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September 3, 2024

**Via Electronic Delivery**

Clerk of Council  
Council of the City of New Orleans  
1300 Perdido Street  
Room 1E09, City Hall  
New Orleans, LA 70112

**Re: Delta States Utilities NO, LLC and Entergy New Orleans, LLC, Ex Parte.  
In 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  
Council Docket No. UD-24-01**

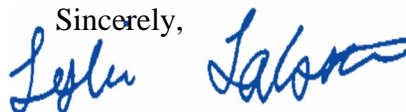
Dear Clerk of Council:

Attached please find the Rejoinder Testimony of Alyssa Maurice-Anderson on behalf of Entergy New Orleans, LLC (“ENO”), for filing in the above-referenced docket.

Please note that Exhibit AMA-10 to the Rejoinder Testimony of Alyssa Maurice-Anderson contains Highly Sensitive Protected Materials and is being provided via electronic means only to those appropriate reviewing representatives who have executed the Council’s Official Protective Order in this docket.

ENO submits this filing electronically and will submit the requisite original and number of hard copies once the Council resumes normal operations, or as you direct. ENO requests that you file this submission in accordance with Council regulations as modified for the present circumstances.

Thank you for your assistance in this matter, and please let me know if you have any questions or concerns.

Sincerely,  
  
Leslie M. LaCoste

LML/jlc

cc: Official Service List (UD-24-01)

**BEFORE THE  
COUNCIL OF THE CITY OF NEW ORLEANS**

**DELTA STATES UTILITIES LA, LLC AND )  
ENTERGY LOUISIANA, LLC, EX PARTE. )**

**)  
IN 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. )**

**DOCKET NO. UD-24-01**

**REJOINDER TESTIMONY  
OF  
ALYSSA MAURICE-ANDERSON**

**ON BEHALF OF  
ENTERGY NEW ORLEANS, LLC**

**SEPTEMBER 2024**

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## **EXHIBITS**

Exhibit AMA-8	Advisors’ response to ENO Data Request 1-5 (August 2024)
Exhibit AMA-9	Direct Testimony of Byron S. Watson, Council Docket No. UD-14-02, Exhibit BSW-4 (March 2015)
Exhibit AMA-10 (HSPM)	ENO’s response to Advisors’ Data Request 7-1 (August 2024)
Exhibit AMA-11	Direct Testimony of Joseph A. Vumbaco, Council Docket No. UD-14-02 (March 2015).
Exhibit AMA-12	Advisors’ response to ENO Data Request 1-2 (August 2024)

1 **I. INTRODUCTION AND BACKGROUND**

2 Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Alyssa Maurice-Anderson. I am employed by Entergy Services, LLC  
4 (“ESL”)<sup>1</sup> as the Director, Regulatory Filings and Policy. My business address is 639  
5 Loyola Avenue, New Orleans, Louisiana 70113.

6  
7 Q2. ARE YOU THE SAME PERSON WHO FILED REBUTTAL TESTIMONY BEFORE  
8 THE COUNCIL IN THIS DOCKET ON BEHALF ENTERGY NEW ORLEANS  
9 (“ENO”)?

10 A. Yes, I am.  
11

12 **II. PURPOSE OF TESTIMONY**

13 Q3. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?

14 A. The purpose of my testimony is to respond to several issues addressed in the Council  
15 Advisors’ Surrebuttal Testimony in this proceeding, as well as to respond to the  
16 Surrebuttal Testimony of the Alliance for Affordable Energy (the “Alliance”).  
17 Specifically, the primary topics I discuss are as follows: the public interest determination  
18 and related conditions, recovery of transaction and cooperation costs, treatment of the  
19 gain of the sale (if any), mitigation of alleged ratepayer harm, and the Alliance’s repeated  
20 comments that largely are extraneous and irrelevant to the decision before the Council.

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<sup>1</sup> ESL is a service company to the five Entergy Operating Companies (“EOCs”), which are Entergy Arkansas, LLC (“EAL”), Entergy Louisiana, LLC, Entergy Mississippi, LLC (“EML”), Entergy Texas, Inc., and Entergy New Orleans, LLC.

1 **III. PUBLIC INTEREST**

2 Q4. DO THE ADVISORS AGREE WITH YOUR POSITION REGARDING ORDERING  
3 PARAGRAPH 3 OF THE RESTRUCTURING RESOLUTION?

4 A. No. The Advisors claim that the Restructuring Resolution permits “attaching conditions  
5 on either party to the transfer of ownership.”<sup>2</sup> However, I do not think the issue is that  
6 simple. The Restructuring Resolution does not identify the selling entity in any of its  
7 factors in the same way that the Restructuring Resolution identifies the acquiring entity in  
8 factors (m) through (p), and significance must be ascribed to the plain language of the  
9 resolution.

10  
11 Q5. DOES THE COUNCIL HAVE AS MUCH DISCRETION IN THE APPLICATION OF  
12 THE RESTRUCTURING RESOLUTION AS IT MAY HAVE IN OTHER AREAS,  
13 SUCH AS RATE DESIGN?

14 A. Although the Council’s authority is plenary, its discretion and ability to impose  
15 conditions to transactions of this type are limited because of ENO’s rights to contract and  
16 to dispose of its private property. The Louisiana Supreme Court has held that a public  
17 utility change-of-ownership rule “infringes to some extent upon the stock owners’ rights  
18 to contract and to dispose of their private property, [and] the rule must be strictly  
19 construed and only applications plainly warranted by its language may be made.”<sup>3</sup> The  
20 Louisiana Supreme Court further observed the language of a public utility change-of-  
21 ownership rule cannot vest “virtually unfettered discretion in the [regulator] to decide

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<sup>2</sup> Rogers Surrebuttal at 5(10-11).

<sup>3</sup> Bowie v. Louisiana Pub. Serv. Comm’n, 627 So. 2d 164, 169 (La. 1993).

1           whether, in a particular case, corporate utility shareholders will be prohibited from  
2           disposing of their private property interests.”<sup>4</sup> Thus, one should not construe the  
3           Restructuring Resolution’s Ordering Paragraphs 2(l) and (r) as permitting broad  
4           discretion in the imposition of conditions.

5  
6   Q6.   WHAT HAVE YOU OBSERVED REGARDING THE ADVISORS’ ASSESSMENT  
7           OF THE GAS TRANSACTION REGARDING THE HARD-TO-QUANTIFY  
8           BENEFITS FROM THE GAS TRANSACTION RELATIVE TO OTHER FACTORS IN  
9           THEIR RECOMMENDATION?

10   A.   Although Mr. Rogers agrees that the Council should undertake a balancing analysis<sup>5</sup>  
11           when determining whether a change-of-ownership is in the public interest, the context in  
12           which he considers the hard-to-quantify benefits is concerning. Mr. Rogers states that  
13           hard-to-quantify benefits should be weighed but do not mitigate alleged quantifiable  
14           ratepayer harm.<sup>6</sup> Further, when asked “[d]oes the typical bill impact for gas customers  
15           estimated by Mr. Watson that allegedly results from the Gas Transaction at issue have a  
16           bearing on the Advisors’ proposed electric rate mitigation?”, the Advisors responded that  
17           the typical bill impact for gas customers simply presents the net ratepayer harm to gas  
18           customers in the form of a bill impact.”<sup>7</sup> The Advisors’ response incorrectly implies that  
19           all effects of the transaction are known or knowable and/or quantifiable. Moreover,

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<sup>4</sup>       *Id.* at 170.

<sup>5</sup>       Rogers Surrebuttal at 7(9-11).

<sup>6</sup>       *Id.* at 10(8-12) (“. . . not as an adjustment to mitigation of ratepayer harm.”).

<sup>7</sup>       Exhibit AMA-8, Advisors’ response to ENO Data Request 1-5 (August 2024).

1 qualitative effects will not be apparent in a typical bill calculation. This narrow view of  
2 the potential effects of the Gas Transaction is tantamount to ignoring hard-to-quantify,  
3 intangible and/or qualitative benefits, and such approach is not supported by the  
4 Restructuring Resolution.

5 The Restructuring Resolution requires an examination of “net benefits” and does  
6 not exclude hard-to-quantify effects or qualitative effects from consideration. The  
7 Advisors have agreed that a post-transaction assessment to determine the extent any  
8 mitigation should be required is appropriate.<sup>8</sup> ENO agrees with this approach provided  
9 that the method/criteria for evaluating whether mitigation is necessary is established prior  
10 to transaction close (i.e., in conjunction with Council action) and objectively measures  
11 the effects of the transaction. ENO would welcome collaborative discussions toward this  
12 end.

13 However, ENO should not be expected to realize a loss for a transaction that is in  
14 the public interest with no demonstrable harm to customers. If ENO is unable to recover  
15 the costs incurred to bring about this transaction (through retention of a corresponding  
16 portion of the sale proceeds), it would be better off not pursuing the transaction at all.  
17 However, ENO would prefer to be a partner in bringing this economic development to  
18 the City of New Orleans and the benefits of having a singularly focused local gas  
19 distribution company to customers. ENO is willing to engage in good faith discussions  
20 and hopes to achieve an amicable resolution of this matter that benefits ratepayers and  
21 ENO.

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<sup>8</sup> Rogers Surrebuttal at 28 (8-17).

1 Q7. MR. ROGERS COMPLAINS THAT ENO IS ASKING THE ADVISORS “TO  
2 SOMEHOW ASSIGN AN ARBITRARY DOLLAR VALUE TO THESE NON-  
3 QUANTIFIABLE BENEFITS IN ORDER TO PROPERLY OFFSET THE HARMFUL,  
4 QUANTIFIABLE EFFECTS.”<sup>9</sup> IS THAT YOUR POSITION?

5 A. That is not my position. To be clear, my position is that the various effects – both  
6 nonquantifiable (including qualitative and hard-to-quantify), and quantifiable benefits  
7 and detriments – of the Gas Transaction should be weighed in determining whether it is  
8 in the public interest or results in net benefits.<sup>10</sup> The assignment of dollar values to  
9 various factors is not necessarily required at this juncture. The balancing that the Council  
10 should undertake is not just a simple algorithm or numerical analysis, as the Advisors  
11 suggest. It is more than that, and it should take into account all effects when considering  
12 whether to approve the Gas Transaction.

13  
14 Q8. IS THERE AN OBJECTIVE DIFFERENCE BETWEEN QUANTIFIABLE AND  
15 HARD-TO-QUANTIFY FACTORS?

16 A. No. The difference between the two is not objective and depends on what estimates and  
17 assumptions one is willing to accept. For example, in the Joint Application seeking  
18 Council approval of ENO’s purchase of Entergy Louisiana, LLC’s Algiers operations  
19 (“Algiers Transaction”), the Applicants submitted an analysis showing that the Algiers  
20 revenue requirement would likely increase by \$1.4 million but explained that qualitative  
21 and hard-to-quantify factors outweighed this detriment. One of those qualitative factors

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<sup>9</sup> *Id.* at 10(6-8).

<sup>10</sup> Maurice-Anderson Rebuttal at 7(21)-8(4).



1 supporting a favorable public interest finding was that the Algiers Transaction would  
2 facilitate the securitization of storm restoration costs (“SRCs”) because a Council-  
3 authorized securitization was not economical for the small amount of ELL Algiers  
4 customers. In response to that joint application, the Advisors submitted an analysis  
5 showing quantifiable net benefits from the Algiers Transactions.<sup>11</sup> In that analysis, the  
6 Advisors quantified the benefits from securitization, which ENO did not quantify.<sup>12</sup>  
7 Fortuitously, at the time the Advisors prepared the analysis, Council Docket No. UD-14-  
8 01 was ongoing regarding ELL’s recovery of its Hurricane Isaac SRCs. The Advisors  
9 used the estimated coupon rate supplied in witness testimony in Council Docket No. UD-  
10 14-01 to quantify the benefits from securitization. Without the benefits from  
11 securitization, the Advisors’ analysis would have shown an average quantifiable net  
12 detriment from the Algiers Transaction over the period 2019 through 2024.  
13 The Algiers Transaction provided additional benefits from later securitizations of storm  
14 restoration costs, such as from Hurricane Ida. While these future benefits would have  
15 been hard to quantify at the time of the Algiers Transaction, it would have been  
16 reasonable to assume that such benefits were likely to be realized. A similar assumption  
17 is reasonable for the hard to quantify benefits associated with the Gas Transaction, like  
18 avoided debt costs.<sup>13</sup>

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<sup>11</sup> Direct Testimony of Mr. Watson, Docket No. UD-14-02, Exhibit BSW-4. A copy of this testimony is attached hereto as Exhibit AMA-9.

<sup>12</sup> Direct Testimony of Mr. Watson, Docket No. UD-14-02, at 12-13.

<sup>13</sup> ENO’s response to Advisors Data Request 7-1 (August 2024), a copy of which is attached to as HSPM Exhibit AMA-10.

1 Q9. HAVE THE ADVISORS PREVIOUSLY ACKNOWLEDGED THAT ALL EFFECTS,  
2 INCLUDING THOSE THAT ARE NON-QUANTIFIABLE AND QUANTIFIABLE,  
3 SHOULD BE CONSIDERED WHEN DETERMINING WHETHER A CHANGE-OF-  
4 OWNERSHIP IS IN THE PUBLIC INTEREST OR RESULTS IN NET BENEFITS?

5 A. Yes. Attached to my testimony as Exhibit AMA-11 is the direct testimony of the late  
6 Joseph A. Vumbaco (previous long-time technical Advisor to the Council) in Council  
7 Docket UD-14-02, which proceeding concerned ENO's purchase of Entergy Louisiana,  
8 LLC's Algiers operations ("Algiers Transaction"). Therein, the following question and  
9 answer appear:

10 Q. IN DETERMINING WHETHER THE APPLICATION IS IN THE  
11 PUBLIC INTEREST, IS THERE A SPECIFIC FORMULA OR  
12 PARTICULAR SET OF ANALYSES THAT CAN BE RELIED UPON?

13 A. No. Many times[,] the definition of what is in the public interest has  
14 been referred to as a "net benefits" test, but such a test encompasses more  
15 than a simple algorithm or numerical analyses and often results in a  
16 subjective balancing of interests by the regulator in making its  
17 determination. Such is the case in this docket. As the other Advisors  
18 witnesses clearly demonstrate, *the Joint Application includes a*  
19 *significant number of unknowns and unresolved issues all of which*  
20 *impact the balance of shareholder interests and those of New Orleans'*  
21 *ratepayers and the public at large. It is important to consider all such*  
22 *factors* in deciding whether the relief requested in the Joint Application is  
23 in the public interest *in toto*. (emphasis supplied)

24 Similarly, in this Gas Transaction, it is important to consider all factors, including  
25 those that are unresolved at this time. ENO shares the Advisors' concerns for the impact  
26 on electric ratepayers. However, as stated before in my rebuttal, Ms. Rodriguez's  
27 testimony, and in Mr. Arnould's rebuttal,<sup>14</sup> and as acknowledged by the Advisors,<sup>15</sup> the

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<sup>14</sup> Rodriguez Application at 4 (11-21); Arnould Rebuttal at 3(10-20)-4(1-3); Maurice-Anderson Rebuttal at 9 (9-19).

1 Gas Transaction benefits electric ratepayers. In order for the Gas Transaction to occur,  
2 any conditions ascribed to its consummation must be *reasonable* conditions.

3 It is unreasonable to assume that synergies, which historically have arisen from  
4 the joint operation of electric and gas services in the City of New Orleans *must* be  
5 maintained, including when those services are not provided by the same company.  
6 Moreover, it is generally recognized that “net benefits” cannot simply be defined as lower  
7 prices. For example, if lower prices are achieved through a reduction in the reliability or  
8 quality of service, it may very well be perceived that the lower prices have not produced  
9 net benefits. Similarly, higher prices might not produce negative net benefits or  
10 detriments. If, however, an existing price is low due to cost-sharing, removing that  
11 sharing may raise that price, but doing so would not necessarily be detrimental. In a  
12 comparable way, although ENO’s combination electric and gas customers have enjoyed  
13 synergies that arguably lowered the cost of these combined services for many years,  
14 separating ENO’s electric and gas operations such that electric customers pay the cost of  
15 electric service and gas customers pay the actual cost of gas service should not be viewed  
16 as customer harm. As such, I must reiterate that the transaction must be viewed  
17 holistically, weighing all potential benefits and detriments, particularly when citing  
18 detriments as the basis for disallowance of prudently incurred costs.

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<sup>15</sup> Rogers Direct at 25 (7-13); Rogers Surrebuttal at 8 (20) – 9(1-2).

1           **IV.    TRANSACTION/COOPERATION COSTS AND GAIN TREATMENT**

2    Q10.   THE ADVISORS CLARIFIED THAT THEY ARE RECOMMENDING THAT ENO  
3           NOT BE ALLOWED TO RECOVER ITS TRANSACTION/COOPERATION COSTS  
4           BECAUSE THE GAS TRANSACTION DOES NOT RESULT IN “NET  
5           QUANTIFIABLE ELECTRIC RATEPAYER BENEFITS.”<sup>16</sup> IS THEIR POSITION  
6           SUPPORTED?

7    A.     No, it is not. The Advisors have no support for the position that quantifiable net electric  
8           customer benefits are a prerequisite for the recovery of ENO’s Transaction/Cooperation  
9           Costs. As discussed above, the Restructuring Resolution does not treat hard-to-quantify  
10          effects or qualitative effects differently than quantifiable effects.

11  
12   Q11.   HAVE LOUISIANA REGULATORS PROHIBITED THE RECOVERY OF  
13          TRANSACTION/COOPERATION COSTS BY A SELLING/TRANSFERRING  
14          ENTITY IN A CHANGE-OF-OWNERSHIP TRANSACTION?

15   A.     Although the Louisiana Public Service Commission (“LPSC”) does not regulate ENO, its  
16          policies are informative, and I am not aware of any decisions by the LPSC or the Council  
17          denying the recovery of prudently incurred transaction/cooperation costs by a  
18          selling/transferring entity.

19  
20  

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<sup>16</sup>       Watson Surrebuttal at 42(4-14).

1 Q12. HAVE LOUISIANA REGULATORS PROHIBITED THE RECOVERY OF  
2 TRANSACTION/COOPERATION COSTS BY AN ACQUIRING UTILITY OR A  
3 SELLING/TRANSFERRING UTILITY IN A CHANGE-OF-OWNERSHIP  
4 TRANSACTION?

5 A. No, Louisiana regulators have generally provided some mechanism through which an  
6 acquiring utility or a selling/transferring utility has an opportunity to recover its  
7 transaction/cooperation costs. By way of example, with respect to the Entergy-GSU  
8 merger, the LPSC contemplated that the acquired utility would recover pre-merger  
9 merger-related expenses through a savings-sharing mechanism, which also provided  
10 recovery for the acquisition premium.<sup>17</sup> The savings-sharing mechanism allowed the  
11 acquired utility to include in its rates 60% of O&M savings achieved in a year. Similarly,  
12 with respect to the Central and Southwest/AEP merger, the LPSC allowed the utility to  
13 recover its transaction costs through the savings-sharing mechanism.<sup>18</sup> The savings-  
14 sharing mechanism allowed the utility to include in its rates 50% of O&M savings  
15 achieved in a year.<sup>19</sup> Moreover, in the Algiers transaction, the Advisors did not oppose  
16 the recovery of external transaction costs. It is notable that the Advisors took this  
17 position despite a potential increase in rates for Algiers customers post-transaction and  
18 several hard to quantify benefits.<sup>20</sup> The Council approved a non-precedential settlement

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<sup>17</sup> LPSC Order No. U-19904-C at 64 (concluding that pre-merger merger-related expenses increased the acquisition premium) and LPSC Order No. U-19904 at 84-85 (establishing the savings-sharing mechanism so that shareholders have a reasonable opportunity to recover the premium paid for GSU).

<sup>18</sup> LPSC Order No. U-23327 at 11.

<sup>19</sup> *Id.* at 12.

<sup>20</sup> Direct Testimony of Byron S. Watson, Council Docket No. UD-14-02 (2015), pp. 6-8.

1           that provided ENO would reimburse Entergy Louisiana, LLC for one-half of its  
2           transaction costs and defer that portion and accrue carrying costs on the same with  
3           recovery commencing with rates set in the 2018 Rate Case.<sup>21</sup> The treatments described  
4           above indicate that the Advisors' disallowance of transaction/cooperation costs without  
5           any opportunity for recovery is an outlier, which the Council should reject.

6                     It is also important to note that in this proceeding, ENO is seeking to recover  
7           transaction/cooperation costs by retaining a portion of the sale proceeds to offset them,  
8           leaving no residual costs for ENO to recoup from customers.

9  
10   Q13.   HAS THE COUNCIL ADDRESSED THE RECOVERY OF TRANSACTION COSTS  
11           IN SMALLER SCALE ASSET SALES?

12   A.     Yes, in Resolution R-06-222, regarding the sale of the Market Street Generation Plant,  
13           the Council directed ENO to recover its transaction costs through the sale proceeds by  
14           requiring ENO to use the FERC Uniform System of Accounts gain calculation ("FERC  
15           USOA"),<sup>22</sup> which I quoted from in my Rebuttal Testimony at page 20. The FERC USOA  
16           provides that transaction costs are deducted from the consideration received, that is, sale  
17           proceeds, and therefore reduce the gain (or increase the loss) recognized on the  
18           disposition of property.

<sup>21</sup>       Agreement in Principle, Council Docket No. UD-14-02, ¶I.

<sup>22</sup>       Resolution R-06-222, Ordering Paragraph 3.

1 Q14. THE ADVISORS CLAIM THAT IT IS UNDISPUTED THAT THE GAS  
2 TRANSACTION WILL CAUSE HARM TO ELECTRIC CUSTOMERS.<sup>23</sup> DO YOU  
3 AGREE?

4 A. No, ENO disputes that electric customers will be harmed by the Gas Transaction.  
5

6 Q15. DO YOU AGREE WITH THE ADVISORS' DEFINITION OF HARM?

7 A. No. The fact that rates may increase does not necessarily translate into harm.<sup>24</sup>

8 Assume, hypothetically, that ENO incurs expenses in the amount of \$10 million,  
9 and ENO recovers \$8 million of those expenses, 80%, from electric customers and \$2  
10 million of those expenses, 20%, from gas customers. Assume that after the Gas  
11 Transaction and for reasons unrelated to the Gas Transaction, ENO is able to reduce  
12 those expenses from \$10 million to \$8 million and seeks to recover that \$8 million of  
13 expenses from electric customers. The Advisors' position would be that ENO's electric  
14 customers are harmed by the Gas Transaction because, although the amount of expenses  
15 to be borne by electric customers did not increase, if the Gas Transaction had not  
16 occurred, ENO would only be seeking to recover \$6.4 million (i.e., 80% of \$8 million)  
17 from electric customers and not \$8 million.<sup>25</sup> Therefore, the Advisors would argue that

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<sup>23</sup> Watson Surrebuttal at 42(18-20)

<sup>24</sup> See Maurice-Anderson Rebuttal at 7 (3-14) for further discussion of the Louisiana Supreme Court's interpretation of public interest.

<sup>25</sup> Watson Surrebuttal at 53(7)-54(3).

1 ENO should recover only \$6.4 million of its expenses out of \$8 million, with \$1.6 million  
2 being disallowed as “harm.” The Advisors’ position is unfair and unreasonable.<sup>26</sup>

3 If ENO is able to control costs such that electric customers bear nearly the same  
4 level of prudently incurred costs post-Gas Transaction that they were allocated pre-Gas  
5 Transaction, then no harm has occurred, and no mitigation is necessary. Moreover,  
6 paying the actual, prudently incurred cost to serve customers should not be construed as  
7 harm.

8  
9 Q16. THE ADVISORS PROPOSE THAT THE COUNCIL IMPOSE A CONDITION  
10 REQUIRING “ENO TO MITIGATE HARM TO ELECTRIC RATEPAYERS TO THE  
11 COUNCIL’S SATISFACTION.”<sup>27</sup> IS THAT AN ACCEPTABLE CONDITION?

12 A. No. Such a condition suggests that the Council has unfettered and arbitrary discretion to  
13 disallow any costs, including prudently incurred costs. ENO believes that the Council  
14 should approve a reasonable framework for identifying the costs, both expenses and rate  
15 base investments, and target cost levels that ENO must endeavor to achieve for a limited  
16 time period that would represent a reasonable mitigation.

17 ENO is open to other mechanisms to address this issue. ENO recently learned in  
18 discovery that the Advisors “are willing to review and evaluate any reasonable concepts  
19 or approaches developed by ENO that can reduce electric ratepayer harm from the Gas

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<sup>26</sup> For example, ENO cannot be required to hold electric customers harmless from other factors that may cause increases in cost, such as inflation.

<sup>27</sup> *Id.* at 43(10-13).



Transaction.”<sup>28</sup> Although ENO disputes that such harm exists, the Company looks forward to working with the Advisors on this important issue.

Q17. THE ADVISORS ARGUE THAT ENO’S RETAINING A PORTION OF THE GAIN FROM THE GAS TRANSACTION CONSTITUTES DOUBLE RECOVERY OF ENO’S INVESTMENT.<sup>29</sup> DO YOU AGREE?

A. No. The gain arises from the sale proceeds received from DSU NO in exchange for the unrecovered costs of the gas business reflected on ENO’s accounting books. The gain represents payment for a portion of the gas business’s future earnings that DSU NO will receive from its investment in the gas business. DSU NO will not include any amount associated with the gain in its gas business rate base. Therefore, the gain does not come from amounts already paid by gas customers, nor does it affect the return they would otherwise pay in the future on these assets.

**V. OTHER ISSUES RAISED BY THE ADVISORS AND THE ALLIANCE**

Q18. DID YOUR REBUTAL TESTIMONY REGARDING ENO’S NOLC CONSIDER MR. WATSON’S TESTIMONY BEFORE FERC IN DOCKET NO. ER21-915?

A. No. Although Mr. Watson appears to attempt to support claims he made in FERC Docket No. ER21-915 that have no relevance to the instant proceeding, I will address the NOLC issues I do find relevant. In FERC Docket No. ER21-915, Mr. Watson attempted to attribute the NOLC first to specific tax deductions that are excluded from the FERC

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<sup>28</sup> Advisors’ Response to ENO 1-2, a copy of which is attached hereto as Exhibit AMA-12.

<sup>29</sup> Watson Surrebuttal at 41(15-18).

1 MSS-4 Replacement Tariff formula rate, in an effort to reduce the amount of the NOLC  
2 ADIT in rate base. His proposal was made in response and in opposition to Entergy  
3 Services' proposal to attribute the utility's NOLC first to tax accelerated depreciation.  
4 However, the IRS has issued a series of private letter rulings ("PLRs"), all of which state  
5 the utility should maximize in rates the amount of NOLC attributable to tax accelerated  
6 depreciation to maintain consistency with IRS normalization rules. In this regard, the  
7 deferred tax asset ("DTA") associated with the NOLC serves to offset the deferred tax  
8 liability ("DTL") for accelerated depreciation. This treatment is necessary to recognize  
9 the fact that the NOL has prevented the utility from obtaining the cash benefit that is  
10 intended to be provided by accelerated depreciation. ENO would not be permitted the  
11 benefit of accelerated depreciation on any of its public utility property if it were to  
12 attribute a portion of its NOLC to a tax deduction other than accelerated tax depreciation  
13 first. This would result in increased tax liabilities to the utility and the loss of DTLs  
14 creating a cost that would have to be borne by customers.

15 To estimate the future revenue requirement benefits for customers from a  
16 reduction in the NOLC ADIT in rate base in this proceeding, ENO used a forecast of its  
17 2025 taxable income with and without the tax gain from the sale of the gas assets. Such  
18 forecasted taxable income is, in fact, the calculation that combines all the taxable  
19 revenues and tax-deductible expenses of ENO.<sup>30</sup> As I stated in my Rebuttal Testimony,  
20 ENO held all other taxable revenues and tax-deductible expenses equal in calculating its

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<sup>30</sup> As I stated in my Rebuttal Testimony, ENO assumed no unplanned events occur producing significant deductions, and it held all other taxable revenues and tax-deductible expenses constant in calculating its forecasted taxable income/ But these inputs are subject to change depending on future events that cannot be reasonably predicted.

1 forecasted taxable income, which is subject to change depending on future events that  
2 cannot be reasonably predicted. ENO's forecasted 2025 taxable income that includes the  
3 tax gain from the sale of the gas assets results in the utilization of its entire NOLC.  
4 Under that scenario, there is zero NOLC DTA in rate base for 2025 through 2028 as  
5 shown in Exhibit AMA-5. When no tax gain is assumed in 2025, the NOLC is not fully  
6 utilized until 2028. Under the latter scenario, ENO calculated its forecasted NOLC DTA  
7 in rate base for 2025 through 2027 using the IRS endorsed with and without methodology  
8 that attributes the NOLC to tax accelerated depreciation first to ensure that there would  
9 not be a normalization violation. In his Surrebuttal Testimony, Mr. Watson is conflating  
10 NOLC utilization with the PLRs' required ratemaking treatment of NOLC, which  
11 requires the NOLC DTA to be attributed to tax depreciation first.

12  
13 Q19. DO YOU HAVE ANY ADDITIONAL OBSERVATIONS REGARDING THE  
14 ADVISORS' POSITION REGARDING THE USE OF ENO'S NOLC?

15 A. Yes. Mr. Watson questioned how ENO's taxable earnings can offset or use the NOLC  
16 from the pre-restructuring period.<sup>31</sup> It is my understanding that immediately prior to the  
17 2017 restructuring, Entergy New Orleans, Inc. ("ENOI"), as a member of the Entergy  
18 consolidated tax group, had a federal NOLC of \$30.4 million. By operation of tax law,  
19 this NOLC did not transfer to ENO in the 2017 restructuring approved in Council  
20 Resolution R-17-228. ENOI and ENO entered into a reimbursement agreement in which

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<sup>31</sup> Watson Surrebuttal at 50(14-18).

1 ENOI agreed to provide ENO with the cash benefit for the utilization of ENOI's NOLC  
2 (and any other ENOI tax attribute like tax credits) in the Entergy consolidated tax group.

3 In 2019, ENO joined the Entergy consolidated tax group and became subject to  
4 the Entergy Tax Allocation Agreement ("ETAA"). The ETAA's Seventh Amendment  
5 references the reimbursement agreement between ENOI and ENO and allows ENO to  
6 offset its income and/or tax liability with the ENOI tax attributes.

7 Therefore, as a result of the ETAA and Seventh Amendment, ENO's taxable  
8 income (e.g., the tax gain from the Gas Transaction) can be offset by the ENOI NOLC.

9  
10 Q20. SHOULD THE GAS TRANSACTION BE CONDITIONED ON THE CENTERPOINT  
11 ENERGY, INC. (CERC) TRANSACTION?

12 A. No. Such a condition<sup>32</sup> at this late stage would be prejudicial to ENO. ENO weighed the  
13 risks of pursuing the Gas Transaction and incurred significant costs to develop the Gas  
14 Transaction with DSU NO. Conditioning the Gas Transaction on the CERC Transaction  
15 unfairly alters those risks and is beyond the terms of the Purchase and Sale Agreement  
16 and related transactional documents.

17  

---

<sup>32</sup> Rogers Surrebuttal at 32(7-14).

1 Q21. THE ADVISORS PROVIDE A RECOMMENDATION REGARDING THE  
2 CALCULATION OF WACC FOR CERTAIN ENO RIDERS.<sup>33</sup> WHAT IS YOUR  
3 RESPONSE?

4 A. This issue is one that merits further discussion and review to ensure alignment of the  
5 parties for future filings.  
6

7 **VI. THE ALLIANCE’S TESTIMONY IN THIS PROCEEDING SHOULD NOT BE**  
8 **GIVEN ANY SERIOUS CONSIDERATION**

9 Q22. HAS ENO’S POSITION ON THE ALLIANCE’S COMMENTS CHANGED SINCE  
10 THE ALLIANCE FILED ITS SURREBUTTAL?

11 A. No. However, its witness Mr. Rábago did introduce criticism of ENO’s position that the  
12 Gas Transaction would lower the risk profile of gas operations and have the potential to  
13 benefit gas customers.<sup>34</sup>  
14

15 Q23. WHAT IS YOUR RESPONSE TO MR. RÁBAGO’S CRITICISM ON THAT POINT?

16 A. Mr. Rábago’s argument is misguided and incorrect. He confuses concerns on climate  
17 change with the risk to the stability of the gas infrastructure. As previously described in  
18 my Rebuttal Testimony, the gas infrastructure is much less susceptible to storm damage  
19 as compared to the electric infrastructure.<sup>35</sup> This fact is not “senseless,” as stated by Mr.  
20 Rábago,<sup>36</sup> but rather grants a measure of security to gas customers who are able to enjoy

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<sup>33</sup> Watson Surrebuttal at 12(9-11).

<sup>34</sup> Rábago Surrebuttal at 5 (9-17).

<sup>35</sup> Maurice-Anderson Rebuttal at 11-12.

<sup>36</sup> Rábago Surrebuttal at 5 (13-17).

1 the security of having working gas appliances during electric power outages following  
2 major hurricanes. Further, Mr. Rábago has theorized with no demonstrable evidence that  
3 separation of gas and electric operations will shift risk “to the same New Orleans citizens  
4 and business who use electricity.”<sup>37</sup> The unfortunate fact is that electric operations are  
5 already burdened with that risk as reflected in the opinions of S&P Global Ratings and  
6 Moody’s Investor Service.<sup>38</sup> Ascribing lower risk of storm damage to gas operations  
7 should be reflected in DSU’s creditworthiness, which should benefit gas customers.  
8 However, quantifying the effect of that qualitative factor on DSU’s creditworthiness  
9 would prove difficult at this time.

10  
11 Q24. IN YOUR OPINION, DO THE ALLIANCE’S SUGGESTIONS TAKE INTO  
12 ACCOUNT THE NEEDS OF THE RATEPAYERS?

13 A. No. As previously discussed in the Rebuttal Testimony of Mr. Arnould, the Alliance did  
14 not run any analysis or provide any evidence before suggesting shutting down an entire  
15 industry in New Orleans.<sup>39</sup> They failed to consider the impact this would have on  
16 residents and businesses, nor did they consider the rights of gas customers established by  
17 law.<sup>40</sup>

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<sup>37</sup> Rábago Surrebuttal at 6 (6-9).

<sup>38</sup> See Maurice-Anderson Rebuttal Exhibits AMA-3 and AMA-4.

<sup>39</sup> Arnould Rebuttal at 14 (10-17).

<sup>40</sup> *Id.*

1 Q25. ARE THERE ANY OTHER AREAS OF MR. RÁBAGO’S TESTIMONY TO WHICH  
2 YOU WISH TO RESPOND?

3 A. Yes. Mr. Rábago alleges that “ENO and DSU NO assert that the Council’s public  
4 interest test should be modified.”<sup>41</sup> This is not the case. I offered my interpretation of  
5 Resolution R-06-88 and the notable absence of references to the selling utility where  
6 considering the 18 factors enumerated. Often, the selling entity will no longer own assets  
7 subject to the jurisdiction of the regulatory body imposing the conditions. So, this  
8 interpretation is consistent with the plain language of the resolution. My Rebuttal  
9 Testimony is clear that I am interpreting the plain language of the resolution, not seeking  
10 to modify the resolution. As such, Mr. Rábago’s suggestion that my interpretation seeks  
11 to modify the resolution is wrong and misleads the Council.

12  
13 **VII. CONCLUSION**

14 Q26. WHAT ARE THE MAIN POINTS IN YOUR TESTIMONY THAT YOU  
15 RECOMMEND THE COUNCIL CONSIDER?

16 A. ENO urges the Council to consider that determining whether the Gas Transaction is in the  
17 public interest should not be narrowly focused on one type of benefit. Rather, Resolution  
18 R-06-88 requires a balancing of all benefits and detriments of the transaction, including  
19 quantifiable and qualitative benefits. And, although reasonable minds may differ on  
20 estimates of the level of benefits or harm that may be assumed, a constructive framework  
21 should be established to determine the amount of harm, if any, that must be mitigated.

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<sup>41</sup> Rábago Surrebuttal at 4 (9-11).

1       The Applicants in this proceeding have identified numerous benefits to be realized by  
2       utility customers and the citizens of the City of New Orleans and numerous reasons why  
3       the transaction is in the public interest. The Alliance's testimony has offered no  
4       meaningful contribution to this proceeding and whether the Gas Transaction should be  
5       completed as a means of providing natural gas service in the City of New Orleans. This  
6       proceeding is not about whether gas customers continue to be entitled to receive this  
7       service, and thus the testimony should be accorded little to no weight in this docket.

8  
9    Q27. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10   A.    Yes, at this time.



**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 )**

Response of: Advisors to the Council of the City of New Orleans (“Advisors”)  
To the First Set of Data Requests  
Of Requesting Party: Entergy New Orleans, LLC

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Question No.: ENO 1-5

Question:

Does the typical bill impact for gas customers estimated by Mr. Watson that allegedly results from the gas transaction at issue have a bearing on the Advisors’ proposed electric rate mitigation measures? If so, please describe in detail how this was factored into the Advisors’ recommendation. Please also provide any authorities, publications, studies, orders, or rulings relied upon for your response.

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Response:

No. The ratepayer harm was calculated independently for gas customers and electric customers. The typical bill impact for gas customers simply presents the net ratepayer harm to gas customers in the form of a bill impact.

While the bill impact for gas customers did not influence the Advisors’ proposed electric rate mitigation, Council Resolution R-06-88 requires that the Council consider the Gas Transaction by taking into account each of the eighteen factors. Accordingly, the Council, in determining whether to approve the Gas Transaction should consider the Gas Transaction with respect to both ENO and DSU NO ratepayers. However, the Resolution does not require the Council to give any particular weight to any factor when evaluating the proposed Gas Transaction.

The Advisors recommended that ratepayer harm be mitigated to the Council’s satisfaction: “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." (Rogers Direct at 15:12-17). Both electric and gas ratepayer harm were estimated and quantified for the Council's consideration. Per the Advisors' recommendation, the Council may, as a condition of approval of the proposed Gas Transaction, either eliminate each of the electric and gas ratepayer harm or have the harm mitigated to its satisfaction, which may not constitute full elimination of quantifiable ratepayer harm of both or either electric or gas ratepayer harm.

See Council Resolution No. R-06-88.

**BEFORE THE  
COUNCIL OF THE CITY OF NEW ORLEANS**

**IN RE: JOINT APPLICATION OF ENTERGY )  
NEW ORLEANS, INC. AND ENTERGY )  
LOUISIANA, LLC 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 )**

**DOCKET NO. UD-14-02**

**DIRECT TESTIMONY  
OF  
BYRON S. WATSON, CFA  
ON BEHALF OF  
THE ADVISORS TO THE  
COUNCIL OF THE CITY OF NEW ORLEANS**

**March 16, 2015**

**PREPARED DIRECT TESTIMONY**

**OF**

**BYRON S. WATSON**

1   **I.    INTRODUCTION**

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

3   **A.**    My name is Byron S. Watson. My business address is 8055 East Tufts Avenue, Suite 1250,  
4           Denver, Colorado, 80237. I am a Senior Consultant in the firm Legend Consulting Group  
5           Limited of Denver, Colorado (“Legend”).

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

7   **A.**    I am presenting testimony on behalf of the Advisors to the Council of the City of New  
8           Orleans (“Council”). The Council regulates the rates, terms, and conditions of electric and  
9           gas service of Entergy New Orleans, Inc. (“ENO”) and the electric service of Entergy  
10          Louisiana, LLC (“ELL”) to the extent it provides service within the Algiers section of New  
11          Orleans (collectively the “Companies”). Both ENO and ELL are affiliates of Entergy  
12          Corporation (“Entergy”).<sup>1</sup>

13   **Q.    PLEASE SUMMARIZE YOUR RELEVANT EDUCATIONAL BACKGROUND**  
14   **AND TESTIMONY EXPERIENCE.**

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<sup>1</sup> The Entergy Operating Companies (“Operating Companies”) are comprised of: Entergy Arkansas, Inc. (“EAI”), Entergy Mississippi, Inc. (“EMI”), ELL, Entergy Gulf States Louisiana, L.L.C. (“EGSL”), Entergy Texas, Inc. (“ETI”), and ENO.

1    **A.**     Exhibit No. \_\_\_\_ (BSW-2) provides a summary of my relevant education and professional  
2           experience and Exhibit No. \_\_\_\_ (BSW-3) lists my previous testimony experience.

3    **II.     PURPOSE OF TESTIMONY AND SUMMARY**

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

6    **A.**     On October 30, 2014, the Companies submitted their application “Requesting Approval of  
7           the Sale of Electric Utility Operations and Certain Assets Serving the Fifteenth Ward of  
8           the City of New Orleans and Related Relief” (“Joint Application”) before the Council. On  
9           November 21, 2014, the Council adopted Council Resolution R-14-507 which created the  
10          instant docket to review the Joint Application.

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

12   **A.**     I am submitting testimony on behalf of the Council Advisors (“Advisors”) regarding  
13          estimated impacts to the cost to provide retail electric service and electric retail rate impact  
14          to Orleans Parish should the Council grant the relief requested in the instant docket, which  
15          I refer to as the “Algiers Transaction.” Specifically, I quantify estimated ratepayer net-  
16          benefits related to the Algiers Transaction.

17   **Q.     PLEASE SUMMARIZE YOUR TESTIMONY AND MAJOR CONCLUSIONS.**

18   **A.**     The proposed Algiers Transaction serves to combine retail electric utility service for all of  
19          Orleans Parish under a single public utility, namely ENO. The Joint Application,

1 specifically Exhibit PBG-2, presents an Algiers revenue requirement increase due to the  
2 Algiers Transaction of \$1.4 million per year. In my testimony, I discuss Exhibit PBG-2  
3 and compare it to other reasonably identifiable costs and benefits resulting from the Algiers  
4 Transaction. I combine the various estimated impacts to calculate a tangible estimated net-  
5 ratepayer benefit projection, which I present in Exhibit BSW-4.

6 **III. ALGIERS REVENUE REQUIREMENT INCREASE**

7 **Q. HOW WILL THE SUPPLY FROM ELL'S GENERATING UNITS BE**  
8 **ADDRESSED BY THE ALGIERS TRANSACTION?**

9 **A.** As Mr. Rogers discusses in greater detail in his direct testimony, the Joint Application  
10 proposes to contract the right to a portion of the capacity and energy from ELL's Designated  
11 Generating Units<sup>2</sup> ("DGU") in the form of a purchase power agreement (the "Algiers  
12 PPA"). As a result of Council Resolution R-14-278 that approved the rates for customers  
13 in Algiers for the period of 2014-2017, Algiers' base rates include an allocation of a portion  
14 of the non-fuel costs associated with ELL's entire generation fleet, including PPAs.

15 **Q. TODAY, HOW ARE ELL'S PRODUCTION RATE-BASE RELATED REVENUE**  
16 **REQUIREMENTS DETERMINED IN ALGIERS BASE RATES?**

---

<sup>2</sup> See the Direct Testimony of Joseph W. Rogers, P.E., Table 1 for a preliminary list of Algiers PPA DGUs.

1    **A.**    In the Algiers Rate Case (Council Docket UD-13-01) as approved by the Council in  
2           Resolution R-14-278, the adjusted net-book value of ELL's Production Plant assets (net of  
3           accumulated depreciation, ADIT, and other contra-assets) was multiplied by a rate of return  
4           to yield a component of ELL's revenue requirement. As of December 31, 2014, ELL states  
5           that this allowed rate of return for ELL-Algiers is 7.67%,<sup>3</sup> based on the Council approved  
6           Return on Equity ("ROE") of 9.95%. The ELL-Algiers revenue requirement is determined  
7           by further multiplying an Algiers allocation factor of 1.84% to reflect the ELL-Algiers share  
8           of Production Plant.

9    **Q.    UNDER THE ALGIERS PPA, WHAT WOULD BE THE EFFECTIVE ROE USED**  
10       **TO DETERMINE THE ALGIERS PPA's REVENUE REQUIREMENTS?**

11   **A.**    As Mr. Roger's direct testimony discusses, the Algiers PPA is based on Service Schedule  
12           MSS-4 – Unit Power Purchase.<sup>4</sup> MSS-4 provides for a Monthly Capacity Charge ("MC"),  
13           which includes a component for determining the rate-base related cost of carry. The MSS-  
14           4 weighted average cost of capital (MSS-4 refers to this rate as "CM") would be calculated  
15           similarly to the manner by which the Council determines a Weighted Average Cost of  
16           Capital ("WACC") for assets under its jurisdiction, except that the FERC currently allows  
17           a 11.0% ROE when measured against the current Council jurisdictional approved ROE of

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<sup>3</sup> See HSPM response to Advisor RFI CNO 3-4.

<sup>4</sup> See the Companies' response to Advisor request for information CNO 3-13, pages BB105-BB117.

1 9.95%. The Companies have indicated a CM for the Algiers PPA DGUs of 11.604%. As  
2 Mr. Rogers discusses in his direct testimony, the current CM value is subject to change by  
3 FERC review.

4 **Q. WHAT DO THE COMPANIES ESTIMATE IS THE INCREASE IN THE**  
5 **PRODUCTION REVENUE REQUIREMENT RELATED TO THE DIFFERENCE**  
6 **IN RATE OF RETURN ON PRODUCTION PLANT AS A RESULT OF THE**  
7 **ALGIERS PPA, ASSUMING THE SAME CAPITAL MIX AT BOTH THE FERC**  
8 **AND COUNCIL LEVEL?**

9 **A.** Company witness Gillam estimates the impact to be a \$0.4 million increase in the production  
10 revenue requirement as a result of the Algiers Transaction.<sup>5</sup> This \$0.4 million increase in  
11 the cost of electric service is a major component of the overall \$1.4 million increase in the  
12 “Rate Schedule Revenue Requirement” presented in Exhibit PBG-2, which I discuss below.

13 **Q. HAVE YOU CALCULATED AN ESTIMATED INCREASE IN THE**  
14 **PRODUCTION REVENUE REQUIREMENT RELATED TO THE DIFFERENCE**  
15 **IN RATE OF RETURN ON PRODUCTION AS A RESULT OF THE ALGIERS**  
16 **PPA?**

---

<sup>5</sup> See The Direct Testimony of Phillip B. Gillam, Page 18



1     **A.**     Yes, based on a review of the Companies' statement of the rate base related to the Algiers  
2             PPA<sup>6</sup> and the current ELL-Algiers WACC versus the current MSS-4 CM, I estimate an  
3             increase in production revenue requirement of \$0.388 million as of 2018. Based on the  
4             same rate base related to the Algiers PPA but the current ELL-Algiers WACC versus a  
5             MSS-4 CM based on a ROE input of 10.6%, I estimate an increase in production revenue  
6             requirement of \$0.243 million as of 2018.

7     **Q.     PLEASE DESCRIBE EXHIBIT PBG-2.**

8     **A.**     Through discovery, the Companies have provided workpapers related to Exhibit PBG-2.<sup>7</sup>  
9             Exhibit PBG-2 presents a comparison of an ELL-Algiers revenue requirement calculation  
10            based on ELL's compliance filing in Council Docket UD-13-01 (the Algiers Rate Case)  
11            and a new revenue requirement calculation that estimates an ENO revenue requirement to  
12            provide service to Algiers. The difference between these two revenue requirement values  
13            is an estimate of the change in the cost to provide electric service to Algiers as a result of  
14            the Algiers Transaction.

15    **Q.     WOULD THE ALGIERS TRANSACTION CAUSE AN INCREASE IN THE COST**  
16    **TO PROVIDE ELECTRIC SERVICE TO ALGIERS?**

---

<sup>6</sup> See the Companies response to CNO 2-8.

<sup>7</sup> See the Companies response to CNO 4-3.

1    **A.**     Yes, in Exhibit PBG-2 the Companies estimate that “Rate Schedule Revenue Requirement”  
2           related to electric service in Algiers would increase by \$1.4 million as a result of the Algiers  
3           Transaction.<sup>8</sup> Company witness Gillam says of the \$1.4 million revenue requirement  
4           increase: “The primary drivers of this estimated [revenue] deficiency are as follows: 1) an  
5           increase in the Production Revenue Requirement, as a result of Algiers receiving an Algiers  
6           PPA from ELL instead of an allocated portion of ELL’s Total Company Production  
7           Revenue Requirement; and 2) the elimination of a revenue offset associated with ELL  
8           allocated system sales.”<sup>9</sup> The increase in production revenue requirement resulting from  
9           the Algiers PPA’s use of a FERC ROE versus the Council’s approved ELL-Algiers ROE  
10          is reflected in Exhibit PBG-2.

11   **Q.     WHAT ARE THE KEY ASSUMPTIONS UNDERLYING EXHIBIT PBG-2?**

12   **A.**     Exhibit PBG-2 relies on several assumptions and simplifications, including:  
  
13          a. The post-Algiers Transaction return on rate base (row 1) is based on the same rate of  
14          return as is the pre-Algiers Transaction value. ELL’s most recent Council allowed Return  
15          on Equity (“ROE”) is 9.95%, while ENO’s most recent allowed electric utility ROE is  
16          11.1%.

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<sup>8</sup> See Exhibit PBG-2, line 5, \$33,033,036 minus \$31,636,154 equals \$1,396,882.

<sup>9</sup> The Direct Testimony of Phillip B. Gillam, Page 18.

1 b. Mr. Rogers's direct testimony discusses in detail that the Companies estimate their non-  
2 fuel production costs related to the Algiers PPA in a manner different from the  
3 methodology that will be actually employed to invoice ENO. The Companies have stated  
4 that an estimate for the actual Algiers PPA costs ENO would experience as provided for in  
5 the MSS-4 Service Schedule does not exist.<sup>10</sup>

6 c. Mr. Rogers's direct testimony also discusses in detail certain simplifications the  
7 Companies employed when estimated non-fuel production costs related to the Algiers PPA.

8 d. Exhibit PBG-2 is based on a snapshot estimate of the revenue requirement related to  
9 electric service in Algiers. The Rate Case Compliance column data is based on the 12  
10 month period ending June 30, 2012. The Algiers Post-Transfer column data is also based  
11 on the 12 month period ending June 30, 2012, except: (i) the Algiers Assets<sup>11</sup> contribution  
12 to rate base is as of December 31, 2013, and (ii) the Algiers PPA cost estimates are  
13 projected as of 2016.

14 e. As Exhibit PBG-2 is based on a snapshot estimate of the revenue requirement related to  
15 electric service in Algiers, it does not include the revenue requirement to recover the  
16 estimated \$2.1 million implementation costs the various Companies' witnesses describe in

---

<sup>10</sup> See the Companies response to CNO 1-25

<sup>11</sup> See Exhibit OT-2, Column B. The Algiers Assets are plant that the Companies propose ELL would sell to ENO at net-book cost.

1 their testimony, although my review of Exhibit PBG-2 indicates that it does consider the  
2 revenue requirement to recover the Companies' estimated \$1.7 million capital investment  
3 in metering equipment.

4 f. The Companies have acknowledged that they will incur further implementation costs in  
5 order to fully convert Algiers ratepayers into ENO's customer account system. However,  
6 the Companies do not have an estimate of this cost, and Exhibit PBG-2 does not reflect the  
7 revenue requirement to recover this cost.<sup>12</sup>

8 **Q. WHAT IS THE ESTIMATED REVENUE REQUIREMENT TO RECOVER THE**  
9 **ALGIERS TRANSACTION'S IMPLEMENTATION COSTS?**

10 **A.** As Mr. Prep discusses in his direct testimony, the Advisors recommend that actual Algiers  
11 Transaction implementation costs (estimated to be \$2.1 million) be deferred and recovered  
12 in rates in a manner to be determined by the Council in the Combined Rate Case. In the  
13 interest of estimating net-ratepayer benefits resulting from the Algiers Transaction, I have  
14 calculated the cost to: (i) defer \$2.1 million in costs as of September 1, 2015, (ii) accrue  
15 carrying costs at the Louisiana Judicial Rate of Interest of 4.0% compounded annually  
16 through June 30, 2018 as recommended by Advisor Witness Prep, and (iii) amortize the  
17 balance starting July 1, 2018 over a 10 year period also with carrying costs at 4.0% per  
18 year applied to the unamortized balance. To the extent the actual implementation costs

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<sup>12</sup> See the Companies' response to CNO 2-6.

1 reflect the estimated \$2.1 million amount and the Council approves a deferral and recovery  
2 mechanism similar to the one employed in my scenario, the analysis is an estimate of the  
3 ratepayer impact related to implementation costs. Based on the above scenario, the  
4 levelized annual revenue requirement to recover the Algiers Transaction's implementation  
5 costs is \$273,578.

6 **IV. BENEFITS RELATING TO THE ALGIERS TRANSACTION**

7 **Q. ARE RATEPAYERS EXPECTED TO ENJOY NET-BENEFITS RELATED TO**  
8 **THE ENTERGY SYSTEM AGREEMENT?**

9 **A.** The Companies have estimated that as a result of the Algiers Transaction, ENO's receipts  
10 related to Entergy System Agreement ("ESA") schedule MSS-1 will increase by \$0.3  
11 million per year and ENO's payments related to ESA schedule MSS-2 will decrease by  
12 \$1.2 million per year.<sup>13</sup> As these service schedules are part of the ESA, their related net-  
13 ratepayer benefits will cease upon the termination of the ESA. Mr. Rogers's direct  
14 testimony discusses ongoing negotiations regarding the early termination of the ESA, and  
15 Exhibit BSW-4 does not present ESA-related net-ratepayer benefits after 2018 for this  
16 reason.

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<sup>13</sup> See the Direct Testimony of Seth E. Cureington, Page 28.

1 **Q. BRIEFLY DESCRIBE SECURITIZATION AND THE BENEFITS RATEPAYERS**  
2 **MAY EXPERIENCE BY ITS USE.**

3 **A.** Securitization refers to the issuance of a tax-advantaged bond to pay for costs such as  
4 System Restoration Costs (“SRC”) following a major storm or the funding of a Storm  
5 Reserve Fund (“SRF”) account. Past securitization bonds issued under the authority of  
6 Louisiana law have received the highest credit ratings from the national credit rating firms  
7 (e.g. ‘AAA’ rating from Standard and Poor’s).<sup>14</sup> The effect of top credit ratings and tax  
8 advantages is that securitization bonds may be issued at yields substantially lower than the  
9 yields of bonds EOCs could issue for general corporate purposes. Securitization generally  
10 provides significant ratepayer savings compared to recovery of costs through customary  
11 ratemaking mechanisms (i.e. the amortization of a regulatory asset carried at WACC). The  
12 Council is currently reviewing the ratepayer benefits of securitization in Council Docket  
13 UD-14-01.

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<sup>14</sup> See the Official Statements for the following bond series: System Restoration Bonds (LURC Project/ELL) Series 2010, System Restoration Bonds (LURC Project/EGSL) Series 2010, System Restoration Bonds (LURC Project/ELL) Series 2014, System Restoration Bonds (LURC Project/EGSL) Series 2014, Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008 Senior Secured Storm Recovery Bonds, and the Issuance Advice Letter dated September 16, 2011 regarding ELL’s Little Gypsy securitization, all of which indicate the highest credit rating from various national credit rating firms.

1 **Q. UNDER THE CURRENT ELL-ALGIERS STATUS-QUO, CAN RATEPAYERS**  
2 **REASONABLY BENEFIT FROM SECURITIZATION?**

3 **A.** No, ELL-Algiers is too small in terms of assets to likely enable the reasonable use of  
4 securitization. The Companies in Council Docket UD-14-01 have estimated that the up-  
5 front cost to issue a securitization bond is \$3.4 million,<sup>15</sup> which must be recovered over the  
6 typical 10 year maturity of the bond. ELL-Algiers's approved SRCs related to Hurricane  
7 Isaac are \$4.9 million,<sup>16</sup> so the \$3.4 million issuance costs recovered over 10 years would  
8 overwhelm any securitization savings.

9 **Q. IF THE ELL-ALGIERS ISAAC SRCs COULD BE SECURITIZED WITHOUT**  
10 **INCURRING FIXED COSTS, WHAT WOULD BE THE EXPECTED**  
11 **RATEPAYER SAVINGS?**

12 **A.** Employing ELL-Algiers's last Council approved Return on Equity ("ROE") of 9.95% and  
13 a related before-tax WACC of 10.78%, I estimate that the total revenue requirement to  
14 recover a deferred O&M balance of \$4.9 million over 10 years would be \$7.3 million. The  
15 principal and interest debt service cost on a \$4.9 million 10 year bond with a coupon rate

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<sup>15</sup> See Council Docket UD-14-01, Supplemental Direct Testimony of Jay A. Lewis, Page 4.

<sup>16</sup> See Council Docket UD-14-01, Agreement in Principle, December 16, 2014, Paragraph 5.

1 of 2.38%<sup>17</sup> totals approximately \$5.6 million. Therefore, the difference in revenue  
2 requirement of recovering Algiers's Isaac SRCs through the proceeds of the issuance of a  
3 securitization bond versus amortization of a regulatory asset carried at WACC would be  
4 approximately \$1.7 million over ten years.<sup>18</sup> Exhibit BSW-4 presents this savings over the  
5 time frame 2015-2024, which is the period over which ENO proposes to collect funds to  
6 pay the debt service costs of the securitization bond proposed in Council Docket UD-14-  
7 01.

8 **Q. ARE THE PARTIES TO COUNCIL DOCKET UD-14-01 CONSIDERING HOW**  
9 **ALGIERS RATEPAYERS MIGHT BENEFIT FROM SECURITIZATION?**

10 **A.** Council Docket R-15-17 directs the parties to Council Docket UD-14-01 to “use reasonable  
11 best efforts to explore an alternative solution by which the Algiers customers may share in  
12 the benefits associated with the potential ENO securitization.”<sup>19</sup> On February 27, 2015,

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<sup>17</sup> See Council Docket UD-14-01, Supplemental Direct Testimony of Phillip B. Gillam, Page 4, which estimates a securitization bond coupon of 2.38%.

<sup>18</sup> As ENO has noted in Council Docket UD-14-01, the proceeds from the issuance of an ENO-related securitization bond may not be used to recover costs incurred by ELL. However, the Council Advisors have proposed to have the Algiers Isaac SRCs recovered through a withdrawal from ENO's now-existing SRF upon the close of the Algiers Transaction, which would have the same practical effect as the use of a securitization bond.

<sup>19</sup> Council Resolution R-15-17, Page 10.



1 parties to Council Docket UD-14-01 convened a technical conference that, in part,  
2 discussed the feasibility of allowing Algiers to effectively share the benefits of  
3 securitization in the recovery of Algiers's Isaac SRCs. To the extent the Council approves  
4 an alternative solution allowing ratepayers to share the benefits of ENO's securitization  
5 bond in the recovery of Algiers' Isaac SRCs, then those savings would be a net-benefit of  
6 the Algiers Transaction.

7 **Q. ASSUMING THE ALGIERS TRANSACTION IS COMPLETED, MAY ALGIERS**  
8 **BENEFIT FROM SECURITIZATION IN THE RECOVERY OF FUTURE SRCs?**

9 **A.** Yes, in two ways. First, for SRCs that ENO may incur in Algiers post-Algiers Transaction,  
10 those costs may be recovered from proceeds from the issuance of a future securitization  
11 bond. Second, SRCs that ENO may incur in Algiers post-Algiers Transaction may be  
12 recovered by withdrawals from a SRF funded through the proceeds of the securitization  
13 bond contemplated in Council Resolution R-15-17. ENO is requesting Council approval  
14 to issue a securitization bond whose uses of funds includes \$53.4 million to fund a SRF.<sup>20</sup>  
15 Further, the Companies have stated that ENO may withdraw from this new \$53.4 million  
16 SRF to recover SRCs incurred by ENO in Algiers.<sup>21</sup> Any SRCs incurred in Algiers post-  
17 Algiers Transaction may enjoy the benefits of securitization because the SRCs may be

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<sup>20</sup> See Council Docket UD-14-01, Exhibit PBG-3, Line 2.

<sup>21</sup> See Council Docket UD-14-01, ENO's response to CNO 8-2 (a).

1 recovered from funds financed at the rate of the yield of a securitization bond (ENO is  
2 currently estimating that a securitization issued in June 2015 would yield 2.383%<sup>22</sup>). It is  
3 difficult to estimate when a future ENO-related securitization bond may be issued, as any  
4 such issuance would be likely based on the magnitude of a future storm, the then available  
5 balance of the ENO SRF, and the then prevailing market for securitization bonds. As such  
6 I have not attempted to quantify in Exhibit BSW-4 ratepayer benefits related to the issuance  
7 of securitization bonds apart from the one ENO has requested in Council Docket UD-14-  
8 01.

9 **Q. IS THERE A NET-RATEPAYER BENEFIT FROM AVOIDED REGULATORY**  
10 **COSTS AS A RESULT OF THE ALGIERS TRANSACTION?**

11 **A.** The Companies have estimated avoided regulatory costs as a result of the Algiers  
12 Transaction.<sup>23</sup> As Mr. Vumbaco discusses in his direct testimony, it is reasonable to expect  
13 that some regulatory costs related to operations in Algiers would be avoided as a result of  
14 the Algiers Transaction. Such avoided costs are a net-ratepayer benefit to the extent rate  
15 actions evaluate ENO's incurred regulatory costs.

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<sup>22</sup> See Council Docket UD-14-01, Exhibit CAN-2, Page 1.

<sup>23</sup> See the Companies response to CNO 1-48.

1 **Q. ARE THE COMPANIES' ESTIMATES OF FUTURE AVOIDED REGULATORY**  
2 **COSTS REASONABLE?**

3 **A.** No, the Companies' estimates of future avoided regulatory cost are not reasonable. The  
4 Companies present for ELL-Algiers four annual FRP evaluations each costing \$1.5 million,  
5 with a \$4.0 million rate case in the fifth year. The Companies provide supporting  
6 calculations that show their figures are based in large part on the costs incurred in Council  
7 Docket UD-13-01 (the Algiers Rate Case) escalated annually at two percent. I note that  
8 the costs incurred in the Algiers Rate Case may not be fully indicative of future rate action  
9 costs because of its unusual complexity, prior regulatory decisions of the LPSC and the  
10 long period prior to the Algiers Rate Case without a full rate case. Prior to ELL's March  
11 28, 2013 filing of the Algiers rate case, the last time an electric base rate increase had been  
12 requested before the Council for Algiers was 1986.<sup>24</sup> Further, the Algiers Rate Case  
13 required the Council's evaluation of numerous pro-forma adjustments related to the long  
14 period since the last rate case in Algiers that reasonably should not be required in future  
15 Algiers rate cases (e.g. the abandoned Little Gypsy repowering project, MISO integration,  
16 the then proposed ITC transaction, forward-looking adjustments to plant rate base, and  
17 deferred O&M costs related to hurricanes Katrina, Rita, Gustav, and Ike). For these  
18 reasons, I do not believe the regulatory costs associated with the Algiers Rate Case should

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<sup>24</sup> See Application of Entergy Louisiana, LLC for Authority to Change Rates, Approval of Formula Rate Plan and for Related Relief for Operations in Algiers, Page 2.

1 be considered indicative of future regulatory costs that would be incurred relating to  
2 Algiers.

3 **Q. FOR YOUR ANALYSIS OF NET-RATEPAYER BENEFITS AS A RESULT OF**  
4 **THE ALGIERS TRANSACTION, DID YOU RELY ON A DIFFERENT**  
5 **ESTIMATE OF AVOIDED REGULATORY COSTS THAN THE ONE PROVIDED**  
6 **BY THE COMPANIES?**

7 **A.** Yes, I have been advised by Mr. Vumbaco, who has advised the Council on regulatory  
8 matters since 1982, that a reasonable estimate of the regulatory cost of a FRP evaluation  
9 should be in the neighborhood of no more than \$1.2 million and that a reasonable estimate  
10 of the regulatory cost of a rate case should be in the neighborhood of no more than \$2.4  
11 million. Exhibit BSW-4 presents avoided regulatory costs based on Mr. Vumbaco's  
12 estimates of the cost of FRP evaluations and rate cases. Similarly to the Companies'  
13 approach to estimating avoided regulatory costs, Exhibit BSW-4 assumes that four FRP  
14 evaluations followed by a general rate case would be performed related to ELL-Algiers's  
15 operations should the Council not approve the Algiers Transaction.

16 **Q. COMBINING THE ABOVE IMPACTS TO THE COST TO PROVIDE ELECTRIC**  
17 **SERVICE TO ORLEANS PARISH, WHAT ARE THE SHORT-TERM AND**  
18 **LONG-TERM NET-IMPACTS ON THE COST TO PROVIDE ELECTRIC**  
19 **SERVICE TO ORLEANS PARISH?**

1    **A.**     Based on data provided by the Companies plus my calculation of the revenue requirement  
2           to recover Algiers Transaction implementation costs and the reduction in the revenue  
3           requirement to recover Algiers's Isaac SRCs through the cost benefits of securitization, the  
4           net short-term average decrease in cost of service is approximately \$1.1 million per year  
5           and the net long-term average decrease in cost of service is approximately \$0.1 million per  
6           year. Exhibit BSW-4, Page 1, presents the basis for these calculations in greater detail.

7    **Q.     BASED ON THE PROJECTED IMPACTS ON THE COST TO PROVIDE**  
8           **ELECTRIC SERVICE TO ORLEANS PARISH AS A RESULT OF THE ALGIERS**  
9           **TRANSACTION, WHAT IS THE ESTIMATED IMPACT ON RATE-SCHEDULE**  
10          **REVENUE REQUIREMENT FOR ORLEANS PARISH?**

11   **A.**     Certain costs of service are not reflected in rates until a rate action results in new rates. Mr.  
12           Vumbaco's direct testimony recommends that the Council condition its approval of the  
13           Algiers Transaction on ENO not filing the Combined Rate Case until the rate increase  
14           phase-in from Council Docket UD-13-01 (the Algiers Rate Case) is complete and all costs  
15           and revenues for the combined Algiers and Legacy ENO customer base can be evaluated.  
16           Therefore, Exhibit BSW-4, Page 2, does not present changes in cost of service that require  
17           a rate action to be reflected in rates until after July 1, 2018.

18           As presented in Exhibit BSW-4, Page, 2, which is based on data provided by the  
19           Companies plus my calculation of the revenue requirement to recover Algiers Transaction  
20           implementation costs and the reduction in the revenue requirement to recover Algiers's  
21           Isaac SRCs through the cost benefits of securitization, the estimated short-term and long-

term net benefits to electric ratepayers in Orleans Parish resulting from the Algiers Transaction are \$1.1 million per year and \$0.1 million per year respectively. The following table summarizes my findings that are presented in greater detail in Exhibit BSW-4.

<b><u>Table 1: Net Ratepayer Benefits</u></b>	
Short-Term Net Ratepayer Annual Benefits (2015-2018)	\$1.1 million per year
Long-Term Net Ratepayer Annual Benefits (2019-2024)	\$0.1 million per year

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

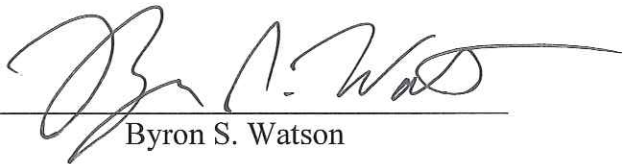
**A.** Yes.

**AFFIRMATION**

STATE OF COLORADO    )  
                                      )  
COUNTY OF DENVER    )

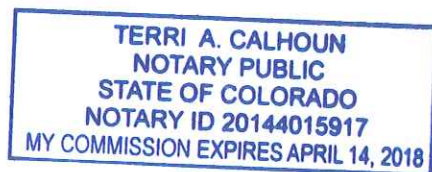
I, Byron S. Watson, do hereby swear under penalty of perjury the following

That I am the person identified in the attached Testimony and that such testimony was prepared by me or under my direct supervision; that the answers and information set forth therein are true to the best of my knowledge and belief, and that 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 13<sup>th</sup> day of March, 2015.

  
NOTARY PUBLIC



	Factor Causing Increase (Decrease) In Cost of Service									
	Year									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Rate Schedule Revenue Requirement [1]	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397	\$ 1,397
Recovery of Implementation costs [2]										
MSS-1 Increased Revenues [3]	\$ (264)	\$ (264)	\$ (264)	\$ (264)	\$ 274	\$ 274	\$ 274	\$ 274	\$ 274	\$ 274
MSS-2 Reduced Payments [3]	\$ (1,248)	\$ (1,248)	\$ (1,248)	\$ (1,248)	\$ 137	\$ 274	\$ 274	\$ 274	\$ 274	\$ 274
Recovery of Algiers Isaac SRCs [4]	\$ (58)	\$ (173)	\$ (173)	\$ (173)	\$ (173)	\$ (173)	\$ (173)	\$ (173)	\$ (173)	\$ (129)
Avoided Regulatory Costs [5]	\$ -	\$ (1,200)	\$ (1,200)	\$ (1,200)	\$ (2,400)	\$ (1,200)	\$ (1,200)	\$ (1,200)	\$ (1,200)	\$ (2,400)
Total Increase (Decrease) to Cost of Service	\$ (173)	\$ (1,488)	\$ (1,488)	\$ (1,351)	\$ (902)	\$ 298	\$ 298	\$ 298	\$ 298	\$ (859)
Average Net Increase (Decrease) 2015-2018	\$ (1,125)									
Average Net Increase (Decrease) 2019-2024	\$ (95)									

Notes:

[1] Source: Exhibit PBG-2, line 5

[2] Source: The Direct Testimony of Byron S. Watson

[3] Source: Direct Testimony of Seth E. Cureington, the answer to Q38 and the Companies' Response to CNO 5-8  
Effects of MSS-1 and MSS-2 may cease upon termination of the Entergy System Agreement, which is currently scheduled to terminate in 2022, although the Companies have requested termination in 2019 in FERC Docket Nos. ER14-75 through ER14-80. No ratepayer benefits are calculated after 2018.

[4] The Council is considering ways in which Algiers may share the benefits of securitization in Council Docket UD-14-01.

[5] Source: Company response to CNO 1-48



\$(000)

Factor Causing Increase (Decrease) In Rates	Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024					
Rate Schedule Revenue Requirement [1]	\$	-	\$	-	\$	698	\$	1,397	\$	1,397	\$	1,397	\$	1,397	\$	1,397
Recovery of Implementation costs																
MSS-1 Increased Revenues	\$	(264)	\$	(264)	\$	(264)										
MSS-2 Reduced Payments [2]	\$	-	\$	-	\$	-										
Recovery of Algiers Isaac SRCs	\$	(58)	\$	(173)	\$	(173)	\$	(173)	\$	(173)	\$	(173)	\$	(173)	\$	(129)
Avoided Regulatory Costs	\$	-	\$	(1,200)	\$	(1,200)	\$	(1,200)	\$	(1,200)	\$	(1,200)	\$	(1,200)	\$	(2,400)
Total Increase (Decrease) to Cost of Service	\$	(322)	\$	(1,637)	\$	(801)	\$	(902)	\$	298	\$	298	\$	298	\$	(859)
Average Net Increase (Decrease) 2015-2018	\$	(1,099)														
Average Net Increase (Decrease) 2019-2024	\$	(95)														

Notes:

- [1] Assumes new base rates resulting from Combined Rate Case become effective July 1, 2018  
[2] MSS-2 payments are recovered in base rates. Absent a rate action prior to the termination of the ESA, rates will not be affected.

ENTERGY NEW ORLEANS, LLC  
CITY OF NEW ORLEANS  
Docket No. UD-24-01

Response of: Entergy New Orleans, LLC  
to the Seventh Set of Data Requests  
of Requesting Party: Advisors to the Council  
of the City of New Orleans

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Question No.: CNO 7-1

Part No.:

Addendum:

Question:

Please refer to ENO's HSPM Addendum 1 response to DR CNO 1-13, HSPM file *CNO 1-13 Addendum HSPM*, the assumption value for Estimated rate of future debt issuance. Please also refer to ENO's April 30, 2024 informational filing regarding the issuance of \$150 million in first mortgage bonds whose coupon rates vary from 6.25% to 6.54%.

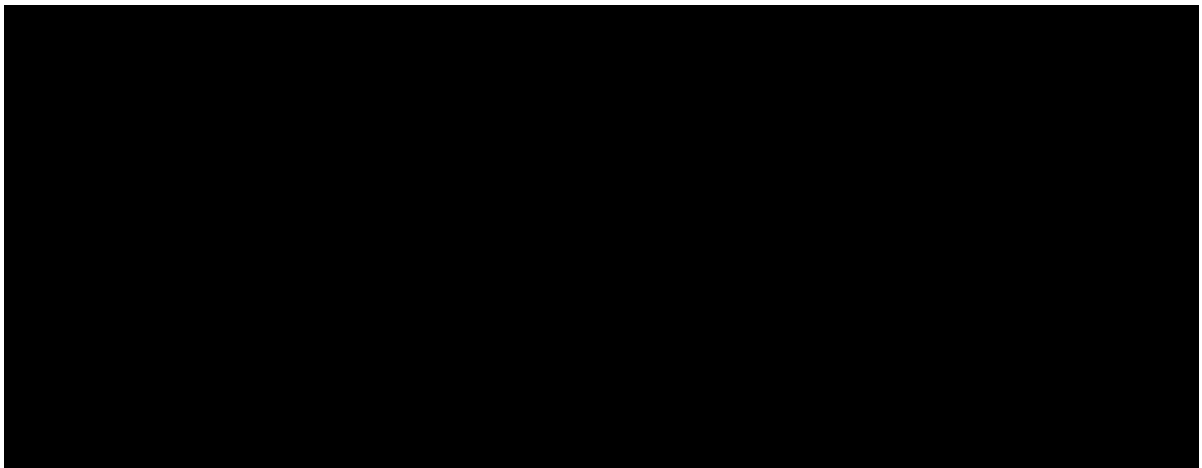
- a. Please provide copies of all Documents supporting the HSPM estimated rate of future debt issuance in the addendum 1 response to CNO 1-13.
- b. Please discuss and reconcile the actual coupon rates in the April 30 filing with the estimated debt rates in the DR response (*i.e.*, explain the difference).

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Response:

Information responsive to this request has been designated as Highly Sensitive Protected Material ("HSPM") under the terms of the provision of the Official Protective Order adopted pursuant to Council Resolution R-07-432 relative to the disclosure of the Protected Material and is being provided in accordance with the same.

ENO objects to the request as vague, ambiguous, overbroad, and unduly burdensome. Subject to the objections, ENO responds as follows:



**BEFORE THE  
COUNCIL OF THE CITY OF NEW ORLEANS**

**IN RE: JOINT APPLICATION OF ENTERGY )  
NEW ORLEANS, INC. AND ENTERGY )  
LOUISIANA, LLC 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 )**

**DOCKET NO. UD-14-02**

**DIRECT TESTIMONY  
OF  
JOSEPH A. VUMBACO, P.E.  
ON BEHALF OF  
THE ADVISORS TO THE  
COUNCIL OF THE CITY OF NEW ORLEANS**

**March 16, 2015**

**PREPARED DIRECT TESTIMONY**

**OF**

**JOSEPH A. VUMBACO, P.E.**

1   **I.    INTRODUCTION**

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

3   **A.**    My name is Joseph A. Vumbaco. My business address is 8055 East Tufts Avenue, Suite  
4           1250, Denver, Colorado, 80237. I am a registered Professional Engineer in the states of  
5           Louisiana, Connecticut, Colorado, Utah and Texas, and Managing Partner in the firm  
6           Legend Consulting Group Limited of Denver, Colorado (“Legend”).

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

8   **A.**    I am presenting testimony on behalf of the Advisors to the Council of the City of New  
9           Orleans (“Council”). The Council regulates the rates, terms, and conditions of electric  
10          and gas service of Entergy New Orleans, Inc. (“ENO”) and the electric service of Entergy  
11          Louisiana, LLC (“ELL”) to the extent it provides service within the Algiers section of  
12          New Orleans (collectively “Companies”). Both ENO and ELL are affiliates of Entergy  
13          Corporation (“Entergy”).<sup>1</sup>

14   **Q.    PLEASE SUMMARIZE YOUR RELEVANT EDUCATIONAL BACKGROUND**  
15   **AND TESTIMONY EXPERIENCE.**

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<sup>1</sup> The Entergy Operating Companies (“Operating Companies”) are comprised of: Entergy Arkansas, Inc. (“EAI”), Entergy Mississippi, Inc. (“EMI”), ELL, Entergy Gulf States Louisiana, L.L.C. (“EGSL”), Entergy Texas, Inc. (“ETI”), and ENO.

1     **A**     Exhibit No. \_\_\_\_ (JAV-2) provides a summary of my relevant education and professional  
2             experience and Exhibit No. \_\_\_\_ (JAV-3) lists my previous testimony experience.

3     **II     APPLICATION BEFORE THE COUNCIL IN DOCKET NO. UD-14-02**

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

6     **A.**     On October 30, 2014, the Companies submitted their application “Requesting Approval  
7             of the Sale of Electric Utility Operations and Certain Assets Serving the Fifteenth Ward  
8             of the City of New Orleans and Related Relief” (“Joint Application”) before the Council.  
9             On November 21, 2014, the Council adopted Council Resolution R-14-507 which created  
10            the instant docket to review the Joint Application.

11    **Q.     WHAT RELIEF DO THE COMPANIES SEEK IN THE JOINT APPLICATION?**

12    **A.**     I refer to the relief sought in the Joint Application as the “Algiers Transaction.” The  
13             Joint Application requests, in part, that the Council approve: (a) the sale by ELL to ENO  
14             of ELL’s physical assets located in Algiers (the “Algiers Assets”) at the Algiers Assets’  
15             net book value, (b) the establishment of an “Algiers PPA” that requires ENO to pay ELL  
16             for a slice (1.84%) of ELL’s owned generating unit fleet and ELL’s Purchased Power  
17             Agreement resources as of the close of the Algiers Transaction based upon the terms and  
18             conditions of a Federal Energy Regulatory Commission (“FERC”) jurisdictional  
19             agreement between ELL and ENO, (c) the authority to transfer Algiers-related franchise  
20             rights and operations from ELL to ENO, (d) the creation of a regulatory asset for future  
21             retail rate recovery based on certain costs associated with implementing and closing the

1 Algiers Transaction, (e) certain changes to ENO's participation in MISO and related cost  
2 recovery mechanisms, (f) certain changes to ENO's rate structure and tariffs while  
3 generally maintaining separate retail electric rates for Legacy ENO and Algiers  
4 customers, and (g) other related relief such as modification to ENO's New Orleans  
5 franchise and a Council waiver from review of the Algiers Transaction under Council  
6 Resolution R-01-676.

7 **Q. SHOULD THE COUNCIL FIND THE TRANSACTION IN THE PUBLIC**  
8 **INTEREST AND APPROVE THE ALGIERS TRANSACTION, WHICH**  
9 **COMPANY WOULD PROVIDE ELECTRIC SERVICE IN NEW ORLEANS?**

10 **A.** Post-Algiers Transaction, ENO would provide retail electric service throughout all of  
11 Orleans Parish. ENO presently provides retail gas service to Orleans Parish, and ENO  
12 would continue to do so post-Algiers Transaction. ENO would be the sole retail provider  
13 of both gas and electric service in Orleans Parish under the retail regulation of the  
14 Council.

15 **III. PURPOSE OF TESTIMONY AND SUMMARY**

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

17 **A.** The purpose of my testimony is to introduce the other Advisor witnesses and the general  
18 areas of their testimony and make a recommendation to the Council regarding whether  
19 the Algiers Transaction is in the public interest subject to certain conditions which I  
20 recommend the Council attach to its approval of the Algiers Transaction.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND MAJOR CONCLUSIONS OR**  
2 **RECOMMENDATIONS.**

3 **A.** The proposed Algiers Transaction would combine retail electric utility service for all of  
4 Orleans Parish under a single public utility – ENO. Having a single retail provider of  
5 electric service to all of Orleans Parish under the regulatory authority of the Council  
6 makes sense *prima-facie*, and the Joint Application cites expected economies and public  
7 benefits from the Algiers Transaction. However, the Joint Application presents only a  
8 very high level view as to ENO’s short-term and intermediate-term cost and rate structure  
9 post-Algiers Transaction. Pursuant to Council Resolution R-06-88 which provides for  
10 “conditions which should be attached to the proposed acquisition,”<sup>2</sup> my testimony  
11 recommends that the Council attach certain conditions to its public interest determination  
12 to ensure that New Orleans electric ratepayers enjoy the benefits that are expected to  
13 occur as a result of the Algiers Transaction.

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

17 **A.** Yes. The other Advisor Witnesses in this docket providing testimony are Mr. Philip J.  
18 Movish, Mr. Joseph W. Rogers, P.E., Mr. Victor M. Prep, P.E., Mr. Byron S. Watson,  
19 CFA, and Mr. James M. Proctor. Mr. Movish discusses the condition of the Algiers

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<sup>2</sup> Council Resolution R-06-88, Paragraph 2, Factor ‘R’

1 transmission, distribution, and substation network as it relates to the Algiers Transaction  
2 and addresses the appropriate metering and customer service considerations. Mr. Rogers  
3 discusses the Algiers PPA, proposed revisions to the Fuel Adjustment Clause (“FAC”)  
4 Riders, and certain provisions of the Midcontinent Independent System Operator Inc.’s  
5 (“MISO”) operations as they relate to the Algiers Transaction. Mr. Prep discusses  
6 regulatory ratemaking issues related to the Algiers Transaction, and Mr. Watson quantifies  
7 estimated net-ratepayer benefits that may materialize as a result of the Algiers  
8 Transaction. Finally, Mr. Proctor discusses the accounting and tax treatments of the  
9 Algiers Transaction.

10 **IV. REGULATORY AUTHORITY OF THE COUNCIL**

11 **Q. DOES THE COUNCIL HAVE THE REGULATORY AUTHORITY TO REVIEW**  
12 **THE JOINT APPLICATION AND ADOPT RESOLUTIONS RELATED TO THE**  
13 **RELIEF REQUESTED IN THE JOINT APPLICATION?**

14 **A.** Yes. Companies’ witness Gallagher said that “[t]he Algiers Assets constitute less than  
15 one percent of ELL’s gross assets, so retail regulatory approval of the Algiers Transaction  
16 under Resolution R-06-88 may not be required.”<sup>3</sup> I disagree with Mr. Gallagher that a  
17 review of the Algiers Transaction under Resolution R-06-88 may not be required. I note  
18 that the Joint Application states that the assets involved in the Algiers Transaction

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<sup>3</sup>The Direct Testimony of Kenneth F. Gallagher, the response to question Q15 at page 14.



1 represent between 1.84%<sup>4</sup> and 2.41%<sup>5</sup> of ELL's total assets for certain classes. Further,  
2 ELL represented in Council Docket UD-13-01 (the Algiers Rate Case) that ELL-Algiers  
3 had \$206 million in gross plant compared to \$9.2 billion in ELL-total gross plant (making  
4 ELL-Algiers's gross plant 2.2% of ELL-Total's gross plant).<sup>6</sup> Through discovery, the  
5 Advisors asked the Companies to either: (a) state conclusively whether they believed the  
6 Council has the authority to approve or deny the Algiers Transaction, or (b) provide  
7 supporting calculations demonstrating how Mr. Gallagher concluded that the Algiers  
8 Assets constitute less than one percent of ELL's gross assets.<sup>7</sup> The Companies answer  
9 was not fully responsive and included no calculations supporting Mr. Gallagher's claims,  
10 but their response generally tended to admit the Council has jurisdiction over the Algiers  
11 Transaction by acknowledging that ELL agreed to "seek approval to transfer the Algiers  
12 electric service to ENO on terms approved by the Council" as part of the Agreement in  
13 Principle that resolved Council Docket UD-13-01, which the Council approved in  
14 Council Resolution R-14-278.

15 Also, Mr. Gallagher's interpretation of Council Resolution R-06-88 could be construed as  
16 very narrow. Mr. Gallagher says in his direct testimony that the Algiers Assets constitute  
17 less than one percent of ELL's gross assets. Council Resolution R-06-88 actually says

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<sup>4</sup> See the Direct Testimony of Seth E. Cureington, the response to question Q9 at page 6.

<sup>5</sup> See the Direct Testimony of Orlando Todd, the response to question Q15 at page 8.

<sup>6</sup> See Council Docket UD-13-01 Company MFR file "RRz Detail Model Results (MISO-Only)," Line 183.

<sup>7</sup> See the Companies' response to CNO 1-18.

1 “[n]o utility subject to the jurisdiction of the Council shall . . . by any means direct or  
2 indirect, merge or consolidate its utility works, operations, systems, franchises, or any  
3 part thereof , . . .where the values involved in such action exceed one percent (1%) of the  
4 gross assets of such regulated utility . . .”<sup>8</sup> (emphasis added). The plain text of Council  
5 Resolution R-06-88 calls for Council review taking into account its eighteen factors  
6 based not only on what percent of ELL’s gross assets are being sold to ENO, but also on  
7 what percent of ENO’s gross assets the Algiers Assets represent. Exhibit OT-2 estimates  
8 that the gross Utility Plant of the Algiers Assets will be \$90.6 million.<sup>9</sup> Exhibit OT-3  
9 estimates that the gross Utility Plant of ENO prior to the Algiers Transaction to be \$1.1  
10 billion.<sup>10</sup> Based on these Company-provided figures, ENO is merging or consolidating  
11 assets whose values involved are approximately 8% of ENO gross assets. The one  
12 percent threshold for review under Council Resolution R-06-88 is indeed met, and the  
13 Council may review the Algiers Transaction taking into account the Resolution’s  
14 eighteen factors.

15 Regardless of the method by which the size of ENO’s or ELL’s assets related to the  
16 Algiers Transaction is measured, the Council has the undisputed authority to set and fix  
17 retail electric rates within Orleans Parrish and the undisputed authority to regulate matters  
18 related to the terms and conditions, quality and reliability of electric utility service within

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<sup>8</sup> Council Resolution R-06-88, Ordering Paragraph 1.

<sup>9</sup> See Exhibit OT-2, Line entitled “Utility Plant,” column D.

<sup>10</sup> See Exhibit OT-3, Line entitled “Utility Plant,” column A.

1 Orleans Parrish. The proposed Algiers Transaction involves substantial changes to  
2 electric utility service in the areas of retail rates, service conditions and the assurance of  
3 reliability. The Council must make a public interest determination on the Algiers  
4 Transaction attaching such conditions as it believes are necessary to assure the Algiers  
5 Transaction is in the public interest.

6 **Q. HAS THE COUNCIL ADOPTED STANDARDS BY WHICH IT MAY CONSIDER**  
7 **A TRANSACTION SUCH AS THE ALGIERS TRANSACTION?**

8 **A.** Yes, Council Resolution R-06-88 directs that “[n]o utility subject to the jurisdiction of the  
9 Council shall sell, assign, lease, transfer, mortgage, or otherwise dispose of or encumber  
10 the whole or any part of its franchise, works, property, or system . . . where the values  
11 involved in such action exceed one percent (1%) of the gross assets of such regulated  
12 utility . . . without prior full disclosure of the prior intendment and plan of such utility or  
13 common carrier with regard to such action and without prior official action of approval or  
14 official action of non-opposition by the Council.”<sup>11</sup> (emphasis added). Council  
15 Resolution R-06-88 goes on to list eighteen factors the Council shall take into account  
16 when evaluating transactions covered by the above language.

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

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<sup>11</sup> Council Resolution R-06-88, ordering paragraph 1.

1    **A.**    Yes. I recommend the Council take into account the eighteen factors enumerated in  
2           Council Resolution R-06-88 because they relate directly to the relief the Joint Application  
3           seeks and encompass the issues necessary to evaluate whether the Algiers Transaction is  
4           in the public interest. Also, the eighteen factors enumerated in Council Resolution R-06-  
5           88 are established Council standards, and the Company witnesses attempt to specifically  
6           address them in their testimonies.

7    **V.    PUBLIC INTEREST**

8    **Q.    WHAT IS THE APPROPRIATE DETERMINATION THAT MUST BE MADE BY**  
9           **THE COUNCIL IN EVALUATING THE JOINT APPLICATION?**

10   **A.**    The Council must determine whether or not the Algiers Transaction is in the public  
11           interest.

12   **Q.    WHAT IS THE PUBLIC INTEREST STANDARD IN UTILITY REGULATION?**

13   **A.**    The public interest theory of regulation seeks, in general terms, to protect and benefit the  
14           public at large through a balancing of interests in any regulatory decision. In this docket,  
15           the Council must determine whether the Companies' proposed Algiers Transaction is in  
16           the public interest.

17   **Q.    IN DETERMINING WHETHER THE APPLICATION IS IN THE PUBLIC**  
18           **INTEREST, IS THERE A SPECIFIC FORMULA OR PARTICULAR SET OF**  
19           **ANALYSES THAT CAN BE RELIED UPON?**

1    **A.**    No. Many times the definition of what is in the public interest has been referred to as a  
2           “net benefits” test, but such a test encompasses more than a simple algorithm or  
3           numerical analyses and often results in a subjective balancing of interests by the regulator  
4           in making its determination. Such is the case in this docket. As the other Advisor  
5           witnesses clearly demonstrate, the Joint Application includes a significant number of  
6           unknowns and unresolved issues all of which impact the balance of shareholder interests  
7           and those of New Orleans’ ratepayers and the public at large. It is important to consider  
8           all such factors in deciding whether the relief requested in the Joint Application is in the  
9           public interest *in toto*.

10   **Q.    PLEASE STATE THE PROVISIONS OF COUNCIL RESOLUTION R-06-88**  
11           **WITH REGARD TO THE COUNCIL’S EVALUATION OF WHETHER THE**  
12           **PROPOSED ALGIERS TRANSACTION IS IN THE PUBLIC INTEREST.**

13   **A.**    Council Resolution R-06-88 sets forth the following eighteen factors which the Council  
14           shall take into account when evaluating transactions such as the Algiers Transaction:

- 15           a. Whether the transfer is in the public interest;
- 16           b. Whether the purchaser is ready, willing and able to continue providing safe,  
17           reliable and adequate service to the utility’s ratepayers;
- 18           c. Whether the transfer will maintain or improve the financial condition of the  
19           resulting public utility or common carrier;
- 20           d. Whether the proposed transfer will maintain or improve the quality of service to  
21           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;
- 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 employees;
- i. Whether the transfer will 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;

- 1 n. Whether the acquiring entity, persons, or corporations have the financial ability to  
2 operate the public utility or common carrier system and maintain or upgrade the  
3 quality of the physical system;  
4 o. Whether any repairs and/or improvements are required and the ability of the  
5 acquiring entity to make those repairs and/or improvements;  
6 p. The ability of the acquiring entity to obtain all necessary health, safety and other  
7 permits;  
8 q. The manner of financing the transfer and any impact that it may have on  
9 encumbering the assets of the entity and the potential impact on rates; and  
10 r. Whether there are any conditions which should be attached to the proposed  
11 acquisition.”<sup>12</sup>

12 **Q. SHOULD THE ALGIERS TRANSACTION BE FOUND IN THE PUBLIC**  
13 **INTEREST? (FACTOR ‘A’ OF COUNCIL RESOLUTION R-06-88)**

14 **A.** Yes. Based upon my review of the testimony of the other Advisors witnesses, the  
15 information provided in discovery responses, as well as the Application and  
16 accompanying testimony of the Companies’ witnesses, I recommend the Council find the  
17 Algiers Transaction in the public interest with conditions attached as further described  
18 later in my testimony.

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<sup>12</sup> Council Resolution R-06-88, ordering paragraph 2.

1 **Q. IS ENO READY, WILLING AND ABLE TO PROVIDE SAFE, RELIABLE AND**  
2 **ADEQUATE SERVICE TO ORLEANS PARISH RATEPAYERS? (FACTOR ‘B’**  
3 **OF COUNCIL RESOLUTION R-06-88)**

4 **A.** Yes. The proposed Algiers Transaction is expected to result in very similar, if not  
5 identical, quality of service to ratepayers apart from any impact on retail rates. As Mr.  
6 Rogers’s direct testimony discusses, the Algiers Transaction, through the Algiers PPA,  
7 maintains the pre-Algiers Transaction status quo with respect to resources available to  
8 serve the Algiers ratepayers ENO is assuming. As Mr. Movish’s direct testimony  
9 discusses, Mr. Movish performed an in-person visual inspection of ELL’s transmission,  
10 substation, and distribution facilities in Algiers in addition to reviewing the Joint  
11 Application, Company testimonies, and discovery responses, and he found them to be in  
12 good operating condition with no evidence of deterioration. Mr. Movish concluded that  
13 the Algiers Transaction would not negatively impact ENO’s ability to provide safe and  
14 reliable electric service in Algiers. Mr. Movish further concludes that transmission and  
15 distribution operations in Algiers will not be adversely affected as a result of the Algiers  
16 Transaction and that the Companies’ plan to separate and meter Algiers’s transmission is  
17 effective and efficient. As such, the Algiers Transaction is not reasonably expected to  
18 negatively impact the safe, reliable, and adequate service to New Orleans electric  
19 ratepayers.

20 **Q. WILL THE ALGIERS TRANSACTION MAINTAIN OR IMPROVE THE**  
21 **FINANCIAL CONDITION OF ENO? (FACTOR ‘C’ OF COUNCIL**  
22 **RESOLUTION R-06-88)**



1    **A.**     The Algiers Transaction is expected to increase ENO’s customer base and revenues while  
2            maintaining ENO’s right to the opportunity to earn a reasonable rate of return upon the  
3            transfer of the Algiers’ customers under a single regulator, the Council. The proposed  
4            structure of the transfer does not appear to materially alter “...the qualitative or  
5            quantitative factors bearing on ENO’s financial and business risks . . .”<sup>13</sup> Stated  
6            differently, after the transfer ENO’s various credit metrics and regulation will not change  
7            materially. As Companies’ Witness Orlando Todd has testified, “[t]he asset transfer is  
8            viewed as credit positive for ENO.”<sup>14</sup> In his direct testimony, Mr. Proctor concluded the  
9            Algiers Transaction can reasonably be expected to at least maintain the present financial  
10          condition of ENO.

11   **Q.     WILL THE ALGIERS TRANSACTION MAINTAIN OR IMPROVE THE**  
12       **QUALITY OF SERVICE TO ELECTRIC RATEPAYERS IN ORLEANS**  
13       **PARISH? (FACTOR ‘D’ OF COUNCIL RESOLUTION R-06-88)**

14   **A.**     Yes. As I discuss above relative to Factor ‘B’ of Council Resolution R-06-88, ENO is  
15            reasonably expected to be “ready, willing, and able to provide safe, reliable, and adequate  
16            [electric] service” to Algiers. Mr. Movish also notes that the Algiers Customer Service  
17            Center will remain open. As I discuss below relative to Factor ‘G’ of Council Resolution  
18            R-06-88, ENO’s management team will remain largely unchanged as a result of the

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<sup>13</sup> Orlando Todd Direct Testimony, the answer to question Q38 at pages 21-22.

Algiers Transaction. Accordingly, I conclude that both the quality of physical electric service, the quality of management, and the quality of customer service will be at least maintained post-Algiers Transaction, which suggests that the overall quality of service to electric ratepayers in Orleans Parish will be maintained post-Algiers Transaction.

**Q. WILL THE ALGIERS TRANSACTION PROVIDE NET BENEFITS TO RATEPAYERS IN BOTH THE SHORT TERM AND THE LONG TERM? (FACTOR 'E' OF COUNCIL RESOLUTION R-06-88)**

**A.** Perhaps, marginally.

**Q. WHY DO YOU QUALIFY YOUR ANSWER?**

**A.** The Companies' Application is replete with many high level estimates of numerical assumptions, analytics and accounting treatments, some of which are understandable given the dynamics of such a transaction. As such, many final effects will not be known until the Companies make their Compliance Filing and the accompanying evaluation process they propose associated with such filing. Mr. Watson in his direct testimony conducted a net benefits analyses that attempted to estimate the effects on New Orleans ratepayers by determining the benefits in both the short-term and long-term from the Algiers Transaction. As proposed in the Application, the Algiers Transaction will increase the revenue requirement to provide retail electric service in Algiers compared to the status-quo (i.e., the current arrangement whereby ELL provides electric service in Algiers), however the increase in the Algiers revenue requirement can be potentially offset by some estimated cost savings in the area of (a) avoided costs related to the

1 elimination of regulatory proceedings related to ELL-Algiers, (b) the Companies' stated  
2 cost savings related to excess capacity and transmission, (c) Algiers's ability, as a service  
3 territory of ENO, to participate in future securitization bonds that may be issued to pay  
4 for costs related to major storms or the early retirement of plant assets (Algiers's  
5 relatively small size currently makes the issuance of securitization bonds to pay for costs  
6 incurred in Algiers impractical). Mr. Watson's direct testimony quantifies the estimated  
7 savings to ratepayers claimed by the Companies and estimates additional savings related  
8 to securitization. His quantification indicates a short-term net-ratepayer savings of an  
9 approximate average of \$1.1 million per year and a long-term net-ratepayer savings of an  
10 average of \$0.1 million per year. Given the number of uncertainties in the many aspects  
11 of the Algiers Transaction and the various supporting analyses in the attempt to quantify  
12 the costs and revenues of ENO post transaction, the Council should consider the net  
13 benefit analysis and afford it such weight as it deems appropriate in its decision making  
14 process when considering the conditions attached to any approval as recommended  
15 herein.

16 **Q. DOES THE ALGIERS TRANSACTION PROVIDE A RATEMAKING METHOD**  
17 **THAT WILL ENSURE, TO THE FULLEST EXTENT POSSIBLE, THAT**  
18 **RATEPAYERS WILL RECEIVE THE FORECASTED SHORT AND LONG**  
19 **TERM BENEFIT OF THE ALGIERS TRANSACTION? (FACTOR 'E' OF**  
20 **COUNCIL RESOLUTION R-06-88)**

21 **A.** The Companies discuss in the Joint Application a Combined Rate Case whereby the  
22 Council will evaluate the revenue requirement and revenue deficiency/surplus for ENO's

1 electric service to all of Orleans Parish. To the extent the forecasted net ratepayer  
2 benefits are realized, the rates resulting from the Combined Rate Case will reflect the net  
3 ratepayer benefits resulting from the Algiers Transaction. In the short-term, which I  
4 define as prior to the Combined Rate Case, Exhibit BSW-4, Page 2, presents estimated  
5 savings that may be reflected in rates without a rate action (e.g. savings through avoided  
6 costs). The Combined Rate Case, based on ENO operations throughout all of Orleans  
7 Parish, is a ratemaking method that will ensure, to the fullest extent possible, that  
8 revenues and costs of ENO for a test period are synchronized after the transaction. It is  
9 only then that the Algiers Transaction will provide a ratemaking method that will ensure  
10 that ratepayers will receive any short and long-term benefits of the Algiers Transaction  
11 that materialize.

12 In respect to intangible benefits as the Application states, “[t]he primary benefit of the  
13 Algiers Transaction is the consolidation of electric and gas utility operations in the City  
14 within a single utility subject to exclusive retail regulation by the Council. . . .”<sup>15</sup> Such  
15 consolidation will be of benefit to New Orleans consumers in:

- 16 a. the elimination of the extra cost and complexity that results in having two regulators  
17 (the Louisiana Public Service Commission (“LPSC”) for the rest of the state and the  
18 Council for Algiers) govern the policies and rate actions of ELL;

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<sup>15</sup> Joint Application, Executive Summary at page 12.

- 1 b. the mix of the ELL-Algiers customers is more akin to those currently being served by  
2 ENO as a metropolitan area, thereby affording similar characteristics and interests of  
3 the customer base and the rendering of service;  
4 c. regulatory efficiency in the implementation of city wide policies related to the  
5 provision of gas and electric service with Orleans Parish;  
6 d. the integration of billing and meter reading for the gas and electric consumers in the  
7 City and the avoidance of customer confusion on the serving entity; and  
8 e. uniform electric rates throughout the City, to name a few.

9 **Q. WILL THE ALGIERS TRANSACTION ADVERSELY AFFECT**  
10 **COMPETITION? (FACTOR ‘F’ OF COUNCIL RESOLUTION R-06-88)**

11 **A.** No. Today, both ENO and ELL-Algiers are regulated by the Council and enjoy  
12 monopoly service rights under their franchises. The Companies’ combined operation  
13 under ENO is not reasonably expected to alter the regulated monopoly nature of utility  
14 service in New Orleans, and competition will not be adversely affected by the proposed  
15 Algiers Transaction.

16 **Q. WILL THE ALGIERS TRANSACTION MAINTAIN OR IMPROVE THE**  
17 **QUALITY OF MANAGEMENT OF ENO? (FACTOR ‘G’ OF COUNCIL**  
18 **RESOLUTION R-06-88)**

19 **A.** Yes. The Companies have described an Algiers Transaction management transition plan  
20 wherein the same ENO management team will lead the post-Algiers Transaction ENO.  
21 Furthermore, the reliance on Entergy Services Inc.’s personnel will be the same after the

1 Algiers Transaction and the same employee group is expected to provide the same  
2 services as before the Algiers Transaction. Accordingly, the quality of management of  
3 the post-Algiers Transaction ENO should be relatively the same as the quality of  
4 management of today's ENO.

5 **Q. WILL THE ALGIERS TRANSACTION BE FAIR AND REASONABLE TO ENO**  
6 **EMPLOYEES? (FACTOR 'H' OF COUNCIL RESOLUTION R-06-88)**

7 **A.** Yes. The Companies have stated in the Joint Application that no Entergy employees  
8 would lose their jobs and that no Entergy employee pay or benefits would be adversely  
9 affected by the proposed Algiers Transaction.<sup>16</sup> As such, the proposed Algiers  
10 Transaction reasonably can be expected to be fair and reasonable to affected employees.

11 **Q. WILL THE ALGIERS TRANSACTION BE FAIR AND REASONABLE TO ENO**  
12 **AND ELL SHAREHOLDERS? (FACTOR 'I' OF COUNCIL RESOLUTION R-06-**  
13 **88)**

14 **A.** Yes. I note that the Companies are ultimately wholly owned by the shareholders of  
15 Entergy Corporation (NYSE: ETR) and Entergy's shareholders' ownership interests are  
16 not expected to change as a result of the proposed Algiers Transaction. As Mr. Proctor's  
17 direct testimony discusses, the Algiers Transfer is structured as a tax free net book value  
18 transaction as described in the Companies' Application so neither a gain or loss should

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<sup>16</sup> The Companies have expressly maintained their right to adjust benefits and compensation for all Entergy Operating Companies' employees from time to time.

1 occur to the Entergy shareholders. As such, the proposed Algiers Transaction is likely to  
2 be fair and reasonable to Entergy shareholders.

3 **Q. WILL THE ALGIERS TRANSACTION BE BENEFICIAL ON AN OVERALL**  
4 **BASIS TO NEW ORLEANS' ECONOMIES AND TO THE COMMUNITIES IN**  
5 **THE AREA SERVED BY ENO? (FACTOR 'J' OF COUNCIL RESOLUTION R-**  
6 **06-88)**

7 **A.** Yes. Having one utility provide service to Orleans Parish under the single direction of  
8 one regulator and uniform rates will provide flexibility for further economic development  
9 in Orleans Parish with the additional benefit of any resultant cost efficiencies and policy  
10 direction by the Council that results from a single regulatory paradigm. Further, Mr.  
11 Watson's direct testimony estimates the ratepayer net-benefits expected to result from the  
12 Algiers Transaction. As I discuss above, the quality of electric service is not expected to  
13 be harmed as a result of the Algiers Transaction and ENO has the ability to provide the  
14 same electric service to Algiers as does ELL today. Should Mr. Watson's estimates of  
15 net benefits become a reality, the customers would receive an estimated lower cost of  
16 service. A reduction in the cost of service would be beneficial to New Orleans's  
17 economies due to the resulting increase in disposable income among electric ratepayers  
18 (i.e. any ratepayer savings, should they materialize, resulting from the Algiers  
19 Transaction may in part be placed in the New Orleans economy).

1 **Q. WILL THE ALGIERS TRANSACTION PRESERVE THE COUNCIL'S**  
2 **JURISDICTION AND ABILITY TO EFFECTIVELY REGULATE AND AUDIT**  
3 **ENO'S OPERATIONS? (FACTOR 'K' OF COUNCIL RESOLUTION R-06-88)**

4 **A.** Yes. As Mr. Gallagher observes in his testimony,<sup>17</sup> the jurisdiction of the Council is  
5 derived from the Louisiana Constitution and its Home Rule Charter and the Algiers  
6 Transaction will not affect such governing law. ENO would operate in Algiers under the  
7 same franchise ELL-Algiers now operates, and the Council's jurisdiction, regulatory, and  
8 audit powers will not be affected by the Algiers Transaction.

9 **Q. ARE ANY CONDITIONS TO THE ALGIERS TRANSACTION NECESSARY TO**  
10 **PREVENT ADVERSE CONSEQUENCES? (FACTOR 'L' OF COUNCIL**  
11 **RESOLUTION R-06-88)**

12 **A.** Yes. In order to ensure the public interest with regard to the Algiers Transaction, I  
13 propose that the Council condition its public interest determination and approval of the  
14 Algiers Transaction on ENO agreeing to certain conditions as discussed further in my  
15 testimony.

16 **Q. IS ENO'S, ITS PRINCIPALS' OR ITS AFFILIATES' HISTORY OF**  
17 **COMPLIANCE OR NONCOMPLIANCE WITH THE COUNCIL A MATTER**  
18 **THAT WOULD PREVENT THE COUNCIL FROM FINDING THE ALGIERS**

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<sup>17</sup> The Direct Testimony of Kenneth F. Gallagher, the response to question Q25 at page 21.



**TRANSACTION IN THE PUBLIC INTEREST? (FACTOR ‘M’ OF COUNCIL  
RESOLUTION R-06-88)**

**A.** No. ENO, ELL and their affiliates' compliance with Council regulatory requirements post-Algiers Transaction can be reasonably expected to be at least the same as it has been historically. I agree with Companies' Witness Gallagher where he notes in respect to the Algiers portion of ENO's system,<sup>18</sup> regulatory compliance will likely be enhanced without the split jurisdiction of ELL by the LPSC (statewide) and Council (in Algiers).

**Q. WILL ENO HAVE THE FINANCIAL ABILITY TO OPERATE, MAINTAIN,  
AND UPGRADE THE QUALITY OF ITS PHYSICAL SYSTEM? (FACTOR ‘N’  
OF COUNCIL RESOLUTION R-06-88)**

**A.** Yes. ENO, as the acquiring entity, currently operates and maintains the electric utility system in New Orleans except in Algiers. Post-Algiers Transaction ENO will begin to receive the revenues ELL-Algiers had been receiving, which the Council has determined are sufficient to operate, maintain, and upgrade the Algiers electric system. It is reasonable to expect that ENO's financial ability to operate and maintain the Combined ENO will be the same as the financial ability pre-Algiers Transaction of ENO and ELL to operate and maintain their respective New Orleans territories.

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<sup>18</sup> The Direct Testimony of Kenneth F. Gallagher, the response to question Q27 at pages 22-23.

1 **Q. WILL THE ALGIERS TRANSACTION REQUIRE, AND DOES ENO HAVE THE**  
2 **ABILITY TO MAKE, ANY REPAIRS OR IMPROVEMENTS? (FACTOR ‘O’ OF**  
3 **COUNCIL RESOLUTION R-06-88)**

4 **A.** Yes. The Joint Application identifies \$1.7 million in improvements to plant required to  
5 implement the transfer of the Algiers Assets to ENO. ELL will perform the network  
6 improvements prior to the close of the Algiers Transaction. As ENO enjoys access to at  
7 least \$1.7 million in credit facilities,<sup>19</sup> ENO has the ability to make these improvements.

8 **Q. DOES ENO HAVE THE ABILITY TO OBTAIN ALL NECESSARY HEALTH,**  
9 **SAFETY, AND OTHER PERMITS? (FACTOR ‘P’ OF COUNCIL RESOLUTION**  
10 **R-06-88)**

11 **A.** Yes. The direct testimonies of Charles L. Rice, Jr. and Paul J. Girard discuss the  
12 Companies’ plan to effectively transfer the various operating permits and franchise rights  
13 currently associated with ELL-Algiers to ENO. My review of Messrs. Rice and Girard’s  
14 stated plan and the Joint Application indicates that with regard to permits and franchise  
15 licenses, the Algiers Transaction will have no material impact on New Orleans ratepayers  
16 or the public interest, although as my testimony discusses below, the Council may  
17 eventually wish to address the fact that Algiers is assessed a different franchise fee rate  
18 than is assessed in the remainder of Orleans Parish.

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<sup>19</sup> See ENO 2014 SEC Form 10-K, Page 406, which describes an untapped credit facility of \$25 million.

1 **Q. WOULD THE MANNER IN WHICH THE COMPANIES PROPOSE TO**  
2 **FINANCE THE ALGIERS TRANSACTION INAPPROPRIATELY ENCUMBER**  
3 **ENO'S ASSETS OR IMPACT RATES? (FACTOR 'Q' OF COUNCIL**  
4 **RESOLUTION R-06-88)**

5 **A.** No. As Mr. Proctor's direct testimony discusses, the Companies intend to capitalize  
6 ENO post-Algiers Transaction using the same financial instruments and roughly in the  
7 same proportion as ENO is now capitalized. ENO's assets post-Algiers Transaction will  
8 be encumbered similarly to the manner in which they are today, and ENO's revenue  
9 requirement should not be materially impacted as a result of the new financing and the  
10 rate plan proposed for ENO Legacy Customers (as proposed in the Application), if  
11 conditioned as recommended herein.

12 **Q. SHOULD THE COUNCIL ATTACH ANY CONDITIONS TO ITS APPROVAL**  
13 **OF THE ALGIERS TRANSACTION? (FACTOR 'R' OF COUNCIL**  
14 **RESOLUTION R-06-88)**

15 **A.** Yes. As with my discussion of Factor 'L' above, I recommend that the Council condition  
16 its approval of the Algiers Transaction on ENO's accepting certain conditions that are  
17 designed to ensure the public interest.

18 **Q. WHY DO YOU RECOMMEND THE COUNCIL ATTACH CERTAIN**  
19 **CONDITIONS TO ENSURE THE ALGIERS TRANSACTION IS IN THE**  
20 **PUBLIC INTEREST?**

1    **A.**     Throughout the testimonies of the Companies’ witnesses in the Application several issues  
2            arise that are a cause for concern.

3    **Q.     PLEASE DISCUSS YOUR FIRST CONCERN.**

4    **A.**     Council Docket UD-13-01 (the Algiers rate case) Agreement in Principle (the “AIP”),  
5            approved by the Council in Council Resolution R-14-278, provides for four \$2.3 million  
6            electric base rate increases in Algiers in July of 2014-2017, for a total base rate increase  
7            of \$9.3 million.<sup>20</sup> Furthermore, the AIP requires a Formula Rate Plan (“FRP”) for ELL-  
8            Algiers, indicating: “[b]eginning with the twelve months ended December 31, 2014, ELL  
9            Council-jurisdictional operations will be subject to an FRP. The term of the FRP will be  
10           four years beginning in 2014 with the first filing due on or before May 15, 2015.”<sup>21</sup> ELL  
11           is expected to file a FRP evaluation report with the Council on or before May 15 of this  
12           year based on its operations in Algiers for the calendar year 2014 and pursuant to the  
13           settlement each year thereafter through May 15, 2018.

14           The Companies have requested and recommended the continuation of the ELL-Algiers  
15           FRP scheduled revenue stream for the ELL-Algiers customers post Algiers Transaction,  
16           saying “if there is an FRP percentage resulting from the 2014 TY FRP filing (positive or

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<sup>20</sup> See Council Docket UD-13-01, Agreement in Principle, June 20, 2014, paragraph 2.

<sup>21</sup> Council Docket UD-13-01, Agreement in Principle, June 20, 2014, paragraph 18.

negative), that percentage would remain in place until base rates are reset in connection with the Combined Rate Case. . .”<sup>22</sup>

**Q. ARE YOU RECOMMENDING THAT THE REMAINING ALGIERS BASE RATE INCREASES NOT BE ALLOWED TO CONTINUE SHOULD ENO PROVIDE ELECTRIC SERVICE IN ALGIERS?**

**A.** No. The base rates charged by ENO for electric service in Algiers should be based on the terms of the AIP, including the four-year phase-in of the \$9.3 million base rate increase. The Algiers base rate phase-in should be allowed to continue because Council Docket UD-13-01 evaluated the cost to provide electric service in Algiers, and the rates the Council determined continue to reflect that cost. To the extent the Algiers Transaction alters the measured cost of service to provide essentially the same electric service, any such changes should be a risk the Companies’ are assuming as part of the Algiers Transaction given their receipt of a four phased rate increase. Company witnesses have stated that the “cost to serve Algiers customers will not change materially post-Transaction,”<sup>23</sup> therefore continuing the rate path determined in Council Docket UD-13-01 should not be of material harm to ENO. I note that should the Algiers Transaction close on or about September 1, 2015 as the Companies have requested, the first two phases of the base rate increase for Algiers will already have become effective.

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<sup>22</sup> The Direct Testimony of Phillip B. Gillam, the answer to question Q16 at page 13.

<sup>23</sup> The Direct Testimony of Phillip B. Gillam, the response to question Q20 at page 17.

1 **Q. HOW WOULD THE ALGIERS TRANSACTION AFFECT THE FRP**  
2 **EVALUATIONS PROVIDED FOR IN THE AIP?**

3 **A.** First, I note that the AIP provides for a FRP evaluation of “ELL Council-jurisdictional  
4 operations,” whose plain text may suggest that FRP evaluations post-Algiers Transaction  
5 are not provided for in the AIP. Further, I note that the AIP provides for FRP evaluations  
6 based on 12 month periods ending December 31, which may suggest that pro-forming a  
7 2015 test-year FRP based on the portion of 2015 where ELL provides service to Algiers  
8 may also not be provided for in the AIP.

9 Apart from the text of the AIP, and as discussed in detail in Mr. Prep’s direct testimony,  
10 FRP evaluations of Algiers operations post-Algiers Transaction are not feasible. As Mr.  
11 Prep discusses, post-Algiers Transaction, nearly every method of measuring the cost to  
12 serve Algiers will fundamentally change. Further, both the Algiers Transaction and the  
13 ELL-EGSL Business Combination would alter the costs experienced by ELL, so using a  
14 percent of ELL’s costs as a proxy for ENO’s cost to serve Algiers is also not feasible.  
15 Based on my review of the proposed Algiers Transaction, any rate action, including a  
16 FRP evaluation that would attempt to evaluate post-Algiers Transaction ENO’s Algiers  
17 operations apart from all of Orleans Parish is not feasible beyond the 2015 evaluation  
18 period (calendar year 2014) and possibly the 2016 evaluation period given nine months  
19 of data for 2015.

20 **Q. DO THE COMPANIES DISCUSS THE FEASIBILITY OF ALGIERS FRP**  
21 **EVALUATIONS?**

1    **A.**     Yes, and they generally acknowledge that Algiers FRP evaluations based on post-Algiers  
2           Transaction evaluation periods may not be feasible.  Company witness Gillam says "ELL  
3           does not maintain separate books and records for its Algiers operations and the current  
4           FRP requires that the ELL-Algiers FRP Evaluation Report filings be based on ELL's  
5           Total Company rate base and expenses as allocated to Algiers using the methodology  
6           approved in connection with the 2013 Algiers Rate Case."  Company witness Gillam  
7           further states "should the Algiers transaction be consummated, the ELL Algiers assets  
8           will be owned by ENO, and the required data to develop the Evaluation Reports for  
9           calendar years 2015, 2016 and 2017 (which is derived from the Total ELL revenue  
10          requirement) would not be available as historically prepared and may no longer be  
11          appropriate."<sup>24</sup>  Mr. Gillam's assessment of the feasibility and appropriateness of FRP  
12          evaluations of ENO's operations in Algiers is similar to mine.  Mr. Gillam goes on to  
13          recommend that any FRP adjustment percentage resulting from the evaluation of ELL-  
14          Algiers operations in calendar year 2014 be allowed to remain in place until new rates are  
15          established by the Combined Rate Case.  In addition, I would note that to the extent the  
16          LPSC approves the business combination of ELL and EGSL, as is expected, there would  
17          be no separate ELL cost structure upon which a FRP evaluation report could be measured  
18          beyond calendar year 2014.

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<sup>24</sup> The Direct Testimony of Phillip B. Gillam, the answer to question Q16 at page 12.

1 As indicated by several of the Companies' witnesses,<sup>25</sup> ENO will be filing in the future a  
2 "Combined Rate Case" to reflect the full effects of the ELL Transaction in ENO's base  
3 rates and riders, complete with a rate transition plan. However, nowhere in the  
4 Application or the discovery responses have I found that ENO has committed to a  
5 specific date for such a filing or the attendant test year. As discussed in detail in the  
6 direct testimony of Mr. Prep, the Combined Rate Case will be the first proceeding before  
7 the Council to evaluate the electric revenue requirements of ENO which synchronizes  
8 costs and revenues, post-Algiers Transaction, for operations throughout all of Orleans  
9 Parish. The Combined Rate Case is expected to establish largely a single set of electric  
10 base rates and riders for all of Orleans Parish. The filing date for such Combined Rate  
11 Case should not occur until after the last full year of the phase in of the Algiers rate  
12 increases.

13 **Q. WHAT CONDITIONS DO YOU RECOMMEND THE COUNCIL CONSIDER IN**  
14 **ITS PUBLIC INTEREST DETERMINATION ON THE ALGIERS**  
15 **TRANSACTION?**

16 **A.** I recommend that the Council condition its public interest finding in this docket as  
17 specifically recommended in my testimony and the recommendations of the other

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<sup>25</sup> See The Direct Testimonies of Charles L. Rice, Jr. the answer to question Q21 at page 14, Paul J. Girard, the answer to question 10 at page 4, Phillip B. Gillam, the answer to question 16 at page 13, *et seq.*, Kenneth F. Gallagher, the answer to question 11 at page 11 *et seq.*, and Melonie P. Stewart, the answer to question 19 at page 12.



1 Advisor Witnesses contingent on the Companies agreeing to certain additional  
2 conditions. As Mr. Prep discusses in his direct testimony and as Mr. Watson's direct  
3 testimony estimates, the potential tangible short-term and long-term net benefits to New  
4 Orleans electric ratepayers as a result of the Algiers Transaction are expected to be  
5 slightly positive. I recommend the Council's approval of the Algiers Transaction and  
6 public interest determination be subject to the following conditions:

7 a. ENO will not seek a rate action specific to Legacy-ENO customers until the Combined  
8 Rate Case and post-Algiers Transaction requesting any changes to existing Legacy-ENO  
9 rate schedules and riders, except for the changes to the FAC and EAC as discussed by  
10 Advisor Witness Rogers.

11 b. As Mr. Prep's direct testimony discusses in detail, the Companies have not restricted  
12 ENO's ability to file the Combined Rate Case at any time post-Algiers Transaction.  
13 However, in other portions of their testimony the Companies indicate: "[t]he proposed  
14 rate path [i.e. the Algiers rate increase phase-in] would also provide ENO and the Council  
15 with the opportunity to more fully observe the effects of combined ENO and Algiers  
16 operations in the context of a rate filing that includes post-Transaction per-book historic  
17 accounting data before rendering decisions regarding the structure of the new rates."<sup>26</sup>  
18 Apparently ENO wishes to preserve the right to file the Combined Rate Case at any time,

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<sup>26</sup> The Direct Testimony of Phillip B. Gillam, the answer to question Q20 at page 17.

1 post-Algiers Transaction.<sup>27</sup> In the interest of enhancing ratepayer certainty and avoiding  
2 regulatory costs, I recommend the Council condition its public interest finding of the  
3 Algiers Transaction on ENO agreeing to not file the Combined Rate Case before the  
4 Council prior to the first quarter of 2018 with the basis for any such filing to employ the  
5 calendar year 2017 as the “Test Year.”

6 c. I further recommend that the Council condition its public interest determination of the  
7 Algiers Transaction on the Companies’ stipulating that any Algiers FRP evaluation shall  
8 not be based in any part on ENO operations. As a practical matter, such a stipulation by  
9 the Companies means that the Algiers FRP evaluations for test years 2015, 2016, and  
10 2017 are not feasible and their evaluation reports would not be filed before the Council.  
11 Any FRP revenue requirement adjustment resulting from the Algiers FRP evaluation for  
12 test year 2014 should remain effective until new rates are approved by the Council as part  
13 of the Combined Rate Case.

14 d. The Council should approve ENO entering into the “slice of system” Algiers PPA,  
15 however any specific incremental cost recovery for said PPA should not be permitted aside  
16 from the ELL allocated production costs already included in the Algiers FRP and its  
17 schedule of rate changes for the ELL-Algiers Legacy customers. The integration of the  
18 Algiers PPA base rate costs into ENO’s cost of service and retail rates should be  
19 prohibited by the Council until it is included in the Combined Rate Case filing.

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<sup>27</sup> See the Companies response to CNO 1-3.

1 **VI. NET RATEPAYER BENEFITS**

2 **Q. IS IT REASONABLE TO EXPECT THAT THE ALGIERS TRANSACTION'S**  
3 **COMPLETION WOULD REDUCE REGULATORY COSTS RECOVERED IN**  
4 **ELECTRIC RATES?**

5 **A.** Yes. The Joint Application discusses savings by eliminating regulatory filings and  
6 procedures made redundant by the proposed Algiers Transaction. Prior to ELL's March  
7 28, 2013 filing before the Council to increase electric rates in Algiers (Council Docket  
8 UD-13-01), the last time an electric base rate increase had been requested before the  
9 Council for Algiers was 1986.<sup>28</sup> However, with regard to Algiers, Mr. Gallagher opines  
10 that "it is very unlikely that such a long period could elapse between base-rate cases in  
11 the future."<sup>29</sup> I concur that such a long period between rate cases in the future is unlikely.  
12 Assuming no Algiers Transaction, the Companies predict nearly annual FRP evaluations  
13 and full rate cases approximately every five years for ELL-Algiers.<sup>30</sup> While their  
14 estimate can be debated based upon numerous factors, it nevertheless is within the zone  
15 of possibility. In any event, certain regulatory filings and proceedings would likely be  
16 avoided as a result of the completion of the Algiers Transaction, and their estimated  
17 avoided costs are quantified in Mr. Watson's direct testimony.

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<sup>28</sup> See Application of Entergy Louisiana, LLC for Authority to Change Rates, Approval of Formula Rate Plan and for Related Relief for Operations in Algiers, page 2.

<sup>29</sup> The Direct Testimony of Kenneth F. Gallagher, the answer to question Q9 at pages 7-8.

<sup>30</sup> See the Companies response to Advisor RFI CNO 1-48.

1 **Q. WHAT MAJOR REGULATORY PROCEEDINGS ARE CURRENTLY**  
2 **SCHEDULED FOR ALGIERS, AND DO THE COMPANIES PROPOSE TO**  
3 **AVOID ANY OF THEIR ASSOCIATED COSTS AS A RESULT OF**  
4 **COMPLETING THE ALGIERS TRANSACTION?**

5 **A.** Council Resolution R-14-278 calls for four annual Formula Rate Plan (“FRP”) evaluations of ELL’s base rate revenue surplus or revenue deficiency beginning May 2015.<sup>31</sup> An FRP evaluation involves Council consideration of all of ELL’s rate base and O&M expenses, along with Council consideration of any ELL pro-forma adjustments to rate base and O&M expenses in the test period (in the case of the FRP the “Test Year” is the calendar year). The Companies have indicated that the costs associated with three of these four FRP evaluations may be avoided as a result of completing the Algiers Transaction.<sup>32</sup>

13 **Q. WILL THE PROPOSED ALGIERS TRANSACTION REDUCE REGULATORY**  
14 **COMPLEXITY AND COSTS?**

15 **A.** I find it reasonable to expect that regulatory complexity and costs will be reduced as a result of the Algiers Transaction. As I noted previously, the Joint Application says “[the Algiers Transaction] would eliminate the extra cost and complexity that results from

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<sup>31</sup> See Council Resolution R-14-278, AIP paragraph 19.

<sup>32</sup> See the Companies’ response to CNO 8-2, which indicates the costs associated with the Test Year 2015-2017 FRPs may be avoided.

1 having a separate process from that of ENO to establish rates due to ELL providing  
2 service to Algiers . . .”<sup>33</sup> Mr. Watson’s direct testimony estimates the reduction in  
3 regulatory costs.

4 **Q. WILL THE ALGIERS TRANSACTION REDUCE THE COST TO**  
5 **RATEPAYERS RELATED TO RECOVERY FROM MAJOR STORMS?**

6 **A.** Yes, it could. A single utility providing service to all of Orleans Parish, ENO can better  
7 employ securitization bonds to reduce the financing costs associated with system  
8 restoration activities following a major storm or other disaster as compared to separate  
9 Operating Companies serving separate territories in New Orleans, as discussed by  
10 Company witness Rice.<sup>34</sup> As the Council is currently investigating in Council Docket  
11 UD-14-01, system restoration costs following a storm may be recovered through the  
12 proceeds from the issuance of a securitization bond. As Mr. Watson discusses in his  
13 direct testimony, Algiers’s small size prevents ELL-Algiers from employing  
14 securitization to recover its system restoration costs following a storm. The proposed  
15 Algiers Transaction would allow ENO to issue a single securitization bond to recover its  
16 system restoration costs incurred throughout all of Orleans Parish related to a future  
17 major storm. Therefore, should ENO serve all of Orleans Parish, the combined operation  
18 would allow Algiers ratepayers to benefit from cost savings related to securitization as

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<sup>33</sup> Joint Application, page 12.

<sup>34</sup> See the Direct Testimony of Charles L. Rice, Jr., the response to question Q23 at page 18.

1 well as spread a securitization bond's issuance costs across a wider base, thus also  
2 somewhat lowering the cost to Legacy-ENO ratepayers as well.

3 **VII. OTHER COMPANY REQUESTS BEFORE THE COUNCIL**

4 **Q. DO YOU RECOMMEND THAT THE COUNCIL REVIEW THE JOINT**  
5 **APPLICATION FOR COMPLIANCE WITH COUNCIL RESOLUTION R-01-**  
6 **676?**

7 **A.** Council Resolution R-01-676 concerns the Council's intent to "protect against potential  
8 abuses that can arise due to the lack of 'arms-length negotiation' that characterizes  
9 transactions among affiliates."<sup>35</sup> Council Resolution R-01-676 seeks to ensure that  
10 Company transactions with affiliates are fair to ratepayers and do not unduly favor the  
11 interests of Entergy affiliates. Ordering paragraph 7 of Council Resolution R-01-676  
12 calls for affiliate transactions in excess of \$100,000 to be limited to "tariff products and  
13 services, the sale and purchase of goods, property, products or service made generally  
14 available by the utility or Affiliate."<sup>36</sup> Council Resolution R-01-676, ordering paragraph  
15 7, appears to apply to the Algiers Transaction, and the Companies have requested that the  
16 Council waive its review of the Algiers Transaction under Council Resolution R-01-676,  
17 ordering paragraph 7.<sup>37</sup> My review of Council Resolution R-01-676 indicates that

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<sup>35</sup> Council Resolution R-01-676, page 1.

<sup>36</sup> Id, page 7, ordering paragraph 7.

<sup>37</sup> See the Direct Testimony of Kenneth F. Gallagher, the response to question Q35 at page 29.

1 ordering paragraph 7 applies to the Algiers Transaction but that Council Resolution R-01-  
2 676 was not intended to apply to major transactions where a detailed Council review is  
3 available to ensure the public interest. The Council already enjoys the authority to  
4 review all aspects of the Joint Application and approve or deny the relief sought therein  
5 in order to protect the public interest, therefore I recommend that the Council waive its  
6 right to review the proposed Algiers Transaction under Council Resolution R-01-676,  
7 ordering paragraph 7.

8 **Q. WHAT FRANCHISE FEES DO ELL-ALGIERS AND ENO COLLECT FROM**  
9 **ELECTRIC RATEPAYERS AND REMIT TO THE CITY?**

10 **A.** ENO remits to the City a franchise fee equal to 5% of its gross retail electric receipts,<sup>38</sup>  
11 and ELL-Algiers remits to the City a franchise tax equal to 2% of its gross retail electric  
12 receipts obtained in New Orleans.<sup>39</sup>

13 **Q. UNDER WHICH COUNCIL FRANCHISE DO THE COMPANIES PROPOSE**  
14 **THAT ENO BE ALLOWED TO PROVIDE ELECTRIC SERVICE IN ALGIERS?**

15 **A.** The Companies request that ENO be added as a grantee to the franchise under which  
16 ELL-Algiers currently provides electric service in Algiers. Further, the Companies  
17 request that the Council modify the ELL-Algiers franchise so that ENO may provide  
18 electric service to all of New Orleans. Specifically, the Companies request that the

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<sup>38</sup> See New Orleans City Council Ordinance No. 17962 M.C.S. (December 19, 1996).

<sup>39</sup> See New Orleans City Council Ordinance No. 1444 M.C.S. (August 21, 1958).

1 Council issue an ordinance “(1) authorizing ENO to be an additional grantee under the  
2 indeterminate permit the Council granted to ELL’s predecessor, Louisiana Power & Light  
3 Company, to provide electric service in Algiers . . . ; (3) removing the restriction,  
4 currently imposed on the holder of the indeterminate permit, against providing electric  
5 service to customers outside of Algiers.”<sup>40</sup>

6 **Q. DO YOU CONCUR WITH THE COMPANIES PROPOSAL TO MAKE ENO AN**  
7 **ADDITIONAL GRANTEE OF THE ALGIERS ELECTRIC FRANCHISE?**

8 **A.** Yes. No aspect of the Companies’ proposed modification to their New Orleans  
9 franchises is reasonably expected to diminish the Council’s regulatory authority or  
10 materially affect ratepayers. The Companies proposal to allow ENO to provide electric  
11 service under the Algiers franchise currently granted to ELL is an acceptable component  
12 of the Algiers Transaction.

13 **Q. AT WHAT RATE DO THE COMPANIES PROPOSE ENO PAY A FRANCHISE**  
14 **FEE FOR GROSS ELECTRIC RECEIPTS IN ALGIERS?**

15 **A.** The Companies propose that ENO in Algiers collect and pay to the City the same 2% of  
16 gross receipts franchise fee that ELL-Algiers currently collects and pays to the City.  
17 ENO’s franchise fee rate is established by City Ordinance 17962, which says “the grantee  
18 [ENO], its successors or assigns, shall pay to the City of New Orleans a street use  
19 franchise fee equal to five percent (5%) of the gross receipts of the grantee, its

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<sup>40</sup> Joint Application, page 41.



1 successors, or assigns from the sale of electrical energy in the city of New Orleans under  
2 this indeterminate permit . . .”<sup>41</sup> The Companies conclude that the Council would need to  
3 amend its ordinances to clarify that ENO should collect and pay to the City an Algiers  
4 electric franchise fee based on 2% of gross receipts.

5 **Q. DO YOU AGREE THAT ENO SHOULD COLLECT AND PAY TO THE CITY A**  
6 **2% FRANCHISE FEE IN ALGIERS?**

7 **A.** Yes. Post-Algiers Transaction and in the short-term, ratepayers in Algiers should  
8 continue to pay the same electric franchise fee rate as they do now. While harmonizing  
9 rates and fees, including the franchise fee, across all of Orleans Parish is a long-term  
10 benefit claimed by the Companies in the Joint Application, Algiers ratepayers are  
11 currently experiencing a four-year base rate increase phase-in, and the Council may wish  
12 to consider the impact on ratepayers of further changes to their bills during this phase-in.  
13 Also, the Companies are requesting that other elements of New Orleans electric bills  
14 remain separate and differently determined until the Combined Rate Case, which  
15 suggests that harmonizing franchise fees is not an urgent short-term priority. I  
16 recommend that the Council amend Ordinance 17962 to provide for different franchise  
17 fee rates for Legacy-ENO and Algiers until the Combined Rate Case, at which time the  
18 Council may wish to establish a single uniform franchise fee rate for all of Orleans  
19 Parish.

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<sup>41</sup> New Orleans City Council Ordinance No. 17962 M.C.S. (December 19, 1996).

1 **Q. WOULD THE COMPANIES' PROPOSAL WITH REGARD TO FRANCHISE**  
2 **RIGHTS RESULT IN ENO OPERATING UNDER TWO ELECTRIC**  
3 **FRANCHISES?**

4 **A.** Yes. Under the Companies' proposal and post-Algiers Transaction, ENO would provide  
5 electric service under two different franchise ordinances to Legacy-ENO and Algiers,  
6 respectively.<sup>42</sup> At the time of the Combined Rate Case, the Council may wish to consider  
7 whether a single retail electric franchise for all of Orleans Parish is required to increase  
8 the efficiency with which the Council supervises, regulates, and controls ENO's electric  
9 utility operations.

10 **A. DO THE COMPANIES PROPOSE TO TRANSFER BALANCE SHEET ENTRIES**  
11 **RELATED TO FIN NO. 48 FROM ELL TO ENO AS PART OF THE ALGIERS**  
12 **TRANSACTION?**

13 **A.** Yes, as Mr. Proctor's direct testimony discusses in detail, ELL records ADIT liabilities to  
14 comply with FIN No. 48 which may be transferred to ENO as part of the Algiers  
15 Transaction. As also discussed in Mr. Proctor's direct testimony, in past rate actions, the  
16 Advisors have disagreed with the Companies regarding proper the ratemaking treatment  
17 of FIN No. 48-related ADIT liabilities.

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<sup>42</sup> The franchise in Algiers is provided by New Orleans City Council Ordinance No. 6332 (May 16, 1892).  
The franchise in Orleans Parish apart from Algiers is provided by New Orleans City Council Ordinance No.  
7068 (September 2, 1922).

1   **Q.    SHOULD THE COUNCIL’S APPROVAL OF THE ALGIERS TRANSACTION**  
2       **BE INTERPRETED AS APPROVAL OF THE COMPANIES’ PAST**  
3       **RATEMAKING TREATMENT OF FIN NO. 48 ADIT LIABILITIES?**

4   **A.**    No. As Mr. Proctor discusses in his direct testimony, the accounting treatment of FIN  
5       No. 48 ADIT liabilities in the close of the Algiers Transaction should not be an indicator  
6       as to how the Council may treat ENO’s FIN No. 48 ADIT liabilities in a future rate  
7       action.

8   **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**


9   **A.**    Yes.

**AFFIRMATION**

STATE OF COLORADO    )  
                                      )  
COUNTY OF DENVER    )

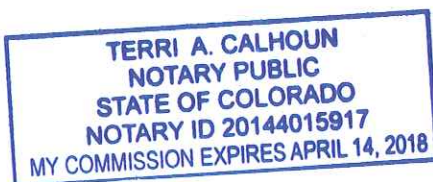
I, Joseph A. Vumbaco, do hereby swear under penalty of perjury the following

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

  
\_\_\_\_\_  
Joseph A. Vumbaco

Subscribed and sworn to before me  
this 13<sup>th</sup> day of March, 2015.

  
\_\_\_\_\_  
NOTARY PUBLIC



**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 )**

Response of: Advisors to the Council of the City of New Orleans (“Advisors”)  
To the First Set of Data Requests  
Of Requesting Party: Entergy New Orleans, LLC

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Question No.: ENO 1-2

Question:

Please refer to page 42, lines 19-20 of Mr. Watson’s Surrebuttal Testimony. Does Mr. Watson know of any way that ENO can reduce the alleged ratepayer harm to electric ratepayers from the gas transaction at issue so as to reduce or eliminate the need for his proposed mitigation? If so, please describe in detail such actions or circumstances, and provide any authorities, publications, studies, orders, or rulings relied upon for your response.

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Objection:

The Advisors object to the request as vague and ambiguous, and seeking information that is not reasonably calculated to lead to the discovery of admissible evidence. The Advisors further object to the request as requesting the Advisors perform new analysis or research. Subject to the objections, the Advisors respond as follows:

Response:

The Council, and the Advisors in their role assisting the Council, do not take management responsibility for ENO’s utility operations. The estimate of ratepayer harm was provided by ENO (see ENO’s response to CNO 1-13). However, the Advisors, including Mr. Watson, are willing to review and evaluate any reasonable concepts or approaches developed by ENO that can reduce electric ratepayer harm from the Gas Transaction.

See Council Resolution No. R-06-88 2.r: "Whether there are any conditions which should be attached to the proposed acquisition."

**CERTIFICATE OF SERVICE**

**UD-24-01**

I hereby certify that I have served the required number of copies of the foregoing pleading upon all other known parties of this proceeding individually and/or through their attorney of record or other duly designated individual.

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