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May 31, 2024

BY E-MAIL

Clerk of Council
Council of the City of New Orleans
City Hall, Room IE09
1300 Perdido Street
New Orleans, LA 70112

Re: Application for Authority to Operate as Local Distribution Company and Incur Indebtedness and Joint Application for Approval of Transfer and Acquisition of Local Distribution Company Assets and Related Relief; NOCC Docket UD-24-01

Dear Clerk:

Enclosed please find the Direct Testimonies and exhibits of Joseph W. Rogers, Byron S. Watson and Victor Prep 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

JAB:dpm
Attachments
cc: Official Service List for UD-24-01

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION FOR AUTHORITY TO OPERATE	**)**	
AS LOCAL DISTRIBUTION COMPANY AND INCUR	**)**	
INDEBTEDNESS AND JOINT APPLICATION FOR	**)**	**DOCKET NO. UD-24-01**
APPROVAL OF TRANSFER AND ACQUISITION OF	**)**	
LOCAL DISTRIBUTION COMPANY ASSETS AND	**)**	
RELATED RELIEF	**)**	

DIRECT TESTIMONY

OF

JOSEPH W. ROGERS, P.E.

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

MAY 31, 2024

PUBLIC REDACTED VERSION

PUBLIC REDACTED VERSION

TABLE OF CONTENTS

PUBLIC REDACTED VERSION

PREPARED DIRECT TESTIMONY

OF

JOSEPH W. ROGERS, P.E.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Joseph W. Rogers. My business address is 6041 S. Syracuse Way, Suite 105, Greenwood Village, Colorado. I am a registered Professional Engineer in the States of Colorado and Louisiana, and I am an Executive Consultant and the President of the firm, Legend Consulting Group Limited ("Legend").

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. I am presenting testimony on behalf of the Advisors to the Council of the City of New Orleans ("Council"). The Council regulates the rates, terms, and conditions of electric and gas service of Entergy New Orleans, LLC ("ENO").

Q. PLEASE SUMMARIZE YOUR RELEVANT EDUCATIONAL BACKGROUND AND TESTIMONY EXPERIENCE.

A. Exhibit No. ___ (JWR-2) provides a summary of my relevant education and professional experience, and Exhibit No. ____(JWR-3) lists my previous testimony.

II APPLICATION BEFORE THE COUNCIL IN DOCKET NO. UD-24-01

PUBLIC REDACTED VERSION

Q. PLEASE IDENTIFY THE APPLICATION THAT CAUSED THIS DOCKET TO BE INITIATED.

A. On December 11, 2023, Delta States Utilities NO, LLC ("DSU NO") and ENO (collectively "Joint Applicants") submitted their *Joint Application of Delta States Utilities NO, LLC ("DSU NO") and Entergy New Orleans, LLC ("ENO") requesting Authority for DSU NO to Operate as Local Distribution Company and Incur Indebtedness and Approval for ENO to Transfer and DSU NO to Acquire Local Distribution Company Assets and Related Relief* ("Joint Application"). On February 1, 2024, the Council adopted Resolution No. R-24-49 which established the instant docket to evaluate and consider the Joint Application.

Q. WHAT RELIEF DO THE JOINT APPLICANTS SEEK IN THE JOINT APPLICATION?

A. I refer to the relief sought in the Joint Application as the "Gas Transaction." The Joint Application requests, in part:

a) Council approval of DSU NO to operate as a natural gas distribution utility within the City of New Orleans and subject to the jurisdiction of the Council;
b) Council approval of the transfer and sale of the natural gas system assets of ENO ("ENO Gas Business"), as provided for in the Joint Application, and a determination that such in the public interest;

PUBLIC REDACTED VERSION

c) Council approval or stated non-opposition to the transfer of ENO's Gas Business Franchise to DSU NO to allow it to operate within public rights-of-way within the City of New Orleans;

d) Council approval of DSU ENO's assumption and adoption of the ENO Gas Business rates, rate schedules and riders in effect at the Closing or supported by the most recent evaluation period of ENO Gas Business Gas Formula Rate Plan ("GFRP"), which assumption and adoption will continue until the Council's review and approval of DSU NO's proposed base rates and rate schedules as part of a subsequent rate application to be filed by DSU NO not sooner than fifteen (15) months after the Closing, using a prior consecutive twelve (12)-month test period;

e) Council approval for DSU NO to create a regulatory asset(s) to defer for future recovery, subject to a prudency review in a future general rate proceeding, investments made by DSU NO to stand up the new gas distribution business and replace certain assets that will not transfer and certain services that will no longer be provided by ENO after closing;

f) Council determination that the costs of Purchased Assets not yet in service but currently categorized by ENO as CWIP do not constitute acquisition premium, such that these costs are eligible for recovery in rates once placed in service, subject to prudency considerations;

g) Council's approval or stated non-opposition to DSU NO's incurring indebtedness and/or issuing securities to finance the Transaction and costs to stand-up the new local distribution company ("LDC") and for DSU NO's encumbering of the

PUBLIC REDACTED VERSION

Purchased Assets with a mortgage and/or security interest to secure the indebtedness;

h) Council approval or stated non-opposition to the transfer of certain customer deposits from ENO to DSU NO, as provided for in the Joint Application;

i) Council approval of ENO's transfer of certain customer data, including, specifically, data related to ENO's AMI system;

j) Council determination that appropriate ratemaking orders and/or resolutions that are applicable to ENO continue to be applicable to DSU NO as of the closing.

Q. BEYOND THE RELIEF IDENTIFIED, DOES THE JOINT APPLICATION IDENTIFY OTHER TRANSACTIONS THAT MIGHT IMPACT NEW ORLEANS GAS CUSTOMERS?

A. While approval of the Gas Transaction is solely before the Council, there are certain other related transactions currently before the Louisiana Public Service Commission ("LPSC"), and Mississippi Public Service Commission ("MPSC") that might ultimately impact New Orleans gas customers. Delta States Utilities, LLC ("DSU") is the parent company of DSU NO. Testimony included as part of the Joint Application presents the following proposed operation structure.[1]

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[1] Direct Testimony of Jeffrey Yuknis at 28.

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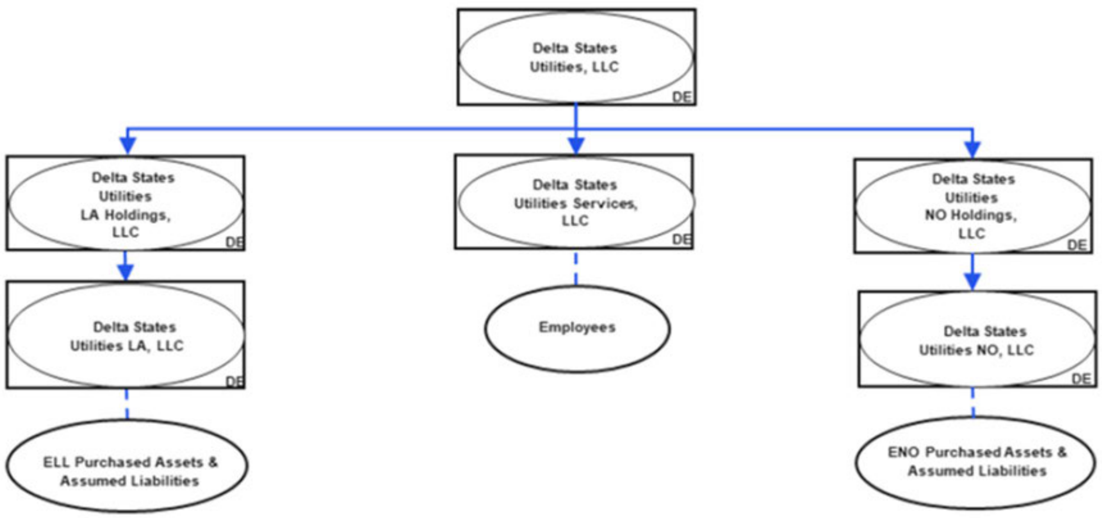

DSU NO Witness Yuknis testifies that in conjunction with the Joint Application, its affiliates are also filing an application with the LPSC for approval of the transfer of the Entergy Louisiana, LLC ("ELL") Gas Business to DSU NO's affiliate company, Delta States Utilities LA, LLC ("DSU LA").[2] Further, Witness Yuknis testifies that there will be a newly formed DSU services company, Delta States Utilities Services, LLC ("DSU Services"), to provide shared services to both DSU NO and DSU LA.[3] I understand that these shared services are intended to replace the services currently provided to ENO and ELL by Entergy Services, LLC ("ESL"). To perform these shared services, the Transition Plan anticipates investments in new services, systems, and facilities prior to closing ("Transition Costs"). The majority of the costs currently anticipated to effect the Transition

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2 Direct Testimony of Jeffrey Yuknis at 21.

3 Direct Testimony of Jeffrey Yuknis at 27.

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Plan are related to new information technology ("IT") systems that would be utilized by DSU Services and allocated to both DSU NO and DSU LA. Accordingly, if the LPSC were to deny transfer of the ELL Gas Business to DSU LA and the Gas Transaction was allowed by the Council to proceed, the cost to gas customers could increase due to a larger allocation of both Transition Costs and ongoing service costs from DSU Services.[4] DSU NO is requesting that it be allowed to track and record the Transition Costs as a regulatory asset. DSU NO has indicated that it will request recovery of the regulatory asset costs pursuant to the filing in a future general rate case.

While not included in the Joint Application, I note that Bernhard Capital Partners ("Bernhard Capital") has announced that its portfolio company, Delta Utilities, has entered into an agreement with CenterPoint Energy, Inc. ("CenterPoint") to acquire its natural gas distribution operations in both Louisiana and Mississippi.[5] These transactions, if approved, would likely reduce the Transition Costs and ongoing service costs allocated to DSU NO.

Q. DID THE JOINT APPLICANTS MAKE ANY COMMITMENTS TO THE COUNCIL?

A. Yes. In the Joint Application DSU NO and its affiliate companies make a significant number of commitments to the Council regarding the Gas Transaction. I have identified

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[4] If the LPSC were to deny transfer of the ELL Gas Business to DSU LA, it is unclear, at this time, whether the Joint Applicants would endeavor to proceed with the Gas Transaction.

[5] *See Bernhard Capital-Backed Delta Utilities to Acquire CenterPoint Energy's Louisiana and Mississippi Natural Gas Distribution Operations* (https://www.bernhardcapital.com/bernhard-capital-backed-delta-utilities-to-acquire-centerpoint-energys-louisiana-and-mississippi-natural-gas-distribution-operations/).

PUBLIC REDACTED VERSION

and included a table of significant commitments in the Joint Application, as well as significant commitments made in response to discovery, as Exhibit No. ___ (JWR-4). I believe it is important for the Council to weigh each of these commitments in its consideration of the Gas Transaction. However, each of these commitments will not yield benefits if DSU NO and its affiliate companies do not follow through on their commitments, which are likely otherwise unenforceable. While I have no reason to believe that DSU NO and its affiliate companies will not perform their commitments, I recommend that the Council consider memorializing these commitments as conditions should it choose to approve the Gas Transaction.

Q. DOES THE JOINT APPLICATION REQUEST A CHANGE IN RATES?

A. Yes, but that change would not occur immediately and was not quantified in the Joint Application. In the Joint Application, DSU NO commits to adopting the ENO Rates in effect at closing or supported by the most-recent evaluation period of ENO's Gas Formula Rate Plan ("GFRP").[6] Accordingly, there would not be an immediate change in rates. However, DSU NO also committed to file a full rate case not earlier than 15 months post-closing.[7] Assuming that a rate case typically takes 12 months from the date of an application to set new rates, the Council, if it approves the Gas Transaction, is effectively agreeing that there will be a change in rates approximately 27 months after the close of the

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6 Joint Application Paragraph 2.

7 Direct Testimony of Jeffrey Yuknis at 8.

PUBLIC REDACTED VERSION

Gas Transaction. Moreover, if the Council approves the Gas Transaction, as filed, it is also agreeing to certain known characteristics of the transaction that, absent other offsetting factors, can be expected to significantly increase rates including DSU NO's request for a regulatory asset for Transition Costs, DSU NO's currently higher cost of debt compared to ENO, and the loss of a net credit Accumulated Deferred Income Tax ("ADIT") balance. This increase in rates would constitute an unreasonable additional burden on gas ratepayers, if not eliminated or mitigated by conditions imposed as prerequisites to Council approval of the Transaction.

III. PURPOSE OF TESTIMONY AND SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to: i) introduce the other Advisor witnesses and the general areas of their testimony, ii) discuss the Council's standards for approval and provide my opinion of the Gas Transaction in relation to the eighteen factors identified in the Council's standards, and iii) to make recommendations to the Council regarding the approval or stated non-opposition of the Gas Transaction, including identifying conditions that the Council should consider attaching to any approval of the Gas Transaction.

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND MAJOR CONCLUSIONS OR RECOMMENDATIONS.

A. In my testimony, I determine that Council Resolution R-06-88 applies to the facts and circumstances of the Joint Application and recommend the Council fully consider the

PUBLIC REDACTED VERSION

eighteen factors listed in Council Resolution R-06-88 because they relate directly to the relief the Joint Application seeks and encompass the issues necessary to evaluate whether the Gas Transaction should be approved by the Council. I step through and provide my opinion on each of the eighteen factors listed in Council Resolution R-06-88. I incorporate areas of potential, quantifiable ratepayer harm related solely due to the Gas Transaction that the Advisors have identified, including:

1. DSU NO's request for a regulatory asset for Transition costs will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction;
2. DSU NO's currently higher cost of debt will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction;
3. The loss of a net credit ADIT balance when the Transaction closes will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction; and
4. The transfer of significant assets and Operation & Maintenance costs ("O&M") presently recovered in gas rates onto electric ratepayers results in an annual revenue requirement increase which will increase electric rates solely as a result of the Gas Transaction.

Based on my eighteen-factor review, I recommend that the Council consider approval of the Gas Transaction if the ratepayer harm, which results solely from the Gas Transaction,

PUBLIC REDACTED VERSION

that the Advisors have identified and quantified for both future DSU NO gas customers and ENO electric customers, can be eliminated or mitigated to the Council's satisfaction. Lastly, I recommend that the Council consider the recommendations and proposed conditions of approval presented in my testimony and the testimonies of Advisor Witness Byron S. Watson and Advisor Witness Victor M. Prep.

Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF THE OTHER ADVISOR WITNESSES TESTIFYING IN THIS DOCKET AND THE PURPOSE OF THEIR TESTIMONY?

A. Yes. The other Advisor witnesses in this docket providing testimony are Mr. Byron S. Watson, CFA, and Mr. Victor M. Prep, P.E. Mr. Watson discusses the accounting, ratemaking, and cost of service aspects of the Gas Transaction, and makes recommendations that the Council should consider to eliminate or mitigate ratepayer harm from the Gas Transaction. Mr. Prep discusses regulatory ratemaking issues related to the Gas Transaction to ensure ratepayers receive equitable rate-structure benefits, including the allocation of shared services costs; he also discusses the treatment and reporting of costs directly related to managing the Gas Transaction, as well as the separate Transition Costs related the Gas Transaction.

IV. COUNCIL STANDARDS OF APPROVAL

Q. HAS THE COUNCIL ADOPTED STANDARDS BY WHICH IT MAY CONSIDER A TRANSACTION SUCH AS THE GAS TRANSACTION?

PUBLIC REDACTED VERSION

A. Yes, Council Resolution R-06-88 directs that "[n]o utility subject to the jurisdiction of the Council shall sell, assign, lease, transfer, mortgage, or otherwise dispose of or encumber the whole or any part of its franchise, works, property, or system . . . where the values involved in such action exceed one percent (1%) of the gross assets of such regulated utility . . . without prior full disclosure of the prior intendment and plan of such utility or common carrier with regard to such action and without prior official action of approval or official action of non-opposition by the Council."[8] Council Resolution R-06-88 goes on to list eighteen factors the Council shall take into account in determining whether to approve any such transfer of ownership or control.

Q. DO YOU RECOMMEND THAT THE COUNCIL REVIEW THE JOINT APPLICATION TAKING INTO ACCOUNT THE FACTORS FROM COUNCIL RESOLUTION R-06-88?

A. Yes. Based on my regulatory experience, Council Resolution R-06-88 applies to the facts and circumstances of the Joint Application. I recommend the Council fully consider the eighteen factors listed in Council Resolution R-06-88 because they relate directly to the relief the Joint Application seeks and encompass the issues necessary to evaluate whether the Gas Transaction should be approved by the Council. Further, I note that the Joint

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[8] Council Resolution R-06-88, ordering paragraph 1.

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Applicants appear to agree that it is appropriate for the Council to consider the eighteen factors in Council Resolution R-06-88.[9]

Q. PLEASE PROVIDE THE EIGHTEEN FACTORS FROM COUNCIL RESOLUTION R-06-88.

A. Resolution R-06-88 lists the following factors that the Council shall take into account in determining whether to approve a transaction such as the Gas Transaction.

a) Whether the transfer is in the public interest.

b) Whether the purchaser is ready, willing, and able to continue providing safe, reliable and adequate service to the utility's ratepayers.

c) Whether the transfer will maintain or improve the financial condition of the resulting public utility or common carrier.

d) Whether the proposed transfer will maintain or improve the quality of service to public utility or common carrier ratepayers.

e) Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit.

f) Whether the transfer will adversely affect competition.

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[9] Joint Application, paragraph 28, and Appendix B to the Direct Testimony of Jeffrey Yuknis.

PUBLIC REDACTED VERSION

g) Whether the transfer will maintain or improve the quality of management of the resulting public utility or common carrier doing business in the City.

h) Whether the transfer will be fair and reasonable to the affected public utility or common carrier's employees.

i) Whether the transfer would be fair and reasonable to the majority of all affected public utility or common carrier shareholders.

j) Whether the transfer will be beneficial on an overall basis to City and local economies and to the communities in the area served by the public utility or common carrier.

k) Whether the transfer will preserve the jurisdiction of the Council and the ability of the Council to effectively regulate and audit the public utility's or common carrier's operations in the City.

l) Whether conditions are necessary to prevent adverse consequences which may result from the transfer.

m) The history of compliance or noncompliance that the proposed acquiring entity or principals or affiliates have had with regulatory authorities in this City or other jurisdictions.

n) Whether the acquiring entity, persons, or corporations have the financial ability to operate the public utility or common carrier system and maintain or upgrade the quality of the physical system.

o) Whether any repairs and/or improvements are required and the ability of the acquiring entity to make those repairs and/or improvements.

PUBLIC REDACTED VERSION

p) The ability of the acquiring entity to obtain all necessary health, safety, and other permits.

q) The manner of financing the transfer and any impact that it may have on encumbering the assets of the entity and the potential impact on rates.

r) Whether there are any conditions which should be attached to the proposed acquisition.

V. RESOLUTION R-06-88 EIGHTEEN FACTOR REVIEW

A. Factor "a" of Council Resolution R-06-88

Q. SHOULD THE COUNCIL DETERMINE THAT THE GAS TRANSACTION, AS PROPOSED, IS IN THE PUBLIC INTEREST?

A. The public interest determination is one that will be made by the Council after the record in this proceeding is complete. As proposed, the Gas Transaction imposes quantifiable harm on both future DSU NO gas customers and ENO electric customers. I recommend that as part of the Council's public interest determination, that the Council consider eliminating or mitigating, to the Council's satisfaction, the identified harm, either through conditions attached to any approval, or through other measures of mitigation that may be proposed in further testimony in this docket.

PUBLIC REDACTED VERSION

B. Factor "b" of Council Resolution R-06-88

Q. IS DSU NO READY, WILLING AND ABLE TO PROVIDE SAFE, RELIABLE AND ADEQUATE SERVICE TO ORLEANS PARISH RATEPAYERS?

A. No, not at present. While DSU NO has indicated that it is committed to continue to provide high quality safe, reliable, and affordable local gas distribution services to its New Orleans customers, DSU NO is not yet ready, nor able to provide those services. DSU NO has a Transition Plan in place that is anticipated to provide what DSU NO refers to as Day One Readiness.[10] Phase One of the Transition Plan work is expected to be completed prior to regulatory approval while Phase Two of Transition Plan work is expected to be completed after regulatory approval and continue until the final Closing.[11] Based on responses to discovery, DSU NO is already proceeding on Phase One of the Transition Plan and through March 31, 2024 they have expended approximately [redacted][12]

One of the aspects of the Gas Transaction that could facilitate DSU NO's readiness and ability to provide safe and reliable service to Orleans parish ratepayers is its commitment to offer employment to retain approximately 200 employees that are primarily engaged in the ENO and ELL gas LDC businesses and to providing these employees pay and benefits substantially similar to and no less beneficial than what they currently receive from ENO,

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[10] Joint Application at page 2.

[11] Direct testimony of Brian K Little, at pages 15 and 16.

[12] DSU NO's Response to CNO 5-1, Attachment A.

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ELL and ESL.[13] Provided that the vast majority of the ENO, ELL, and ESL employees accept offers from DSU NO and its affiliate companies, DSU NO could be able to leverage the knowledge and experience of these employees to provide safe and reliable service to Orleans parish ratepayers.

C. Factor "c" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION MAINTAIN OR IMPROVE THE FINANCIAL CONDITION OF DSU NO AND ENO?

A. Yes. As discussed in the testimony of Advisor Witness Byron. S. Watson, ENO's financial condition will at least be maintained and DSU NO's financial condition will be unchanged or maintained, as compared to that of ENO at present.

D. *Factor "d" of Council Resolution R-06-88*

Q. WOULD THE GAS TRANSACTION MAINTAIN OR IMPROVE THE QUALITY OF SERVICE TO RATEPAYERS IN ORLEANS PARISH?

A. The quality of gas utility service is expected to be at least maintained if DSU NO successfully completes its Transition Plan. As I discuss above relative to factor "b" of Council Resolution R-06-88, DSU NO represents that it is committed to continue to provide high quality safe, reliable, and affordable local gas distribution services to its New

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[13] Joint Application at pages 5 and 11.

PUBLIC REDACTED VERSION

Orleans customers and is committed to offering jobs to all active employees primarily engaged in the ENO Gas Business. While the ability of DSU NO to maintain or improve the quality of service is contingent upon successful completion of the Gas Transaction Transition Plan and the acceptance of job offers by the vast majority of the ENO, ELL, and ESL employees, I believe the quality of service will at least be maintained.

The Joint Applicants suggest that customers are expected to benefit from the modernization of the IT and customer interfaces including the development of a customer service center dedicated solely to gas customers.[14] It is unproven that ENO's system currently providing these services is inadequate. Further, DSU NO does not have a historical record of previous performance that the Council can review to increase its expectation that the customer interfaces and new customer service center will be developed and implemented in such a way that customers will indeed benefit.

E. Factor "e" of Council Resolution R-06-88

Q. WHAT WAS PROVIDED IN THE JOINT APPLICATION IN RESPONSE TO FACTOR "E" OF COUNCIL RESOLUTION R-06-88?

A. Factor "e" of Resolution R-06-88 reads "Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short

[14] Appendix B to the Direct Testimony of Jeffrey Yuknis, at 6.

PUBLIC REDACTED VERSION

and long term benefit." In Witness Yuknis' complete response to this factor in his 18 Factor Public Interest Analysis he indicates:

> *"DSU NO will initially adopt the rates and rate schedules of the ENO Gas Business in effect at the time of Closing or supported by the most recent evaluation period of the ENO LDC's current GFRP, and DSU NO will file tariffs with the Council reflecting these rates. Further, DSU NO is committed to maintaining such rates in place until a final order in a full rate proceeding to be initiated not less than 15 months post-Closing, following a 12-month historical test year. To the extent the Transaction has any impact on customers, that impact will be a net positive as net benefits accrue over time. In the short term, as part of transitioning the existing ENO LDC assets into a new stand-alone LDC, DSU NO will invest in new assets and systems to replace those ENO's assets excluded from the Purchased Assets, and DSU NO will hire additional employees as required to run the LDC. Further, DSU NO will continue to make investments in gas infrastructure through the GIRP, pursuant to Resolution R-19-457, and through the IM Program, both with funding provided through the FRP. In addition, DSU NO has incurred and will incur transaction costs to accomplish the Transaction; however, DSU NO will not seek to recover these costs from customers. In the long term, DSU NO's operation as a stand-alone system will allow greater focus on gas operations and customer service. DSU NO will also be focused on hiring or utilizing Louisiana labor and equipment providers where it is prudent. In addition, the Transaction offers benefits to ENO's electric customers. To the extent that ENO can reduce its total debt or increase equity through reinvestment, the Transaction would also serve to improve ENO's credit by reducing debt capitalization. The strengthening of ENO's credit is a benefit to shareholders and customers because credit risk is a key consideration by rating agencies evaluating the Company's risk profile, where lower perceived risk would provide the Company access to debt and equity markets on more favorable terms including access to lower cost capital, which ultimately affects customer rates."*[15]

[15] Appendix B to the Direct Testimony of Jeffrey Yuknis.

PUBLIC REDACTED VERSION

In response to discovery requesting supporting workpapers that demonstrate both the short-term and long-term benefits to (i) gas customers, (ii) New Orleans communities, and (iii) Louisiana's economy, DSU responded, in part:

> *"DSU NO does not interpret the cited provisions of the New Orleans City Code or Resolution R-06-88 as requiring quantifiable benefits for the proposed transaction to be in the public interest. Rather, Resolution R-06-88 requires an overall no harm standard of review with respect to whether the transaction is in the public interest, through an 18-factor analysis."*[16]

Q. DO YOU AGREE WITH DSU NO'S INTERPRETATION OF RESOLUTION R-06-88?

A. No. First, public interest is only the first factor of the eighteen factors. This first factor along with the other seventeen factors are taken into account by the Council in determining whether to approve the transfer of ownership or control. Second, while I believe the Council could approve a transfer without quantifiable net benefits, as net benefits only comprises one factor that the Council shall take into account, the resolution requires the Council to consider all benefits or costs that can reasonably be estimated. Likewise, the Council should also weigh claims of non-quantifiable benefits that do not have any direct impact on ratepayers when considering whether the transaction should be approved.

Further, I note that Factor "e" of Resolution R-06-88 references net benefits to ratepayers. Accordingly, I interpret "ratepayers" to include all ratepayers affected by the proposed transaction. In the case of the Gas Transaction, the transaction affects both gas and electric

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[16] DSU NO's response to CNO 1-14.

PUBLIC REDACTED VERSION

ratepayers and, as such, the net of benefits vs. costs need to be considered for both DSU NO's future gas ratepayers and ENO's electric ratepayers.

Q. WITH RESPECT TO THE GAS TRANSACTION WHAT BENEFITS DID THE JOINT APPLICANTS HIGHLIGHT IN THE JOINT APPLICATION?

A. While benefits are discussed throughout the Joint Application, it appears the Joint Applicants attempted to focus the Council, with respect to benefits, on page 12 and 13 of the Joint Application where they provided a non-exhaustive list of benefits which, in summary included: DSU NO's commitment to stepping into the ENO Rates until rates are established by a subsequent rate proceeding; DSU NO's commitment to also adhere to the terms of ENO's various programs including the Gas Infrastructure Replacement Program ("GIRP") and ENO's Integrity Management Program ("IM Program"); DSU NO's financial and technical ability to invest in and integrate additional assets and systems; DSU NO's and its affiliate companies' commitment to offer employment to all of the active employees primarily engaged in the ENO Gas Business; DSU NO's and its affiliate companies' commitment to assuming the employee pension assets and liabilities associated with the ENO and ELL gas LDCs, DSU NO's and its affiliate companies' commitment to create approximately 100 additional local jobs in Louisiana; DSU NO's commitment to providing a local, proven, professional management team; DSU NO's commitment not to seek recovery of Transaction costs or any acquisition premium associated with the transaction; DSU's commitment to maintain ownership level management of the gas business in Louisiana; DSU NO's commitment to be headquartered in New Orleans; DSU

PUBLIC REDACTED VERSION

NO's ability to leverage the resources and support of Bernhard Capital; the opportunity for Entergy Corporation to free up available capital and generate a source of capital that otherwise may not be available to make beneficial and productive investments in its electric business; and the opportunity for ENO to reduce its total debt, which would also serve to improve ENO's credit, which is a benefit to shareholders and customers.

I note that many of these benefits are non-quantifiable and difficult to weigh against costs that are quantifiable, while others appear to be maintaining the status quo under a different owner.

Q. WOULD THE GAS TRANSACTION PROVIDE NET BENEFITS TO FUTURE DSU NO RATEPAYERS IN BOTH THE SHORT TERM AND THE LONG TERM?

A. With the commitments DSU NO has made with respect to DSU NO's adopting the existing ENO Gas Business rates, rate schedules and riders, continuing to fund the Gas Infrastructure Replacement Program ("GIRP") and ENO's Integrity Management Program ("IM Program"), and offering employment to ENO employees with pay and benefits substantially similar to and no less beneficial than what they currently receive from ENO; I generally expect that, in the short term, the overall investment level and operation and maintenance expense level will remain similar to what has been seen by the Council when evaluating ENO's revenue requirement and setting appropriate rates.

In the short term, DSU NO's commitment to continue to invest in the gas system while maintaining the rates of the ENO Gas Business in effect at the time of Closing or supported by the most recent evaluation period of the Gas Formula Rate Plan ("GFRP") and

PUBLIC REDACTED VERSION

maintaining such rates in place until a final order in a full rate proceeding to be initiated not less than 15 months post-Closing results in rate stability for customers for a period of approximately 23-27 months during which rates might have otherwise increased according to ENO's FRP absent the Gas Transaction. However, given DSU NO's commitment to continue to invest in the gas system, this period of rate stability will likely result in a significant rate increase at the end of the 23-27 month period.

In the near term to long term, DSU's commitment to file a general rate case approximately 15 months after Closing, DSU NO's request for a regulatory asset for Transition Costs, DSU NO's currently higher cost of debt, and the loss of ENO's net credit ADIT balance will each lead to a higher overall proposed revenue requirement for DSU NO and significantly increased rates for Orleans parish gas ratepayers, absent mitigation or other offsetting factors. The testimony of Advisor Witness Byron S. Watson includes an estimate of the Gas Transaction's impact and calculates a $16.5 million incremental increase to DSU NO's annual revenue requirement as compared to ENO's gas revenue requirement based on ENO's 2024 GFRP Evaluation filing. Such incremental increase will decline annually as DSU begins to increase its credit ADIT and amortize the regulatory asset, but the revenue impact will persist, in part, for the indicative life of the regulatory asset. Further, Mr. Watson estimates that the typical residential bill (50 ccf/month) impact of this $16.5 million incremental increase is approximately $12.33 per month. This increase is solely related to the Gas Transaction. I note that when DSU NO files its general rate case, the overall requested revenue requirement will also change due to other factors, such as interim investment in plant, all of which cannot be known at this time.

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The Joint Applicants did not provide any analyses quantifying the long-term ratepayer impacts. In response to discovery, DSU NO claims that it "currently has an indicative credit rating of BBB from S&P and will target maintaining an investment grade rating."[17] In the long term, this rating, which is more favorable than ENO's current credit rating, may provide DSU NO with more favorable access to lower cost debt should DSU NO access the long-term debt markets. Further, the BBB credit rating might justify a lower approved Return on Equity ("ROE") than that which would otherwise be approved for ENO. Both of these would result in a lower weighted average cost of capital ("WACC") to the benefit of ratepayers, however, neither of these potential long-term benefits can be quantified at this time.

Recognizing that the Gas Transaction may have non-quantifiable benefits, of the benefits and costs the Advisors were able to quantify, the Gas Transaction will result in a significant incremental rate increase to gas customers solely due to the Gas Transaction. I recommend that the Council should consider eliminating or mitigating, to the Council's satisfaction, the incremental rate increase related solely to the Gas Transaction, either through conditions attached to any approval, or through other measures of mitigation that may be proposed in further testimony in this docket.

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[17] DSU NO's response to DR CNO 1-24.c.

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Q. WOULD THE GAS TRANSACTION PROVIDE NET BENEFITS TO ENO's ELECTRIC RATEPAYERS IN BOTH THE SHORT TERM AND THE LONG TERM?

A. In the short term, ENO's electric ratepayers will experience an incremental increase in rates if the Council approves the transaction as filed. Similar to my discussion with respect to the net benefits to future DSU NO ratepayers, the majority of the benefits are non-quantifiable at this time. I believe, the two primary long-term benefits are i) ENO's potential use of the proceeds from the Gas Transaction to retire or pay-off debt as it matures and/or avoid future debt issuances that would have been required absent proceeds from the Gas Transaction, and ii) the Gas Transaction may improve ENO's credit rating and allow access to lower cost debt when future debt issuances are required. Both of these long-term benefits would directly benefit ratepayers, however, neither of these potential long-term benefits can be quantified at this time.

As discussed in the testimony of Advisor Witness Byron S. Watson, the Gas Transaction will transfer significant assets and O&M presently recovered in gas rates onto ENO's electric cost of service. ENO's estimate of this electric ratepayer harm is an annual revenue requirement increase of $[redacted] million.[18] I recommend that the Council consider eliminating or mitigating, to the Council's satisfaction, the incremental rate increase to electric customers related solely to the Gas Transaction, either through conditions attached to any

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[18] *See* ENO's HSPM response to DR CNO 1-13, HSPM Excel File CNO 1-13 *Estimated Revenue Requirement for Shared Assets and Retained O&M_HSPM,* Tab *Summary Est Rev Req*.

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approval, or through other measures of mitigation that may be proposed in further testimony in this instant docket.

Q. DOES THE GAS TRANSACTION PROVIDE A RATEMAKING METHOD THAT WOULD ENSURE, TO THE FULLEST EXTENT POSSIBLE, THAT RATEPAYERS WILL RECEIVE THE FORECASTED SHORT AND LONG TERM BENEFIT OF THE GAS TRANSACTION?

A. Yes. Notwithstanding the potential ratepayer impact and any proposed mitigations, the New Orleans City Code requires a fully allocated cost of service study by rate schedule in a general rate case.[19] In DSU NO's proposed general rate case, that detailed cost study will incorporate known and measurable pro-forma adjustments, appropriate allocations of specific costs, and proposed relative rates of return by customer class for all retail customers served. Importantly, it will be the cost basis to construct DSU NO rate schedules and tariffs, and it will provide the ratemaking framework to ensure each customer class is treated fairly regarding cost recovery and short-term and long-term benefits. It will also ensure that the new DSU NO rates adhere to any conditions of approval that result from this instant docket. However, a complete ratemaking method that achieves its objectives for ratepayers, other than the requirement for the fully allocated cost of service study, would benefit from Council guidance and monitoring, and are addressed further in Mr. Prep's testimony.

[19] Sec. 158-137 of the New Orleans Code.

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F. Factor "f" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION ADVERSELY AFFECT COMPETITION?

A. No. Currently, the ENO Gas Business is regulated by the Council and enjoys certain exclusive service rights under its franchise. If the Council approves the Gas Transaction, DSU NO will similarly be regulated by the Council and will enjoy the same service rights under the transferred franchise. The Gas Transaction is not reasonably expected to alter the regulated nature of utility service in New Orleans, and competition will not be adversely affected by the proposed Gas Transaction.

G. Factor "g" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION MAINTAIN OR IMPROVE THE QUALITY OF MANAGEMENT OF THE RESULTING PUBLIC UTILITY OR COMMON CARRIER DOING BUSINESS IN NEW ORLEANS?

A. Yes, potentially. However, this is difficult to assess with certainty. In Appendix B to the Direct Testimony of Jeffrey Yuknis, Mr. Yuknis testifies that "*DSU NO's management have the financial, technical, and managerial expertise to own and operate the gas system.*"[20] Further, he testifies, that "*the DSU Board will be partially comprised of Jeff Yuknis, Managing Director at Bernhard Capital, Foster Duncan, an Operating Partner of Bernhard Capital, Julius Bedford, a Principal at Bernhard Capital, and Peter Tumminello,*

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[20] Appendix B to the Direct Testimony of Jeffrey Yuknis, page 8.

PUBLIC REDACTED VERSION

the former President of Southern Company Gas."[21] In various exhibits to the testimonies in the Joint Application, resumes for these DSU Board members were provided. With respect to operational management, DSU has made a commitment to offer employment to all the active employees primarily engaged in the ENO Gas Business. What is not known is the management structure and personnel which would be in place for DSU NO below the DSU Board and above the operational management employees. Should the appropriate management structure and personnel be in place, I believe the quality of management of DSU NO will be comparable to that of ENO.

H. Factor "h" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION BE FAIR AND REASONABLE TO ENO EMPLOYEES?

A. Yes. DSU NO and its affiliate companies have committed *"…to offer employment to all of the active employees primarily engaged in the ENO Gas Business and those who return from leave with substantially similar or no less favorable compensation, benefits, and post-retirement benefits as they are currently receiving; and to honor the tenure of such employees as it relates to vacation time, retirement, pension, holidays, disability and leave*

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[21] *Id.*

PUBLIC REDACTED VERSION

policies."[22] As such, the proposed Gas Transaction reasonably can be expected to be fair and reasonable to affected employees.

I. Factor "i" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION BE FAIR AND REASONABLE TO ENO SHAREHOLDERS AND DSU NO's OWNERS?

A. Yes. ENO and DSU NO are Joint Applicants. No other public utility or common carrier shareholders are directly affected. The Transaction is an agreement between two sophisticated parties acting at arm's length on behalf of their shareholders and owners. As such, and absent any indication to the contrary, it is reasonable to conclude that the transfer is fair to the owners of both ENO and DSU NO. Further, I note that ENO will get new capital which will reduce the need for new debt and potentially improve its credit rating, resulting in a fair and reasonable outcome for its shareholders.

J. Factor "j" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION BE BENEFICIAL ON AN OVERALL BASIS TO NEW ORLEANS' ECONOMIES AND TO THE COMMUNITIES IN THE AREA SERVED BY DSU NO?

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[22] Joint Application Page 13.

PUBLIC REDACTED VERSION

A. Yes, potentially. Provided that the ratepayer impacts identified in my discussion of Factor "e" of Council Resolution R-06-88 are eliminated or mitigated to the Council's satisfaction, I believe the Gas Transaction can reasonably be assumed to be beneficial on an overall basis to New Orleans' economies and to the communities in the area. I note that DSU has committed *"... to establish its headquarters in New Orleans, Louisiana and to offer employment to approximately 200 employees primarily engaged in the Entergy Louisiana, LLC ("ELL") and ENO gas businesses, as well as to hire approximately 100 new Louisiana based employees to provide shared services ..."*[23] Further, I note that DSU NO has committed "*... to maintaining the local management of the acquired ENO Gas Business assets to ensure the continuation of important benefits to Louisiana and the New Orleans community that it serves in terms of safety, service reliability and rates, employment, economic development, and charitable contributions*."[24] Each of the commitments will contribute to a beneficial outcome to New Orleans from the Gas Transaction. However, as I discussed earlier in my testimony, I believe it is important for the Council to weigh each of these commitments in its consideration of the Gas Transaction and memorialize these commitments as conditions to the approval of the Gas Transaction.

K. Factor "k" of Council Resolution R-06-88

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[23] Joint Application page 5.

[24] *Id.*

PUBLIC REDACTED VERSION

Q. WOULD THE GAS TRANSACTION PRESERVE THE COUNCIL'S JURISDICTION AND ABILITY TO EFFECTIVELY REGULATE AND AUDIT DSU NO's OPERATIONS?

A. Yes. The jurisdiction of the Council is derived from the Louisiana Constitution and its Home Rule Charter and the Gas Transaction will not affect such governing law. DSU NO would operate under the same franchise that the ENO Gas Business now operates, and the Council's jurisdiction, regulatory, and audit powers will not be affected by the Gas Transaction.

L. Factor "l" of Council Resolution R-06-88

Q. ARE ANY CONDITIONS TO THE GAS TRANSACTION NECESSARY TO PREVENT ADVERSE CONSEQUENCES?

A. Yes. In my testimony, Section VI. Recommendations, and in the Recommendations sections of Advisor Witness Byron S. Watson and Advisor Witness Victor M. Prep, the Advisors propose conditions that the Council should consider attaching to any such approval of the Gas Transaction.

M. Factor "m" of Council Resolution R-06-88

Q. IS DSU NO's, ITS PRINCIPALS', OR ITS AFFILIATES' LACK OF HISTORY OF COMPLIANCE OR NONCOMPLIANCE WITH THE COUNCIL OR OTHER JURISDICTIONS A MATTER THAT WOULD PREVENT THE COUNCIL FROM APPROVING THE GAS TRANSACTION?

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A. No. DSU NO is a newly formed entity, and as such has no history of compliance or noncompliance with the Council or other jurisdictions. Similarly, DSU, DSU Services, and DSU LA, are also newly formed and have no history of compliance or noncompliance with the Council or other jurisdictions. That lack of history does not suggest that DSU NO should be expected to be noncompliant. Furthermore, I expect that the commitment to offer employment to approximately 200 employees primarily engaged in the ENO and ELL gas businesses will facilitate DSU NO's and its affiliates' compliance with Council regulatory requirements. This response assumes a circumstance in which DSU NO, DSU Services and DSU LA, in fact, retain a vast majority of ENO, ESI and ELL employees primarily engaged in the ENO and ELL gas businesses.

N. Factor "n" of Council Resolution R-06-88

Q. WOULD DSU NO HAVE THE FINANCIAL ABILITY TO OPERATE, MAINTAIN, AND UPGRADE THE QUALITY OF ITS PHYSICAL SYSTEM?

A. Yes, potentially. DSU NO is an indirect subsidiary of BCP Infrastructure Fund, LP and its affiliated investment vehicles ("BCP Infrastructure Fund"), managed by Bernhard Capital Partners Management, LP ("Bernhard Capital"). In response to discovery, DSU NO indicated that *"Bernhard Capital Partners ("Bernhard Capital") is committed to providing sufficient capital to safely and reliably maintain and operate the DSU NO system post-closing, to accommodate all operational and capital needs of the utility, and to support responsible growth of the utility into the future. Bernhard Capital has internally approved expected ongoing operational and capital needs of the utility for approximately*

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the next 10 years, which could exceed $250M."[25] Should Bernhard Capital fulfill this commitment, it is reasonable to conclude that DSU NO will have the financial ability to operate, maintain, and upgrade the quality of its physical system.

O. Factor "o" of Council Resolution R-06-88

Q. WOULD THE GAS TRANSACTION REQUIRE, AND DOES DSU NO HAVE THE ABILITY TO MAKE, ANY REPAIRS OR IMPROVEMENTS?

A. Yes. DSU NO DSU's Transition Plan anticipates investments in new services, systems, and facilities prior to closing. These investments are being made to replace the Entergy retained assets and systems that are not being transferred with the sale. With the commitment of capital from Bernhard Capital, it is reasonable to expect DSU NO has the ability to make these improvements.

P. Factor "p" of Council Resolution R-06-88

Q. DOES DSU NO HAVE THE ABILITY TO OBTAIN ALL NECESSARY HEALTH, SAFETY, AND OTHER PERMITS?

A. Yes. There is no evidence that suggests that DSU NO will not be able to obtain any necessary health, safety, and other permits. Further, I expect that the commitment to offer employment to approximately 200 employees primarily engaged in the ENO and ELL gas

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[25] DSU NO's response to DR CNO 2-7.b.

PUBLIC REDACTED VERSION

businesses will facilitate DSU NO's and its affiliates' ability to obtain any necessary permits. This response assumes a circumstance in which DSU NO, in fact, retains a vast majority of ENO's employees primarily engaged in the ENO gas business.

Q. Factor "q" of Council Resolution R-06-88

Q. WOULD THE MANNER IN WHICH DSU NO PROPOSES TO FINANCE THE GAS TRANSACTION INAPPROPRIATELY ENCUMBER THE UTILITY ASSETS?

A. No. I expect DSU NO's proposed capitalization and financing to be reasonable and at least as favorable as is ENO's in terms of the encumbrance of DSU NO's assets. As Mr. Watson discusses in his testimony, BCP Infrastructure Fund and Bernhard Capital have committed sufficient funds to finance the Gas Transaction. As such, substantially all of DSU NO's capitalization is expected to come from its owners. Similar to ENO, DSU NO is an LLC owned by a corporate entity. The health and stability of DSU NO's owners is as important as the health and stability of ENO's owners, as any distress of DSU NO's owners could adversely impact DSU NO. Considering these factors, DSU NO's stated manner of finance does not inappropriately encumber its assets, including in comparison to that of ENO at present.

Q. WOULD THE MANNER IN WHICH DSU NO PROPOSES TO FINANCE THE GAS TRANSACTION IMPACT RATES?

PUBLIC REDACTED VERSION

A. Yes. As discussed in the testimony of Advisor Witness Byron. S. Watson, DSU NO's current cost of debt is substantially higher than ENO's present total cost of debt. Ultimately, DSU's approved ROE and WACC will be determined at the time DSU NO files its general rate case. Mr. Watson estimates that, if DSU NO were to request a WACC today, DSU NO's before-tax WACC could be [redacted] bp higher than that of ENO in its 2024 FRP Evaluation Report. This level of increased WACC would have a negative impact on customers' rates and should be considered by the Council in its evaluation of the proposed transaction.

R. Factor "r" of Council Resolution R-06-88

Q. SHOULD THE COUNCIL ATTACH ANY CONDITIONS TO ITS APPROVAL OF THE GAS TRANSACTION?

A. Yes. In my testimony, Section VI. Recommendations, and in the Recommendations sections of Advisor Witness Byron S. Watson and Advisor Witness Victor M. Prep, the Advisors propose conditions for Council consideration that the Council may attach to any such approval of the Gas Transaction.

VI. RECOMMENDATIONS

Q. CONSIDERING YOUR EIGHTEEN FACTOR REVIEW, WHAT DO YOU RECOMMEND?

A. I recommend that the Council consider approval of the Gas Transaction if the ratepayer harm, which results solely from the Gas Transaction, that the Advisors have identified and

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quantified for both future DSU NO gas customers and ENO electric customers, can be eliminated or mitigated to the Council's satisfaction. Further I recommend that the Council consider the recommendations and proposed conditions of approval presented in my testimony and the testimonies of Advisor Witness Byron S. Watson and Advisor Witness Victor M. Prep.

Q. IN ADDITION TO THE CONDITIONS PRESENTED IN THE OTHER ADVISORS TESTIMONY, WHAT CONDITIONS DO YOU RECOMMEND THE COUNCIL ATTACH TO ANY APPROVAL OF THE GAS TRANSACTION?

A. ENO's compliance relationship with the Council has had decades to evolve. DSU NO is a newly formed entity, and as such has no history of compliance or noncompliance with the Council or other jurisdictions. Similarly, DSU, DSU Services, and DSU LA, are also newly formed and have no history of compliance or noncompliance with the Council or other jurisdictions. In another vein, there are many things which are unknown and unknowable with respect to the future operations of DSU NO if the Council approves the Gas Transaction.

DSU NO and its affiliate companies have made a significant number of commitments to the Council regarding the Gas Transaction. The Council's evaluation and potential approval of the Gas Transaction, the Council's ability to effectively and efficiently regulate DSU NO, and the successful provision of gas service in New Orleans each depend on DSU NO and its affiliate companies following through on their commitments. I recommend that

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the Council attach as conditions to approval of The Gas Transaction each of the commitments I have identified in my Exhibit No. ___ (JWR-4).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF COLORADO)
)
COUNTY OF ARAPAHOE)

NOW BEFORE ME, the undersigned authority, personally came and appeared, Joseph W. Rogers, who after being duly sworn, did depose and state:

I am the person identified in the attached Direct Testimony and such testimony was prepared by me or under my direct supervision; the answers and information set forth therein are true and correct; and if asked the questions set forth therein, my answers thereto would, under oath, be the same.

Joseph W. Rogers

LUZ ALLAN
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20244017683
MY COMMISSION EXPIRES MAY 7, 2028

Subscribed and sworn to before me
this 30th day of May 2024.

NOTARY PUBLIC

EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE

OF

JOSEPH W. ROGERS

Mr. Rogers graduated from the University of Nebraska, Lincoln in 1990 with the degree of Bachelor of Science in Mechanical Engineering. He is a registered Professional Engineer in the states of Colorado and Louisiana.

Since 2001, Mr. Rogers has been with Legend Consulting Group Limited ("Legend"). In 2019, Mr. Rogers assumed his current role as the President and an Executive Consultant of Legend. Mr. Rogers has more than thirty-one years of domestic and international consulting experience in the electric utility industry, and in engineering related to industrial utility facilities Mr. Rogers' experience includes strategic planning, modeling, economic analysis, review and design of rates and riders, conceptual power plant design, detailed power plant design, power plant construction, power plant commissioning/start up, and the performance of due diligence reviews of generating plants for project finance purposes. Mr. Rogers has worked with utility clients and public power agencies to evaluate and optimize long-term resource portfolios. Mr. Rogers has participated in numerous cases before the Federal Energy Regulatory Commission and has provided expert testimony or advice to counsel regarding utility system planning, operation of generating facilities, resource allocations, litigation strategy fuel diversity, and purchase power agreements.

In his work with utility regulators, he has provided advice on utility operations, fuel adjustment mechanisms, energy efficiency programs, utility coordination agreements, integrated resource planning, and new generating resource decisions.

For financial institutions and insurance companies, Mr. Rogers has performed due-diligence assessments, performance assessments, and appraisals of electric generating equipment and gas compression equipment.

In 2000 and 2001, while working for Kiewit Industrial Company, Mr. Rogers was the Lead Mechanical Start-Up Engineer for a 550 MW, natural gas-fired, combined cycle power plant. In this position he was responsible for the initial check out and start-up of equipment, start-up procedures, chemical cleaning, steam blow, and various other system commissioning activities.

From 1990 to 1998, Mr. Rogers was employed by Black & Veatch, consulting engineers. While in their employ, he was responsible for construction completion and mechanical commissioning activities for a 660 MW natural gas-fired combined-cycle power plant in Argentina, and 1300 MW of coal-fired conventional steam thermal units in Indonesia. In this capacity, he directed construction activities to support project commissioning, including the performance of engineering necessary to accomplish design modifications. Mr. Rogers has developed commissioning procedures for major generating plant systems and has supervised plant start-up and commissioning activities.

In 1996, Mr. Rogers transferred to the mechanical design department of Black & Veatch in Raleigh, NC. In this position, he performed studies and participated in design projects for utility and non-utility clients. Projects included cogeneration technology screening assessments, a review of existing powerhouse ancillary systems for an industrial client, and the review of piping drawings and completion of miscellaneous piping design issues for a new 50 MW combustion turbine, and a 450,000 lb/hr heat recovery steam generator.

From 1990 through 1995, Mr. Rogers was assigned to the Power System Planning and Technical Analysis Group with Black & Veatch in Kansas City, Missouri. In this position, he conducted various system planning and feasibility studies for domestic and international clients. Activities included: technology screening and selection studies, development of utility generation expansion plans, generating system production cost simulation and analysis, and Monte Carlo reliability/availability assessments to predict plant availability and improvements attributable to proposed plant design changes.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	**Regulatory Agency**	**Docket No.**	**Date Filed**	**Client Represented**	**Testimony Issues**
Entergy New Orleans, LLC.	Council of the City of New Orleans	UD-18-07	2019	Council of the City of New Orleans	Testimony regarding the examination and review of the utility's application for a change in electric and gas rates. Testimony included: general ratemaking principles; recommendations on the requested change in rates; recommendations on the necessity of utility proposed riders; corrections and changes to proposed riders, and the utility's community solar offering.
Entergy New Orleans, LLC.	Council of the City of New Orleans	UD-17-04	2019	Council of the City of New Orleans	Testimony in a prudence investigation regarding the utility's actions and declining distribution system reliability.
Entergy New Orleans, LLC.	Council of the City of New Orleans	UD-16-02	2017	Council of the City of New Orleans	Testimony regarding an application to construct a peaking power plant in New Orleans. Issues addressed in testimony included capacity need, economic analyses, operational flexibility, and issues relating to prices in the Midcontinent Independent System Operator, Inc. ("MISO") capacity market.
Arkansas River Power Authority	Prowers County District Court	Case No.: 14cv30031	2016	City of Lamar Colorado (Allen Vellone Wolf Helfrich & Factor P.C.)	Affidavit and Expert Report regarding general system planning and the utility's decision to repower an existing natural gas fired boiler with a coal-fired boiler.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, LLC.	Council of the City of New Orleans	UD-15-01	2015	Council of the City of New Orleans	Testimony regarding the utility's proposed cost-based power purchase agreement ("PPA") for 20 percent of the capacity and related energy from Power Blocks 3 and 4 of Union Power Station ("UPS") and the utility's subsequent revised application of for the acquisition of Power Block 1 of UPS. Testimony included: a review and revision of the utility's net benefit analyses; the acquisition price of UPS; the consistency of the acquisition with the utility's IRP process; opinions on the potential benefits and risks associated with the proposed acquisition; concerns with the utility's proposed method of recovery of UPS energy related costs and Long Term Service Agreement ("LTSA") costs; and recommendations to the Council.
Entergy New Orleans, Inc. and Entergy Louisiana, LLC	Council of the City of New Orleans	UD-14-02	2015	Council of the City of New Orleans	Testimony regarding sale of electric utility operations and certain assets serving the fifteenth ward of the City of New Orleans. Testimony specifically regarding the proposed "slice-of-system" purchase power agreement, proposed form of combined fuel adjustment clause, and proposed environmental adjustment clause rider.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, Inc. and Entergy Louisiana, LLC	Council of the City of New Orleans	UD-11-01	2014	Council of the City of New Orleans	Testimony regarding the treatment of Midcontinent Independent System Operator, Inc. related revenues and expenses for which the utilities requested recovery in their respective Fuel Adjustment Clause mechanisms, the configuration of Transmission Pricing Zones for the Entergy Operating Companies, and the current status of the Entergy System Agreement.
Entergy New Orleans, Inc. and Entergy Louisiana, LLC	Council of the City of New Orleans	UD-12-01	2013	Council of the City of New Orleans	Testimony regarding the proposed divestiture of the Entergy Operating Companies' transmission assets to ITC Holdings Corp. Specifically related to the transmission pricing zone configuration.
Entergy Corporation	Federal Energy Regulatory Commission	EL09-61-002	2013	Council of the City of New Orleans	In FERC Opinion No. 521, the Commission determined that Entergy violated the Entergy System Agreement. Provided testimony regarding separate estimates of damages and associated calculation methods proposed by both Entergy Services, Inc. and the Louisiana Public Service Commission, a discussion of the Commission's findings in Opinion No. 521, and a review of each of the calculation methods and their conformance with the Commission's findings.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, Inc. and Entergy Louisiana, LLC	Council of the City of New Orleans	UD-11-01	2012	Council of the City of New Orleans	Testimony regarding the proposed transfer by Entergy New Orleans, Inc. and Entergy Louisiana, LLC of functional control of Transmission assets to the Midwest Independent Transmission System Operator regional transmission organization. Testimony issues included: factors which could significantly impact the estimated net benefits, the allocation of Auction Revenue Rights, potential revisions to the Entergy System Agreement, the determination of transmission pricing zones, the treatment of Qualifying Facilities, the potential impacts of environmental regulations, the proposed capacity market in MISO, and conditions of approval regarding the Council's public interest determination.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-11-03	2011	Council of the City of New Orleans	Testimony regarding Entergy New Orleans, Inc. participation in Unit 6 at Ninemile Point Station through a power purchase agreement. Testimony issues included regional requirements and the need for new generating capacity in Amite South, critique of the cost/benefit analyses, estimated capital costs, and the treatment of the long-term service agreement associated with maintenance of the proposed facility.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	**Regulatory Agency**	**Docket No.**	**Date Filed**	**Client Represented**	**Testimony Issues**
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-11-02	2011	Council of the City of New Orleans	Testimony regarding the appropriate amount of charges recoverable from ENO ratepayers as a result of the re-pricing of two power purchase agreements pursuant to FERC Opinion Nos. 485 and 485-A. Identification of calculation errors and the incorrect application of applicable testimony in the related FERC proceeding relating to the development of the amounts requested by the utility as a result of the re-pricing.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-08-03	2008, 2009	Council of the City of New Orleans	A revised fuel adjustment clause rate formula that removes a majority of the non-fuel costs associated with ENO's allocated share of Grand Gulf Nuclear Station and eliminates recognized inadequacies in the current fuel adjustment clause rate formula
Entergy Corporation	Federal Energy Regulatory Commission	ER03-583-000, et. al.	2004	Council of the City of New Orleans	The allocation of certain purchase power wholesale contracts among the Entergy Operating Companies is correct and the benefits should be preserved by the FERC
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-01-04 and UD-03-01	2003	Council of the City of New Orleans	The Council's approval of proposed supply contracts results in fuel diversity and a just and reasonable approach. The proposed settlement should be approved to effectuate ratepayer savings

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF JOSEPH W. ROGERS

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy Corporation	Federal Energy Regulatory Commission	EL01-88-000	2002	Council of the City of New Orleans	The implementation of a FERC approved tariff has resulted in inequitable cost-sharing among the parties. The tariff cost sharing mechanisms, as written, cannot guarantee reasonable results in the current utility environment

Docket UD-24-01 Significant Commitments Joint Applicants		
No.	**Reference**	**Commitment**
1	Direct Testimony of Jeffrey Yuknis, Appendix B, page 5	"DSU NO is committed to continue to provide high quality safe, reliable, and affordable local gas distribution services to its New Orleans customers."
2	Joint Application, page 11	"Further, DSU's parent company is committed to maintaining company level management as well as investment-level management in Louisiana, and has an experienced team in place to ensure the parties work jointly and in cooperation with the Council on a smooth and seamless acquisition and transition."
3	Direct Testimony of Jeffrey Yuknis, page 5-6	"DSU NO is fully committed to standing up new "fit-for-purpose" systems to replace retained assets such that they are fully functional to provide a seamless transition and safe and reliable services independent of ENO, Entergy Louisiana, LLC ("ELL) and Entergy Services, LLC ("ESL") (collectively "Entergy") on day one post-Closing ("Day One Readiness")."
4	Direct Testimony of Brian K. Little, page 12	"DSU NO and the ENO Gas Business are fully committed to working collaboratively through the date of Closing to ensure Day One Readiness for providing safe and reliable gas services to customers, with a limited need for transition services post-Closing, and with the majority of such transition services to be provided on a consultative basis as needed under a Transition Services Agreement. As evidence of their respective commitment to the Transition, an Interim Cooperation Agreement ("ICA") was executed along with the PSA."

Docket UD-24-01 Significant Commitments Joint Applicants		
No.	**Reference**	**Commitment**
5	Direct Testimony of Brian K. Little, page 30	"BCP and DSU NO are committed to making significant investments in improving the business – both in the short-term as part of the Transition Plan process and build-out of the shared services functions and standalone systems prior to Transaction Closing, and in long-term improvements in the facilities and infrastructure of the business post-Closing. Many of these investments and improvements will directly enhance the customer experience and the overall reliability of the service provided. For example, the build-out of a new customer care platform (to include, e.g. customer information system, call center operations, billing platform, etc.) dedicated solely to natural gas customers should improve the quality of services and the overall experience for those customers. Further, DSU NO will be better able to quickly and efficiently make changes to systems and business processes due to changing business requirements in order to streamline operations, as well as respond to external requirements and requests such as from the Council, the Department of Transportation and the Pipeline Hazardous Materials Safety Administration."
6	Joint Application, page 14	"DSU NO's commitment to be headquartered in New Orleans"
7	Joint Application, page 5	"DSU NO is committed to maintaining the local management of the acquired ENO Gas Business assets to ensure the continuation of important benefits to Louisiana and the New Orleans community that it serves in terms of safety, service reliability and rates, employment, economic development, and charitable contributions."
8	DSU NO response to CNO 2-7.b	"Bernhard Capital Partners ("Bernhard Capital") is committed to providing sufficient capital to safely and reliably maintain and operate the DSU NO system post-closing, to accommodate all operational and capital needs of the utility, and to support responsible growth of the utility into the future."

Docket UD-24-01 Significant Commitments Joint Applicants		
No.	**Reference**	**Commitment**
9	Direct Testimony of Brian K. Little, page 26	"…DSU, as well as, BCP is committed to supporting the communities in which it does business in Louisiana, and as part of this Transaction, is committed to maintaining the strong community and economic development support in the DSU Utilities' service area.".[1]
10	Direct Testimony of Jeffrey Yuknis, page 34	"Bernhard Capital is committed to investing in the growth of the DSU LDCs through expansion of systems and the acquisition of additional systems. This growth strategy will provide customer and resource growth that will enhance economies of scale, buying power, and operational efficiencies benefitting all customers of the systems."
11	Joint Application, page 22	"DSU NO is committing to maintain the ENO Rates and to continue to operate under ENO Rates in effect as of the Closing and/or supported by ENO's most recent GFRP test year, until any necessary rate adjustments are approved by the Council in the DSU NO rate proceeding, which rate adjustments would be expected to occur approximately 23-25 months post-Closing…"
12	Joint Application, page 23	"In addition, DSU NO agrees to submit to a full rate review following Closing of the Transaction, no sooner than fifteen (15) months post-Closing. Following Closing, DSU NO would begin a 12-month period that will serve as an historical test year for the DSU Rate Case."
13	Joint Application, page 13	"DSU NO's commitment not to seek recovery of Transaction costs or any acquisition premium associated with the Transaction"
14	Joint Application, page 5	"… DSU NO commits to assume and adopt the rates and rate schedules of the ENO Gas Business, as well as to assume the commitments and obligations of the ENO Gas Business with respect to various plans for capital improvements, including specifically ENO's GIRP and ongoing Integrity Management Program IM Program."
15	Joint Application, page 5	"DSU NO is also committed to adopting ENO's Incident Command System ("ICS") structure until such time that DSU NO develops plans specific to DSU NO."

[1] BCP is defined as Bernhard Capital Partners Management, L.P. and related entities.

Docket UD-24-01 Significant Commitments Joint Applicants		
No.	**Reference**	**Commitment**
16	Joint Application, page 5	"DSU also commits to establish its headquarters in New Orleans, Louisiana and to offer employment to approximately 200 employees primarily engaged in the Entergy Louisiana, LLC ("ELL") and ENO gas businesses, as well as to hire approximately 100 new Louisiana based employees to provide shared services that will no longer be provided by ENO, ELL, and Entergy Services, LLC ("ESL") (collectively, "Entergy") post-Closing."
17	Joint Application, page 11	"As previously mentioned, DSU will offer employment to retain approximately 200 employees that are primarily engaged in the ENO and ELL gas LDC businesses. As part of such offer of employment, DSU has committed to providing these employees pay and benefits substantially similar to and no less beneficial than what they currently receive from ENO, ELL and ESL ("Entergy"), ensuring that the Transaction is fair and reasonable to Entergy's employees."
18	Joint Application, page 13	"DSU NO's and its affiliate companies' commitment to offer employment to all of the active employees primarily engaged in the ENO Gas Business and those who return from leave with substantially similar or no less favorable compensation, benefits, and post-retirement benefits as they are currently receiving; and to honor the tenure of such employees as it relates to vacation time, retirement, pension, holidays, disability and leave policies"
19	Direct Testimony of Jeffrey Yuknis, Appendix B	DSU has also committed to honoring the bargaining-unit agreement in place at ENO Gas Business, and to assuming the employee pension assets and liabilities associated with the gas utilities, including more than 160 Entergy retirees.
20	Joint Application, page 13	"DSU NO's and its affiliate companies' commitment to assuming the employee pension assets and liabilities associated with the ENO and ELL gas LDCs, including more than 160 retirees primarily involved in the ELL and ENO Gas Business"
21	ENO's response to DR CNO 1-44.b	ENO states, "Cash and cash equivalents or, to the extent agreed to by the parties, assets in kind held by the Entergy pension trust will be transferred to a trust established for the DSU defined benefit pension plans."

Docket UD-24-01 Significant Commitments Joint Applicants		
No.	**Reference**	**Commitment**
22	Direct Testimony of Jeffrey Yuknis, page 20	"Since the initial town hall meeting, DSU and ENO have worked collaboratively to respond to employee questions regarding the Transaction and their employment. During the course of the Transaction, DSU and DSU NO are committed to maintaining communications with, and providing updates to, the stakeholders of the utility."
23	DSU response to CNO 1-6.b	"DSU NO is fully committed to establishing and maintaining a robust internal controls process to govern the business post-closing of the transaction. As described in CNO 1-6(a), we are engaged in a process not only to implement the appropriate systems to ensure Day One Readiness of the operations, but also are focused during this transition process upon establishing and designing the key control processes related to operating effectiveness and controls over financial reporting. In doing so, we expect to design a compliance program that follows, in large part, the principles set forth in the Sarbanes-Oxley Act of 2002 (SOX). Similar to a SOX compliance program in a public company, DSU NO's effort will include the identification of significant risks to the business; the design of controls aimed to mitigate those risks; a plan for testing to confirm the effectiveness of control design and performance; and a process to confirm that an effective control environment is in place."
24	DSU response to CNO 1-6.c	"At a minimum, DSU NO will comply with the requirements associated with its financing and operation as a BCP portfolio company, which includes the generation of third party audited consolidated financial statements in accordance with GAAP to be accompanied by an opinion of DSU NO's third party auditors stating that such statements present fairly in all material respects DSU NO's financial position and the results of its operations within 120 days after the end of each fiscal year (or 150 days after the end of the first full fiscal year after closing)."

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION FOR AUTHORITY TO OPERATE	)	
AS LOCAL DISTRIBUTION COMPANY AND INCUR	)	
INDEBTEDNESS AND JOINT APPLICATION FOR	)	**DOCKET NO. UD-24-01**
APPROVAL OF TRANSFER AND ACQUISITION OF	)	
LOCAL DISTRIBUTION COMPANY ASSETS AND	)	
RELATED RELIEF	)	

DIRECT TESTIMONY

OF

BYRON S. WATSON

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

May 31, 2024

PUBLIC REDACTED VERSION

PUBLIC REDACTED VERSION

TABLE OF CONTENTS

PUBLIC REDACTED VERSION

PUBLIC REDACTED VERSION

PREPARED DIRECT TESTIMONY

OF

<u>BYRON S. WATSON, CFA</u>

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION.

A. My name is Byron S. Watson. My business address is 6041 S. Syracuse Way, Suite 105, Greenwood Village, Colorado. I am a Senior Consultant with the firm Legend Consulting Group Limited ("Legend"), which provides engineering, economic, financial, and regulatory consulting services and serves as the Technical Advisors to the Council of the City of New Orleans ("Council").

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am presenting testimony on behalf of the Advisors to the Council of the City of New Orleans ("Council") ("Advisors"). The Council regulates the rates, terms, and conditions of electric and gas service of Entergy New Orleans, LLC ("ENO") which is a subsidiary of Entergy Utility Holding Company, LLC ("EUHC"), which is itself directly and indirectly owned by Entergy Corporation.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS.

A. I received a Bachelor of Science degree in Electrical Engineering from Southern Methodist University in 1989. In 1991, I received a Master of Business Administration degree from Emory University. In 2009, I received the Chartered Financial Analyst ("CFA")

PUBLIC REDACTED VERSION

designation, and I am an active member of the CFA Institute. In 2014, I received the Certified Rate of Return Analyst designation from the Society of Utility Regulatory Financial Analysts ("SURFA"), and I am an active member of SURFA.

In 2013, I became a Senior Consultant with Legend. As a Technical Advisor for the Council my responsibilities include analysis and testimony related to electric and gas utility revenue requirements, cost of service, strategic planning, economic analysis, and regulatory ratemaking. I have sponsored testimony before the Council as well as the Federal Energy Regulatory Commission ("FERC").[1] Relevant here, I sponsored testimony regarding the transfer of utility assets from Entergy Louisiana, LLC ("ELL") to Entergy New Orleans ("ENO") (the Algiers Transaction, Docket No. UD-14-02) and the restructuring of ENO under a new holding company (Docket No. UD-16-03). Both Council proceedings involved transfers of utility assets or franchises and involved the Council's 18-point evaluation framework as established in Resolution No. R-06-88, which as Advisor Witness Joseph W. Rogers discusses, is an appropriate standard of review for issues in the instant proceeding.

Exhibit No. ___ (BSW-2) provides a summary of my relevant education and professional experience, and Exhibit No. ___ (BSW-3) lists my previous testimony experience.

Q. WHAT HAS CAUSED YOU TO SPONSOR DIRECT TESTIMONY IN THIS PROCEEDING?

[1] *See* Ex. No. CNO-0002 (Byron S. Watson Experience).

PUBLIC REDACTED VERSION

A. On December 11, 2023, ENO and Delta States Utilities NO, LLC ("DSU NO") submitted their *Joint Application of Delta States Utilities NO, LLC and Entergy New Orleans, LLC Authorizing Delta States Utilities NO, LLC to Operate as a Jurisdictional Natural Gas Local Distribution Company* ("Joint Application"), seeking, among other relief, approval for DSU NO to assume ownership and operation of ENO's gas utility. On February 1, 2024, the Council adopted Resolution No. R-24-49, establishing a docket for consideration of the Joint Application, including a procedural schedule. My direct testimony in this proceeding is provided pursuant to this procedural schedule.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to discuss the accounting, ratemaking and cost of service aspects of the sale of certain gas-related assets of ENO to DSU NO from ENO and related relief as requested in the Joint Application (the "Gas Transaction") and to make recommendations that the Council may consider to mitigate ratepayer harm from the Gas Transaction.

Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED AND SUMMARIZE YOUR TESTIMONY, CONCLUSIONS, AND RECOMMENDATIONS TO THE COUNCIL.

A. I have organized my testimony into eight sections as described in the table of contents.[2] Section I is this section, which introduces my testimony. Section II, Background, discusses

[2] *See supra* at 1.

PUBLIC REDACTED VERSION

ENO's current gas utility and the Council's ratemaking processes. Section III, Key Aspects of the Proposed Gas Transaction, describes the Gas Transaction and identifies key factors relevant to the Council's regulation of DSU NO as compared to ENO. Section IV, DSU NO's Accounting Systems and Controls, discusses accounting standards, accounting controls, and auditing and the related impacts on ratemaking. Section V, Gas Transaction Factors Affecting DSU NO's Cost of Service, identifies factors affecting DSU NO's cost of service as compared to that of ENO. Section VI, Estimate of the Gas Transaction's Impact on Cost of Service, discusses my analysis of the impact on DSU NO's revenue requirement as of its initial rate case filing as compared to the operation of ENO's gas utility absent any Gas Transaction, based on identified proposals by the Joint Applicants and without any mitigating measures. Section VII, The Gas Transaction's Impact on ENO, identifies the Gas Transaction's effect on ENO's electric cost of service as a result of the transfer of gas plant and gas O&M to ENO's electric utility upon the close of the Gas Transaction. Section VIII, Recommendations, makes specific recommendations to the Council related to the issues discussed in this testimony.

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE ENO'S GAS UTILITY.

A. ENO's gas utility provides retail gas utility service to all of New Orleans. ENO serves approximately one hundred and nine thousand (109,000) retail customers, one hundred and three thousand (103,000) of which are residential customers.[3] ENO's 2024 gas non-fuel

[3] *See* ENO's 2024 GFRP Evaluation Filing, *ENO GFRP Attachment A_G_WP*, *PG 2_Revenue Summary*.

PUBLIC REDACTED VERSION

revenue requirement (*i.e.*, ENO's requested base rate revenue requirement) is $64.1 million.[4] As a utility subject to FERC jurisdiction, ENO makes periodic disclosure filings to FERC relative to its gas utility. Of particular use to the ratemaking process, ENO makes an annual Form 1 filing and quarterly Form 3/Q filings that contain both electric and gas disclosures. Further, Entergy Corporation makes disclosure filings to the SEC – annual Form 10-K and quarterly Form 10-Q filings – that contain disclosures related to ENO's electric and gas utilities.

ENO owns both an electric and gas utility with significant shared assets whose rate base is $[redacted] million. ENO's gas utility also shares $[redacted] million in O&M expenses with its electric utility.[5] As such, ENO's gas and electric utilities are significantly integrated.

Q. PLEASE DESCRIBE ENO'S GAS UTILITY'S OPERATING REVENUES AND INCOME.

A. In 2023, ENO reports that its gas Total Operating Revenues were $107.5 million, and its gas Net Utility Operating Income was $11.5 million.[6]

Q. PLEASE BRIEFLY DESCRIBE ENO'S GAS UTILITY'S RETAIL REGULATORY RATEMAKING STRUCTURE.

A. ENO's retail gas regulatory ratemaking structure is comparable to that of ENO's electric utility. ENO may make periodic rate applications before the Council, which customarily

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4 *Id* at *PG 1_Attachment A* Applicable Base Revenue (l. 7) plus Revenue Change (l. 12).

5 *See* ENO's HSPM response to DR CNO 1-13.

6 *See* ENO's 2024 GFRP Evaluation Filing, Attachment B, page 3, lines 3 and 24.

PUBLIC REDACTED VERSION

then initiates a rate case proceeding to set new retail gas rates. ENO's gas utility is presently subject to a Formula Rate Plan ("FRP" or "GFRP" when specific to gas) whereby it will make an annual Evaluation filing in April 2024, 2025, and 2026.[7] As such, it is reasonable to expect that ENO would not make an application requesting a rate case until the completion of the ongoing FRP, although I do not understand that ENO is precluded from doing so. Each GFRP evaluation seeks to set rates so that ENO's gas utility has the reasonable opportunity, through gas sales, to earn its Council-allowed Return on Equity ("ROE") of 9.35% on a prospective basis (*i.e.*, for a rate effective period of September 1 through August 31 of the following year).

III. KEY ASPECTS OF THE PROPOSED GAS TRANSACTION

Q. PLEASE DESCRIBE THE PROPOSED GAS TRANSACTION.

A. Advisor witness Mr. Joseph W. Rogers discusses the Gas Transaction in greater detail. Relative to the purpose of my testimony, the key aspects of the Gas Transaction are,

- The cash sale of certain, but not all, of ENO's assets related to gas, including plant in service. The cash sale nature of the transaction has significant tax-related implications, specifically that most of ENO's gas-related Accumulated Deferred Income Tax ("ADIT") balances will not transfer to DSU NO and therefore will negatively impact gas customers.
- The creation of a proposed regulatory asset related to the costs DSU NO is expected to incur to "stand-up" its utility operation which will also adversely affect gas customers.

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7 *See* Council Resolution No. R-23-491.

PUBLIC REDACTED VERSION

- A material effect on ENO's cost of service (electric) following the close of the Gas Transaction which will result in a rate increase for ENO's electric customers.

A. Purchase Price is Reasonable

Q. WHAT IS THE BASE PURCHASE PRICE OF THE GAS TRANSACTION?

A. The Transaction's Base Purchase Price is $285.5 million.[8] The final Purchase Price amount will be this amount plus or minus certain adjustments that, based on my review of the Purchase and Sale Agreement ("PSA"), are reasonable and customary to reflect items of variable value such as inventory and deposits.

Q. WHAT PROCESS OR INVESTIGATION ARRIVED AT A BASE PURCHASE PRICE OF $285.5 MILLION?

A. ENO objected to the Advisors' request for copies of investigations, estimates, or analysis of the fair market value of its gas utility,[9] and stated that it did not receive any fairness opinion regarding the Base Purchase Price.[10] However, Entergy did engage in a competitive bid process in which [redacted][11] Based on the information ENO was willing

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[8] *See* ENO's response to DR CNO 1-2.

[9] *Id.*

[10] *Id.*

[11] *See* ENO's HSPM response to DR CNO 4-2.

PUBLIC REDACTED VERSION

to provide, I conclude that the substantial basis for the Base Purchase Price of $285.5 million was this competitive bid process.

Q. IS ENTERGY'S COMPETITIVE BID PROCESS A REASONABLE METHOD FOR DETERMINING A FAIR BASE PURCHASE PRICE?

A. Yes. The sale of a complex property such as a public utility does not allow for a precise determination of value as is possible for frequently traded assets (*e.g.*, the price of ETR shares). Entergy's competitive bid process, which based on ENO's representations was reasonably robust, is a reasonable method for arriving at a fair purchase price. As such, Entergy's competitive bid process is supportive of a conclusion that the Base Purchase Price is reasonable.

Q. ARE THERE ANY FURTHER INDICATIONS THAT THE BASE PURCHASE PRICE IS REASONABLE?

A. Yes, there have been recent sales of gas utilities reported in professional news publications having valuations comparable to those of the Gas Transaction. Specifically, S&P Global Market Intelligence notes five such transactions where the purchase price multiple of rate base ranged from 1.4x to 2.5x.[12] The DSU Gas Transaction's multiple of rate base is 1.4x.[13] This valuation falls within the lower range of the valuations reported by S&P Global. I note

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[12] *See Private buyers continue to pay up for gas utilities in Enstar deal*, S&P Global Market Intelligence, May 31, 2022 (https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/private-buyers-continue-to-pay-up-for-gas-utilities-in-enstar-deal-70572267).

[13] *See* ENO's 2023 GFRP Evaluation Filing, Attachment B, page 2, line 18, which presents a $200 million rate base. $285 million ÷ $200 million = 1.4x.

PUBLIC REDACTED VERSION

that there are many factors affecting valuation, including allowed-ROE and expected operating cash flow, all of which can vary substantially among utilities. As such, there is no reason to expect the Gas Transaction's valuation to be equal to any other transaction's valuation. Rather, this comparison suggests that the Base Purchase Price is in a reasonable range.

Another indication that the Base Purchase Price is reasonable is ENO's Net Utility Plant of $241.6 million,[14] which is less than the Base Purchase Price of $285.5 million. Net Utility Plant is indicative of replacement cost less accumulated depreciation (*i.e.*, Depreciated Replacement Cost), which is an accepted valuation metric. Had the Base Purchase Price been less than this value, economic logic would suggest the price would be unreasonably low. As such, this data point indicates that the Base Purchase Price is reasonable.

Q. IS THE BASE PURCHASE PRICE REASONABLE?

A. Yes. As I discussed above, it is not possible to establish a single precise fair value for a complex property such as ENO's gas utility. However, Entergy's competitive bid process, a top-level comparison to other sales of gas utilities, and a comparison to ENO's net utility plant balance indicates that the Base Purchase Price is reasonable.

B. Assumption of Assets and Liabilities at Net Book Value

Q. HOW WOULD DSU NO RECORD THE VALUE OF ASSETS AND LIABILITIES?

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[14] *Id* at line 3.

PUBLIC REDACTED VERSION

A. DSU NO would record on its books of account the assets and liabilities it would receive from ENO at their net book value, specifically plant in service at its original cost and accumulated depreciation as of the close of the Gas Transaction.[15]

Q. WHAT IS THE SIGNIFICANCE OF TRANSFERRING ASSETS AND LIABILITIES AT THEIR NET BOOK VALUE?

A. Continuity of original cost and accumulated depreciation is critical to ratemaking. As depreciation expense is calculated by multiplying a depreciation rate by plant in service, continuity of plant in service is essential to prevent recovery (through depreciation expense) in excess of original cost. Likewise, as accumulated depreciation represents the amount that ratepayers have provided as recovery of a utility's investment in plant in service, the continuity of accumulated depreciation balances is essential to prevent recovery in excess of original cost. Further, as net plant in service is a component of rate base, continuity of net plant in service is essential to prevent a return on an investment in plant in service that has already been recovered.

Q. HOW WOULD DSU NO ACCOUNT FOR THE GAS TRANSACTION'S PURCHASE PRICE IN EXCESS OF THE NET BOOK VALUE OF ASSETS AND LIABILITIES IT WOULD PURCHASE?

A. The amount by which the purchase price exceeds the net book value of transferred assets and liabilities is an acquisition premium (*i.e.*, goodwill). At an indicative purchase price of

[15] *See* DSU NO's responses to DRs CNO 1-7 and CNO 3-20.

PUBLIC REDACTED VERSION

$285.5 million and ENO's gas net plant in service of $255.7 million,[16] the acquisition premium would be $29.8 million. DSU states that it will record any acquisition premium in FERC Account 114 (acquisition adjustments).[17]

Q. WOULD DSU NO SEEK TO RECOVER ANY ACQUISITION PREMIUM?

A. No. DSU NO states that it will not seek recovery of any goodwill or acquisition premium resulting from the Gas Transaction.[18] This treatment is correct and required as the recovery of an acquisition premium would result in recovery in excess of original cost.

Q. SHOULD CWIP COUNT TOWARD ANY ACQUISITION PREMIUM?

A. No. Construction Work In Process ("CWIP") is an inventory that is expected to close to plant in service, and therefore represents a future component (debit) of net book value. The Joint Application requests that CWIP not constitute an acquisition premium.[19] This request is economically logical and therefore reasonable.

C. Effects of a Cash Sale

Q. WHAT DO YOU MEAN BY CASH SALE?

A. As the term implies, through a cash sale DSU NO is purchasing certain assets and liabilities from ENO in exchange for cash. ENO's corporate structure is not being transferred. Other mechanisms by which companies are sometimes sold involve the transfer of the equity

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[16] ENO's 2024 GFRP Evaluation filing, Attachment B, p. 2, line 3.

[17] *See* DSU NO's response to DR CNO-3-19.

[18] *See* DSU NO's response to DR CNO 2-23.

[19] *See* Joint Application, Prayer For Relief item 6 at 31.

PUBLIC REDACTED VERSION

stake in a corporate body, *e.g.*, ENO's restructuring in Docket No. UD-16-03 and Entergy's proposed transmission sale to ITC Holdings Corp. in Docket No. UD-12-01.

Q. WHAT IS THE KEY EFFECT OF A CASH SALE?

A. The key effect of a cash sale is that the tax cost basis for assets and liabilities transferred to DSU NO would be reset to the purchase price. As I discuss elsewhere in this testimony, effectively tax cost basis becomes net book value, and as such ADIT recorded by ENO is not transferred to DSU NO.

D. *Gas Transaction Costs*

Q. WHAT ARE TRANSACTION COSTS?

A. Transaction costs are those costs incurred relative to the Gas Transaction, such as investment banking and legal fees. Transaction costs are distinguishable from DSU NO's costs to stand-up its gas utility, which DSU NO proposes to defer and capitalize into a regulatory asset. Both DSU NO and ENO expect to incur transaction costs.

Q. WHAT ARE ENO'S EXPECTED TRANSACTION COSTS?

A. ENO's and ELL's actual and budgeted transaction costs total approximately $29.0 million, including costs related to a cooperation agreement with DSU NO.[20] This is based on ENO's use of two project codes to identify such transaction costs, including Cooperation Agreement costs, which appear to relate to a PSA cooperation agreement between ENO

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[20] *See* ENO's response to DR CNO 1-46 (the sum of the values in parts a and c). The data request asked for ENO's costs, but ENO chose to provide the combined cost of ENO and ELL. Should Entergy allocate [redacted]% of these costs to ENO, as has DSU NO in certain workpapers, ENO's share would be $[redacted] million.

and DSU NO. ENO states regarding transaction costs, "The Company plans to defer these costs in lieu of inclusion in the FRP."[21] I interpret this statement by ENO as an intent to seek recovery of ENO's Transaction costs in a future rate action.[22]

Q. WHAT ARE DSU NO'S EXPECTED TRANSACTION COSTS?

A. DSU NO declined to provide any actual and future budgeted Transaction costs.[23] In response to discovery, DSU NO did not identify specifically how it would identify and separate transaction costs, but rather describes the accounting functions performed by a contracted financial advisory firm.[24] DSU NO states that it would not seek to recover any transaction costs.[25] DSU NO should immediately begin to account for its transaction costs to facilitate the Council's review of how these costs are tracked and separated from its proposed regulatory asset.

Q. HOW SHOULD DSU NO TRACK AND SEPARATE TRANSACTION COSTS?

A. As I discuss elsewhere in this testimony, ENO's general use of project codes to track expenditures, which it is using to track its transaction costs, is a reasonable method to separate and track transaction costs. Project codes are an accepted method for cost accounting, and this tool or an equivalent reasonably can be expected to be available in

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21 ENO's response to DR CNO 1-46.d.

22 In this testimony, I refer to "rate action" as meaning a proceeding before the Council in response to a utility's request to set new base rates (*e.g.*, a rate case, a FRP Evaluation).

23 *See* DSU NO's response to DR CNO 5-1 ("DSU NO has committed to not requesting the recovery of Transaction Costs, as defined in DSU NO Response to CNO 1-8, in this filing or in future filings, and thus they will have no impact on customers, through rates or otherwise, and therefore are not proposed to be provided.").

24 *See* DSU NO's response to DR CNO 1-18.

25 *See* Direct Testimony of Brian K. Little at 23.

PUBLIC REDACTED VERSION

DSU NO's accounting system that is in development. DSU NO should immediately adopt a cost tracking methodology such as project codes to ensure accurate tracking of these costs.

Q. IS IT APPROPRIATE FOR ENO OR DSU NO TO RECOVER TRANSACTION COSTS?

A. In the instant circumstances, no. As I discuss elsewhere in this testimony, absent elimination or meaningful mitigation, the Gas Transaction is expected to impose significant additional costs on ratepayers. As such, DSU NO's recovery of its transaction costs is inappropriate.

E. *DSU NO's Initial Rate Case*

Q. UPON THE CLOSE OF THE GAS TRANSACTION, WOULD DSU NO ASSUME ENO'S RETAIL GAS RATES?

A. Yes. "As part of this Joint Application, DSU NO is requesting to assume and adopt the ENO LDC's [*i.e.*, gas utility's] rates and rate schedules in effect as of the Closing and/or supported by the ENO LDC's most recent GFRP test year. DSU NO is not requesting any modifications to the existing ENO LDC rates and rate schedules with this Joint Application, and any future changes to DSU NO's rate structure will result from a future rate application filed with the NOCC, not less than 15 months post-Closing."[26] As such,

[26] Direct Testimony of Jeffrey Yuknis at 10.

PUBLIC REDACTED VERSION

New Orleans's retail gas rates and rate schedules would not change immediately if the Transaction is approved.

Q. WHAT IS YOUR INTERPRETATION OF MR. YUKNIS'S TESTIMONY REGARDING ENO'S MOST RECENT GFRP TEST YEAR?

A. I interpret Mr. Yuknis's testimony, "rates and rate schedules in effect as of the Closing and/or supported by the ENO LDC's most recent GFRP test year,"[27] as meaning that DSU NO's rates upon the close of the Gas Transaction could be based on an ongoing GFRP Evaluation that has not yet been settled, but merely *supported*, by a test year.

Q. WHAT DOES MR. YUKNIS'S TESTIMONY REQUIRE OF ENO AND THE COUNCIL REGARDING GFRP EVALUATIONS?

A. In the case where there is no ongoing GFRP Evaluation (*i.e.*, there is no GFRP test year data supporting new rates, specifically if the Gas Transaction closes between September 1 and April 29 of the following year), Mr. Yuknis's testimony has no implications for ENO or the Council – the then in-effect rates would be adopted by DSU NO.

In response to discovery, DSU NO states regarding the ongoing GFRP Evaluation scenario: "because ENO would have made the GFRP filing prior to Closing, the rates would be subject to further adjustment based upon ENO's filed GFRP test year. So, the rates in effect at Closing would then be adjusted based on the results of the GFRP, effective September

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[27] *Id.*

PUBLIC REDACTED VERSION

1, 2025."[28] In order to determine rates supported by ENO's GFRP test year, the ongoing GFRP Evaluation must be completed. In this scenario, ENO, probably with DSU NO's support as key ENO employees likely would have transferred to DSU NO, would have to continue the GFRP Evaluation to completion (*e.g.*, respond to discovery, work with the Advisors to resolve any identified errors in the Evaluation filing), even though ENO would no longer own the gas utility.

Q. DO YOU AGREE WITH MR. YUKNIS'S PROPOSAL REGARDING RATE ADJUSTMENTS BASED ON ONGOING GFRP EVALUATIONS?

A. Yes. It is reasonable to complete any ongoing GFRP Evaluation and set new rates post-Gas Transaction close as of September 1. Doing so allows DSU NO the reasonable opportunity to recover costs transferred to it from ENO consistent with the prospective ratemaking principle. I note that ENO must be willing to cooperate with this process.

F. *Gas Transaction's Effect on ENO's and DSU NO's Financial Condition*

Q. WHAT SHOULD THE COUNCIL TAKE INTO ACCOUNT REGARDING ENO'S AND DSU NO'S FINANCIAL CONDITION?

A. Council Resolution No. R-06-88 states that the Council shall take into account the factor, "Whether the transfer [*i.e.*, the Gas Transaction] will maintain or improve the financial

[28] DSU NO's response to DR CNO 1-27.a.

PUBLIC REDACTED VERSION

condition of the resulting public utility or common carrier."[29] I interpret this language to apply to both ENO and DSU NO.

Q. WILL THE GAS TRANSACTION MAINTAIN OR IMPROVE THE FINANCIAL CONDITION OF ENO?

A. Yes. ENO will receive a significant cash inflow from the Gas Transaction. If ENO pays this inflow as a cash dividend, its debt to equity ratio will improve. If ENO incurs less debt than it otherwise would by using the Gas Transaction's proceeds for its corporate purposes rather than issuing or refinancing debt, its Funds From Operation ("FFO") to debt would improve. Both of these metrics are indicative of financial condition, so any combination of the two reasonably should improve ENO's financial condition. Of note, ENO's nominal FFO should decrease because it will no longer own a profitable gas utility. On balance, I expect ENO's financial condition to be maintained.

Q. WOULD THE GAS TRANSACTION MAINTAIN OR IMPROVE THE FINANCIAL CONDITION OF DSU NO?

A. Yes, however this question's answer must be qualified, as DSU NO does not at present have a meaningful financial condition. As such, I interpret this factor "c" from Council Resolution No. R-06-88 as: will DSU NO's financial condition be at least as strong as that of ENO.

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[29] Council Resolution No. R-16-88, Paragraph 2.c at 3.

PUBLIC REDACTED VERSION

DSU NO's financial condition is highly dependent on the financial support of its owners, BCP Infrastructure Fund and Bernhard Capital that have committed sufficient funds for the Gas Transaction.[30] DSU NO states, "Bernhard Capital Partners ("Bernhard Capital") is committed to providing sufficient capital to safely and reliably maintain and operate the DSU NO system post-closing, to accommodate all operational and capital needs of the utility, and to support responsible growth of the utility into the future. Bernhard Capital has internally approved expected ongoing operational and capital needs of the utility for approximately the next 10 years, which could exceed $250M."[31]

Should Bernhard Capital fulfill this commitment, it is reasonable to conclude that DSU NO's financial condition will be maintained, or even improved given DSU NO's claim of an indicative "BBB" credit rating.[32] Should Bernhard Capital not fulfill this commitment, DSU NO's financial condition is uncertain. However, I note that this circumstance is similar to that of ENO's reliance on Entergy Corporation for financial support, so in this regard, DSU NO's financial condition is unchanged or maintained.

IV. DSU NO'S ACCOUNTING SYSTEMS AND CONTROLS

A. FERC Accounting Standards

Q. WHAT IS FERC ACCOUNTING?

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[30] *See* DSU NO's response to DRs CNO 1-39 and CNO 2-7.

[31] DSU NO's response to DR CNO 2-7.b.

[32] *See* DSU NO's response to DR CNO 1-24.c.

PUBLIC REDACTED VERSION

A. FERC has established regulatory accounting and financial reporting standards for gas utilities such as ENO. FERC accounting is an accrual accounting that is similar to the Generally Accepted Accounting Principles ("GAAP") used for reporting to the SEC, but with differences as promulgated by FERC. A notable difference is reporting under FAS 109:[33] while GAAP accounting does not recognize ADIT related to uncertain tax positions that are not more likely than not to be upheld by the IRS (*i.e.*, does not meet the test under FIN 48[34]), FERC accounting requires that ADIT be recognized for all temporary timing differences. This difference reflects the regulatory ratemaking use of FERC accounting versus GAAP reporting to the SEC that is generally intended to fairly represent a company to the investment community.

Q. HAS DSU NO COMMITTED TO EMPLOY FERC ACCOUNTING?

A. DSU NO states, "DSU NO's system of accounts will follow the FERC 18 CFR Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act (USOA), which is consistent with the system of accounts used for the business during its ownership by Entergy."[35] This indicates a general compliance with FERC accounting, but not necessarily compliance with all FERC accounting orders and guidance relative to a gas utility.

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[33] Financial Accounting Standards Board ("FASB") Statement No. 109, Accounting for Income Taxes (https://fasb.org/page/ShowPdf?path=fas109.pdf&title=FAS%20109%20(AS%20ISSUED)).

[34] FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (https://fasb.org/page/ShowPdf?path=fin%2048.pdf&title=FIN%2048%20(AS%20ISSUED)).

[35] DSU NO's response to DR CNO 1-6.d.

PUBLIC REDACTED VERSION

Q. SHOULD DSU NO FOLLOW RELEVANT FERC ACCOUNTING ORDERS AND GUIDANCE?

A. Yes. As FERC accounting orders and guidance are intended to support regulatory ratemaking, DSU NO should follow them. As part of any rate action relative to DSU NO, the Council should evaluate whether relevant FERC orders and guidance regarding accounting are reflected in DSU NO's per book cost of service data.

B. *AFUDC*

Q. WHAT IS AFUDC?

A. Allowance for Funds Used During Construction ("AFUDC") is an accrual of carrying costs on CWIP until such inventory is closed to plant in service. The accrual rate of AFUDC is commonly a utility's Weighted Average Cost of Capital ("WACC"), which I discuss in greater detail later in this testimony. In the case of ENO, the calculation of WACC for AFUDC purposes differs from that used in ENO's FRP. Specifically, the equity ratio for AFUDC purposes is the lesser of 50% or ENO's actual equity ratio,[36] while ENO's equity ratio for FRP purposes is 55%.[37] ENO's AFUDC rate is updated annually. Accrued AFUDC is a component of costs closed to plant in service that are then depreciated as a whole.

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36 *See* Council Resolution No. R-19-457, Ordering Paragraph 2 at 184.

37 *See* Council Resolution No. R-23-491 at 5.

PUBLIC REDACTED VERSION

Q. HOW SHOULD DSU NO ACCOUNT FOR AFUDC UPON THE CLOSE OF THE GAS TRANSACTION?

A. For the period from the close of the Gas Transaction and until new rates are set as part of DSU NO's initial rate case, AFUDC should accrue and be accounted for as ENO had done. DSU's WACC is not calculable before the Council considers its initial rate case application. As I discuss elsewhere in this testimony, in my view, DSU's appropriate debt rate, ROE, and equity ratio, are not knowable at present. As such, it is not practicable to calculate DSU NO's AFUDC rate independently during this interim. One way to set DSU NO's interim AFUDC rate would be to simply fix DSU NO's AFUDC rate the same as was ENO's as of the date of the close of the Gas Transaction. Alternately, DSU NO could agree to adopt ENO's annually updated AFUDC rate, although I do not have reason to expect that ENO's AFUDC rate will change significantly during this interim period.

C. Internal Accounting Controls

Q. WHAT ARE INTERNAL ACCOUNTING CONTROLS?

A. Relative to the instant proceeding, a useful description of internal accounting controls is the management processes that ensure the protection of DSU NO's assets and the reliability of its books of account for ratemaking purposes. An example of internal accounting controls would be a policy whereby no one person can cause a cash disbursement, *e.g.*, the same person cannot approve a request for proposal, approve an invoice for payment, or issue a disbursement. Another example would be an internal audit process that tests accounting policies and controls.

PUBLIC REDACTED VERSION

Q. WHAT INTERNAL ACCOUNTING CONTROLS WOULD DSU NO EMPLOY?

A. DSU NO states that it expects "to design a compliance program that follows, in large part, the principles set forth in the Sarbanes-Oxley Act of 2002 (SOX). Similar to a SOX compliance program in a public company, DSU NO's effort will include the identification of significant risks to the business; the design of controls aimed to mitigate those risks; a plan for testing to confirm the effectiveness of control design and performance; and a process to confirm that an effective control environment is in place."[38] If implemented, this represents a reasonable standard to ensure the reliability of DSU NO's accounting and protection of its assets.

D. Ratemaking Reliance on Per Book Accounting

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN PER BOOK ACCOUNTING AND THE COUNCIL'S RATEMAKING.

A. The Council requires rate case applications to be based on a test year (*i.e.*, Period I test year) with a forecasted projection twelve months into the future (*i.e.*, Period II). Utilities such as DSU NO may make further *proforma* adjustments for the Council's consideration. ENO's FRP provides for a comparable structure based on a historical test year with limited *proforma* projections twelve months into the future. The historical test year presentation in rate action filings is based on per book accounting. As such, the foundation of the Council's

[38] DSU NO's response to DR CNO 1-6.b.

PUBLIC REDACTED VERSION

ratemaking is per book accounting. This makes reliable and consistent per-book accounting essential to the ratemaking process.

E. *Independent Audit*

Q. WHAT IS AN INDEPENDENT AUDIT IN THE CONTEXT OF RATEMAKING?

A. I refer to an independent audit as a periodic review by an independent qualified auditing firm (*i.e.*, an independent registered public accounting firm) of a company's books of account and the generation of a report presenting a summary of the company's financial condition (*i.e.*, audited financial statements). Publicly traded companies such as Entergy Corporation must submit to such an audit annually and file its audited financial statements with the SEC with Form 10-K. Entergy Corporation's independent registered public accounting firm is Deloitte & Touche LLP. Among other statements required of the auditor is an *Opinion on the Financial Statements* of the company such as Entergy Corporation. Ideally, this opinion is "unqualified," meaning that in the auditor's opinion, the financial statements of the company present fairly, in all material respects, the financial position of the Company in conformity with GAAP.

ENO's books of accounts are also audited. FERC Form 1 requires a *CPA Certification Statement* stating that ENO's financial statements and related schedules conform materially with FERC requirements set forth in the Uniform System of Accounts and published accounting releases.

Q. WOULD DSU NO ENGAGE AN INDEPENDENT AUDITOR?

PUBLIC REDACTED VERSION

A. Yes. DSU NO has committed to have its books of account audited. DSU NO states, "At a minimum, DSU NO will comply with the requirements associated with its financing and operation as a BCP portfolio company, which includes the generation of third party audited consolidated financial statements in accordance with GAAP to be accompanied by an opinion of DSU NO's third party auditors stating that such statements present fairly in all material respects DSU NO's financial position and the results of its operations within 120 days after the end of each fiscal year (or 150 days after the end of the first full fiscal year after closing)."[39]

Q. IS DSU NO'S COMMITMENT TO AUDITED FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP SUFFICIENT?

A. While DSU NO's commitment to an independent audit is worthwhile, it is not sufficient for the Council's ratemaking purposes. As I discuss elsewhere in this testimony, there are significant differences between GAAP accounting and FERC accounting that have material impacts on ratemaking. As such, DSU NO's audit should be in conformance with FERC accounting. Further, DSU NO's financial statements should be presented in a format supportive of regulatory ratemaking (*e.g.*, the layout by FERC Account used by electric utilities in FERC Form 1). In particular, a GAAP presentation as employed by publicly traded companies in SEC Form 10-K filings is not particularly helpful to regulatory ratemaking.

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[39] DSU NO's response to DR CNO 1-6.c.

PUBLIC REDACTED VERSION

Q. HOW SHOULD DSU NO'S RATE ACTION FILINGS CONFORM WITH ITS INDEPENDENT AUDITOR PROCESS?

A. As I discussed above, ratemaking is generally in reliance on per book accounting. As such, DSU NO's rate action filings, such as its initial rate case filing following the Gas Transaction's close, should be in reliance on independently audited financial statements. In the case where DSU NO's initial rate case application is not based on a full fiscal year (*i.e.*, the Period I test year is not the same as a fiscal year or calendar year), the stub period (*i.e.*, the period from the end of the fiscal year through the end of the Period I test year) should also be independently audited.

V. GAS TRANSACTION FACTORS AFFECTING DSU NO'S COST OF SERVICE

A. Proposed Regulatory Asset

Q. WHAT IS A REGULATORY ASSET?

A. A regulatory asset reflects funds that a utility has been authorized by a regulator to recover over some future period. Regulatory assets often reflect deferred O&M costs. Utilities are often allowed to recover a return on the unrecovered (*i.e.*, unamortized) balance of a regulatory asset.

Q. IS DSU NO PROPOSING A REGULATORY ASSET AS PART OF THE APPLICATION?

A. Yes. DSU NO witness Brian K. Little states that DSU NO's "Transition Plan requires additional investments in new services, systems and facilities to replace those services, systems and facilities being retained by Entergy. . . [and will] have to begin incurring costs to stand up its new local gas distribution company prior to Closing and prior to any future general rate case to be filed by DSU NO."[40] "DSU NO considers recording these costs in a regulatory asset for future recovery as appropriate given the necessity of these Transition Plan costs to provide safe and reliable service to customers and prevent adverse consequences following Closing of the Gas Transaction."[41]

Q. WHAT IS THE AMOUNT OF DSU NO'S PROPOSED REGULATORY ASSET?

A. DSU NO's preliminary transition cost estimate totals $[redacted] million.[42] With interim carrying costs through DSU NO's initial rate case application's rate effective date, the related proposed regulatory asset is estimated by DSU NO to be $[redacted] million.[43] Based on my review of DSU NO's HSPM response to DR CNO 1-14, a portion of this regulatory asset that relates to information technology and facilities, approximately $[redacted] million, may be accounted for as intangible plant rather than a regulatory asset. This distinction, while not critical, has an effect on ADIT related to the regulatory asset.

Q. DOES THE DSU NO REGULATORY ASSET REPRESENT AN ALLOCATION OF A COMMON EXPENDITURE?

A. Yes. The proposed DSU NO regulatory asset reflects a [redacted]% allocation of expenditures made or expected to be made on behalf of DSU NO and Delta States Utilities LA, LLC

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[40] Direct Testimony of Brian K. Little at 27.

[41] *Id.* at 28.

[42] *See* DSU NO's HSPM response to DR CNO 1-14, *Delta Total Set Up Costs*.

[43] *See Id*, at *EntergyOnly ENO Transition Cost.*

PUBLIC REDACTED VERSION

("DSU LA"), which is the utility resulting from the proposed sale of ELL's gas utility in a separate transaction.[44]

Also, the prospective investors/owners of DSU NO and DSU LA have announced the acquisition of three gas utilities owned by CenterPoint Energy, Inc. in Louisiana and Mississippi.[45] In response to discovery, DSU NO estimates that should both the Entergy and CenterPoint transactions close, DSU NO's proposed regulatory asset would decrease from $[redacted] million to $[redacted] million.[46] Regarding O&M expenses, in response to discovery, DSU NO states, "DSU NO's preliminary analysis results in an anticipated reduction in total shared services O&M costs of up to 10 percent due to synergies achieved through a consolidated shared services organization providing common services to five utilities."[47]

Q. HAS DSU NO COMMITTED TO ANY CAP ON THE AMOUNT OF ITS PROPOSED REGULATORY ASSET?

A. No. DSU NO states "DSU NO is not proposing a cap on the regulatory asset. Critical to operating a new "fit for purpose" gas utility is that ability to recover the actual costs of its operations deemed to be prudently incurred."[48] As such, any costs that DSU NO may incur

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[44] *See* DSU NO's HSPM response to DR CNO 1-16.

[45] *See Bernhard Capital-Backed Delta Utilities to Acquire CenterPoint Energy's Louisiana and Mississippi Natural Gas Distribution Operations* (https://www.bernhardcapital.com/bernhard-capital-backed-delta-utilities-to-acquire-centerpoint-energys-louisiana-and-mississippi-natural-gas-distribution-operations/).

[46] *See* DSU NO's HSPM supplemental response to DR CNO 1-14, Excel file *HSPM-CS DSU NO First Supplemental Response to CNO 1-14, Attachment C - DSU ENO Rate Impact_FINAL (5-1-2024)*.

[47] DSU NO's response to DR CNO 3-13.

[48] DSU NO's response to DR CNO 1-16.d.

PUBLIC REDACTED VERSION

in excess of its HSPM preliminary estimate that I summarized above would be the responsibility of ratepayers under DSU NO's proposal.

Q. HAS DSU NO STATED THE PERIOD OVER WHICH IT PROPOSES TO AMORTIZE ITS REGULATORY ASSET?

A. In DSU NO's HSPM response to DR CNO 1-14, DSU NO assumes a [redacted]-year amortization period. I have employed this amortization period for my ratepayer impact analysis that I discuss and present later in this testimony.

B. *Loss of Credit ADIT*

Q. PLEASE BRIEFLY DESCRIBE ADIT.

A. ADIT is the per book balance sheet accounting entry to record temporary timing differences between per book expenses/revenues and tax deductions/income. ADIT is recorded by utilities such as ENO consistent with tax normalization as required by FERC accounting guidance.[49] All of ENO's recent rate action filings before the Council have reflected tax normalization. ADIT entries that recognize a per book tax expense paid by ratepayers but not yet payable as a tax liability are recorded as credits in FERC Accounts 281, 282, and 283. A common such credit entry relates to accelerated tax depreciation exceeding book depreciation; such credits are recorded in FERC Account 282. ENO's gas ADIT balance in Account 282 is $72.4 million (credit) as of December 31, 2024.[50] ADIT entries that recognize a tax liability paid before a per book expense are recorded as a debit

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[49] *See e.g.,* FERC Order No. 144.

[50] *See* ENO's 2024 FRP Evaluation *AJ05B.1_G*, line 73 (Adjusted Total 12/31/24).

PUBLIC REDACTED VERSION

to FERC Account 190. A common such entry relates to Net Operating Loss Carryforward ("NOLC"), which represents the accumulation of negative taxable income in prior years that ENO may be able to use to offset taxable income in future years; such debits are recorded in FERC Account 190. ENO's gas ADIT balance in Account 190 is \$10.7 million (debit) as of December 31, 2024.[51]

Q. PLEASE EXPLAIN THE IMPORTANCE OF ADIT IN RATEMAKING.

A. ADIT balances, as adjusted, are treated as components of rate base. ADIT is commonly a significant component of rate base. ENO's proposed 2024 FRP gas rate base contains a \$65.4 million credit from ADIT[52] as part of an overall gas rate base of \$214.5 million.[53] But for the effect of ADIT, ENO's gas rate base would be \$279.9 million. At ENO's Before-Tax WACC ("BT-WACC") of 9.17%,[54] ENO's gas revenue requirement effect of this \$64.4 million credit ADIT balance is a \$5.9 million reduction to ENO's gas revenue requirement.

Q. WILL THERE BE A NEGATIVE EFFECT ON ADIT FROM THE GAS TRANSACTION?

A. Yes. As the Gas Transaction is a cash sale from ENO to DSU NO of relevant gas assets and liabilities, ENO's gas ADIT balances will not transfer to DSU NO, as confirmed by

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[51] *See Id*, at line 54.

[52] *See Id*, at line 99.

[53] *See* ENO's 2024 FRP Evaluation, *Attachment B*, page 2, line 18.

[54] *See* ENO's 2024 FRP Evaluation, Attachment D with Common Equity grossed up by ENO's combined income tax rate of 29.925%.

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DSU NO.[55] This confirmation by DSU NO is consistent with my understanding that the cost basis for tax purposes of a sold business asset is generally reset to the purchase price. Once the Gas Transaction closes, DSU NO will begin to accumulate ADIT from ongoing activities such as accelerated depreciation on plant in service, again as confirmed by DSU NO.[56] In summary, upon the close of the Gas Transaction, DSU NO would no longer have substantially all of ENO's ADIT balances on its balance sheet (with the exception of protected excess ADIT). Thus, gas ratepayers will subsequently lose this benefit in rates. However, upon the close of the Gas Transaction, DSU NO will begin to accumulate ADIT balances based on temporary differences between per book revenues and expenses and tax income and deductions. In the hypothetical where DSU NO files a rate case application 15-months after the Gas Transaction's close, DSU NO's Period II ADIT balances should reflect roughly 24 months of ADIT accumulation.[57]

Q. HAS DSU NO ESTIMATED THE NEGATIVE EFFECT ON ADIT FROM THE GAS TRANSACTION?

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[55] *See* DSU NO's first supplemental response to DR CNO 1-7.f, ("ENO's ADIT will not transfer to DSU NO at Closing of the transaction, with the exception of excess or deficient ADIT purchased by DSU NO that is protected under the IRS normalization rules (i.e. protected ADIT) and will be included in its ADIT balances, as it currently is for ENO.").

[56] *See Id* ("Post close, DSU NO will record deferred tax assets and liabilities for temporary differences that arise between income tax reporting and financial reporting of the purchased assets and liabilities in its general ledger, including temporary differences subject to normalization rules arising from tax law provisions designed to encourage capital expenditures (accelerated depreciation and investment tax credits).").

[57] *E.g.*, Should the Transaction close on January 1, 2025, and DSU NO were to file a rate case application 15 months later, on April 1, 2026, Period I reasonably then would be the 12-months ending December 31, 2025, and Period II would be the 12-months ending December 31, 2026, reflecting 24 months between the Transaction close and the Period II measurement date.

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A. No. In response to a discovery request asking for DSU to "provide an estimate of DSU NO's rate base immediately upon the close of the transaction and provide detail, by ENO Account, taking into consideration all tax effects of the transaction (e.g., a step-up on tax basis).",[58] DSU objected and encouraged the Council to conduct its own analysis.[59] I note that it is DSU NO's obligation to demonstrate that the Gas Transaction "will provide net benefits to ratepayers in both the short and the long term and provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit."[60] As the Gas Transaction's effect on ADIT is a substantial impact on any net benefits to ratepayers, DSU NO should take ADIT into account when forecasting short and long term benefits.

Q. HAVE YOU DEVELOPED AN ESTIMATE OF THE NET NEGATIVE EFFECT ON ADIT FROM THE GAS TRANSACTION?

A. Yes. I estimate that approximately $58.1 million in ADIT that is in ENO's gas rate base as of December 31, 2024, will not transfer to DSU NO (*i.e.*, rate base will increase by $58.1 million). During an assumed ensuing two-year period leading to Period II in DSU NO's initial rate case application, I estimate that $2.8 million in credit ADIT will accumulate related to accelerated depreciation. Combined, I estimate that the ratemaking impact of the Gas Transaction on ADIT in rate base will be an approximate $55.4 million debit (*i.e.*,

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58 DR CNO 2-21.b.

59 *See* DSU NO's response to DR CNO 2-21.b, (". . . please refer to DSU NO's response to Data Requests CNO 1-7, CNO 1-8, CNO 1-22, CNO 1-23 (and all related Attachments), CNO 1-43 and CNO 1-44, which contain information that may be useful to CNO in conducting its own analysis.").

60 Council Resolution No. R-06-88, Ordering Paragraph 2.e at 3.

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increase to rate base) (these values do not appear to sum to 55.4 due to rounding). If the Transaction is approved as filed, the negative effect on rates related to the ADIT impact alone would be substantial.

C. *Effect on NOLC ADIT*

Q. OF THE ESTIMATED APPROXIMATE $58.1 MILLION IN ADIT THAT WILL NOT TRANSFER TO DSU NO, IS THERE AN NOLC COMPONENT?

A. Yes. ENO's adjusted NOLC ADIT in its 2024 GFRP Evaluation filing totaled $14.6 million (debit).[61] Of this, $2.0 million (debit) is characterized as "protected,"[62] and as such I interpret this ADIT as transferring to DSU NO. The remainder, $12.6 million (debit) is not expected to transfer to DSU NO, which constitutes a reduction to DSU NO's rate base in comparison to that of ENO's gas utility.

Q. HOW DO YOU INTERPRET THE EFFECT ON NOLC ADIT RELATIVE TO THE GAS TRANSACTION?

A. NOLC ADIT represents an unused tax benefit to ENO that may be used to offset future income tax liabilities. As DSU NO is a separate company and taxpayer, this benefit is not available to DSU NO. However, I generally expect that this NOLC ADIT may be used by ENO to offset income tax liabilities from the sale of its gas assets whose sale price appears to exceed their tax cost basis.

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[61] *See* ENO's 2024 FRP Evaluation filing, *AJ05B.1*, the sum of lines 37-43 (Adjusted Total 12/31/24).

[62] *Id*. at the sum of lines 37 and 38.

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D. *Forecasted Capital and O&M Spending*

Q. HAS DSU NO FORECASTED ITS POST GAS TRANSACTION O&M SPENDING?

A. Yes. In response to discovery requests asking for DSU NO's O&M budget, DSU stated that it will not develop such budgets at this time, but that it had developed a forecast for its first full year of operations.[63]

Q. WHAT IS THE BASIS FOR DSU NO'S SINGLE-YEAR O&M FORECAST?

A. My examination of the HSPM file *HSPM-CS DSU NO Response to CNO 1-8, Attach A - - DSU OM Forcast (ENO)* indicates that the primary basis for this forecast is ENO's 2022 O&M expense. DSU NO makes certain adjustments to ENO's O&M expense, including [redacted] However, broadly, DSU NO has forecasted the continuation of O&M expenses at the level experienced by ENO.

Q. HAS DSU NO FORECASTED ITS CAPITAL INVESTMENTS?

A. Yes. DSU provided a multi-year capital budget in the HSPM file *HSPM-CS DSU NO Response to CNO 1-8, Attach A - - DSU OM Forcast (ENO)*. As with DSU NO's O&M forecast, this budget reflects ENO's such budget.

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[63] *See* DR CNO 1-8, HSPM file *HSPM-CS DSU NO Response to CNO 1-8, Attach A - - DSU OM Forcast (ENO)*.

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Q. WHAT DO YOU CONCLUDE FROM EXAMINING DSU NO'S O&M AND CAPITAL FORECASTS?

A. I conclude that DSU NO's O&M and capital forecasts are substantially similar to those of ENO. As such, in order to estimate DSU NO's revenue requirement compared to that of ENO and related typical bill impacts, it is reasonable to consider incremental impacts from the Gas Transaction based on ENO's gas cost of service. As such, my cost of service and typical bill impact analysis is based on ENO's most recent GFRP Evaluation filing's cost of service workpapers.

E. *Pension and OPEB*

Q. DOES DSU NO COMMIT TO CONTINUE POST RETIREMENT BENEFITS COMPARABLE TO THOSE PROVIDED BY ENO?

A. Yes.

Q. WOULD DSU NO'S PENSION EXPENSES BE COMPARABLE TO THOSE OF ENO?

A. Yes. ENO will transfer pension trust assets to DSU NO.[64] As such, I expect that the Net Periodic Pension Costs ("NPPC") will continue at roughly the same rate they would have absent the Gas Transaction. I note that this assumes that the Gas Transaction does not have a significant impact on NPPC factors such as the rate of retirement of program participants.

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[64] *See* ENO's response to DR CNO 1-44.b.

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Q. HOW WOULD OPEB BE TREATED FOR RATEMAKING PURPOSES?

A. The Council has agreed to allow the exclusion of credit expenses related to Other Post Employment Benefits ("OPEB") from ENO's cost of service. In exchange for this increase to ENO's cost of service, ratepayers will have a claim to related OPEB trust funds should such funds be disbursed to ENO (as opposed to program beneficiaries).[65] This treatment should continue under DSU NO. As with ENO's pension plan, I do not expect any material change to OPEB credit expenses as a result of the Gas Transaction.

VI. ESTIMATE OF THE GAS TRANSACTION'S IMPACT ON COST OF SERVICE

A. Estimated Impact on DSU NO's Cost of Capital

Q. PLEASE DESCRIBE COST OF CAPITAL IN THE CONTEXT OF REGULATORY RATEMAKING.

A. In customary regulatory ratemaking a utility is allowed recovery of a return on its investment in its utility. This investment is referred to as rate base. The allowed return, including costs related to debt is the utility's cost of capital. Cost of capital is calculated as WACC and is typically determined by a formula approved by the utility's regulator, such as the Council, as multiple components of WACC are not generally directly observable.

Q. HOW IS ENO'S WACC DETERMINED BY THE COUNCIL?

A. The Council determines ENO's WACC based on three inputs: (i) ENO's actual cost of long-term debt, (ii) ENO's allowed ROE, and (iii) the weighting ratio between equity and

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65 *See* Council Resolution No. R-23-491, Ordering Paragraph 2.

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total capitalization (*i.e.*, equity ratio). The Council has not customarily included the cost of short-term debt in ENO's WACC. ENO has not recently had outstanding preferred shares or preferred membership interest, whose cost would be weighted into ENO's WACC.

Q. HOW DOES DSU NO PROPOSE TO CALCULATE A RETURN ON ITS INVESTMENT?

A. In response to an indicative calculation of DSU NO's WACC, DSU provided no specifics, but rather a general discussion of related ratemaking principles.[66] DSU states that its "cost of debt will be based on competitive terms received from sophisticated financial institutions. DSU NO has received commitments from several such debt investors based on its attractive investment-grade credit rating and market-based credit spreads to benchmark treasuries."[67] However, DSU's present commitment of $[redacted] million[68] in long term debt comes from its owners and its cost rate is based on "the sum of (i) the benchmark U.S. treasuries on October 30, 2023 and (ii) 250 bps."[69] This rate is [redacted]%.[70] This is substantially higher than ENO's present total cost of debt of 4.75%.[71]

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66 *See* DSU NO's response to DR CNO 1-7.

67 *Id.*

68 *See* DSU NO's supplemental response to DR CNO 1-39.

69 *Id.*

70 *Id.*

71 *See* ENO's 2024 FRP Evaluation Filing, Attachment D.

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Regarding ROE, DSU states that it will request a new ROE as part of its initial rate case, and consistent with certain accepted ratemaking principles, as is its right as a regulated utility.[72]

Regarding equity ratio, DSU implies that it wishes to maintain ENO's 55% equity ratio going forward: "DSU NO expects to maintain the same ratio of debt to equity as is currently authorized by the NOCC for ENO. Specifically, DSU NO expects to capitalize rate base with 45% debt."[73]

Q. HOW DOES DSU NO'S COST OF CAPITAL DIFFER FROM ENO'S FROM A RATEMAKING PERSPECTIVE?

A. A number of metrics upon which the Council relies in setting ENO's cost of capital are not available regarding DSU NO. ENO's total cost of debt is based on ENO's participation in a robust and liquid market for corporate first mortgage bonds. DSU NO's cost of debt, so far, is based on an agreement between related parties. As such DSU NO's stated [redacted]% cost of debt is not reliable for the Council's ratemaking consideration.

ENO's present hypothetical equity ratio of 55% is based on a FRP extension application by ENO that considered multiple factors; as such, ENO's FRP equity ratio of 55% should not be considered precedential.[74] If ENO were to apply for a new fully allocated rate case before the Council, in my opinion it would be doubtful that ENO's equity ratio would

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72 *See* DSU NO's supplemental response to DR CNO 1-7.b.

73 *Id*, part c

74 *See* Council Resolution No. R-23-491.

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remain at 55%. Further, as DSU NO's capitalization, both debt and equity, appears to come from the same source that is not an arms-length party, I do not see any objective basis for distinction between what capital has been deemed equity and what capital has been deemed debt.

Regarding ENO's ROE of 9.35%, in setting this rate, the Council considered testimonies that involved a comparison of ENO to publicly traded utilities having a comparable credit rating. DSU NO may never have a long-term debt rating from multiple nationally recognized credit rating agencies, as does ENO, but it states it "currently has an indicative credit rating of BBB from S&P and will target maintaining an investment grade rating."[75]

Q. HOW DO THESE DIFFERENCES YOU IDENTIFY AFFECT THE COUNCIL'S RATEMAKING PROCESS FOR DSU NO?

A. In order to set just and reasonable rates for DSU NO, the Council would have to rely on different data than it has when setting ENO's gas rates. The Council should take into account facts and circumstances known at the time of DSU NO's initial rate case, however based on my review in the instant proceeding, I observe the following possible data for setting DSU NO's cost of capital.

Regarding debt rate, as DSU NO does not have any long-term debt whose rate is set by a functioning market or through an arms-length negotiation, the Council may wish to

[75] DSU NO's response to DR CNO 1-24.c.

PUBLIC REDACTED VERSION

consider the total debt rate experienced by comparable utilities, such as public utilities having a credit rating comparable to DSU NO's stated indicative BBB rating.

Regarding ROE, as with ENO, ROE is not directly observable. As such, an analysis of comparable utilities' implied ROEs may be appropriate. Such analyses may involve a discounted cash flow analysis and a capital asset pricing model analysis. As with long-term debt, the comparable or proxy utilities may be those having credit ratings comparable to DSU NO's stated indicative BBB rating.

Regarding equity ratio, as DSU's capitalization appears to be from non-arms-length investors, DSU NO's stated distinction between debt and equity capitalization is not reliable for ratemaking purposes. As such, the Council may wish to consider the equity ratio of comparable utilities, such as utilities having a comparable credit rating to DSU NO's stated indicative BBB rating.

Q. WHAT WACC IS THE RESULT OF DSU NO'S STATEMENTS AND KNOWN FACTS AT PRESENT?

A. Based on my review of available information, if DSU NO were to request a WACC today, reflecting a requested 9.35% ROE, a 55% equity ratio, and a [redacted]% total cost of debt, DSU NO's BT-WACC would be [redacted]%, or [redacted] bp higher than that of ENO in its 2024 FRP Evaluation filing. This would represent an increase cost to ratepayers that would not otherwise occur but for the Transaction.

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B. *Impact of ENO Assets and O&M Not Transferred to DSU NO*

Q. WHAT IS THE DOLLAR AMOUNT OF ENO'S GAS PLANT IN SERVICE?

A. Per ENO's 2024 GFRP Evaluation filing, as of December 31, 2024, ENO's Plant in Service as of is $415.9 million, and Net Utility Plant is $255.7 million.

Q. WILL ALL OF ENO'S GAS PLANT IN SERVICE TRANSFER TO DSU NO?

A. No. ENO estimates that $[redacted] million in Net Book Value will not transfer to DSU NO. I summarize this amount by Category in the following table.

Table 1
Summary of Gas Net Plant Retained by ENO
($ in Millions)

FERC Account: Description	Net Book Value as of December 31, 2024
303_0: Miscellaneous Intangible Plant	$ [redacted]
390_0: Structures and Improvements	$ [redacted]
394_0: Tools, Shop & Garage Equipment	$ [redacted]
397_1: Communication Equipment	$ [redacted]
356G_1 and 389_1: Land	$ [redacted]
391_1: Office Furniture and Equipment	$ [redacted]
Total	$ [redacted]
Source: ENO's HSPM response to DR CNO 1-13	

Q. DO ANY OF THE NET PLANT IN SERVICE CATEGORIES IN TABLE 1 REPRESENT A SAVINGS TO DSU NO AS COMPARED TO ENO'S COST OF SERVICE?

A. It is difficult to quantify with precision whether any of the above net plant in service amounts not transferred to DSU NO will result in a reduced cost of service compared to that of ENO. Presumably, each of these net plant in service amounts represents an asset

PUBLIC REDACTED VERSION

needed for ENO's gas utility's operation, and somehow their purpose must be recreated by DSU NO. For example, DSU NO has not indicated that it intends to own land, but it reasonably must lease real estate, so no significant savings can be estimated in this category. ENO's Intangible Plant, however, reflects investments in IT systems that DSU NO is recreating through its own IT effort. As such, it would be inappropriate to double count both this ENO net plant amount and DSU NO's proposed IT investment. A detailed review as part of any DSU NO initial rate case would be appropriate, but my review of these data as presented in ENO's HSPM response to DR CNO 1-13 indicates that only the Intangible Plant amount ($[redacted] million) represents a calculable savings to DSU NO as compared to ENO's cost of service.

Q. WOULD ALL OF ENO'S GAS O&M COSTS TRANSFER TO DSU NO?

A. No. ENO estimates that it will retain $[redacted] million in O&M costs.[76] I summarize this amount by category in the following table.

[76] *See* ENO's HSPM response to DR CNO 1-13, HSPM Excel File CNO 1-13 *Estimated Revenue Requirement for Shared Assets and Retained O&M_HSPM,* Tab *NonFuel O&M*. Note that the text portion of this response states a $[redacted] million value. I relied on the detailed Excel data that sum to $[redacted] million.

PUBLIC REDACTED VERSION

Table 2
Summary of Gas O&M Retained by ENO
($ in Millions)

FERC Account: Description	2023 O&M Retained by ENO
920-935: Administrative and General	$ [redacted]
901-905: Customer Accounting	$
907-910: Customer Service & Information	$
870-894: Distribution	$
911-916: Sales	$
859 & 860: Transmission	$
Total	$ [redacted]
Source: ENO's HSPM response to DR CNO 1-13	

Q. DO ANY OF THE O&M CATEGORIES IN TABLE 2 REPRESENT A SAVINGS TO DSU NO AS COMPARED TO ENO'S COST OF SERVICE?

A. I do not see any categories of O&M costs in Table 2 that indicate that DSU NO will not have to recreate as part of its gas utility. A detailed review as part of any DSU NO initial rate case is appropriate, but for an evaluation of the Gas Transaction in the instant proceeding, there is no indication from my review that these O&M costs will not have to be recreated by DSU NO.

C. Estimated Incremental Change to Cost of Service

Q. HAVE YOU ESTIMATED THE INCREMENTAL CHANGE TO THE GAS UTILITY COST OF SERVICE OF DSU NO AS COMPARED TO ENO?

A. Yes. As I discuss earlier in this testimony, because DSU NO forecasts that it will substantially continue ENO's gas O&M and capital spending, it is reasonable to analyze DSU NO's cost of service based on the incremental effect of identified factors related to

PUBLIC REDACTED VERSION

the Gas Transaction as compared to ENO's present cost of service. In my review, I identified the following factors as presented in Table 3.

Table 3 Summary of Factors Incrementally Affecting DSU NO's Cost of Service ($ in Millions)		
Factor Description	Impact	Revenue Increase (Decrease)
Loss of ADIT	$[redacted] Rate Base Debit	$[redacted]
Accumulation of New ADIT	$[redacted] Rate Base Credit	$[redacted]
Regulatory Asset	$[redacted] Rate Base Debit	$[redacted]
Software Intangible Asset	$[redacted] Rate Base Debit	$[redacted]
Intangible Plant Not Transferred	$[redacted] Rate Base Credit	$[redacted]
Change in WACC	[redacted] bp Increase	$[redacted]
Note: the revenue requirement effect of these factors interact with the increase to WACC, so it is impractical to identify each factor's effect on revenue requirement in isolation, and the values do not sum to the total impact. The revenue impact is calculated at ENO's present 7.28 after-tax-WACC.		

The changes to rate base presented in Table 3 also involve related depreciation or amortization expenses that I took into account when estimating their related revenue requirement impact.

Q. WHAT IS YOUR ESTIMATED INCREMENTAL INCREASE TO DSU NO'S REVENUE REQUIREMENT AS COMPARED TO ENO'S GAS REVENUE REQUIREMENT?

A. I estimated the incremental increase to DSU NO's revenue requirement as compared to ENO's gas revenue requirement based on ENO's 2024 GFRP Evaluation filing, specifically Attachment B, which represents a calculation of revenue requirement calculation (sometimes referred to as the regulatory formula). My analysis indicates a $16.5 million increase to the gas revenue requirement as a result of the Gas Transaction.

PUBLIC REDACTED VERSION

Q. WHAT IS THE TYPICAL BILL IMPACT OF THE GAS TRANSACTION?

A. Using ENO's typical bill formulas from its 2024 GFRP Evaluation filing, the above calculated $16.5 million increase to gas revenue requirement results in a typical residential gas bill (50 ccf/mo.) impact of $12.33. I note that the incremental revenue and typical bill impacts related to the Gas Transaction are separate from any revenue changes that may result from GFRP Evaluations prior to the close of the Gas Transaction.

Q. WHEN WOULD RATEPAYERS EXPERIENCE THE IMPACT TO REVENUE REQUIREMENT AND TYPICAL BILL IMPACT?

A. DSU NO has committed to assume ENO's gas rates upon the close of the Gas Transaction. My above estimate of the Gas Transaction's impact on revenue requirement and the typical bill impact would become effective when the Council sets new rates as part of DSU NO's initial rate case. DSU NO has stated that it would not file a rate case application until 15 months after the close of the Gas Transaction, and a rate case typically takes 12 months from the date of an application to set new rates. As such, these estimated impacts could take effect approximately 27 months after the close of the Gas Transaction.

VII. THE GAS TRANSACTION'S IMPACT ON ENO

A. Sales Price in Excess of Net Book Value and Gas Costs Transferred to Electric

Q. IS THE GAS TRANSACTION'S SALES PRICE EXPECTED TO BE IN EXCESS OF ENO'S NET BOOK VALUE OF PLANT SOLD?

PUBLIC REDACTED VERSION

A. Yes. The Base Purchase Price is $285.5 million. ENO's gas Net Utility Plant as of December 31, 2024, is $255.7 million,[77] of which ENO states it will not transfer plant in service having a net book value as of December 31, 2024, of $[redacted] million.[78] As such, ENO is reasonably expected to receive sales proceeds of $285.5 million on net plant in service having a balance of $[redacted] million, or a per book gain of $[redacted] million.

Q. WHAT ARE THE RATEMAKING IMPLICATIONS OF ENO'S GAIN ON THE SALE OF ITS GAS UTILITY?

A. The original cost ratemaking principle involves ENO's right to recover its investment in its utility, through recovery of depreciation and amortization expense. In this case, ENO could recover more than its investment in its gas utility.

B. *Use of Cash Receipts from Gas Transaction*

Q. WHAT WILL HAPPEN WITH ENO'S PROCEEDS UPON THE CLOSE OF THE TRANSACTION?

A. Based on my understanding from my involvement in FERC Docket No. EL20-72, which involved the operation of the Entergy Money Pool, immediately upon receipt of the sales proceeds (approximately $285.5 million), cash in ENO's possession will be swept into Entergy's common cash management system, the Entergy Money Pool. ENO will retain substantially no cash (FERC Account 131) as a result of this sweep. Instead, ENO will record a debit to current asset accounts (either FERC Account 133, *Temporary Cash*

[77] *See* ENO's 2024 GFRP Evaluation filing, Attachment B, p. 2, l. 3.

[78] *See* ENO's HSPM response to DR CNO 1-13, Summary Est Rev Req.

PUBLIC REDACTED VERSION

Investments, Account 146, *Accounts Receivable from Associated Companies*, or a combination of the two). However, no cash will be set aside exclusively for ENO's use; ENO will be one of several Money Pool Participants having the ability to use these funds in coordination with the entire Entergy System.

Q. WHAT DO YOU OBSERVE FROM THIS MONEY POOL SWEEP?

A. The key aspect of the Money Pool sweep process and the ease with which cash can be assigned to any Money Pool Participant, including Entergy Corporation, is that there is no need to use the cash ENO will receive from the Gas Transaction to pay down ENO's debt or take any action that ENO would not already prudently undertake (*e.g.*, make needed investments in plant).

Q. WHAT WOULD BE THE EFFECT OF REDEEMING DEBT BEFORE ITS MATURITY?

A. As of December 31, 2023, ENO has $670.0 million in outstanding debt with final maturities ranging from less than a year to more than 28 years forward.[79] Effective total cost rates range from 3.14% to 6.35%,[80] well below DSU NO's stated cost of debt. While I have not endeavored to calculate the yield at which ENO could reissue long-term debt today, I am confident that such rates would be significantly higher than this range. For example, ENO's highest cost debt (6.35%) is a roughly 13 month tenor (*i.e.*, timeframe from issuance to

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[79] *See* ENO's 2024 FRP Evaluation filing, *MD 4 – Required Rate of Return, MD 4.2*.

[80] *Id.*

PUBLIC REDACTED VERSION

scheduled final maturity) first mortgage bond series issued in May 2023.[81] The next most recently issued first mortgage bond series was issued in November 2021 with a roughly 15-year tenor and a cost rate of 5.59%.[82] This, plus my general understanding of corporate debt rate markets, indicates that any debt ENO may issue at present would be at a higher cost than its current outstanding debt.

As such, should ENO redeem current debt before its maturity, only to reissue debt later, the expected increase in cost rates would increase ratepayer costs.

Q. HAS ENO INDICATED THAT IT INTENDS TO REDEEM DEBT USING THE PROCEEDS OF THE GAS TRANSACTION?

A. Probably not. ENO witness Deanna Rodriguez testified, "The Company expects the proposed transaction to strengthen ENO's credit by allowing ENO to use a portion of the proceeds to pay down its existing debt."[83] However, in response to discovery, ENO states, "The [Gas Transaction] proceeds are expected to be used in debt repayment and/or reduction of future debt issuances. All else being equal, this will be expected to be credit positive."[84] I interpret this to mean that ENO's intention is to pay-down debt as it matures and/or avoid future debt issuances that would have been required absent proceeds from the Gas Transaction, but ENO does not intend to redeem long-term debt before its maturity.

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81 *Id.*

82 *Id.*

83 Direct Testimony of Deanna Rodriquez at 4.

84 ENO's response to DR CNO 1-12.a.

PUBLIC REDACTED VERSION

Q. SHOULD ENO REDEEM DEBT PRIOR TO ITS MATURITY?

A. Generally, no. While reducing ENO's debt would improve credit metrics (*i.e.*, constitute a "credit positive"), ENO has locked-in favorable debt rates that it probably could not replace even if its credit rating were to improve somewhat. As such, ENO's redeeming its long-term debt prior to its maturity is likely harmful to ratepayers in the case where debt reissuance is required, and ENO should not do so unless it can demonstrate a net ratepayer benefit. I note that ENO has approximately $162.8 million in long-term debt maturing in the next twelve months,[85] so a substantial portion of the Gas Transactions' proceeds is already largely attributable to the maturity of these obligations.

VIII. RECOMMENDATIONS SHOULD THE GAS TRANSACTION BE APPROVED

A. DSU NO's Ratemaking

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING DSU NO'S PER BOOK ACCOUNTING?

A. As I discussed earlier in this testimony, I recommend that the Council require DSU NO to keep its books of account according to FERC accounting guidance. I further recommend that the Council require DSU NO to present its per book accounting by FERC Account (or as does ENO, by FERC Account plus a sub-account identifier) as part of its rate action applications, such as the initial rate case application. I further recommend that DSU NO be required to present independently audited financial results to the Council at least annually

[85] *See* ENO's 2024 FRP Evaluation filing, *MD 4 – Required Rate of Return, MD 4.2*, Excel lines 16 and 18.

PUBLIC REDACTED VERSION

and that its rate action filings before the Council be based on audited financial data. It is my understanding that the Council may require these practices of DSU NO as part of its regulatory and supervisory authority, and it is not necessary to require them as a condition of approval of the Gas Transaction. However, I consider it reasonable for the Council to notify DSU NO of its expectations.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING THE LOSS OF ADIT AS A RESULT OF THE GAS TRANSACTION?

A. As the cash sale nature of the Gas Transaction will result in a significant increase in DSU NO's rate base and a related ratepayer harm due to the loss of a net-credit ADIT balance, I would recommend the Council consider requiring DSU NO to eliminate or substantially mitigate this ratepayer harm. This mitigation could be in the form of a regulatory liability in DSU NO's rate base whose amortization expense and related ADIT are not in DSU NO's cost of service.[86] The regulatory liability would amortize over the average life of ENO's ADIT had the Gas Transaction not occurred.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING THE EFFECT OF DSU NO'S HIGHER WACC AS COMPARED TO ENO?

A. As both ENO's WACC and DSU's WACC are variable and based on factors outside of their control, I do not recommend a specific action at this time. However, as I discussed earlier in this testimony, DSU NO's ROE, total debt cost rate, and equity ratio cannot be

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86 To the extent normalization rules would prevent the exclusion of ADIT, the regulatory liability could be grossed-up to achieve the appropriate net rate base credit.

PUBLIC REDACTED VERSION

directly observed because of the nature of DSU NO's ownership structure. Therefore, I recommend that the Council consider advising DSU NO that its ROE, total debt cost rate, and equity ratio may be set while taking into account relevant metrics from comparable utilities having roughly a "BBB" credit rating (*e.g.*, "BBB" plus or minus one ratings notch) and not based on any actual DSU NO data. It is my understanding that the Council already has this authority, but I believe it is reasonable to nonetheless advise DSU NO.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING RECOVERY OF DSU NO'S PROPOSED REGULATORY ASSET?

A. As DSU NO's proposed regulatory asset, which may be partly in the form of intangible plant,[87] constitutes a significant ratepayer harm if DSU NO is allowed recovery, I recommend that, as a condition of approval of the Gas Transaction, DSU NO agree to not seek recovery of the proposed regulatory asset or to substantially mitigate to the Council's satisfaction the ratepayer impacts of the proposed regulatory asset.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING POST-RETIREMENT BENEFITS?

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[87] To the extent some of DSU NO's transition costs are properly accounted for as intangible plant, they should commence depreciation once they are closed to plant in service, regardless of when DSU NO might file its initial rate case application. This may not be compatible with the Direct Testimony of Brian K. Little at 29, which proposes to base interim amortization on that of certain ENO gas plant not transferred to DSU NO ("DSU NO proposes to amortize its regulatory asset cost balance during this interim period [between LDU closing and new DSU NO rates set in a general rate proceeding] in an amount equivalent to the Entergy retained asset recovery inherent in the ENO Gas Business customer rates."). DSU NO must begin to depreciate plant in service, including intangible plant, once it is closed to plant in service, regardless of the timing of any change in rates.

PUBLIC REDACTED VERSION

A. As the Joint Applicants have represented that ENO's pension and OPEB plans can be expected to continue under DSU NO ownership substantially as they have under ENO ownership, I recommend that the Council attach no further conditions to its approval of the Gas Transaction beyond the Joint Applicants' representations. I recommend that the Council advise DSU NO that it is expected to propose a ratemaking treatment comparable to that ENO has proposed in recent FRP Evaluation filings for both pension and OPEB. As post-retirement plans and their ratemaking treatment are complex, I recommend that the Council conduct a thorough review as part of DSU NO's initial rate case.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING CWIP AS A COMPONENT OF ANY ACQUISITION PREMIUM?

A. DSU NO has committed to not seeking recovery of any acquisition premium from the Gas Transaction, which is appropriate. As I discussed earlier in this testimony, CWIP represents inventory that will become plant in service (that is a recoverable investment). As such, CWIP should not be treated as non-recoverable acquisition premium. As such, I recommend that the Council not treat CWIP as of the close of the Gas Transaction as a component of any non-recoverable acquisition premium, consistent with DSU NO's request in the Joint Application.

B. *ENO's Electric Rates*

Q. WHAT IS YOUR RECOMMENDATION AS TO THE TREATMENT OF ENO'S TRANSACTION COSTS?

PUBLIC REDACTED VERSION

A. As there are no quantifiable electric ratepayer benefits related to the Gas Transaction, recovery of ENO's Gas Transaction costs constitutes a ratepayer harm. As such, I recommend that as a condition of approval of the Gas Transaction, ENO be directed to not seek recovery of its transaction costs and be required to demonstrate how such costs have been excluded from its rate action filings, such as ENO's annual FRP Evaluation filings.

Q. WHAT IS YOUR RECOMMENDATION AS TO THE TREATMENT OF ENO'S GAIN ON THE SALE OF ITS GAS UTILITY?

A. As I estimate elsewhere in this testimony, The Gas Transaction will transfer significant assets and O&M presently recovered in gas rates onto ENO's electric cost of service. ENO's estimate of this electric ratepayer harm, is an annual revenue requirement of $[redacted] million, of which $[redacted] million is O&M and $[redacted] million is capital related, including depreciation expense and property tax.[88] To mitigate this electric ratepayer harm and to utilize ENO's gain on the sale of its gas net plant, I recommend that, as a condition of approval of the Gas Transaction, the Council direct ENO to create a contra-asset of approximately $18.8 million to offset the gas plant retained by electric customers, and use the remaining approximate $[redacted] million of the $[redacted] million per book gain to create a regulatory liability to whose amortization will offset the ENO gas O&M retained by ENO's

[88] *See* ENO's HSPM response to DR CNO 1-13, HSPM Excel File CNO 1-13 *Estimated Revenue Requirement for Shared Assets and Retained O&M_HSPM,* Tab *Summary Est Rev Req*. Of note this estimate is based on ENO's BT-WACC of 8.62%, which is based on a 51% equity ratio. ENO's most current BT-WACC is 9.17%, based on an equity ratio of 55%. As such, ENO's estimate would have been slightly higher using the current WACC.

PUBLIC REDACTED VERSION

electric customers. This remaining approximate $[redacted] million, when amortized over four years, approximately offsets this annual retained O&M amount.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF COLORADO)
)
COUNTY OF ARAPAHOE)

NOW BEFORE ME, the undersigned authority, personally came and appeared, Byron S. Watson, who after being duly sworn, did depose and state:

I am the person identified in the attached Direct Testimony and such testimony was prepared by me or under my direct supervision; the answers and information set forth therein are true and correct; and if asked the questions set forth therein, my answers thereto would, under oath, be the same.

Byron S. Watson

Subscribed and sworn to before me this 30th day of May 2024.

NOTARY PUBLIC

LUZ ALLAN
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20244017683
MY COMMISSION EXPIRES MAY 7, 2028

EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE OF BYRON S WATSON, CFA

Mr. Watson graduated from Southern Methodist University (SMU), Dallas, Texas in 1989 with a Bachelor of Science degree in Electrical Engineering. During this period he also completed the Co-Op program wherein he alternated semesters of study with semesters of full-time work in the engineering profession. In 1991, he received a Master's Degree in Business Administration (MBA) from Emory University with a concentration in finance.

In 2009, Mr. Watson received the Chartered Financial Analyst designation (CFA). Earning the CFA designation requires minimum education requirements, relevant work experience, and demonstrated knowledge of financial analysis topics through passing three six-hour exams given annually.

In 2014, Mr. Watson received the Certified Rate of Return Analyst designation (CRRA) from the Society of Regulatory Financial Analysts. Earning the CRRA designation requires minimum relevant work experience, demonstrated knowledge of the mechanics of estimating rate of return for a regulated utility through passing a three-part exam, and the recommendation of established practitioners in the field of regulatory ratemaking.

Since 2013, Mr. Watson has been a Senior Consultant with the consulting firm of Legend Consulting Group Limited which provides consulting engineering, economic, financial and regulatory consulting services to the Council of the City of New Orleans in its regulation of Entergy New Orleans, LLC.

From 2004 through 2013, Mr. Watson was an entrepreneur in real estate development. He oversaw all aspects of investment and project management relating to his company's development of residential real estate.

From 1996 through 2004, Mr. Watson was an expert witness for Qwest Communications (now Centurylink), he presented testimony before several state regulatory bodies (PUCs and PSCs), including Colorado, Idaho Iowa, Oregon, Nebraska, Utah, and Washington. At the federal level, he has presented ex-parte presentations and reports before the FCC. His work involved cost of service determinations, rate structure as it relates to universal service, and tariffs related to service extension.

From 1991 through 1996, Mr. Watson was a financial analyst in the defense industry. His work involved the capital structure of corporations, financial projections and modeling, product pricing (price floors), and M&A analysis and due diligence.

In addition, Mr. Watson has received professional training from the following organizations in the following areas:

National Association of Regulatory Commissioners (NARUC)

Financial Accounting Board (FASB) Standards
Credit ratings criteria for utilities
Internal Audit, utility risks and controls
FERC accounting
Regulatory Depreciation
EPA 111(d) Clean Power Plan Rule
Accounting for Mergers and Acquisitions
Streamlined Ratemaking
Public-Private Partnerships
Utility Cyber Security

Society of Utility and Regulatory Financial Analysts Forums

Rating agencies' regulatory mechanisms
Investors' perspective regarding regulatory mechanisms
Distributed energy
Construction risks

TESTIMONY EXPERIENCE OF BYRON S. WATSON					
Utility Company	Regulatory Agency	Docket ID	Date Filed	Client Represented	Testimony Issues
System Energy Resources Inc.	FERC	EL21-56	3/2/2021 (affidavit); 12/22/2023 (direct)	Council of the City of New Orleans	Ratepayer harm related to imprudent management; MISO energy markets
Entergy Services, LLC; Entergy Louisiana, LLC	FERC	EL22-6; ER21-915; ER23-2821	11/2/2023 (answering); 11/28/2023 (cross-answering)	Council of the City of New Orleans	Proper ratemaking treatment of NOLC ADIT; tariff violations
System Energy Resources, Inc.	FERC	EL18-152	3-22/2019 10-21-2019 (rebuttal)	Council of the City of New Orleans	Tariff violations; FERC accounting for ADIT; FIN 48; ratemaking treatment for ADIT
System Energy Resources, Inc.	FERC	EL20-72	9/15/2020 (affidavit) 11/15/2021 (direct) 5/19/2022 (rebuttal) 10/5/2022 (Sur-Surrebuttal)	Council of the City of New Orleans	Ratepayer harm related to imprudent management; money pool agreement practices
Entergy New Orleans, LLC	Council of the City of New Orleans	UD-18-07	2/1/2019 (direct); 4/26/2019 (surrebuttal)	Council of the City of New Orleans	Revenue requirement of ENO for electric and gas; ENO's allowed ROE; ENO's equity ratio; ADIT-related matters; billing options; proposed riders; GIRP program; EV charging program; regulatory lag analysis.
Entergy New Orleans, LLC	Council of the City of New Orleans	UD-16-02	11/20/2017	Council of the City of New Orleans	Revenue requirement and typical bill impact of ENO's proposed investment in production plant. Weighted Average Cost of Capital and Return on Equity in regulatory ratemaking. Total cost of service comparisons.

TESTIMONY EXPERIENCE OF BYRON S. WATSON					
Utility Company	Regulatory Agency	Docket ID	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-07-02	8/18/2017	Council of the City of New Orleans	Gas Infrastructure Replacement Program ("GIRP") ratepayer impact and ratemaking treatment
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-16-04	5/26/2017 and 6/26/2017 (supplemental)	Council of the City of New Orleans	Single-issue ratemaking, stranded costs, cost recovery mechanisms, data security, data privacy, earned return on equity.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-16-03	10/7/2016	Council of the City of New Orleans	Tax-related and other ratepayer benefits and their allocation among the customer classes. Double leveraging and reasonable capital structures. Regulatory treatment of uncertain tax positions. Mark-to-Market tax accounting.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-07-02	8/18/2017	Council of the City of New Orleans	Revenue requirement impact of ENO's proposed investment in gas distribution plant, Cost of Service allocation methodologies, Typical Bill impacts, regulatory ratemaking treatment. Stranded costs. Securitization.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-16-04	5/26/2017 and 6/26/2017 (supplemental)	Council of the City of New Orleans	Single-issue ratemaking, stranded costs, cost recovery mechanisms, data security, data privacy, earned return on equity.

TESTIMONY EXPERIENCE OF BYRON S. WATSON					
Utility Company	Regulatory Agency	Docket ID	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-16-03	10/7/2016	Council of the City of New Orleans	Tax-related and other ratepayer benefits and their allocation among the customer classes. Double leveraging and reasonable capital structures. Regulatory treatment of uncertain tax positions. Mark-to-Market tax accounting.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-15-01	10/5/2015	Council of the City of New Orleans	Revenue requirement related to Union Power Block 1. ENO's financial capacity to fund the purchase of Union Power Block 1. ENO's overearnings relative to Council-approved Return on Equity for 2014.
Entergy Louisiana, LLC and Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-14-01	4/1/2015	Council of the City of New Orleans	Applications of Entergy Louisiana, LLC and Entergy New Orleans, Inc. for certification of Hurricane Isaac system restoration costs and for authority to issue a securitization bond to provide for storm cost recovery and to pre-fund a storm reserve. Testimony related to the feasibility of securitization and the structuring of the securitization bonds.
Florida Municipal Power Agency	Florida Joint Legislative Auditing Committee	Auditor General Report 2015-165	3/30/2015	State of Florida Auditor General	Live testimony before the Joint Legislative Auditing Committee. Testimony related to fuel and interest rate hedging practices.

TESTIMONY EXPERIENCE OF BYRON S. WATSON					
Utility Company	Regulatory Agency	Docket ID	Date Filed	Client Represented	Testimony Issues
Entergy Louisiana, LLC and Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-14-02	3/16/2015	Council of the City of New Orleans	Joint application of Entergy Louisiana, LLC and Entergy New Orleans Inc. to transfer electric service in Algiers to Entergy New Orleans, Inc. Testimony related to net ratepayer benefits resulting from the Algiers Transaction.
Entergy Louisiana, LLC	Council of the City of New Orleans	UD-13-01	1/20/2014 (Direct) and 3/21/2014 (Surrebuttal)	Council of the City of New Orleans	Application of Entergy Louisiana, LLC for authority to Change Rates, Approval of Formula Rate Plan and for Related Relief for Operations in Algiers. General rate case. Testimony related to adjustments to test year period and related pro-forma adjustments.
Qwest Communications	Utah PSC	03-999-04	1/14/2004	Qwest Communications	Cost of service: Actions Necessary to Respond to the Federal Communications Commission Triennial Review.
Qwest Communications	Colorado PUC	03S-321T	12/1/2003	Qwest Communications	Rebuttal Testimony re: Land Developer Agreement Tariff. Whether certain proposed network extension fees are previously recovered in basic fixed rates.

TESTIMONY EXPERIENCE OF BYRON S. WATSON

Utility Company	Regulatory Agency	Docket ID	Date Filed	Client Represented	Testimony Issues
Qwest Communications	Colorado PUC	03S-321T	09/19/2003	Qwest Communications	Direct Testimony re: Land Developer Agreement Tariff. Whether certain proposed network extension fees are previously recovered in basic fixed rates.
Qwest Communications	Nebraska PSC	NUSF-26	3/4/2002	Qwest Communications	Direct Testimony on motion seeking to establish a long-term universal service funding mechanism
U S WEST	Idaho PUC	GNR-T-00-02 / GNR-T-97-22	2/28/2001	U S WEST	Rebuttal Testimony in the High Cost Fund Dockets.
U S WEST	Idaho PUC	GNR-T-00-02 / GNR-T-97-22	2/5/2001	U S WEST	Direct Testimony in the High Cost Fund Dockets.
U S WEST	Oregon PUC		1/12/2000	U S WEST	Phase IV, Universal Service. Rebuttal testimony.
U S WEST	Oregon PUC		10/15/1999	U S WEST	Phase IV, Universal Service. Simplified methodology detail. Proposed regression equation & detailed derivation.

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION FOR AUTHORITY TO OPERATE	**)**	
AS LOCAL DISTRIBUTION COMPANY AND INCUR	**)**	
INDEBTEDNESS AND JOINT APPLICATION FOR	**)**	**DOCKET NO. UD-24-01**
APPROVAL OF TRANSFER AND ACQUISITION OF	**)**	
LOCAL DISTRIBUTION COMPANY ASSETS AND	**)**	
RELATED RELIEF	**)**	

DIRECT TESTIMONY

OF

VICTOR M. PREP

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

May 31, 2024

TABLE OF CONTENTS

PREPARED DIRECT TESTIMONY

OF

VICTOR M. PREP, PE

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION.

A. My name is Victor M. Prep. My business address is 6041 S. Syracuse Way, Suite 105, Greenwood Village, Colorado. I am an Executive Consultant with the firm Legend Consulting Group Limited ("Legend"), which provides engineering, economic, financial, and regulatory consulting services and serves as the Technical Advisors to the Council of the City of New Orleans ("Council").

Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS.

A. Exhibit No. ___ (VMP-2) provides a summary of my relevant education and professional experience and Exhibit No. ___ (VMP-3) lists my previous testimony experience.

In 2008, I became an Executive Consultant with Legend, providing analyses and testimony related to electric and gas utility revenue requirements, cost of service, and regulatory ratemaking. Relative to this proceeding, the testimony that I have sponsored before the Council includes the comprehensive evaluation of ENO's gas and electric total revenues, costs, and cost recovery mechanisms in the last general rate case (Docket UD-18-07), the transfer of utility assets in Algiers from Entergy Louisiana, LLC ("ELL") to Entergy New Orleans ("ENO") (Docket No. UD-14-02), and the restructuring of ENO under a new holding company (Docket No. UD-16-03). Those Council proceedings involved the evaluation of utility costs and revenue requirements, as well as the transfers of utility assets or franchises involving the Council's 18-factor evaluation framework as established in Resolution No. R-06-88, some factors of which I will address in my testimony.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am presenting testimony on behalf of the Advisors to the Council. The Council regulates the rates, terms, and conditions of electric and gas service of ENO, which is a wholly owned operating company subsidiary of Entergy Corporation.

Q. WHAT HAS CAUSED YOU TO SPONSOR DIRECT TESTIMONY IN THIS PROCEEDING?

A. On December 11, 2023, ENO and Delta States Utilities NO, LLC ("DSU NO") submitted their *Joint Application of Delta States Utilities NO, LLC and Entergy New Orleans, LLC Authorizing Delta States Utilities NO, LLC to Operate as a Jurisdictional Natural Gas Local Distribution Company* ("Joint Application"), seeking, among other relief, approval for DSU NO to assume ownership and operation of ENO's gas utility ("Gas Transaction"). On February 1, 2024, the Council adopted Resolution No. R-24-49, establishing a Docket for consideration of the Joint Application, including a procedural schedule. My direct testimony in this proceeding is provided pursuant to this procedural schedule.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to (i) present the ratemaking methods and structures of DSU NO gas tariffs and contracts required to ensure ratepayers receive benefits to the fullest extent; (ii) discuss the allocation of shared services costs between the two DSU affiliates, DSU NO and DSU LA, and the re-allocation of joint assets and shared services costs with the potential acquisition of another gas local distribution company; (iii) address the concerns with the identification, treatment and reporting of Transaction Costs and Transition Costs; and (iv) provide recommendations, including conditions of sale, related to the areas addressed in my testimony, for the Council's consideration related to evaluating the proposed Gas Transaction. My testimony supports the testimony of Advisor Witness Joseph W. Rogers concerning the 18 factors from Resolution R-06-88 that the Council considers when determining whether to approve the proposed sale and transfer of the gas utility, including a ratemaking method that will ensure ratepayers will receive the fullest short term and long term benefits.

Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED AND SUMMARIZE YOUR TESTIMONY, CONCLUSIONS, AND RECOMMENDATIONS TO THE COUNCIL.

A. I have organized my testimony into five sections. In the Introduction I state the purpose or objective of my testimony; the second section describes the necessity to require all tariffs and contracts to be based on a fully allocated cost of service study which includes all retail customer classes to ensure each customer class is treated fairly regarding cost recovery and benefits, and to correct some existing disparities; the third section addresses the significant cost area of DSU shared services costs and the allocation of joint investment and operating expense between DSU NO and DSU LA, as well as how those shared services costs should be equitably re-distributed with the DSU NO parent company's proposed acquisition of another gas distribution company; the fourth section focuses on the reporting and treatment of the Transaction Costs, those costs directly related to the proposed transfer of ENO's retail gas business to DSU NO, and the Transition Costs, the substantial costs needed for DSU NO to operate as a "stand-up" gas utility; the fifth section contains recommendations related to achieving the cost objectives stated in my testimony, including some recommended conditions of sale for the Council to consider, specifically related to the areas of my testimony.

II. RATEMAKING METHODS TO ENSURE RATEPAYER BENEFITS

Q. PLEASE BRIEFLY DESCRIBE THE COSTS, RATES, TARIFFS AND CONTRACTS OF ENO'S GAS UTILITY.

A. ENO's gas retail tariffs were approved in the 2018 rate case, and the revenues from the rates in those tariffs have been adjusted annually in three Gas Formula Rate Plan ("GFRP") filings, in proportion to each gas customer class base rate revenues. Each gas retail customer's monthly bill consists of retail tariff /rate schedule charges providing base rate revenue, plus additional charges from (i) the cumulative GFRP revenue adjustments since the last rate case, (ii) a Purchased Gas Adjustment ("PGA"), and (iii) a franchise tax payable to the city from the utility.

The retail gas service for one specific customer class, consisting of fourteen large commercial/ industrial customers (with service as retail customers, but sometimes referred to as non-jurisdictional or "NJ" customers) has been provided under contracts that were negotiated by ENO, and whose rates have not been changed as part of any recent Council rate actions, including GFRP Evaluations.[1]

ENO's gas system demand has been met with an economic dispatch using several gas supply contracts, including no-notice supply, storage, and firm call options. Gas supply costs are directly passed through to customers with the PGA Rider Tariff, with large municipal ("LM") customers receiving a PGA discount that is not cost-based.

Finally, ENO's gas department charges the electric department to deliver gas to the New Orleans Power Station ("NOPS"). With the proposed sale, these gas transportation charges to deliver gas to NOPS would continue to be assessed by DSU NO.

Q. PLEASE BRIEFLY DESCRIBE YOUR CONCERNS RELATED TO ENO'S GAS UTILITY'S REGULATORY RATEMAKING STRUCTURE.

A. The recovery of ENO's gas utility revenue requirements from residential and other customer classes has not been based on a fully allocated gas cost of service study since the 2018 rate case. Increases to gas customer class revenue and corresponding rates ($ per hundred cubic feet or "ccf") have been implemented without any adjustments recognizing the relative cost of service among gas customer classes. Similar to the customer class decoupling of electric revenues, each gas customer class revenue requirement should be evaluated in the next rate case based on the relative cost of service among the gas customer classes.

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[1] The Gas Formula Rate Plan Rider Schedule GFRP-7 excludes these contracts from revenue adjustments.

Rates in the NJ contracts should have a more current re-evaluation for potential cost-based revision, noting that the NJ customer class has not been included in annual GFRP revenue adjustments since the 2018 general rate case. A fully allocated gas cost of service study that ENO included with the 2020 test year GFRP showed the NJ customer class providing a low relative rate of return, indicating that revenue and corresponding rate adjustments should be re-evaluated for NJ customers as part of a future rate case.

The PGA discount provided to LM customers, when compared to the fully allocated cost of gas, results in lowering the relative rate of return for the LM customer class, with a corresponding cost subsidy borne by the other gas customer classes. This cost disparity will be mitigated in part when the Sewage and Water Board begins to receive electric service with a new substation, and the purchased gas for the remaining 6 customers on the LM rate will be approximately 20% of the current volume.

The gas department charge to deliver gas to the New Orleans Power Station (NOPS) was set in 1992 at a rate of $0.005 per thousand cubic feet, the rate originating around 1975. Resolution R-92-111 ordered a documented cost of service and market comparison study to determine the cost of delivering gas to the Michoud generating station.[2] That gas transportation rate should be re-evaluated within a current fully allocated gas cost of service study and a current market comparison study. Specifically, paragraph 8.2 of the Natural

[2] That 1992 Cost of Service study states: "*Historically, the NOPSI gas department has charged the NOPSI electric department a rate of $0.005 per thousand cubic feet (Mcf) to deliver gas purchased by the electric department to the Michoud Generating Station*," (Section I); "*The delivery of gas to Michoud is a fully interruptible service…*" (Section II); "*Interruptible service, by definition, is available only if the facilities are not needed to provide firm services to the firm customers for whom the facilities were constructed*" (Section III A); and "*The rate charged by the NOPSI gas department for the delivery of gas to Michoud has been in existence since at least 1975*." (Section VII).

Gas Distribution Service Agreement between DSU NO and ENO, included with the Purchase and Sale Agreement, states: "*When filing for its cost-of-service base rate case with the Council of the City of New Orleans, Distributer will have the right to submit to the Council of the City of New Orleans formal cost recovery adjustment request in connection with Distributer's obligations to ENO pertaining the Service.*"

Q. WHAT WAS DSU NO'S RESPONSE REGARDING ITS INTENTION REGARDING SUCH "COST RECOVERY ADJUSTMENT" IN CONNECTION WITH THE DELIVERY OF GAS TO NOPS?

A. In a discovery response, DSU NO stated that it has not yet made a determination as to whether it will seek a formal cost recovery adjustment pursuant to the terms of the Natural Gas Distribution Agreement or the methodology it would use for determining a request for adjustment.[3] DSU NO also stated that it has not conducted any recent reviews of both firm and interruptible gas transportation rates offered by intrastate gas distribution companies.

Q. PLEASE DESCRIBE DSU NO'S PROPOSED RATEMAKING STRUCTURE OF THE NEW GAS DISTRIBUTION COMPANY SHOULD THE TRANSACTION BE APPROVED.

A. In the Joint Application, DSU NO requested that that Council approve DSU NO's assuming and adopting the existing ENO Gas Business rates, rate schedules and riders in effect at the closing of the Gas Transaction, until Council review of DSU NO's proposed base rates and rate schedules as part of a subsequent rate application filed not sooner than

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[3] ENO's Response to CNO-ENO 4-22.

fifteen (15) months after the Closing.[4] In that general rate case, and based on a complete historical test year with known and measurable changes, DSU NO is required by New Orleans City Code to provide a fully allocated cost of service study by rate schedule.[5] In discovery responses, DSU NO has confirmed that it will provide a complete cost of service analysis as part of its proposed Council rate action, including the cost of serving these existing large commercial gas contracts.[6] DSU NO has also confirmed in discovery responses that it will not execute any new NJ contracts without express Council approval.[7] Specifically, in DSU NO's general rate case, the Council will consider approval of known and measurable pro-forma adjustments, cost allocations, and proposed relative rates of return by customer class, including NJ customers.[8] Consequently, the aforementioned concerns with ENO's gas utility rate structure should be addressed with DSU NO's proposed rate schedules, supported by the fully allocated cost of service study. This construction of DSU NO's proposed rate schedules will provide the ratemaking framework to ensure each customer class is treated fairly regarding cost recovery and short term and long-term benefits, as represented under factor 5 of the 18 factors that the Council will take into account with its consideration of the transfer, and as addressed in Advisor Witness Joseph W. Rogers testimony.

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[4] See Joint Application XV. Prayer for Relief, paragraphs 4 and 10. Also, Joint Application pages, 5, 12, 21, and 22, where DSU NO commits to adopting the ENO Rates in effect at Closing, and to also adhere to the terms of ENO's various programs, including the GIRP and IM Program, until revised by final order of the Council in the subsequent rate proceeding.

[5] Sec. 158-137 of the New Orleans Code.

[6] DSU NO's response to CNO-DSU 4-18.

[7] *Id.*

[8] Witness Watson addresses the total gas utility revenue requirements, including known and measurable pro-forma adjustments and the weighted average cost of capital, in the cost of service study.

Q. WHAT ADDITIONAL COSTS RELATED TO THE GAS TRANSACTION WILL IMPACT DSU NO'S PROPOSED RATEMAKING STRUCTURE?

A. The DSU NO cost of service will also include additional costs solely related to the sale of the gas utility. In order to ensure a seamless transition and independent operation of its new gas business, DSU NO must replace those assets and services that have been provided by ENO, but that will no longer be available post-Closing.[9] DSU NO has requested Council approval to establish a regulatory asset, for the purpose of deferring the recovery of the investment in these Excluded Assets and services and other costs related to the transition as a new gas distribution company. The method of recovery and customer class allocation of these deferred costs will have an impact on DSU NO's proposed ratemaking structure. Advisor Witness Byron S. Watson discusses the proposed regulatory asset and its impacts on DSU NO's revenue requirements. The treatment of Transition Costs, as well as the costs incurred to complete the Gas Transaction, is addressed later in my testimony.

III. ALLOCATION OF SHARED SERVICES COSTS TO DSU NO

Q. PLEASE DESCRIBE HOW THE COST OF SHARED SERVICES WOULD BE ALLOCATED BETWEEN DSU NO AND DSU LA.

A. DSU NO was asked in discovery to describe how the cost of shared services would be allocated between DSU NO and the other affiliate (DSU LA).[10] DSU responded that it is

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9 The ENO gas-related assets and services that will no longer be available to DSU NO after closing are referred to as Excluded Assets in the Purchase and Sale Agreement.

10 DSU NO's response to CNO 1-10.

in the process of developing a multi-factor shared services model and cost allocation methodology to best match the benefits and costs of a shared services operating structure.

DSU NO did provide a representative shared services agreement for Entergy support services, and a cost allocation spreadsheet which is based on Entergy cost allocation data.[11] Shared costs are identified into several (14) cost categories, such as customer service, Human Resources, Information Technology ("IT"), etc., and within each cost category several cost allocation methods (e.g., plant by function allocator, labor allocator) are applied to the various costs.

Q. DID YOU REVIEW DSU NO'S REPRESENTATIVE SHARED SERVICES COSTS ALLOCATION METHODS?

A. Yes. The shared cost categories and cost allocation methods within the cost categories in the representative shared services cost allocation spreadsheet appear appropriate and reasonable. As DSU NO stated, they are also subject to change with DSU's development of a multi-factor shared services model.

Q. DOES DSU NO EXPECT THE FINAL SHARED SERVICES COSTS ALLOCATION METHODOLOGY TO BE CONSISTENT WITH THE CURRENT ENO SHARED SERVICES AGREEMENT WITH ENTERGY SERVICES (ESL)?

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[11] DSU NO's response to CNO 1-10, Attachment A; cost allocations in HSPM Attachment B to CNO 1-10.

A. DSU NO expects the allocation factor types to generally be consistent with the current ENO shared services agreement with ESL,[12] but modifications to the agreement will need to include the exclusion of certain allocation factor types that are specific to the electric business and not relevant to a stand-alone natural gas utility business. DSU NO stated that it will provide additional detail when its work on the allocation methodology is completed, and that post-closing modifications to the existing allocation methodology will be provided as part of the future rate proceeding.

Q. **WHAT IS A CURRENT PERCENTAGE OF SHARED COSTS ALLOCATED TO ENO GAS THAT COULD BE USED AS AN INITIAL REFERENCE FOR DSU NO?**

A. Based on utility cost allocation data provided by Entergy to DSU on 01/19/2024, cost allocations to ENO gas in 2022 and 2023 represent a reasonable initial basis to allocate the total ENO and ELL Gas annual shared services costs. DSU NO also provided a hypothetical allocation analysis, for demonstration purposes, with a combination of allocation factors showing DSU NO with a similar but higher percent allocation of the total ENO and ELL Gas annual shared services costs.[13]

Q. WHEN DID DSU NO STATE THAT THE FINALIZED SHARED SERVICES COSTS ALLOCATION METHODOLOGY WILL BE AVAILABLE FOR REVIEW BY THE COUNCIL?

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[12] Amended and Restated Services Agreement for Administrative and General Support Services, between Entergy Services, LLC and Entergy New Orleans, LLC, effective January 1, 2019.

[13] DSU NO's response to CNO 1-14(c), Attachment C.

A. When completed, DSU Services will execute shared services agreements with DSU NO and DSU LA that will govern the determination and allocation of shared services costs between the two utilities. The shared services agreement to be executed between DSU Services and DSU NO will be subject to the Council's review as part of DSU NO's rate case filing post-closing of the Gas Transaction. As I will add later in my testimony, during its consideration of the Gas Transaction and prior to any order approving the transaction, I recommend that the Council review the most current draft of a shared services agreement with updated cost allocations to DSU NO.

Q. PLEASE SUMMARIZE DSU NO'S RESPONSES REGARDING THE POSSIBLE FUTURE RE-ALLOCATION OF SHARED COSTS WITH THE POTENTIAL ACQUISITION OF ANOTHER GAS LOCAL DISTRIBUTION COMPANY.

A. DSU maintains that this allocation of shared services costs would further apply to the proposed CenterPoint Transaction utilities,[14] stating that the adaptability and scalability benefit from this transaction is "immediately leveraged" by the proposed acquisition of the Louisiana and Mississippi local distribution companies of CenterPoint Energy Resources Corp.[15] This proposed acquisition is the subject of separate filings with the Louisiana Public Service Commission ("LPSC") and the Mississippi Public Service Commission ("MPSC"). DSU NO proposes to take into account the economies of scale attributed to the CenterPoint Transactions and allocation of revised shared costs among DSU NO, DSU LA

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14 *See Bernhard Capital-Backed Delta Utilities to Acquire CenterPoint Energy's Louisiana and Mississippi Natural Gas Distribution Operations* (https://www.bernhardcapital.com/bernhard-capital-backed-delta-utilities-to-acquire-centerpoint-energys-louisiana-and-mississippi-natural-gas-distribution-operations/).

15 DSU NO's response to CNO 1-14(c), Attachment C.

and three utilities from the proposed acquisition of CenterPoint natural gas assets in Louisiana and Mississippi.

Q. SHOULD THE COUNCIL'S CONSIDERATION OF THIS GAS TRANSACTION INCLUDE THE POSSIBLE FUTURE RE-ALLOCATION OF SHARED COSTS WITH POTENTIAL ACQUISITIONS?

A. No. In the consideration of the Joint Application in the instant docket, it would not be prudent for an analysis of ratepayer impacts to assume a certainty of "immediate leverage" from the proposed CenterPoint acquisition. In its response to CNO-DSU 3-8, DSU NO stated: "*The CenterPoint Transaction is a separate transaction, and while DSU NO's closing of both the Entergy and CenterPoint transactions is expected to provide enhanced benefits to gas customers of each utility, each transaction stands on its own; each transaction is expected to result in benefits to customers of the acquired natural gas assets should only one transaction close.*"

If, and when, the separate proceedings at the LPSC and MPSC are concluded, and the parent company would have acquired additional operating gas local distribution companies, the allocation of the revised shared services costs could be re-evaluated and modified[16] in terms of the individual utility costs and circumstances at that time.

[16] DSU NO's response to CNO 3-8 – *"Entergy and CenterPoint have different shared services methodologies, using different allocation factors, which requires a modified allocation methodology to meet the objectives stated herein."* And *"DSU NO continues evaluating a way to simplify the existing shared services allocation of the Entergy utilities as well as the CenterPoint utilities…"*

Based on the current method of allocating shared services costs, Advisor Witness Byron S. Watson presents an estimate of the DSU NO incremental revenue requirement and rate impacts associated with the Transition Plan.

IV. TREATMENT OF TRANSACTION COSTS AND TRANSITION COSTS

Q. PLEASE PROVIDE THE DISTINCTION BETWEEN TRANSACTION COSTS AND TRANSITION COSTS.

A. Transaction Costs are one-time costs directly related to the preparation and conduct of the Joint Application before the Council, until its conclusion in the instant Docket. Transition Costs are associated with the implementation of a Transition Plan over an extended period to stand-up DSU NO as an independent gas distribution utility, and to deliver operating performance and services that will be transparent to New Orleans gas customers.

Q. WHAT ARE SOME OF THE COSTS INCURRED AS TRANSACTION COSTS BY ENO AND DSU NO?

A. Transaction Costs include internal labor and third-party costs incurred in obtaining regulatory approval of the Gas Transaction and in performing transaction due diligence (including finance and tax consulting work), buyer and seller legal fees related to negotiating and closing the Purchase and Sale Agreement (PSA) and acquisition financing documents, costs related to any shareholder/lender approvals of the transaction, investment banking fees, and transfer taxes.

Q. HOW ARE ENO AND DSU NO TRACKING AND KEEPING SEPARATE TRANSACTION COSTS AND TRANSITION COSTS?

A. ENO is using two project codes[17] to track the costs of this sale transaction for both ELL and ENO: one project code for Transaction Costs, and a separate project code for Cooperation Agreement Costs.[18]

DSU has contracted with a financial advisory firm to provide outsourced accounting services, which will include assisting DSU to develop accounting and internal controls processes intended to assure that costs are properly allocated to DSU NO and segregated into Transition Costs, Transaction Costs, and other types of costs and expenditures.

Q. HAVE ENO AND DSU NO PROVIDED UPDATED ESTIMATES OF TRANSACTION COSTS SEPARATE FROM TRANSITION COSTS?

A. ENO provided a combined ENO and ELL cost estimate for the two aforementioned project codes for 2024 and 2025: $16.4 million of Transaction Costs and $8.9 million of Transition Costs, with an aggregate spend of $3.7 previously.[19] Relying on the recent years of shared costs between ENO and ELL, ENO gas would be allocated $10.4 million of Transaction Costs and $5.6 million of Transition Costs.[20]

However, ENO provided a substantially higher estimate, also identified as Transaction Costs, in an HSPM response,[21] but did not reference any project codes, cost detail, or period

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17 The utility uses project codes to effectively organize costs by separation into specific categories to track where and how project costs are incurred.

18 ENO's response to CNO 1-46. ENO and DSU NO are parties to an Interim Cooperation Agreement and a Transition Services Agreement to identify Transition Costs.

19 ENO's response to CNO 1-46. The $8.9 million were specifically identified as Cooperation Agreement Costs

20 This transition cost estimate does not include the additional revenue requirement estimated from ENO electric customers from the re-allocation of shared costs with ENO's gas utility and addressed in Witness Watson's testimony.

21 ENO's HSPM response to CNO 1-13.

of years associated with that estimate. Detailed reporting would reconcile the cost differences between these two responses.

DSU NO was asked in discovery to provide details regarding the segregation of Transaction Costs from Transition Costs, including when, how often, and in what accounting format the Council will receive the detail of the Transaction costs.[22] When asked more specifically for a detailed reporting of its Transaction Costs as of March 31, 2024, as well as a current estimate of the total Transaction Costs which are expected to be incurred,[23] DSU NO would not provide any details regarding Transaction Costs stating: "*DSU NO has committed to not requesting the recovery of Transaction Costs, as defined in DSU NO Response to CNO 1-8, in this filing or in future filings, and thus they will have no impact on customers, through rates or otherwise, and therefore are not proposed to be provided*."[24] Without being able to confirm the details and amount of Transaction Costs, as well as the method of separating Transaction Costs from Transition Costs, it will be difficult to confirm that no DSU NO Transaction Costs will be recovered from customers.

Q. HOW DID ENO AND DSU NO RESPOND WITH RESPECT TO THE COST RECOVERY OF TRANSACTION COSTS?

A. ENO responded that no costs associated with the two aforementioned project codes, which track Gas Transaction costs incurred by ENO, were included in the 2023 GFRP Evaluation based on the 2022 test year, and that the Company plans to defer these costs in lieu of

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22 DSU NO's response to CNO 1-18.

23 DSU NO's response to CNO-DSU NO 5-1.

24 DSU NO's response to CNO-DSU NO 5-1, parts a, b, and c.

inclusion in the FRP.[25] These responses, referring to deferring these costs, appear short of an affirmative statement that both Transaction Costs and Transition Costs incurred by ENO will not be recovered from ratepayers through any mechanism.

DSU NO stated that it will not, directly or indirectly, seek to recover one-time Transaction-related costs incurred by DSU or its affiliates.[26] Specifically, DSU NO responded in CNO 1-16 that DSU NO will not seek to recover Transaction Costs through customer rates or as part of the regulatory asset.

Q. WHAT ARE SOME OF THE TRANSITION COSTS INCURRED BY DSU NO AND ENO?

A. A major portion of the Transition Costs estimated for DSU NO and DSU LA are IT-related costs, and approximately one-half of the estimated IT costs are from one vendor. The remaining portion of estimated Transition Costs are associated with nine other cost categories, each representing a small portion of the total, with the exception of operational readiness and payroll categories. A principal amount of Transition Costs are the Excluded Assets and services that have been provided by ENO but must be replaced post-Closing. Two other Transition Costs of note are business insurance costs and costs and data related to Advanced Metering Infrastructure ("AMI").

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[25] ENO's response to CNO 1-46.

[26] DSU NO's response to CNO 1-14, First Supplemental Response: also response to CNO 1-18.

Q. PLEASE SUMMARIZE THE BUSINESS INSURANCE COST INFORMATION RELATED TO THE GAS TRANSACTION THAT WAS PROVIDED IN DISCOVERY RESPONSES.

A. The Transition Costs of both ENO and DSU NO will include the costs of business insurance. ENO stated that it was not able to estimate the dollar amount change to ENO's insurance coverage and premiums following the proposed sale,[27] and responded that the gas business is covered under the umbrella of Entergy's overall insurance programs, with no standalone policy for ENO gas. No Entergy insurance programs covering the gas utility will transfer, so new insurance coverage is required post-closing. DSU NO listed an initial insurance cost estimate through 2025 in its Preliminary Transition Cost estimate and obtained representation and warranty insurance policy for the Gas Transaction.

Q. WHAT TRANSITION COSTS AND DATA TRANSFER ARE RELATED TO AMI?

A. DSU NO will have to initiate a new contract with ENO's present vendor who provides gas and electric AMI data from customers' meters to ENO's legacy IT systems. DSU NO will also need a new meter data management system to receive, manage, and transmit the large amount of gas customer AMI data. In the Joint Application Prayer for Relief, the Joint Applicants requested Council approval of ENO's transfer of customer data, including specifically data related to ENO's AMI system.

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[27] ENO's response to CNO 1-45: "*At this time, the Company is unable to estimate the impact as insurance premiums are intricately tied to the underwriters perceived risk associated with the assets covered. Assuming all things being equal, the assets covered will decrease should the sale be approved and should decrease the Company's risks and associated premiums. The Company is working to quantify this change and the timing of the sale can influence going forward insurance costs.*"

Q. WHY ARE IT SYSTEM COSTS SUCH A SUBSTANTIAL PORTION OF THE TRANSITION COSTS?

A. DSU NO states the proposed new IT systems (the "Greenfield IT Footprint") are necessary to replace 56 IT systems and applications being retained by ENO and ELL because these IT systems and applications share functionality with electric operations and are being retained by Entergy as Retained (Excluded) Assets. Only 14 of ENO's IT systems/applications will transfer in the sale to a DSU subsidiary company, which at this time is expected to be DSU Services.[28] To fully serve DSU NO and DSU LA customers, approximately 20-25 new IT systems/applications are being developed.[29]

Q. HAS DSU NO PROVIDED ESTIMATES OF THE TRANSITION COSTS

A. Yes. The initial estimate of Transition Costs was provided as an Initial Budget, Schedule D, of the Interim Cooperation Agreement. But the Agreement was unclear whether the Initial Budget (dated Oct. 2023) pertained only to DSU NO or both DSU NO and DSU LA. Subsequently in discovery, DSU NO provided a "Preliminary Estimate,"[30] prepared to estimate the total Transition Plan costs expected to collectively stand up DSU LA and DSU NO, with a large portion of those costs related to new IT systems to replace ENO's IT-related Retained Assets. DSU NO has requested Council approval to establish a regulatory asset for the purpose of deferring the recovery of the investment in these Excluded Assets and services. The "Preliminary Estimate" is intended to comprise substantially all of the

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[28] DSU NO's response to CNO 2-1.

[29] DSU NO's response to CNO 2-2.

[30] DSU NO's response to CNO 1-14, First Supplemental Response, Attachment C workbook.

cost items to be included in the requested regulatory asset. Although DSU NO noted that these deferred costs would be subject to a prudency review in the general rate proceeding, DSU NO has not provided a quantified benefit-cost analysis supporting these costs.[31] Advisor Witness Byron S. Watson provides more detail regarding the cost estimates, cost recovery and rate impact of this proposed regulatory asset.

Q. IS THIS "PRELIMINARY ESTIMATE" OF TRANSITION COSTS SUBJECT TO CHANGE?

A. Yes, the components of Transition Costs would be updated for several reasons. This proposed sale transaction represents a departure from Entergy's almost 100 years of continued retail gas service with a change to new gas distribution company management, organization, and structure, and is an undertaking requiring significant effort. DSU NO referred to potential updates stating: "*Although robust, the Transition Plan involves a significant technology and business infrastructure implementation over an extended period and the anticipated synergies will evolve as the total project elements become more defined and implementation decisions are carried out*."[32] Also, DSU NO is still in the process of developing its post-Transition management structure.[33]

A significant variance could be due to the new IT systems as the largest Transition Cost, since large new IT systems are susceptible to run over budget and over timetable.[34] Among

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31 DSU NO's response to CNO 1-20.

32 DSU NO's response to CNO-DSU 3-13.

33 DSU NO's response to CNO-DSU 4-11.

34 These findings from research conducted on more than 5,400 IT projects by McKinsey Digital and the BT Centre for Major Programme Management at the University of Oxford. "Delivering large-scale IT projects on time, on budget, and on value." October 1, 2012.

the potential variance in labor cost estimates, approximately 100 new employees are expected to be hired in order to perform the shared services functions performed by Entergy employees who are not transferring at Closing.[35] And as the initial timetable may be extended by regulatory or other project delays, the "Preliminary Estimate" would have to be adjusted accordingly.

Q. WHY IS IT IMPORTANT TO HAVE THE MOST CURRENT ESTIMATES OF TRANSACTION COSTS AND TRANSITION COSTS SUBMITTED IN TIMELY REPORTS?

A. As demonstrated previously, the Transaction Costs and Transition Costs are significant, and subject to change and re-evaluation. The separation of both costs by ENO and by DSU NO, although addressed, must be monitored, with independent confirmation for the Council, such that no Transaction Costs are recovered from ratepayers. Both ENO and DSU NO will continue to incur both Transaction Costs and Transition Costs in accordance with the Interim Cooperation Agreement and a Transition Services Agreement. Notwithstanding other provisions, the termination of services in the Agreements will be a date agreed by the Parties and with written consent by both Parties. There is no specific date to limit the costs incurred by both Parties. While ENO has implemented a project code to accumulate Transaction Costs and facilitate reporting, there should be a review of DSU NO's outsourced accounting services and an independent audit of the accounting and

[35] DSU NO's response to CNO-DSU 4-12.

internal controls processes to assure proper cost allocation to DSU NO and segregation of Transaction Costs.[36]

DSU NO committed to provide regular reporting of Financial Reports, to include project-level financial information, as well as actual-to-budget reporting, on a consistent basis, although no specific commitment was made regarding the frequency of reporting Transaction Costs. DSU NO stated that Transition Cost reporting will be provided to the Council on a quarterly basis within 45 days of each period end. However, DSU NO also stated: "…DSU NO would recommend setting up a periodic reporting system with the Council **post-Closing** to demonstrate its performance around cost projections for the Transition Plan…"[37] (emphasis added). Specifically, DSU NO stated its intended reporting: "…the evolution of the Transition Plan estimate will be periodically provided to the NOCC on a recurring basis **after** regulatory approvals are achieved…."[38] (emphasis added).

ENO has not committed to any detailed reporting of Transaction Costs or Transition Costs.

V. RECOMMENDATIONS

Q. BASED ON ISSUES ADDRESSED IN YOUR TESTIMONY, WHAT ARE YOUR RECOMMENDATIONS RELATED TO CONDITIONS OF SALE FOR THE

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[36] DSU NO's response to CNO 1-18. DSU NO stated: "*Costs identified as Transaction Costs will be tracked and recorded to the appropriate accounts, which DSU would expect to exclude from any future cost recovery requests*."

[37] DSU NO's response to CNO 1-16 (final 5-3-24).

[38] DSU NO's First Supplemental Response to CNO 1-14 (final 5-3-24).

COUNCIL TO CONSIDER IN ITS EVALUATION OF THE GAS TRANSACTION?

A. Related to my testimony, I recommend that the Council consider attaching the following conditions of sale in its evaluation of the proposed Gas Transaction.

1) The Council should memorialize DSU NO's commitment to file a fully allocated cost of service study, and inform DSU NO that its general rate case should include the following: (i) all customer classes served, including NJ customers; (ii) a cost of service component of adjusted relative customer class rates of return, upon which adjustments to customer class revenue requirements would be based; (iii) revised rates and rate schedules based on the fully allocated cost of service study; and (iv) a revised Purchase Gas Adjustment tariff and NJ customer contracts that are based on the fully allocated cost of service study.

2) The Council should memorialize DSU NO's commitment that it will not execute any new NJ contracts without express Council approval.

3) The Council should include as a condition that the agreement and rate to deliver gas to NOPS shall be reviewed based on an updated cost of service analysis and a current review of gas transportation rates and contracts offered by intrastate gas distribution companies.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING REPORTING OF COSTS, AS ADDRESSED IN YOUR TESTIMONY.

Notwithstanding that no formal requirements currently exist for the following reports, I recommend the following reports and affirmation as valuable input to the Council's consideration of the Gas Transaction:

1) The most current draft of the shared services agreement between DSU Services and DSU NO, including a detail of cost categories and allocations of shared services costs;

2) Monthly reports of ENO's detailed Transaction Costs and Transition Costs;

3) ENO's affirmation that it will not seek cost recovery, through any format or regulatory process, from customers of both recorded costs, or any other costs that may be related to the sale transaction;

4) Monthly reports of DSU NO's detailed Transaction Costs and Transition Costs, if Transition costs are allowed by the Council to be recovered from ratepayers, including the internal control processes and recording to accounts to demonstrate the separation of Transaction Costs. Pending final Council approval of the transaction, if granted, such reports could be submitted quarterly.

Q. WHAT OTHER RECOMMENDATIONS DO YOU HAVE SHOULD THE COUNCIL APPROVE THE GAS TRANSACTION?

A. Should the Council approve the Gas Transaction, my additional recommendations are as follows:

1) Notwithstanding the rate impact on ENO's electric customers from the sale transaction that ENO has estimated, and which is addressed in Advisor Witness Byron S. Watson's

testimony, the Transaction Costs and Transition Costs incurred by ENO should not be recovered from electric ratepayers, and ENO should inform the Council of its treatment regarding those costs.

2) Post-closing, there should be an independent accounting audit of DSU's accounting and internal controls processes to assure that costs are properly allocated to DSU NO and segregated into the appropriate accounts to record Transition Costs, Transaction Costs, and other types of costs and expenditures.

3) Should there be any remaining concern to ensure continued performance of gas services and expected benefits, the Council could explore the possibility of ENO extending its participation in providing transition services for a reasonable period. As mentioned previously, ENO and DSU NO are parties to an Interim Cooperation Agreement and a Transition Services Agreement to identify Transition Services and Costs. The termination of services in the Agreements will be a date agreed by the Parties, and with written consent by both Parties, so there could be a possibility for the Council to intercede, proposing a preferred ENO transition service termination date agreeable to both Parties.

4) DSU NO should keep the Council updated monthly with the changes to the project timetable, impacts from related regulatory proceedings, and changes to the proposed treatment of shared costs and projected revenue requirements.

5) Similar to Council Resolution R-17-504 which addressed compliance with information and filing requirements related to ENO's general rate case, DSU NO should be provided with similar guidance prior to its proposed rate case. Also, DSU NO should

submit draft proposals of changes to contracts, agreements, and service prior to filing a general rate case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF COLORADO)
)
COUNTY OF ARAPAHOE)

NOW BEFORE ME, the undersigned authority, personally came and appeared, Victor M. Prep, who after being duly sworn, did depose and state:

I am the person identified in the attached Direct Testimony and such testimony was prepared by me or under my direct supervision; the answers and information set forth therein are true and correct; and if asked the questions set forth therein, my answers thereto would, under oath, be the same.

Victor M. Prep

Victor M. Prep

LUZ ALLAN
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20244017683
MY COMMISSION EXPIRES MAY 7, 2028

Subscribed and sworn to before me
this 30th day of May 2024.

Luz Allan

NOTARY PUBLIC

EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE

OF

VICTOR PREP

Mr. Prep graduated from the University of Oklahoma, Norman, Oklahoma, in 1966 with the degree of Bachelor of Science in Aerospace-Mechanical Engineering. In 1973, he received a Masters Degree in Business Administration from the Wharton School of Business, at the University of Pennsylvania, Philadelphia, Pennsylvania. He also graduated from the United States Naval Officer Nuclear Power Engineering Schools in Bainbridge, Maryland, Prototype Reactor Training School in Hartford, Connecticut, Inertial Navigation School in Norfolk, Virginia, and the United States Naval Submarine Service School at Groton, Connecticut. During his Naval Service, he received additional courses for Ships Engineer and Classified Material Control. Mr. Prep is a registered Professional Engineer in the Commonwealth of Pennsylvania, the State of Colorado, and the State of Louisiana. He is also accredited as a Certified Energy Manager by the Association of Energy Engineers.

In 2008, Mr. Prep became an Executive Consultant in the consulting firm of Legend Consulting Group Limited which provides consulting engineering, economic, financial and regulatory consulting services to the Council of the City of New Orleans in its regulation of Entergy New Orleans, LLC. His experience includes revenue requirement analysis and accounting, cost of service and rate design, strategic planning, economic analysis, evaluation of capital expansion programs and project financing, and evaluation of demand side management, renewable resources and advanced metering infrastructure programs.

From 1984 - 2008 he was an independent consultant and entrepreneur who initiated and successfully ran several businesses. As an independent consultant, he supervised commercial/industrial projects with the Schuylkill County Economic Development Corporation and Schuylkill County Redevelopment Authority on co-generation, wind energy and other industrial projects. He served as Chairman of the Schuylkill County Redevelopment Authority from 2004 to 2008. He also served as a Principal Consultant with Management Applications Consulting of Reading, Pennsylvania providing management information services in the engineering, loss analysis, load management, and operations areas primarily for the utility/energy industry. During this period he also taught a college math course at the Pottstown School of Business, Pottstown, Pennsylvania.

From 1973 to 1984, he was Manager of Cost and Load Analysis in the Management Consulting Division of Gilbert Commonwealth, Reading, Pennsylvania. In that capacity, he conducted and presented extensive studies in regulatory issues including cost and load analyses, embedded cost allocation, rate design, load management and forecasting, revenue analysis, and preparation of and participation in utility rate cases including sponsorship of expert testimony. Major consulting projects included an Automated Rate Case Management System at Georgia Power Company and Southern California Edison Company; a week long industry seminar in Rate Case Preparation conducted for several years; and major Load Management research projects for EPRI and Western Farmers Electric Cooperative.

From 1971 to 1972, he was employed as a Field Startup Engineer with United Engineers and Constructors, Philadelphia, Pennsylvania. During that period, he worked on site at various utility power plant sites testing and starting new systems including Beezley's Point, Ocean City, New Jersey, Three Mile Island, Harrisburg, Pennsylvania, and Forney Burner Controls, Dallas, Texas.

From 1966 to 1971, he served as an Officer in the United States Navy Nuclear Submarine Force in Groton, Connecticut, with duties including Department Head of Ship's Qualification for New Crew, Reactor Controls, Atmosphere Control Systems, Sonar, and Inertial Navigation, during several extended sea patrols and a shipyard repair period.

During the course of his career at Gilbert Commonwealth, Mr. Prep has prepared Cost and Rate Studies for the following Utilities:

Columbus and Southern, Columbus, Ohio

Fitchburg Gas and Electric, Fitchburg, Massachusetts

Exeter and Hampton Electric Utility, Exeter, New Hampshire

Concord Electric Company, Concord, New Hampshire

Green Mountain Power, Burlington, Vermont

Bangor Hydro Electric, Bangor, Maine

UGI Gas Company, Reading Pennsylvania

UGI Luzerne Electric, Wilkes Barre, Pennsylvania

Shaeffer Brewing Company, Water System Cost of Service

City of Lansing Electric Utility, Lansing Michigan

City of Vineland, Electric Utility, Vineland, New Jersey

City of Lakeland, Department of Electric & Water, Lakeland Florida

Wisconsin Electric Power Company, Madison, Wisconsin

Madison Gas and Electric, Madison, Wisconsin

Georgia Power Company, Atlanta, Georgia,

Central Power and Light Company, Corpus Christi, Texas

Lower Colorado River Authority, Austin, Texas

Southern California Edison, Pasadena, California

Rate Case Preparation Seminars – Dallas, Hershey, Atlanta

Berkshire Gas Company, Pittsfield, Massachusetts

Commonwealth Energy Services Electric and Gas, Cambridge, Massachusetts

Central Illinois Public Service, Springfield, Illinois

Hartford Steam Company, Hartford, Connecticut

Iowa-Illinois Gas and Electric, Davenport, Iowa

Indiana Gas Company, Evansville, Indiana

Iowa Power and Light, Des Moines, Iowa

Philadelphia Gas Works, Philadelphia, Pennsylvania

Toledo Edison Company, Toledo, Ohio

Nova Scotia Power Company, Halifax, Nova Scotia

Western Farmers Electric Cooperative, Anadarko, Oklahoma, Load Management

EPRI Industry Study on Residential Water Heater Loads, Load Management

In addition, Mr. Prep has received professional training from the following organizations in the following areas:

Association of Energy Engineers (AEE)

Graduate, Certified Energy Manager

Rocky Mountain Electrical League

Smart Grid Technologies

Rocky Mountain Association of Energy Engineers

Energy Forum

Graduate of the U.S. Naval Officer Nuclear Power Engineering Schools in Bainbridge, MD

Prototype Reactor Training School in Hartford, CT

Inertial Navigation School in Norfolk VA

The United States Naval Submarine Service School at Groton, CT

Additional Courses in Ship Engineer and Classified Material Control

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, LLC Application for a Change in Electric and Gas Rates Pursuant to Resolutions R-15-194 and R-17-504	Council of the City of New Orleans	UD-18-07	2018	City of New Orleans	Evaluation of gas and electric total revenues, costs, allocation methodologies, and cost recovery mechanisms
Entergy New Orleans, Inc. Application for Approval to Construct NOPS	Council of the City of New Orleans	UD-16-02	2017	City of New Orleans	Cost allocation methodologies, Demand Side Management
Entergy New Orleans, Inc. Application to Deploy Advanced Metering Infrastructure, Request for Cost Recovery and Related Relief	Council of the City of New Orleans	UD-16-04	2017	City of New Orleans	Evaluation of ENO’s proposed cost benefit analysis, revenue requirements, cost recovery and customer rate impacts.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Entergy New Orleans, Inc.'s supplemental and amending application for approval to purchase Power Block 1 of the Union Power Station, for cost recovery and request for timely relief	Council of the City of New Orleans	UD-15-01(phase II)	2015	City of New Orleans	Revenue requirements, net ratepayer benefits, rate impacts, rate design, long term service agreement cost recovery.
Application of Entergy New Orleans, Inc. for authorization to enter into into a contract for the purchase of capacity and energy from Power Blocks 3 and 4 at Union Power Station, for cost recovery and request for timely relief	Council of the City of New Orleans	UD-15-01(phase I)	2015	City of New Orleans	Revenue requirements, net ratepayer benefits, rate impacts, rate design, long term service agreement cost recovery, unit retirement rate impacts.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Application of Entergy Louisiana, LLC, and Entergy New Orleans, Inc. Requesting Approval of the Sale of Electric Utility Operations and Certain Assets Serving the Fifteenth Ward of the City of New Orleans and Related Relief	Council of the City of New Orleans	UD-14-02	2015	City of New Orleans	Changes to the cost of service, rate impacts, the Companies' proposed timeline for rate changes, the appropriate evaluation periods for the ELL-Algiers FRP approved in Council Docket UD-13-10, other cost of service and rate maters, and the Companies' proposed Balance Sheet Compliance Filing.
Application of Entergy Louisiana, LLC for Authority to Change Rates, Approval of Formula Rate Plan and for Related Relief for Operations in Algiers	Council of the City of New Orleans	UD-13-01	2014	City of New Orleans	Fully allocated revenue requirement and revenue deficiency for the ELL-Algiers jurisdiction, including incremental transmission revenue requirement, deferred MISO implementation costs, and recovery of ELL's securitized storm costs; Formula Rate Plan stucture; proposed rates.

REPRESENTATIVE LISTING TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM					
Utility Company	**Regulatory Agency**	**Docket No.**	**Date Filed**	**Client Represented**	**Testimony Issues**
Application of Entergy New Orleans, Inc., Entergy Louisiana, LLC, Mid South TransCo LLC, Transmission Company New Orleans LLC, Transmission Company Louisiana II, LLC, ITC Holdings Corp. And ITC Midsouth LLC for Approval of Change of Ownership of Electric Transmission Businesses, for Certain Cost-Recovery Adjustments, and for Related Relief	Council of the City of New Orleans	UD-12-01	2013	City of New Orleans	Benefits and costs or detriments to retail customers; projection of transmission related revenue requirements; rate effects and increases to transmission component of ratepayer bills; comparison of projected rate impacts with projected rate increases; revenue requirement implications of the non-quantifiable costs and benefits of the proposed transaction.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-08-03	2013	City of New Orleans	Determination of revenue requirements for the Test Year based on Formula Rate Plan and pro-forma adjustments; regulatory audit of deferred income taxes.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Application of Entergy New Orleans, Inc. And Entergy Louisiana, LLC regarding the Transfer of Functional Control of Certain Transmission Assets to the Midwest Independent Transmission System Operator, Inc. Regional Transmission Organization, for an Accounting Order Deferring Related Implementation Costs and Request for Timely Treatment	Council of the City of New Orleans	UD-11-01	2012	Council of the City of New Orleans	Deferral of transition costs; term and carrying costs of regulatory deferral asset; revenue requirement determination for transmission assets.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
Application of Entergy New Orleans, Inc. For Authorization to Enter Into a Contract for Purchase of Capacity and Energy from Unit 6 at Ninemile Point Station, for Cost Recovery and Request for Timely Relief	Council of the City of New Orleans	UD-11-03	2011	Council of the City of New Orleans	Evaluation of the rate and revenue requirement impact on customer classes from Unit 6 at Ninemile Point Station.
Entergy New Orleans, Inc.	Council of the City of New Orleans	UD-08-03	2008 & 2009	City of New Orleans	Determination of revenue requirements for the Test Year; development of customer class allocation factors; allocation of revenue requirements to customer classes; cost of service for interruptible rates; rate design proposals for all customer classes; verification of revenue from revised rates.
Central Power & Light Co.	Texas Public Utility Commission	Unknown	1979	Central Power & Light Co.	Development of loss factors for revised rate schedules and fuel adjustment clause. Support analysis for revision to industrial interruptible rates. Allocation of revenue requirements and rate design for customer classes.

REPRESENTATIVE LISTING
TESTIMONY EXPERIENCE OF VICTOR M. PREP, P.E., CEM

Utility Company	Regulatory Agency	Docket No.	Date Filed	Client Represented	Testimony Issues
UGI Gas & Electric	PA Public Utility Commission	Unknown	1977	UGI Gas & Electric	Development of capacity and commodity cost allocation factors for customer classes. Allocation of cost responsibility to new and existing customer classes. Presentation of cost basis for revision to rate schedules.
Fitchburg Gas & Electric	MA Dept. Of Public Utilities	Unknown	1975	Fitchburg Gas & Electric	Allocation of total utility revenue requirements to gas and electric customer classes. Presentation of rate of return by customer class. Determination of customer charges and simplification of rate design.