately \$205 million. The issuance proceeds of this bond would be used to (1) provide recovery of Council-certified Hurricane Ida Storm Costs of roughly \$125 million, (2) funding of a Storm Reserve at roughly \$75 million, and (3) funding of up-front issuance costs of roughly \$5 million. Any rounding amount or variance in actual disbursements would be reflected in the Storm Reserve's balance.

As discussed earlier in this Report, Rider ESRESII may be approved to supplement ENO's Storm Reserve funding to a higher target than \$75 million (we recommend a target of \$95 million).

SUPPLEMENTAL INFORMATION FROM ENO

Certain information, while not required for our recommendation that the Securitization Bonds issuance proceed, should be provided by ENO for a complete understanding of the securitization process.

ENO representatives expressed some interest in the Advisors' recommendation of a roughly \$200 million Securitization Bond issuance, based on discussions with LURC and ENO representatives. ENO should consider our recommendation here, evaluate its feasibility, and indicate whether they support proceeding in this manner.

The Application did not include the Appendices to the form of the Financing Order:

- Appendix A: Form of Issuance Advice Letter
- Appendix B: Allocation Methodology, Rider SSCRII and Rider SSCOII²⁹
- Appendix C: Estimated Upfront and Ongoing Financing Costs³⁰
- Appendix D: Form of True-Up Letter³¹
- Appendix E: Escrow Agreement.³²

²⁸ See ENO's June 24, 2022 *Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida*, attachment to the Direct Testimony of Amy M. Parker ("Entergy New Orleans is considering all available avenues to recover storm-related costs from Hurricane Ida, including securitization).

²⁹ Draft versions of Rider SSCRII and SSCOII were provided in the Application as Exhibits SMC-3 and SMC-6 respectively.

³⁰ Projected up-front and ongoing financing costs were provided in the Application as Exhibit SCM-1.

³¹ A sample True-Up calculation was provided in the Application as Exhibit SMC-5.

³² On July 23, 2022, ENO provided a draft Escrow Agreement.

ENO should provide forms of these documents in the record of the instant proceeding. ENO should include the Advisors' recommended edits to the Escrow Agreement or discuss factors for the Council's consideration of the Advisors' recommended Escrow Agreement language.

The Application's indicative Securitization Bond terms, as well as the calculated Rider SSCRII rates and bill impacts arising therefrom do not reflect the current market for such bonds. ENO should provide its most currently available indicative terms for the Securitization Bonds, including updated Rider SSCRII revenue requirements and related typical bill impacts.

The Advisors have recommended two Storm Reserve funding mechanisms: prefunding through the Securitization Bonds' issuance proceeds (\$75 million) and a new rider intended to achieve and maintain a total of \$95 million in Storm Reserve funding. ENO should evaluate this recommendation and offer its comments.

Further, ENO may offer any other comments in furtherance of an expeditious Council-adoption of a Financing Order.

We note that ENO has proposed that the Council issue the Financing Order by September 15, 2022.³³ As such, ENO's timely filing of these documents and recommended comments is helpful in accomplishing ENO's requested timeframe. We therefore recommend that ENO make these filings within two weeks of the date of this Report.

CONCLUSIONS AND RECOMMENDATIONS

We conclude:

1. The issuance of the proposed Securitization Bonds with a tenor of 15 years and a yield in the rough range of comparable such bonds' yields in today's market is reasonably expected to result in ratepayer savings and some benefits to ENO, as compared to customary financing.
2. ENO's having access, under prescribed circumstances, to a Storm Reserve in the initial amount of roughly \$75 million and with an eventual funding target of \$95 million benefits both ENO and ratepayers.
3. It is generally preferable to accumulate Storm Reserve funds through a collection rider rather than through securitization bond proceeds, as the former involves no interest cost to ratepayers.
4. ENO's proposed "Act 293" issuance mechanism is reasonable.
5. ENO's estimated up-front issuance costs of \$5.1 million are reasonable based on our review of such costs in the issuance of the 2015 Bonds. Further, most of these costs are largely fixed, which indicates substantial efficiencies in issuing a single bond issuance.
6. Based on prior ENO storm cost certification applications and their review, it is likely that the Council's review of ENO's Hurricane Ida cost certification application will result in

³³ Our review of the Council's calendar as of the date of this Report indicates a regular Council meeting on September 15, 2022.

the certification of the substantial majority of ENO's proposed Hurricane Ida Total Storm Costs of \$169.6 million, of which \$123.3 million remains unrecovered. Notwithstanding our recommendation to include funds related to Hurricane Ida Storm Costs as part of the principal of a single securitization bond issuance, the Council reserves its right to deny recovery of any Hurricane Ida costs that may not be certified by the Council review process.

7. Based on ENO's history of making Storm Cost certification filings that substantially reflect recoverable costs, and in order to avoid duplicative securitization bond issuance costs, an appropriate principal amount of the Securitization Bond should fund (1) a Storm Reserve at approximately \$75 million, (2) recovery of roughly \$125 million in Hurricane Ida Storm Cost, subject to Council certification, and (3) the Securitization Bonds' up-front issuance costs presently estimated to be approximately \$5.1 million.
8. The appropriate purpose of a Storm Reserve is to provide liquidity in the event of severe weather. The Council has other mechanisms at its disposal to allow recovery of smaller weather-related costs.

Recommendations:

1. We recommend the Council adopt a financing order consistent with the form of the one included in the Application for the issuance of the Securitization, as modified per our recommendation regarding Appendix E: Escrow Agreement and the Securitization Bonds' principal amount.
2. We recommend the Securitization Bond be issued in the principal amount of approximately \$205 million, with a 15-year tenor, and at a yield to maturity no greater than 6.0%.
3. We recommend the Council authorize the issuance of the Securitization Bonds using Act 293.
4. We recommend that the Council authorize Rider ESRESII, commencing with the expiration of Rider SSCR, that is calculated to maintain a target total Storm Reserve balance of \$95 million. We recommend that this rider's rate shall not exceed the lesser of (1) 7.5% of base revenues less Rider SSCRII's rate as a percent of base revenues (*i.e.*, the sum of these riders' rates shall not exceed 7.5%), or (2) a rate applied to base revenues calculated to generate \$9.5 million in annual receipts.
5. We recommend the Council adopt escrow language as marked-up in this Report.
6. We recommend that ENO provide supplemental information in this proceeding within two weeks of the date of this Report, including
 - a. A statement whether ENO conceptually agrees with our recommendation that the Securitization Bonds be in the principal amount of approximately \$205 million and a discussion of the expected effects of effectively adding \$50 million to ENO's proposed bonds' principal.
 - b. ENO's most currently available indicative terms for the Securitization Bonds, including updated Rider SSCRII revenue requirements and related typical bill

impacts (based on principal of \$205 million to the extent ENO agrees to pursue this approach).

- c. Forms of all proposed Financing Order Appendices, with Appendix E reflecting the Advisors' recommended changes.
- d. Any other comments ENO may offer in furtherance of an expeditious Council-adoption of a Financing Order.