

August 15, 2023

**BY E-MAIL**

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: *In Re: Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida*, Docket No. UD-22-05

Dear Ms. Johnson:

Enclosed please find the *Investigation and Review of Entergy New Orleans, LLC's Application for Certification of Costs Related to Hurricane Ida* 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

JB:dpm

Attachment

cc: Official Service List for UD-22-05

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

**COUNCIL RESOLUTION NO. R-22-482**

**DOCKET NO. UD-22-05**

**August 15, 2023**

**Legend Consulting Group Limited**

## SUMMARY

On May June 24, 2022, Entergy New Orleans, LLC (“ENO”) filed its *Application of Entergy New Orleans, LLC for Certification of Costs Related to Hurricane Ida* (“Application”), totaling 341 pages and which involved the testimony of seven ENO witnesses.<sup>1</sup> The Application requested in part that the Council,

- a. Find ENO’s Total Storm Costs of \$169.6 million incurred (including estimated costs) through May 31, 2022, plus \$9.4 million in carrying charges, for a total of \$179.0 million, to be reasonable, necessary, and prudently incurred,
- b. Find that storm reserve withdrawals of \$46.3 million are properly applied against total storm restoration costs to reduce the amount of costs needed to be recovered from customers, and
- c. Adopt certain procedural and administrative requests.

On November 3, 2022, the Council adopted Council Resolution No. R-22-482 (“Resolution”) establishing the instant docket (UD-22-05) and proceeding to review the Application. Among the procedural deadlines in the instant proceeding: Intervenor comments due July 11, 2023, and the Advisors’ Report (this report) due August 15, 2023. 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. the Advisors' recommendation as to what restoration costs, if any, are appropriately eligible for recovery from the ENO customers,
- c. the Advisors' recommendation as to 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 what carrying charges related to recoverable restoration costs are reasonable and appropriate and therefore recoverable,
- e. 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
- f. any additional issues that the Advisors may find germane to the issues raised by the ENO 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 Alliance for Affordable Energy and Air Products and Chemicals, Inc. (“Air Products”) each intervened in this proceeding. Of these intervenors, only Air Products filed testimony (the Resolution provided for either testimony or comments).

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<sup>1</sup> ENO submitted an errata filing on July 6, 2022 that made a minor technical correction to an ENO witness’s testimony.

Based on our review of available information, including that obtained through discovery, we have reached certain conclusions and offer certain recommendations to the Council whose key aspects we summarize here.

Nothing we reviewed has altered our prior conclusion from the Council Utility Advisors Report “Resolution No. R-21-343 – After-Incident Review of Entergy New Orleans, LLC Relative to its Preparation and Response to Hurricane Ida”, dated May 6, 2022 (“After-Incident Review”) that ENO was well prepared for Hurricane Ida, that ENO’s response was consistent with such past responses, and nothing suggested that ENO’s actions were not in accordance with prudent utility practices.

We conclude that ENO has prudently incurred \$164,113,764 in costs to restore electric service in New Orleans related to Hurricane Ida (“Storm Costs”), which does not include \$346,643 in estimated remaining costs. Of this \$164,113,764, ENO has already been allowed recovery of \$1,187,906 through its base rates.

ENO’s \$8,780,042 of requested carrying charges<sup>2</sup> related to Storm Costs contained certain calculation errors. We conclude that ENO should be allowed recovery of \$7,511,654 in carrying charges. After prudently incurred costs and carrying charges, and after ENO’s receipt of storm reserve escrow and securitization bond issuance funds, ENO has a remaining unused credit balance that the Council may use for storm cost recovery.

Consistent with these conclusions, we recommend that the Council certify \$164,113,764 plus \$7,511,654 in carrying charges (\$170,353,107 total) as prudently incurred and therefore recoverable, but find that \$1,187,906 has been deemed recovered through base rates.

### **STORM DAMAGE AND RESTORATION**

Ida became a named-weather event on August 26, 2021, then named Tropical Storm Ida. Tropical Storm Ida intensified and became a hurricane early on August 27, 2021. Hurricane Ida struck the Louisiana Gulf Coast near Port Fourchon, Louisiana as a Category 4 hurricane during the morning of Sunday, August 29, and as Hurricane Ida moved inland, windspeeds experienced in the New Orleans and metro area intensified and power outages began. By 7:00 p.m. Sunday, August 29, 2021, all power in Orleans Parish was lost. All eight transmission paths that deliver power into the New Orleans area were out of service due to damage, and the loss of those transmission facilities resulted in a load imbalance causing local generation to trip off-line. Of the eight transmission paths into New Orleans, seven are interconnections with Entergy Louisiana LLC (“ELL”) and one interconnection is with Cleco Power, LLC (“Cleco”). The transmission lines and substations on these paths into New Orleans, prior to reaching an ENO substation, are not owned, operated, nor maintained by ENO. The damage to ENO’s electric plant was primarily to ENO’s distribution system; ENO’s data show that 97 percent of system restoration costs were related to distribution

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<sup>2</sup> See ENO’s Addendum 1 response to DR CNO 1-1 (Excel file *TC-UD2205-00ADV001-N001-001-004*). We note that ENO’s initial calculation of carrying charges in Exhibit KTJ-5 from the Application was \$9,421,370.

plant. ENO reports that the peak number of customer outages following Ida was 208,988 customers.

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

- 921 distribution poles;
- 408 tree trim spans;
- 297 transformers;
- 648 service wires from transformers;
- 785 spans of distribution wire; and
- 1,344 cross-arms.

### ***ENO'S RESPONSE TO IDA***

Our review of ENO's response to Hurricane Ida is detailed in the After-Incident Review. In summary, that review determined:

- ENO was well prepared for the storm, and nothing has come to the Advisors' attention to suggest that ENO's actions were not in accordance with prudent utility practices.
- The damage to ENO's distribution system from Hurricane Ida was extensive. However, it was not the distribution system damage that ultimately left all of New Orleans without power beginning August 29, it was the failure of the eight transmission paths into New Orleans that connect the City to the larger grid. The facilities on these transmission paths are operated and maintained by utilities that are not regulated by the Council.
- The New Orleans Power Station ("NOPS") has the procedures, equipment, and software in place to black start and operate in island mode if necessary, depending on system damage and corresponding restoration status after a hurricane or other incident.
- The restoration of service to ENO's customers was completed in a reasonable timeline relative to previous hurricane restorations, considering the significantly greater extent of damage.

The below table summarizes the chronology of ENO's post-Hurricane Ida system restoration:

<b>Table 1</b>			
<b>Chronology of Service Restoration</b>			
<b>Date</b>	<b>Day of Restoration</b>	<b>Number of Customers Restored</b>	<b>% Restored</b>
August 30, 2021	0 <sup>1</sup>	0	0%
September 1, 2021	2	11,500	5.5%
September 2, 2021	3	35,916	17.2%
September 3, 2021	4	41,000	19.6%
September 4, 2021	5	67,000	32.1%
September 5, 2021	6	104,610	50.1%
September 6, 2021	7	135,000	64.6%
September 7, 2021	8	156,000	74.6%
September 8, 2021	9	192,000	91.9%
September 9, 2021	10	202,000	96.7%
September 10, 2021	11	All <sup>2</sup>	100% <sup>2</sup>
<ol style="list-style-type: none"> <li>1. ENO began damage assessment after sustained winds had receded below 30 mph.</li> <li>2. ENO reported that power had been restored to all customers who could safely receive power.</li> </ol>			

ENO summarizes its dollar system restoration costs following Hurricane Ida in the below Table 2. Of note, a relatively small amount of ENO’s Storm Costs is attributed to ENO’s transmission system. This is despite the fact that the transmission system, specifically each of the eight transmission paths into New Orleans, failed during Hurricane Ida. This relatively small (*i.e.*, \$5.1 million out of \$169.6 million) dollar Storm Costs attributed to transmission is consistent with the failed transmission system belonging to other utilities.

<b>Table 2</b>				
<b>Summary of Storm Costs by Category</b>				
<b>ENO's Application</b>				
<b>Description</b>	<b>Distribution</b>	<b>Generation</b>	<b>Transmission</b>	<b>Total</b>
Direct Costs				
Contract Work	\$125,703,269	\$305,721	\$4,334,247	\$130,343,237
Labor	2,425,531	272,334	-	2,697,865
Employee Expenses	6,833,498	183	1431	6,835,111
Materials	3,842,515	59,842	208,823	4,111,180
Other	4,455,200	22,620	65,783	4,543,603
Affiliated Costs				
ESL Billings	4,320,657	17,063	60,156	4,397,876
Loaned Resources	5,850,311	3,827	\$331,547	6,185,685
<b>Total Costs Through May 31, 2022</b>	<b>\$153,430,981</b>	<b>\$681,589</b>	<b>\$127,248</b>	<b>\$159,114,557</b>
Estimates (Un-invoiced Mutual Assistance, Other)	\$10,256,958	\$71,018	\$5,129,235	\$10,455,635
<b>Total Storm Costs</b>	<b>\$163,687,939</b>	<b>\$753,018</b>	<b>\$5,129,235</b>	<b>\$169,570,192</b>

Table 2 reflects ENO's requested amount of \$169,570,192 as of May 31, 2022, which includes \$10,455,635 in estimated costs. Through discovery, the Advisors received a final value of \$164,113,764 plus a further Estimated Storm Costs amount of \$346,643.<sup>3</sup> This final cost accounting is summarized in Table 3.

<sup>3</sup> See KTJ-2 Summary of Cost for Hurricane Ida, exhibit (TC-UD2205-00ADV001-N001-001-001) revised through June 30, 2023).

Description	Distribution	Generation	Transmission	Total
Direct Costs				
Contract Work	\$129,722,230	\$365,750	\$4,538,535	\$134,626,515
Labor	2,430,498	93,138	-	2,523,636
Employee Expenses	6,833,498	183	1,431	6,835,112
Materials	3,883,248	59,852	251,869	4,194,969
Other	4,920,782	47,031	75,973	5,043,786
Affiliated Costs				
ESL Billings	4,508,610	16,937	60,156	4,585,703
Loaned Resources	5,945,407	3,827	354,809	6,304,043
<b>Total Costs Through June 30, 2023</b>	<b>\$158,244,273</b>	<b>\$586,718</b>	<b>\$5,282,773</b>	<b>\$164,113,764</b>
Estimates (Un-invoiced Mutual Assistance, Other)	346,643	-	-	346,643
<b>Total Storm Costs</b>	<b>\$158,590,916</b>	<b>\$586,718</b>	<b>\$5,282,773</b>	<b>\$164,460,407</b>

A comparison of Table 2 with Table 3 indicates that ENO's actual and estimated Storm Costs as of June 2023 were \$5,109,785 less than ENO's actual and estimated Storm Costs as of the Application. Of note, the increase in Total Costs Through June 30, 2023 as compared to Total Costs Through May 31, 2022 is primarily due to the realization of some costs that were estimates. Through discovery, ENO states that the further difference is due to a reduction in the amount of estimated un-invoiced mutual assistance and other costs, and \$0.8 million in vendor credit memos and proceeds from the sale of materials originally purchased for the storm response.<sup>4</sup>

The Application includes the testimony of witnesses focused on ENO's operational response to Hurricane Ida. Mr. John W. Hawkins, Jr. discusses ENO's distribution system restoration efforts, which constitute the large majority of ENO's Storm Costs.

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 Hurricane Ida, 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 Hurricane Ida, including pre-storm preparation and staging, as well as post-storm system restoration activities. Mr. Hawkins reports that 4,398 persons participated in system restoration of ENO's distribution system following Hurricane Ida. The below Table 4 summarizes these persons' roles in that effort.

<sup>4</sup> See ENO's response to DR CNO 2-7.

<b>Table 4</b>	
<b>Ida System Restoration Personnel</b>	
Entergy Line Workers	139
ENO Scouts	48
Off-System and Base-load Line Contractors	2,196
Off-System and Base-load Scouts	83
Mutual-Assistance Personnel	509
Vegetation Workers	138
Other Support	1,285
<b>Total</b>	<b>4,398</b>

Mr. Hawkins discusses various challenges and cost drivers that ENO faced regarding system restoration following Hurricane Ida, 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. However, the scope of our review in the instant proceeding involves the accuracy, reasonability, and recoverability of ENO’s Storm Costs.

Consistent with the After-Incident Review, nothing from the Application, Mr. Hawkins’s testimony, or our review thereof through discovery identified anything that suggested that ENO’s actions were not in accordance with prudent utility practices. As such, ENO’s planning-for and execution post-Hurricane Ida, is properly presumed prudent and therefore the costs incurred as a result of Hurricane Ida 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.

The Application also includes the testimony of ENO Witness Ms. Michelle P. Bourg, Vice President, Reliability Control Centers. During Hurricane Ida, she was responsible for Entergy’s transmission line and substation equipment. Based on the context of her testimony, this responsibility included equipment owned by both ENO and ELL. The primary cause of the New Orleans-wide power outage was the failure of the transmission plant owned by ELL; however, ELL’s operation and maintenance of its plant is outside the scope of our review in this proceeding. Ms. Bourg testifies regarding a total of roughly \$5 million expended on transmission-related Storm Costs following Hurricane Ida. As with Mr. Hawkins’s testimony regarding distribution, we identified no indication other than that these costs were reasonable and necessary and that, as such, they are presumed to be prudently incurred and appropriately recoverable.

## ACCURACY OF ENO'S STORM COSTS

### *ENO's Cost Accounting*

ENO Witness Ms. Kristine T. Jackson describes how ENO categorizes costs according to projects. Each ENO Hurricane Ida Storm Cost transaction has a project code, a unique identifier for a project, in this case projects related to Hurricane Ida 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 Hurricane Ida Storm Costs as opposed to ordinary operating costs. Ms. Jackson identifies 20 project codes associated with the Storm Costs, with the large majority of such costs assigned to a single project code (*i.e.*, \$163,504,071 out of \$169,570,192).<sup>5</sup>

Ms. Jackson also discusses ENO's vendor invoice processing and controls. Ms. Jackson describes controls calculated to ensure Hurricane Ida 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 Ms. Jackson, reflect accepted industry management practices reasonably calculated to both restore utility service following Hurricane Ida 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's "Management Assertion on the Summary of Hurricane Costs,"<sup>6</sup> essentially ENO's Storm Costs through May 31, 2022, is complete and accurate. Of note, the Examination relates only to the \$159,114,557 Storm Costs incurred through May 31, 2022, and not ENO's then estimates totaling \$10,455,635 presented in the Application.<sup>7</sup> 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

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<sup>5</sup> See Exhibit KTJ-3 (Hurricane Ida Project Codes). Note that these values from the Application changed as of June 30, 2023 to \$157,630,284 out of \$164,460,407.

<sup>6</sup> Application at pdf page 335 (exhibit is not uniquely identified).

<sup>7</sup> See Exhibit KTJ-2 from the Application.

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 5676 transactions through May 31, 2022 (representing the \$130,343,237 value). Deloitte specifically tested ENO's controls related to 255 transactions that it considered individually significant (*i.e.*, significant dollar amounts) and 117 transactions selected through a statistical sampling.

Deloitte did not identify any exceptions to ENO's documented accounting controls as part of the substantive testing process.

### **STORM COST RECOVERY**

ENO made Storm Reserve escrow withdrawals following Hurricane Ida: \$38,835,183 on September 17, 2021, plus \$7,799,265 in unused withdrawal funds related to Hurricane Zeta as of March 31, 2021, or \$46,634,448 total. As of September 2021, ENO's storm reserve escrows were fully depleted. On December 16, 2022, Louisiana Utilities Restoration Corporation, Series 2022 securitization bonds in the aggregate principal amount of \$209,300,000 were issued on behalf of ENO. The issuance resulted in \$200 million in net issuance proceeds, \$125 million of which was released to ENO for Storm Cost recovery purposes, with the remainder deposited into a storm reserve escrow account.

### **ADVISOR ANALYSES**

#### ***Scope of Advisor Review***

ENO presented a detailed accounting of the transactions constituting its Storm Costs, HSPM Exhibit KTJ-4. In response to DR CNO 1-1, Addendum 1-3, 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;

- the reasonableness of identified categories of Storm Costs;
- ensuring that all transactions reflect dates reasonably associated with Hurricane Ida;
- ensuring that all transaction geographic data properly reflect costs attributable ENO's Hurricane Ida Storm Costs;
- evaluating Storm Costs for which ENO has already been allowed recovery through its regular base rates; and
- ENO's calculation of its proposed carrying charges.

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.

### ***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 actual 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, with parties to that proceeding having filed their corrections and comments, but without the evaluation having yet established new FRP rider rates.

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 or securitization bond issuance proceeds. We identified 911 such transactions totaling \$1,187,906. These costs were categorized as "Straight Time" by ENO and do not reflect payroll costs that were capitalized.

### **CARRYING CHARGES**

ENO requests that the Council approve and allow recovery of carrying charges related to Hurricane Ida totaling \$8,780,042, which ENO presents as Exhibit KTJ-5 (Rev). These proposed charges are based on timing differences between the recognition of Hurricane Ida Costs Incurred and the receipt of cash from Escrow Withdrawals, and with carrying charges at ENO's Before-Tax

Weighted Average Cost of Capital (“BTWACC”),<sup>8</sup> whose rate varied periodically from 8.57% to 8.64%. ENO’s calculation is flawed in two significant respects:

1. ENO does not allow for carrying charges on credit (*i.e.*, negative) balances. Beginning with \$7.8 million in excess recovery of Hurricane Zeta-relate costs in March 2021, and then with escrow withdrawals totaling \$38.8 million in September 2021, ENO’s balance for carrying charges was a credit until December 2021. Despite this, ENO’s calculation did not accrue a negative carrying charge for this period. ENO seeks carrying charge recovery at its BTWACC for only the periods where it had applied its capital in advance of recovery, but does not propose to credit ratepayers for when ratepayer credit was applied prior to ENO’s incurring Hurricane Ida Costs. This lack of proportionality is unjust and should be corrected.
2. ENO seeks to compound monthly its BTWACC, which is an annual rate. This incorrectly inflates the effective annual rate to become greater than ENO’s BTWACC. For example, from November 2021 through August 2022, ENO states that its BTWACC was 8.57%, but it compounds monthly a 0.71% ( $8.57 / 12$ ) rate for an effective annual rate of 8.91%. The Council did not authorize any such rate. The correct monthly carrying charge to equate to ENO’s BTWACC for this period would be 0.69%. A 0.69% monthly rate compounded monthly results in a 8.57% annual rate, which is ENO’s stated BTWACC.

We calculate that carrying charges at ENO’s properly calculated BTWACC are \$7,511,654. We calculate that \$850,292 in unused credits remain when including the \$346,643 in estimated costs that remain to be certified. Exhibit 1 to this report shows the calculation of this carrying charge amount.

### ***Interim Financing***

ENO had the reasonable opportunity to issue interim financing relative to its Storm Costs, as did ELL under these exact circumstances.<sup>9</sup> ELL’s interim financing carried the annual rate of 0.95%, and those costs were passed-on to ELL’s customers instead of carrying charges at ELL’s WACC. ELL reflected these savings in the carrying charges for which it sought recovery before the LPSC.<sup>10</sup> ENO explained in its response to the Advisors’ discovery requests that it employed a strategy to reduce carrying costs on a large portion of its storm costs by using approximately \$39 million of existing storm reserves. ENO did not, however, consider any comparable interim financing which the Advisors believe could have produced additional savings for customers. ENO should consider

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<sup>8</sup> BTWACC is WACC with the equity cost component grossed-up to reflect that income tax must be recovered in order for funds to remain for an equity return to ENO’s owner.

<sup>9</sup> See ENO’s response to DR CNO 2-1, Application of Entergy Louisiana, LLC for Approval of Ratemaking Adjustment for Interim Hurricane Ida Financing, and Request for Expedited Treatment.

<sup>10</sup> See ENO’s response to DR CNO 2-4, LPSC Docket No. 36350, Exh AMA-2 at 3, which shows the application of ELL’s \$1 billion Hurricane Ida Debt’s 0.95% interest rate in the calculation of carrying charges. See also ENO’s response to DR CNO 1-6 at 217 (“All parties supported or did not oppose recovery of the carrying costs requested by the Company, including interest expense associated with shorter-term debt issued by the Company.”)

every efficiency (*i.e.*, cost-saving measure) that may benefit ratepayers, especially ones undertaken by other EOCs under comparable circumstances.

### TREATMENT OF UNUSED CREDITS

Because the source of the \$850,292 in unused credits is either storm reserve escrow withdrawals or the issuance proceeds of a securitization bond, these credits can only be used to recover storm costs. We note that such costs can include the cost of removal of equipment relative to system restoration activities. The net book value of removed plant is recorded in ENO's accumulated depreciation accounts. ENO has stated that it "does not believe that there is anything that would prevent recovery of the remaining net book value of retired plant through an escrow withdrawal from its Securitized Storm Recovery Reserve escrow account."<sup>11</sup> As such, if these remaining credit funds have not been utilized by the next ENO base rate action (*i.e.*, a rate case or a FRP evaluation), the Council may use them as a credit (*i.e.*, rate base reduction) to accumulated depreciation.

### INTERVENOR COMMENTS

On behalf of Air Products, Mr. Maurice Brubaker, of Brubaker & Associates, Inc., filed testimony and exhibits on July 11, 2023. Mr. Brubaker's essential argument in his testimony is that ENO customers that take service at the transmission voltage level, such as Air Products, do not need and do not make use of ENO's distribution system. As such, Mr. Brubaker argues that system restoration costs, such as those related to Hurricane Ida, should be functionalized for recovery according to voltage service level. According to Mr. Brubaker, customers served at the transmission level should not be charged any costs associated with the distribution level.

Mr. Brubaker performs an example of such a functionalization relative to Hurricane Ida system restoration costs, which is filed as Schedule MEB-1. In this workpaper, Mr. Brubaker allocates 96.28% of such costs to distribution service and 3.72% to transmission service.

### *Advisor Observations*

Air Products' concerns and recommendations are outside the scope of this proceeding, which is to consider whether the Storm Costs presented in the Application are accurate, reasonable, and necessary to rebuild ENO's electric infrastructure and to restore power to its customers. This proceeding does not involve consideration of cost recovery mechanisms or cost functionalization.

Further, we note that ENO has already recovered all of its Storm Costs, mostly through storm reserve escrow withdrawals and the receipt of \$125 million following the issuance of new securitization bonds on ENO's behalf. The Council has already concluded in Docket No. UD-22-01 that debt service funds for these bonds will be collected through Rider SSCRII, which has a single rate applicable to all rate classes.<sup>12</sup> The terms of Rider SSCRII are described in detail in the Financing Order that was essential to the issuance of the new securitization bonds. We further

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<sup>11</sup> DR CNO 1-13.b

<sup>12</sup> See Resolution No. R-22-437, Resolution and Order Approving the Application of Entergy New Orleans, OOC for Authority to Fund and Finance Storm Recovery Reserves and Related Relief (the securitization Financing Order).

note that ENO's 2015 securitization bond involves a substantially similar Rider SSCR that also has a single rate for all rate classes.

## 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. Nothing we reviewed altered our prior conclusion that "ENO was well prepared for the storm in terms of training, procedures, materials supply chain arrangements, and mutual-assistance personnel and resources."<sup>13</sup>
2. Consistent with the After-Incident Review, ENO's response to Hurricane Ida, 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 that suggested that ENO's actions were not in accordance with prudent utility practices.
3. We conclude that ENO's as filed Storm Costs totaling \$169,570,192 included estimates that turned out to be overstated. ENO's actual final Storm Costs totaled \$164,113,764 as of June 30, 2023<sup>14</sup>.
4. We conclude that ENO has reasonably demonstrated that the final accounting for its costs incurred to restore electric utility service following Hurricane Ida (*i.e.*, Storm Costs) was accurate in all material respects and based on appropriate accounting practices and controls.
5. We conclude that ENO has incurred \$164,113,764 in Storm Costs that are reasonable and necessary, and therefore are presumed to be prudently incurred and therefore recoverable.
6. We conclude that ENO's presently estimated \$346,643 in remaining Storm Costs may not be a reliable estimate for Council certification of costs. However, as these costs will consist of invoices from other, presumably reliable, utilities, we conclude that ENO's final accounting for these costs is likely to be reliable.
7. We conclude that ENO has already been allowed the reasonable opportunity to recover \$1,187,906 in Storm Costs through its base rates.
8. We conclude that ENO is entitled to recovery of \$7,511,654 in carrying charges related to Hurricane Ida based on its BTWACC as the carrying charge rate.<sup>15</sup>
9. We conclude that the application of \$7,799,265 in unapplied credits following the events of Hurricane Zeta, plus \$38,835,183 in storm reserve escrow withdrawals in September

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<sup>13</sup> See Resolution No. R-21-343 – After Incident Review of Entergy New Orleans, LLC Relative to its Preparation and Response to Hurricane Ida – Council Utility Advisors' Report, May 6, 2022.

<sup>14</sup> The \$164,113,764 in Storm Costs does not include an estimated \$346,643 in "uninvoiced mutual assistance costs."

<sup>15</sup> ENO's calculation of carrying charges through December 2022 in the Application is \$9,288,852.

2021 that depleted the then-available storm reserves, plus a \$125,000,000 storm reserve escrow withdrawal following the December 2022 securitization bond issuance provide full recovery of ENO's Storm Costs, including appropriate carrying charges on such costs. At least \$850,292 in unused credits remain after the certification of all costs related to Hurricane Ida including estimated remaining costs.

10. We conclude that ENO's unused credits may be used to recover future system restoration costs following a weather event. In the event these credits remain upon ENO's next base rate action before the Council, the Council may use them to recover costs related to plant removal recorded in ENO's rate base.
11. We conclude that ENO should have given more consideration to interim financing in the aftermath of Hurricane Ida which could have provided additional savings in carrying charges. We conclude that ENO should consider pursuing this economy following future hurricane events to identify and maximize all potential savings for its customers.

### ***Recommendations***

Based on our review, we offer the following recommendations to the Council, in its consideration of 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. No part of our understanding of this proceeding's mandate involves recovery of such costs or cost functionalization, and in any event, our analysis demonstrates that ENO has fully recovered all of its Storm Costs plus properly calculated carrying charges at ENO's BTWACC.

Also, as we discuss in this report, all of ENO's system restoration costs have been recovered, mostly through the December 2022 issuance of new securitization bonds which provided ENO \$125 million in cost recovery. The Council has already approved Rider SSCRII to ensure ENO's collection of funds required to service these new bonds. Rider SSCRII has a single rate for all rate classes, and we do not believe its terms can be modified at this point.

1. We recommend that the Council find that ENO prudently incurred necessary costs in restoring electric utility service following Hurricane Ida and find that ENO's Storm Costs totaling \$164,113,764 are presumed prudently incurred and therefore recoverable.
2. We recommend that the Council allow ENO to provide a supplemental accounting of any additional Storm Costs, presently estimated at \$346,643, and if such additional costs are comparable in nature to other reasonable and necessary Storm Costs, certify them as well as presumed to be prudently incurred and therefore recoverable.
3. We recommend that, upon ENO's next base rate action before the Council, that if any credits related to Hurricane Ida remain unused, the Council consider applying such credits to ENO's rate base to recover system restoration costs related to plant removal.
4. We recommend that the Council find that ENO has already been allowed the reasonable opportunity to recover \$1,187,906 in Storm Costs through its base rates, and therefore ENO should not be allowed to again recover these costs through storm reserve escrow withdrawals or the securitization bonds' issuance proceeds.

5. We recommend the Council certify that ENO is entitled to \$7,511,654 in carrying charges related to Hurricane Ida.
6. With respect to future storm costs, we recommend that the Council direct ENO to consider every economy available for the benefit of ratepayers, *e.g.*, interim Storm Cost financing, consistent with ENO's obligation to prudently incur costs. This is especially true when another EOC is actively pursuing that same economy under similar circumstances.

## WACC Carrying Cost Calculation - Hurricane Ida

Month	Ida Costs Incurred <sup>1</sup>	Cost Recovered through Base Rates <sup>2</sup>	Escrow Withdrawal <sup>3</sup>	Adjusted Cost	Carrying Cost <sup>4</sup>	Balance for Carrying Costs
Feb-21						
Mar-21			(7,799,265)	(7,799,265)	(27,535)	(7,826,800)
Apr-21				-	(55,264)	(7,882,064)
May-21				-	(55,654)	(7,937,719)
Jun-21				-	(56,047)	(7,993,766)
Jul-21				-	(56,443)	(8,050,209)
Aug-21				-	(56,842)	(8,107,051)
Sep-21	13,612,564	(959,063)	(38,835,183)	(26,181,682)	(149,676)	(34,438,409)
Oct-21	17,684,544	(218,952)		17,465,592	(181,505)	(17,154,322)
Nov-21	39,442,135	(7,478)		39,434,657	17,622	22,297,957
Dec-21	11,788,976	(35)		11,788,941	193,840	34,280,738
Jan-22	15,929,748	(12)		15,929,736	290,464	50,500,939
Feb-22	16,985,838	(60)		16,985,778	405,618	67,892,335
Mar-22	24,873,795	(1,943)		24,871,852	552,306	93,316,493
Apr-22	8,141,075	(363)		8,140,712	669,594	102,126,799
May-22	10,476,561			10,476,561	738,200	113,341,560
Jun-22	20,771			20,771	779,363	114,141,695
Jul-22	4,383,520			4,383,520	799,863	119,325,078
Aug-22	124,930			124,930	820,862	120,270,870
Sep-22	169,014			169,014	834,025	121,273,910
Oct-22	7,610			7,610	840,417	122,121,937
Nov-22	11,174			11,174	846,306	122,979,417
Dec-22	(7,597)		(125,000,000)	(125,007,597)	419,077	(1,609,103)
Jan-23	367,429			367,429	(9,877)	(1,251,551)
Feb-23	22,780			22,780	(8,594)	(1,237,365)
Mar-23	1,740			1,740	(8,569)	(1,244,193)
Apr-23	-			-	(8,622)	(1,252,815)
May-23	76,396			76,396	(8,417)	(1,184,835)
Jun-23	347,402			347,402	(7,007)	(844,441)
Jul-23				-	(5,852)	(850,292)
Sub-Totals	164,460,407	(1,187,906)	(171,634,448)	(8,361,947)	7,511,654	

Total Carrying Costs at WACC \$ 7,511,654  
Net remaining Costs (Credit) after Carrying Costs \$ (850,292)

## Notes:

1: ENO storm costs incurred exclude AFUDC.

2: See DR CNO 1-1 (Excel File *TC-UD2205-00ADV001-N001-001-003\_HSPM*) (Revised Exh. KTJ-4), Earnings Code 005, which represents Straight Time earnings. Values do not reflect capitalized earnings.

3: Storm reserve funds withdrawn on September 17, 2021 and the utilization of the Zeta excess storm reserves. See DR CNO 1-1.d, CNO 1-10.

4: Carrying Cost = (Current Month Adjusted Cost \* 1/2 Month + Prior Month Balance to Recover) \* Monthly Rate

## Before Tax Weighted Average Cost of Capital (BTWACC):

	Annual Rate	Monthly Rate
September 2021 - October 2021	8.81%	0.71%
November 2021 - Aug 2022	8.57%	0.69%
Sept 2022 - May 2023	8.64%	0.69%