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September 6, 2016

Via Hand Delivery

Ms. Lora W. Johnson
Clerk of Council
Council of the City of New Orleans
Room 1E09, City Hall
1300 Perdido Street
New Orleans, LA 70112

Re: *In Re: Resolution Regarding Proposed Rulemaking to Establish Integrated Resource Planning Components and Reporting Requirements for Entergy New Orleans, Inc. (Docket No. UD-08-02)*

Dear Ms. Johnson:

Entergy New Orleans, Inc. ("ENO") hereby submits for your further handling and filing an original and three copies of ENO's *Summary of Illustrative Examples of a Basic Decoupling Mechanism*, together with Exhibit 1 thereto. Please file an original and two copies into the record in the above referenced matter, and return a date-stamped copy to our courier.

Based on ENO's conversations of today with the Council's Technical Advisors, ENO understands that the Advisors are continuing to review the illustrative examples contained on Exhibit 1 and may choose to supplement those examples at a later date.

Should you have any questions regarding the above matter, please do not hesitate to contact me. Thank you for your assistance with this matter.

Sincerely,



Harry M. Barton

HMB\bkd
Enclosures
cc: Official Service List UD-08-02

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BY: 

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

IN RE: RESOLUTION REGARDING)	
PROPOSED RULEMAKING TO)	
ESTABLISH INTEGRATED)	
RESOURCE PLANNING)	DOCKET NO. UD-08-02
COMPONENTS AND REPORTING)	
REQUIREMENTS FOR)	
ENTERGY NEW ORLEANS, INC.)	

**SUMMARY OF ILLUSTRATIVE EXAMPLES OF
A BASIC DECOUPLING MECHANISM
ON BEHALF OF ENTERGY NEW ORLEANS, INC.**

NOW BEFORE THE COUNCIL OF THE CITY OF NEW ORLEANS comes Entergy New Orleans, Inc. (“ENO”), through undersigned counsel, and submits this Summary of Illustrative Examples of Decoupling Mechanism Filing pursuant to Ordering Paragraph 13 of Resolution No. R-16-103, dated April 7, 2016.

Background

In Council Docket No. UD-08-02, the Council of the City of New Orleans (“Council”) established a stakeholder process open to all Intervenors for considering a decoupling mechanism for ENO. ENO, the Advisors, the Alliance for Affordable Energy, Green Coast Enterprises, and the Gulf States Renewable Energy Industries Association actively participated in the process, and ENO submitted a draft decoupling proposal to the Council, and the other parties commented on. Ultimately, on February 10, 2016, the Advisors issued a report on the stakeholder process.

In April 2016, the Council issued Resolution No. R-16-103, entitled “RESOLUTION AND ORDER ESTABLISHING GUIDELINES FOR THE DESIGN OF A DECOUPLING PROGRAM FOR ENTERGY NEW ORLEANS, INC.” In this Resolution, the Council recognized that the parties had reached consensus on some issues but provided guidance on issues that were subject to continuing debate after the stakeholder process. For example, the Council described a basic structure for a decoupling mechanism with and without a Formula Rate Plan (“FRP”), including defining the costs to be considered in the decoupling mechanism, and explained that the decoupling mechanism should be in place for three years beginning with the implementation of base rates from ENO’s next rate case, the 2018 Combined Rate Case.¹ The Council then went on to order ENO to include in the 2018 Combined Rate Case a three-year pilot program decoupling mechanism proposal meeting certain criteria described in Ordering Paragraphs 1 through 12 of the resolution. Thus, in Resolution No. R-16-103, the Council did not consider or approve a detailed decoupling mechanism and related ratemaking mechanisms and methodologies. Rather, the Council established a filing requirement for ENO in the 2018 Combined Rate Case, and, through that filing requirement, the Council (1) would receive a decoupling proposal from ENO for the Council’s and parties’ consideration and (2) would decide whether to implement a decoupling pilot program in the 2018 Combined Rate Case.

Additionally, Ordering Paragraph 13 of Resolution No. R-16-103 directed ENO to work with the Advisors to develop illustrative examples of how the decoupling mechanism described in the resolution (“Basic Decoupling Mechanism”) would operate with and without an FRP in

¹ On October 30, 2014, ENO and Entergy Louisiana, LLC (“ELL”) filed with the Council a joint application requesting that the Council approve the sale to ENO of ELL’s Algiers electric operations and the related assets and liabilities, which sale is referred to as the “Algiers Transaction.” On May 7, 2015, ENO, Old ELL, and the Council Advisors entered into an Agreement in Principle (“Algiers Transaction AIP”) recommending that the Council approve the Algiers Transaction. The Council approved the Algiers Transaction AIP in Council Resolution R-15-194, dated May 14, 2015. Paragraph 8 of the Algiers Transaction AIP requires ENO to file a rate case in 2018 referred to as the Combined Rate Case.

place. Accordingly, in June 2016, ENO and the Advisors commenced discussions on the illustrative examples and, in the course of those discussions, ENO and the Advisors exchanged materials and held two teleconferences. From those discussions, ENO and the Advisors developed a range of illustrative examples, and those illustrative examples are included with this filing as Exhibit 1 on a CD containing the illustrative examples in spreadsheet form.

Although the illustrative examples concern issues to be addressed in the 2018 Combined Rate Case, they are not intended to represent the positions that ENO and the Advisors necessarily will take in the 2018 Combined Rate Case. Accordingly, ENO and the Advisors reserve their respective rights to take whatever positions they deem appropriate with respect to any issue in the 2018 Combined Rate Case, including but not limited to decoupling, the establishment of an FRP, and ENO's cost of equity.

Summary of the Illustrative Examples

ENO, with the Advisors' advice, prepared eleven illustrative examples of the Basic Decoupling Mechanism, which are referred to as "Scenarios." Eight Scenarios demonstrate the operation of the Basic Decoupling Mechanism with an FRP; three Scenarios demonstrate the operation of the Basic Decoupling Mechanism without an FRP.

The eight Scenarios with an FRP assume that the FRP would have a rate adjustment formula similar to the formula in the FRP approved in Resolution R-09-136, dated April 2, 2009. That FRP, which was in place for ENO for evaluation periods (i.e., test years) 2009 through 2011, featured an Evaluation Period Cost of Equity ("EPCOE") of 11.1% and a Dead Band of \pm 0.40%. The Scenarios further assume that the FRP Rate Adjustment for each rate class would not be uniform as it has in the past but would depend on each rate class's revenues and allocated costs. Below is a table summarizing the key components of the eight scenarios.

Illustrative Examples Assuming an FRP with an EPCOE of 11.1% is in Place						
No.	Fixed Cost Change (\$millions)	Total Revenue Change (\$millions)	Earned Return on Equity	Within the Dead Band?	Decoupling Mechanism Change (\$millions)	FRP Revenue Change (\$millions)
1	5.000	6.000	11.35%	Yes	0	0
2	7.000	6.000	10.85%	Yes	0	0
3	3.000	6.000	11.84%	No	(2.830)	(3.000)
4	9.000	6.000	10.36%	No	3.170	3.000
5	(7.000)	(6.000)	11.35%	Yes	0	0
6	(5.000)	(6.000)	10.85%	Yes	0	0
7	(9.000)	(6.000)	11.84%	No	(3.160)	(3.000)
8	(3.000)	(6.000)	10.36%	No	2.840	3.000

The table above highlights important points regarding the Basic Decoupling Mechanism with an FRP. First, the Basic Decoupling Mechanism is of limited importance when an FRP is in place. The Basic Decoupling Mechanism only changes rates when the FRP rate adjustment formula requires a rate change. For example, in scenarios 1, 2, 5, and 6, the FRP Dead Band prohibits a rate change, and, as a result, the issue of whether ENO's rates are sufficient to allow ENO to collect its fixed costs is moot. In scenarios 3, 4, 7, and 8, however, ENO's earned return on equity is outside the FRP Dead Band, and, therefore, the FRP requires a rate change. In those instances, the Basic Decoupling Mechanism comes into play but the overall rate change for each rate class is dictated by each rate class's total revenues and allocated costs, not just fixed costs, which is the subject of the Basic Decoupling Mechanism.

Second, the application of the Basic Decoupling Mechanism with an FRP produces symmetrical results when comparing scenarios whose changes in revenue and fixed costs are symmetrical. For example, in scenario 4, fixed costs increase \$9.000 million and revenue increases \$6.000 million; in scenario 7, fixed costs decrease \$9.000 million and revenue decreases \$6.000 million. Accordingly, in scenario 4, rates increase \$3.000 million; in scenario 7, rates decrease \$3.000 million.

The three scenarios assuming an FRP is not in place demonstrate the operation of the Basic Decoupling Mechanism is different from the operation of the Basic Decoupling Mechanism with an FRP. With an FRP and assuming ENO's earned return on equity is outside the FRP Dead Band, the FRP adjusts rates so that ENO's rates produce a return on equity equal to the Evaluation Period Cost of Equity, which is 11.1% in all of the scenarios, based on ENO's revenues and costs, including fixed costs, in the evaluation period. Absent an FRP, the Basic Decoupling Mechanism only adjusts rates so that ENO collects its level of fixed costs at the time ENO's base rates were last set, which could be a much lower level than the level of ENO's present fixed costs in the current period. Thus, the Basic Decoupling Mechanism would not take into account could whether ENO has any opportunity to earn its last authorized return on equity. The table below summarizes the three scenarios assuming an FRP is not in place.

Illustrative Examples Assuming the Authorized Return on Equity is 11.1% and an FRP is not in Place					
No.	Fixed Cost Change (\$millions)	Total Revenue Change (\$millions)	Earned Return on Equity	Decoupling Mechanism Change (\$millions)	Implicit Return on Equity in Prospective Rates
9	5.000	6.000	11.35%	(5.830)	9.01%
10	5.000	(6.000)	8.41%	5.830	10.75%
11	0.000	0.000	11.10%	0	N/A

As can be seen in the above table, fixed cost changes are ignored when an FRP is not in place. Thus, although the Basic Decoupling Mechanism may produce a rate increase as shown in scenario 10, that rate increase does not mean that ENO's rates provide a reasonable opportunity for ENO to earn its authorized return on equity. In such circumstances, ENO's remedy to obtain a reasonable opportunity for ENO to earn its authorized return on equity would be to file a rate case.

Scenario 11 illustrates how the Basic Decoupling Mechanism without an FRP takes into account the revenue contribution to fixed costs by each rate class. In that scenario, the

Residential rate class's revenue contribution to fixed costs increased and Large Electric High Load Factor class's revenue contribution to fixed costs decreased, but ENO's overall revenue stayed the same, and ENO earned its authorized return on equity. In that situation, the Basic Decoupling Mechanism decreases rates for the Residential rate class and increases rates for the Large Electric High Load Factor rate class. In contrast, if an FRP was in place in the same situation, the result would be different; neither rate classes' respective rates would change.

Respectfully Submitted:

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**ATTORNEYS FOR
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CERTIFICATE OF SERVICE

Docket No. UD-08-02

I hereby certify that I have this 6th day of September 2016, served the required number of copies of the foregoing report upon all other known parties of this proceeding, by the following: electronic mail, facsimile, overnight mail, hand delivery, and/or United States Postal Service, postage prepaid.

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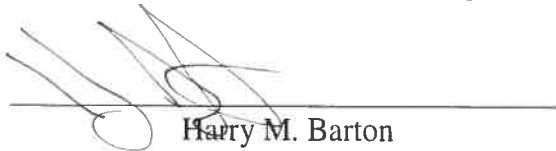
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New Orleans, Louisiana, this 6th day of September 2016.



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