BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION OF ENTERGY NEW ORLEANS, LLC FOR A CHANGE IN ELECTRIC AND GAS RATES PURSUANT TO COUNCIL RESOLUTIONS R-15-194 AND R-17-504 AND FOR RELATED RELIEF	**)))))**	**DOCKET NO. UD-18-07**

DIRECT TESTIMONY

OF

BYRON S. WATSON, CFA, CRRA

ON BEHALF OF

THE ADVISORS TO THE

COUNCIL OF THE CITY OF NEW ORLEANS

FEBRUARY 1, 2019

PUBLIC REDACTED VERSION

PREPARED DIRECT TESTIMONY

OF

BYRON S. WATSON, CFA, CRRA

I. INTRODUCTION

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

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

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

A. I am presenting testimony on behalf of the Advisors to the Council of the City of New Orleans ("Council") ("Advisors"). The Council regulates the rates, terms, and conditions of electric and gas service of Entergy New Orleans, LLC ("ENO"),[1] which is a subsidiary of Entergy Utility Holding Company, LLC ("EUH"), which is itself directly and indirectly owned by Entergy Corp.

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

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[1] The Entergy Operating Companies ("EOC"), as of the preparation of this testimony, are, Entergy Arkansas, LLC ("EAL"), Entergy Mississippi, LLC ("EML"), Entergy Louisiana, LLC ("ELL"), ENO, and Entergy Texas, Inc. ("ETI"). Any reference to the EOCs or an individual EOC should include any successor organization.

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

Q. PLEASE SUMMARIZE THE PRIMARY RECOMMENDATIONS AND CONCLUSIONS IN YOUR TESTIMONY.

A. As is explained in greater detail in throughout my testimony, I have reached the following conclusions and make the following recommendations:

- I recommend that the Council adopt an allowed-ROE of 8.93% for both electric and gas, as compared to ENO's proposed electric ROE ranging from 10.5%-11.0% and gas ROE of 10.75%.
- I recommend that the Council set ENO's equity ratio at 50% as opposed to ENO's proposed 52.2%. If the Council approves a Formula Rate Plan ("FRP") mechanism, I recommend that the equity ratio for the FRP mechanism be equal to the lesser of 50% or ENO's actual equity.
- I recommend that the Council set rates employing a 4.88% long-term cost rate when calculating a Weighted Average Cost of Capital ("WACC").
- I recommend that the Council deny ENO's request to remove $6,227,006 and $823,146 for electric and gas, respectively, of Accumulated Deferred Income Tax ("ADIT") related to stranded plant from its Period I and Period II rate base in its cost of service studies.
- I recommend that the Council adopt ENO's proposed depreciation rates.
- I recommend that the Council approve ENO's proposed recovery of costs related to AJ14, which all reflect future capital investments that are known and measurable in

that they are budgeted and reflect plant additions that can reasonably be expected to be closed by December 2019. I also recommend that the Council review these expenditures in ENO's first FRP evaluation to ensure that they did, in fact, close to plant in service.

- I recommend that the Council approve ENO's proposed voluntary Pre-Pay Billing option for both electric and gas customers.
- I recommend that the Council reject ENO's voluntary Fixed Bill billing option.
- I recommend that the Council approve ENO's proposed voluntary Green Power Option for customers and that the Council continue to evaluate ENO's costs relative to this option in future rate actions, such as FRP evaluations.
- I recommend that the Council not authorize, or terminate as applicable, ENO's proposed Securitized Storm Cost Offset ("SSCO") Rider, Gas Infrastructure Replacement Program ("GIRP") Rider, Advanced Metering Infrastructure Charge riders, a certain portion of the Purchased Power and Capacity Acquisition cost Recovery ("PPCACR") Rider, and Distribution Grid Modernization ("DGM") Rider as unnecessary and constituting inappropriate single-issue ratemaking. Instead of recovering any such relevant and prudently incurred costs through riders, ENO should recover them through base rates. An FRP mechanism with specific provisions as recommended by Advisor witness Prep would provide sufficient assurance of recovery of prudent costs in a timely manner.
- In support of Advisor witness Rogers, I calculate the ratepayer impact of ENO's proposed further investments in its GIRP program.

- I recommend that the Council reject ENO's proposed $1 per meter per year gas research and development charge as unnecessary and constituting inappropriate single-issue ratemaking. Rather, I recommend the Council consider allowing recovery of any prudently incurred research and development costs as part of future gas FRP evaluations or other future base rate filings.
- I recommend that the Council approve ENO's proposed Electric Vehicle Charging Infrastructure Rider, but specifically note that the rider should not be applied prejudicially to customers who choose to construct EV charging stations outside of the rider in terms of vendor selection, provision of related electric service, and financing sources.
- I recommend that the Council allow ENO on an interim basis to continue its $250 per Level 2 electric vehicle charger rebate program as described in ENO's application with costs recovered through the FRP until the commencement of Energy Smart Program Year 2020, at which point I recommend that the program be evaluated as part of the Council's Energy Smart program.
- With respect to ENO's Electric Vehicle Charging Station Investments proposal, I recommend that the Council consider all such proposals in the Electric Vehicles docket, Docket No. UD-18-01, rather than as part of this rate case.
- My analysis shows that above and beyond the rate impact anticipated from this rate case, should NOPS achieve commercial operation status in 2020, the typical residential customer will experience approximately a $6.36 monthly bill increase.

- My analysis demonstrates that the out-of-period cost of service study proforma adjustments recommended by Mr. Prep significantly reduce the effect of regulatory lag illustrated by ENO witness Thomas to justify its request for riders.

The reasoning and analysis supporting each of these recommendations and conclusions is laid out more fully below.

Q. PLEASE DESCRIBE THE COUNCIL ACTION CAUSING YOU TO FILE YOUR TESTIMONY.

A. On September 28, 2017, the Council adopted Resolution No. R-17-504, which directed ENO to make a rate case filing before the Council on or before July 31, 2018. On July 31, 2018 ENO filed with the Council its *Application of Entergy New Orleans, LLC for a Change in Electric and Gas Rates Pursuant to Council Resolutions R-15-194 and R-17-504 and For Related Relief* ("Initial Application"). Following the Council's initial review of the Initial Application, in a letter to the Council dated August 15, 2018, ENO withdrew its Initial Application and indicated it would refile its application in September. On September 21, 2018, ENO filed with the Council its *Revised Application of Entergy New Orleans, LLC for a Change in Electric and Gas Rates Pursuant to Council Resolutions R-15-194 and R-17-504 and For Related Relief*. In my testimony, I refer to this filing, along with any statements, workpapers, supplements, and errata associated therewith as the "Application." On October 4, 2018, the Council adopted Resolution No. R-18-434, establishing the instant docket and a procedural schedule. I am sponsoring my testimony pursuant to that Council resolution.

II. PURPOSE OF TESTIMONY

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. My testimony's purpose is to present the results of my analyses related to the Council's prospective setting of ENO's rates. Further, my testimony makes recommendations to the Council based on these analyses and on accepted regulatory principles. My testimony's purpose is also to present information to the Council related to the overall scope of ENO's rate increase requests over the anticipated rate-effective period until ENO may file a subsequent comprehensive rate case and the Council may set new base rates (*i.e.*, ENO's proposed Formula Rate Plan ("FRP") period of 2019-2022).

Q. PLEASE DESCRIBE THE TOPICS DISCUSSED IN YOUR TESTIMONY.

A. My testimony discusses an appropriate Rate of Return ("ROR") for the Council to take into account when setting ENO's retail electric and gas rates, which in this proceeding specifically means an appropriate WACC whose components are long-term debt total cost and Return on Equity ("ROE"). In particular, my testimony presents the results of Discounted Cash Flow ("DCF") ROE analyses. My testimony discusses and quantifies the rate increases ENO proposes in the Application, but which are not presented in terms of rate or bill impact. Such rate increase proposals include ENO's proposed 2020 rate increase upon completion of the New Orleans Power Station ("NOPS"), ENO's proposed rate increases to recover costs related to the Gas Infrastructure Replacement Program ("GIRP"), ENO's proposed rate increases to recover costs related to Advanced Metering Infrastructure ("AMI") deployment, and potential rate increases due to increases to ENO's allowed ROE should ENO achieve reasonably achievable distribution reliability metrics (*i.e.*, Reliability Improvement Mechanism ("RIM")).

III. RECOVERY OF COSTS ASSOCIATED WITH LONG-TERM DEBT

Q. PLEASE DESCRIBE THE CUSTOMARY MECHANISM FOR ALLOWING ENO RECOVERY OF COSTS RELATED TO ITS LONG-TERM DEBT.

A. While the Council is not obligated to do so, the accepted and customary mechanism for allowing ENO the opportunity to recover costs associated with long-term debt (*i.e.*, first mortgage bonds in the case of ENO), such as coupon interest, amortization of original issuance discounts/premiums, and amortization of issuance costs, is to factor the effective cost rate of long-term debt into ENO's WACC as ENO's allowed ROR on rate base.

Q. HAS ENO PRESENTED A TOTAL COST OF LONG-TERM DEBT IN THE APPLICATION?

A. Yes, in the Application, Statement DD-2 presents an effective long-term debt cost rate of 4.82%. This value is reflected in the Application's cost of service studies.

Q. IS THIS VALUE THE MOST CURRENT SUCH COST RATE?

A. No. On October 25, 2018, ENO filed before the Council notification of a September 27, 2018 bond issuance of having $60 million in principal ("Bond Notice"). The Application's Statement DD-2 incorporated this $60 million debt issuance but based on a 4.00% effective cost rate. This bond's effective cost rate is actually 4.51%.[2] As a result, ENO's weighted average effective cost rate for long-term debt is 4.88%,[3] 6 bp[4] higher than that presented in the Application.

Q. WHAT EFFECTIVE LONG-TERM DEBT COST RATE IS APPROPRIATE FOR COUNCIL CONSIDERATION IN THE INSTANT PROCEEDING?

A. ENO should be allowed the opportunity to recover its costs related to long-term debt based on the most current information regarding its portfolio of long-term debt as of the preparation of evidence-introducing testimony. As such, the long-term debt total cost rate of 4.88% is appropriate for Council consideration in the instant proceeding. Based on ENO's requested rate base and capital structure, this long-term debt total cost rate constitutes approximately a $0.35 million annual revenue increase compared to the Application's 4.82% cost rate on a total company basis.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING RECOVERY OF COSTS RELATED TO LONG-TERM DEBT?

A. I recommend the Council set rates taking into account an allowed-ROR on ENO's rate base equal to its WACC. I recommend the Council employ a 4.88% long-term cost rate when calculating such a WACC for the purpose of setting rates in the instant proceeding.

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2 See ENO's response to DR CNO 8-2.

3 Id.

4 bp refers to basis point. A single bp is 1/100 of one percentage point. For example, a change in a percent-denominated rate, such as long-term debt from 4.50% to 5.00% would be 50 bp.

IV. ALLOWED RETURN ON EQUITY

Q. WHAT IS ROE IN THE CONTEXT OF SETTING ENO'S RATES IN THE INSTANT PROCEEDING?

A. The Council is asked to set new retail electric and gas rates for ENO. Such rates should be considered reasonable if they allow ENO the reasonable opportunity to prospectively recover its prudently incurred costs and earn a reasonable return on its investments. ENO's Application and its cost of service studies are structured such that ENO's revenue requirement reflects ENO's opinion as to its actual operating costs and its actual cost rates for debt (*i.e.*, ENO's opinion as to its prospective prudently-incurred costs). As such, ENO's return on investment, which can be regarded as allowing ENO a profit, is constituted by an allowed-ROE and its weighting in ENO's WACC. Accepted regulatory principles and the US Supreme Court's *Bluefield* and *Hope* decisions provide that ENO be allowed a return on its investment that,

1. is comparable to that being earned by other companies with comparable risks,
2. is sufficient to assure confidence in its financial soundness, and
3. is adequate to maintain its credit worthiness and enable it to raise necessary capital.[5]

The Council is not obligated to employ any specific methodology when setting ENO's rates, however both ENO in its Application and the Advisors in their direct testimony

[5] See *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679, 692 (1923) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

calculate their respective proposed rates based on allowing recovery of prudently incurred costs, plus a fair return on investment to include a reasonable allowed-ROE, which is an accepted methodology. The Council should set an allowed-ROE that conforms to these three accepted requirements.

Q. HAS THE COUNCIL ACKNOWLEDGED THESE RATEMAKING PRINCIPLES REFLECTIVE OF THE HOPE AND BLUEFIELD DECISIONS?

A. Yes, Council Resolution Nos. R-03-272 (resolving rate case Docket No. UD-01-04) at pages 11-12, R-09-136 (resolving rate case Docket No. UD-08-03) at page 10, and R-14-278 (resolving rate case Docket No. UD-13-01) at pages 17-18 all reference and accept these regulatory ratemaking principles regarding the appropriate allowed-return on ENO's investments.

Q. WHAT GAS ROE IS ENO REQUESTING IN ITS APPLICATION?

A. ENO is requesting the Council approve a 10.75% ROE for its investments in its gas utility. This requested ROE is unchanged from the last Council-approved ROE adopted in 2009.[6]

Q. WHAT ELECTRIC ROE IS ENO REQUESTING IN ITS APPLICATION?

A. The Application refers to a baseline electric allowed-ROE of 10.75%, however, in practice ENO is requesting the Council approve an electric ROE ranging from an initial 10.5% to 11.0% dependent on its system reliability (*i.e.*, SAIFI metric). ENO proposes that it be

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[6] See Council Resolution No. R-09-136.

allowed an 11.0% electric ROE should it achieve a SAIFI of 1.05 or better, which ENO states is reasonably achievable through a combination of prudent management, O&M expenditures, and capital investment.[7] If ENO is unable to achieve substantial SAIFI improvements, ENO proposes maintaining an initial 10.5% electric allowed-ROE. Under ENO's proposal, this 11.0% ROE represents a maximum ROE on a SAIFI-based scale from an initial minimum ROE of 10.5%. ENO believes it is reasonably possible to achieve an 11.0% ROE within the next 3 to 7 years,[8] or potentially within the rate effective period contemplated by ENO's Application (*i.e.*, during the term of ENO's proposed Formula Rate Plan ("FRP")).

ENO is currently approved to charge electric base rates reflective of two electric ROEs: 9.95% in Algiers,[9] and 11.10% in New Orleans on the east bank of the Mississippi River ("Legacy ENO").[10] The weighted average of these ROEs has been calculated by ENO to be 11.04%.[11] As such, ENO is proposing an initial 54 bp ROE (11.04% versus 10.5%) reduction from its last Council-approved electric ROEs with a reasonably achievable ROE increase to eventually constitute only a 4 bp (11.04% versus 11.0%) ROE reduction from ENO's last Council-approved ROEs.

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[7] See ENO's response to data request CNO 1-25, part a, i.
[8] Id.
[9] See Council Resolution No. R-14-278.
[10] See Council Resolution No. R-09-136.
[11] Council Docket No. UD-16-02, ENO's response to data request CNO 7-16, part a, ROE applicable to NOPS investment.

Q. WHAT IS THE RELEVANCE OF ENO'S 10.75% "BASELINE" ELECTRIC ROE IN THE CONTEXT OF ENO'S REVENUES AND BILL IMPACTS?

A. ENO's Application discusses a 10.75% "baseline" electric ROE,[12] but this value has no relevance to the revenues ENO may be allowed or the potential bill impacts to ratepayers apart from the value being the midpoint of the range of electric ROEs ENO is requesting. ENO proposes an allowed ROE that varies formulaically from 10.5% to 11.0% with no expectation that a ROE of precisely 10.75% would ever be employed. ENO's ROE request may properly be viewed as an allowed ROE of 11.0% contingent on ENO achieving the reasonable SAIFI value of 1.05. Based on ENO's Application and ENO's models presented therewith, the electric revenue effect of ENO achieving its proposed maximum 11.0% allowed-ROE versus its initial proposed ROE of 10.5% is $2.7 million.

Q. WHAT ROE ESTIMATION METHODOLOGY ARE YOU SPONSORING IN YOUR TESTIMONY?

A. My testimony sponsors a Discounted Cash Flow ("DCF") ROE analysis that I performed. Specifically, my DCF analysis involves the use of two growth factors, as discussed elsewhere in this testimony, one for short-term earnings growth (approximately five-years), and one for longer-term Gross Domestic Product ("GDP") growth, which may be regarded as a proxy for longer-term utility stock growth potential.

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[12] See the Revised Direct Testimony of Joshua B. Thomas, the answer to question Q32 at page 25.

Q. WHAT IS A DCF ANALYSIS IN THE CONTEXT OF ROE ANALYSIS IN THE INSTANT PROCEEDING?

A. DCF analysis seeks to estimate the implied ROE of utilities comparable to ENO as a proxy for ENO's own appropriate allowed-ROE, which itself cannot be directly measured. I refer to these utilities comparable to ENO as "proxy companies." My DCF analysis is based on objective market data such as dividend yields and professional analysts' opinions as to growth factors.

Q. PLEASE DESCRIBE THE DCF METHODOLOGY.

A. It is generally accepted that the value of an asset, such as the common stock of a utility company, rationally should be the present value of all future cash flows to that asset's owners (*i.e.*, dividends and other distributions). This is referred to as the Dividend Discount Model, whose formulaic representation is,

$$P_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1+k)^t}$$

where P_0 represents the asset's rational value today, t represents time periods (*e.g.*, years) extending indefinitely, D_t represents a cashflow such as a dividend paid to the asset's owner at the end of time period t, and k represents a discount rate reflective of all the asset's risk factors. DCF analyses are based on assuming a constant growth rate in the dividend across all time periods. This is also referred to as the Gordon Constant Growth Model. The formula for the Gordon Constant Growth Model, which is a mathematical proof of the Dividend Discount Model when growth is constant, is,

$$P_0 = \frac{D_1}{(k-g)}$$

where D_1 represents the next time period's (*i.e.*, in a year) dividend and g represents a constant dividend growth rate. This same equation may be presented as k representing an implied ROE:

$$k = \frac{D_1}{P_0} + g$$

Of note, the above formula presumes annual dividend payments and the next dividend is exactly a year from the measurement date (*i.e.*, t=0 and D_1 occurs as of t=1). US utility stocks that pay dividends customarily do so quarterly. As such, an appropriate substitute for D_1 in the above formula to address quarterly dividends is substituting $D_0 * \left(1 + \frac{g}{2}\right)$ for D_1 where D_0 represents the utility's current declared dividend. For the purposes of this analysis, I recommend that the g used to adjust for quarterly dividends be the short-term company-specific growth rate (*i.e.*, the I/B/E/S average growth rate), and my analysis employs this methodology.

Q. WHAT IS THE KEY FLAW IN THE GORDON CONSTANT GROWTH MODEL?

A. The key flaw to a constant growth DCF analysis (*i.e.*, employing a single growth factor across all periods) is aptly expressed by the common finance industry adage "trees don't grow to the sky." While a tree keeps growing each year, for any number of reasons, no tree grows to the outer reaches of the sky. Such is a rough analogy for growth in utility stocks' earnings. Any assumed perpetual growth factor greater than that of overall GDP growth implies that the utility will gradually overtake the entire economy, which is unrealistic. Alternately, any assumed perpetual growth factor less than that of overall GDP growth implies that the utility will gradually constitute an ever-smaller portion of overall GDP, which is possible but is a potential understatement of a utility's reasonably expected participation in a future economy.

Q. IN A DCF ROE ANALYSIS, WHAT IS AN APPROPRIATE RESOLUTION TO THIS FLAW IN THE GORDON CONSTANT GROWTH MODEL?

A. To address the "trees don't grow to the sky" flaw inherent in the Gordon Constant Growth Model and to avoid the assumption that a utility will diminish compared to the overall economy, an appropriate methodology is to employ a long-term growth factor that sets the long-term earnings growth of utilities to that forecasted for the US Gross Domestic Product ("GDP"). A long-term growth factor reflective of US GDP growth reflects the most generous allowed ROE that does not imply utilities will eventually overtake the US economy. A DCF ROE analysis that employs a short-term and a long-term growth factor is called a "two-step" DCF analysis.

Q. PLEASE DESCRIBE THE TWO-STEP DCF MODEL FORMULA.

A. A two-step DCF formula calculates two periods of different growth rates. The below formula presents the two-step DCF formula,

$$P_0 = \sum_{t=1}^{Ta} \frac{D_t}{(1+k)^t} + \frac{\sum_{t=Ta+1}^{\infty} \frac{D_t}{(1+k)^t}}{(1+k)^{Ta}}$$

where Ta represents the time period at which short-term growth may stop and thereafter become long-term growth. The above formula can also be viewed as a limited-term (*i.e.*, through t=Ta) DCF analysis plus a terminal value calculation. FERC has reduced the effect of this two-step DCF formula into a weighted average growth factor weighted by 2/3 short term earnings growth and 1/3 long-term earnings growth.[13] The two-step DCF formula that employs this weighted-average growth factor is presented below.

$$k = \frac{D_0 * (1 + \frac{g_s}{2})}{P_0} + \left(\frac{2 * g_s}{3} + \frac{g_l}{3}\right)$$

where g_s represents a short-term growth rate and g_l represents a long-term growth rate.

Q. DOES Mr. HEVERT EMPLOY A TWO-STEP DCF ANALYSIS AND WHAT LONG-TERM GROWTH FACTOR DOES HE RECOMMEND?

A. Yes. Mr. Hevert performs a two-step DCF analysis that also involves an interim period of dividend payout-related adjustments. Mr. Hevert recommends a 5.45% (nominal) long-term growth factor.[14] The 5.45% factor is a composite of a 2.16% inflation estimate and a 3.21% real Gross Domestic Product ("GDP") estimate.[15]

Q. PLEASE DESCRIBE Mr. HEVERT'S METHODOLOGIES FOR ESTIMATING THESE TWO LONG-TERM GROWTH FACTOR COMPONENTS.

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[13] See FERC Docket No. EL11-66-001, Opinion 531, Paragraph 39 at page 20.
[14] WP RBH-42 Public
[15] Id.

A. Mr. Hevert estimates the long-term inflation component of long-term nominal growth by noting the differences in yield between fixed-coupon treasury instruments and Treasury Inflation Protected Securities ("TIPS"), which have an inflation-based coupon modification element. Mr. Hevert's method assumes that the difference in such yields reflects the fixed-income market's expectations of inflation over the period from ten to thirty years from the present. This value is averaged against a "BlueChip 2024-2028 Forecast"[16] to yield the 2.16% long-term inflation estimate.

Mr. Hevert estimates the long-term real GDP growth component of long-term nominal growth based on the geometric mean growth of the US's GDP from 1929-2017.

Q. DO YOU AGREE WITH Mr. HEVERT'S ESTIMATE OF A LONG-TERM GDP GROWTH FACTOR?

A. No. While I do not disagree with Mr. Hevert's results from his estimate of long-term inflation, I disagree with both Mr. Hevert's method and resultant value in his estimate of long-term real GDP growth.

Q. WHY DO YOU DISAGREE WITH Mr. HEVERT'S ESTIMATE OF LONG-TERM REAL GDP GROWTH?

A. Mr. Hevert's long-term real GDP growth estimate assumes that long-term (*i.e.*, into perpetuity) real GDP growth will equal that which occurred in the US from 1929-2017. There is no basis for this assumption. The economic framework of the current and future

[16] See Blue Chip Financial Forecasts, Vol. 36, No. 12, December 1, 2017.

US should not be assumed to be represented by that from as far back as 1929. It is notable that, while very recent real GDP growth has been in the range of Mr. Hevert's 3.21% estimate, his estimate is applied in his analysis as a long-term *average* growth factor inclusive of future recessions that have proven to be part of a normal business cycle involving periods of negative real GDP growth (*i.e.*, recessions). In other words, for Mr. Hevert's estimate to be worthwhile, future growth-years must well exceed 3.21% GDP growth to overcome the reasonably expected future recessionary periods.

Based on these observations, in my opinion, Mr. Hevert's long-term real GDP growth estimate is not reasonable due to its reliance entirely on past economic performance and its overly-optimistic value.

Q. WHY DO YOU CONSIDER Mr. HEVERT'S LONG-TERM REAL GDP GROWTH ESTIMATE TO BE OVERLY-OPTIMISTIC?

A. As I discuss elsewhere in my testimony, expert economic forecasting sources suggest a long-term economic growth factor significantly lower than the 5.45% nominal rate Mr. Hevert estimates.

Q. WHAT EXPERT ECONOMIC FORECASTING SOURCES ARE COMMONLY USED FOR LONG-TERM GDP GROWTH ESTIMATES?

A. Parties to FERC Docket No. EL11-66 (a review of certain transmission owners' FERC-allowed ROE and the docket that produced Opinion 531, which provides for a two-step DCF ROE analysis methodology) agreed that data from the Energy Information Administration ("EIA"), Social Security Administration ("SSA"), and IHS Global Insight

("IHS") were appropriate to estimate the long-term GDP growth rate.[17] These estimates are forward looking, and in my opinion, of expert source; as such, they are appropriate for the Council's use in setting long-term GDP growth factor for evaluating ENO's allowed-ROE.

Q. WHAT LONG-TERM GDP GROWTH ESTIMATES DO THESE SOURCES CURRENTLY PREDICT?

A. The below table presents the GDP growth estimate for each data source as of the preparation of this testimony.

Table 1
Expert GDP Growth Estimates

Estimate Source	GDP Growth Estimate (Nominal)	GDP Growth Estimate (Real)	Estimate Presented as of Date	Note
Energy Information Administration	*4.68%*	2.0%	02/06/2018	[1]
Social Security Administration	*4.32%*	1.68%	06/05/2018	[2]
IHS Global Insight	4.26%	*1.62%*	08/31/2018	[3]
Average	**4.42%**	1.77%		

1. See *EIA Annual Energy Outlook 2018*. Growth period: 2017-2050, Reference Case. Source presents real GDP growth; nominal rate reflects SSA inflation rate of 2.6%.
2. See *The Long-Range Economic Assumptions for the 2018 Trustees Report*, Table A.1. Nominal GDP Growth = (1+ Real GDP Growth (0.0168)) * (1+ CPI Deflator (0.0260)) - 1
3. See *Long-Term Macro Forecast - Baseline (U.S. Economy 30-Year Focus, Third Quarter*, IHS Markit (Release Date: August31, 2018).[18] Real GDP growth is imputed from IHS's nominal value by removing the effect of the SSA's 2.60% inflation value.

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[17] See FERC Docket No. EL11-66-001, Opinion No. 531-A, P 6.

[18] IHS Global Insight data is not published free of charge. See FERC Docket No. EL17-76, Exhibit S-001, Direct Testimony of FERC trial staff witness Douglas M. Green, filed September 21, 2018, page 60 where FERC represents the relevant HIS value is 4.26%. An IHS representative has confirmed that this is their most current estimate as of the preparation of this testimony.

Q. WHEN ESTIMATING LONG-TERM GDP GROWTH AS PART OF A DCF ROE ANALYSIS, HAS ENTERGY EMPLOYED THESE SAME SOURCES THAT YOU REFERENCE?

A. Yes, in FERC Docket No. EL17-41 (Grand Gulf ROE), Entergy witness Adrien M. McKenzie used the three data sources identified in the above table as of 2017 to arrive at a long-term GDP growth rate of 4.31% (nominal),[19] which he used in calculating Entergy's proposed allowed-ROE for Grand Gulf's wholesale formula rate, which is a component of ENO's retail rates. I note that my analysis employing the same data sources resulted in a GDP growth rate 11 bp higher than that of Mr. McKenzie. By Comparison, Mr. Hevert's estimated long-term GDP growth rate of 5.45% is 114 bp higher than that employed by Mr. McKenzie on behalf of Entergy.

Q. DO OTHER ECONOMIC FORECASTING BODIES ESTIMATE DIFFERENT ECONOMIC GROWTH RATES THAN DOES Mr. HEVERT?

A. Yes, in addition to the expert bodies' long-term GDP growth estimates I recommend the Council take into account in the instant proceeding, the Congressional Budget Office ("CBO"), a non-partisan body that produces independent analyses of budgetary and economic issues in support of the US Congress, forecasts as of August 2018 that annual real GDP growth over a 10-year period 2019-2028 to average 1.90%.[20] Also, the

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[19] See FERC Docket No. EL17-41-000, *Motion to Dismiss Complaint and Answer of System Energy Resources, Inc.* Exhibit SER-104, page 2, filed before FERC on February 13, 2017.

[20] See www.cbo.gov/about/products/budget-economic-data#4, 10-year economic projections. Average is a geometric mean.

Organization for Economic Co-operation and Development ("OECD"), a body consisting of representatives from 36 countries whose mission is "promote policies that will improve the economic and social well-being of people around the world", publishes long-term GDP growth forecasts for several countries, including the US. For the period 2019-2060, the OECD forecasts a geometric mean annual real US GDP growth rate of 1.87%.[21] These real GDP growth rate forecasts of 1.90% and 1.87% are markedly lower than Mr. Hevert's 3.21% estimate but are in the range of the estimates of the expert bodies' long-term GDP growth estimates I recommend the Council take into account when setting new rates in the instant proceeding.

Proxy Companies

Q. WHAT ARE PROXY COMPANIES IN THE CONTEXT OF A ROE ANALYSIS?

A. The proper allowed-ROE of a company such as ENO cannot be directly observed or measured. Rather, the proper allowed-ROE for ENO must be implied through the observation of other companies having comparable risks to those of ENO. I refer to these companies having comparable risks to those of ENO as proxy companies.

Q. WHAT IS AN APPROPRIATE UNIVERSE OF COMPANIES TO CONSIDER AS PROXY COMPANIES?

A. A key aspect of the risks relevant to ENO is the risk-limiting characteristic that ENO is a regulated monopoly operating under the laws and regulatory customary practices of the

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[21] See https://data.oecd.org/gdp/gdp-long-term-forecast htm.

City of New Orleans, the State of Louisiana, and the United States. Any party other than ENO is practically proscribed from offering retail electric or gas utility service in New Orleans due to ENO's exclusive indeterminate franchise rights. This is a risk-limiting characteristic common among regulated retail electric utilities. Also, I recommend elsewhere in my testimony that the Council approve a single electric and gas ROE. As such, the appropriate universe of companies (*i.e.*, starting point for proxy company selection) is regulated electric utility companies subject to the laws and regulatory customary practices as is ENO. An accepted list of such electric utility companies is the Value Line electric utilities, consisting of the 42 companies presented in Exhibit No. ___ (BSW-4) ("Exhibit BSW-4"). These 42 companies constitute an appropriate universe of companies from which to select ENO's proxy companies by screening for relevant risk characteristics. I note that Mr. Hevert also generally starts with Value Line electric utilities as his universe of companies.

Q. PLEASE SUMMARIZE YOUR PROXY COMPANY SCREENING VERSUS THAT OF Mr. HEVERT.

A. The following table presents the universe of companies, Mr. Hevert's proxy group therefrom, my recommended proxy companies therefrom for the purpose of DCF ROE analysis, and a brief indication of the reason for any difference between our recommendation. My testimony later discusses any such differences in greater detail.

Table 2 Proxy Companies				
Company Name		ENO Proxy Group[1]	Advisor Proxy Company	Cause for Any Difference
1	Allete Inc	Yes		Advisors: Stale I/B/E/S Growth Estimate
2	Alliant Energy Corp	Yes	Yes	
3	American Electric Power Company Inc	Yes	Yes	
4	Ameren Corp	Yes	Yes	
5	Avangrid Inc	Yes		Advisors: Controlling Foreign Ownership
6	Avista Corp			
7	Black Hills Corp	Yes	Yes	
8	CenterPoint Energy Inc			
9	CMS Energy Corp	Yes	Yes	
10	Consolidated Edison Inc		Yes	ENO: Not Vertically Integrated
11	DTE Energy Co	Yes	Yes	
12	Duke Energy Corp	Yes	Yes	
13	Edison International		Yes	ENO: M&A Activity
14	El Paso Electric Co	Yes	Yes	
15	Entergy Corp			
16	Evergy Inc.			
17	Eversource Energy			
18	Exelon Corp		Yes	ENO: Recent Negative Consensus Growth Rates
19	FirstEnergy Corp			
20	Fortis Inc		Yes	ENO Does Not Present Fortis as Within the Universe of Companies
21	Hawaiian Electric Industries Inc	Yes		Advisors: Fails Credit Rating Screen
22	Idacorp Inc	Yes	Yes	
23	MGE Energy Inc.			
24	Nextera Energy Inc	Yes	Yes	
25	NorthWestern Corp	Yes	Yes	
26	OGE Energy Corp	Yes		Advisors: Negative I/B/E/S Growth Estimate
27	Otter Tail Corp.	Yes		Advisors: Stale I/B/E/S Growth Estimate
28	PG&E Corp			
29	Pinnacle West Capital Corp	Yes	Yes	
30	PNM Resources Inc	Yes	Yes	
31	Portland General Electric Co	Yes	Yes	
32	PPL Corp			

Table 2
Proxy Companies

	Company Name	ENO Proxy Group[1]	Advisor Proxy Company	Cause for Any Difference
33	Public Service Enterprise Group Inc		Yes	ENO: Percent of Regulated Net Operating Income in 2016 and 2017
34	SCANA Corp			
35	Sempra Energy		Yes	ENO: Percent of Regulated Gas Operating Income
36	Southern Co	Yes	Yes	
37	Summer Energy Holdings Inc.			
38	Unitil Corp		Yes	ENO Does Not Present Unitil as Within the Universe of Companies
39	Vectren Corp			
40	WEC Energy Group Inc	Yes	Yes	
41	Wilmington Capital Management Inc.			
42	Xcel Energy Inc	Yes	Yes	

1. Source: Revised Direct Testimony of Robert B. Hevert, Table 2 at page 14.

Q. WHAT SCREENING CRITERIA ARE APPROPRIATE RELATIVE TO ENO'S PROXY COMPANIES IN THE INSTANT PROCEEDING?

A. The following are appropriate and accepted screening criteria for establishing ENO's proxy companies among the universe of Value Line electric utilities in the instant docket are:

1. Screenings based on credit rating agency issuer credit ratings which are independent quantifications and scorings of a company's overall risks;
2. Screenings based on whether a company is followed by multiple (*i.e.*, at least two) analysis and has current EPS growth estimates;
3. Screenings based on whether a company has consistently paid a dividend (*i.e.*, has paid a dividend and has not recently reduced or eliminated its dividend), which relates to whether a company has a reliable and comparable dividend yield;

4. Screenings based on whether the DCF ROE analysis result for a company is contrary to economic logic, specifically the case where the DCF ROE analysis result is not at least 100 bp greater than an investment grade corporate bond's Yield to Maturity ("YTM"); and
5. Screenings based on significant Merger and Acquisition ("M&A") activity, which relates to influences on a company's dividend yield and EPS growth expectations.

Q. WHAT IS A CREDIT RATING SCREENING?

A. *Bluefield* provides that ENO is entitled to rates that will permit it to earn a return generally being made in other businesses with corresponding risks and uncertainties. Issuer credit ratings, as generated by companies such as Moody's Investors Service ("Moody's") and Standard & Poor's Financial Services LLC Rating's Direct ("S&P") seek to score companies such as ENO and other utilities as to their risks on a consistent and comparable scale. As such, when identifying companies having corresponding risks and uncertainties as has ENO, comparable issuer credit ratings are an appropriate metric for corresponding risks.

Q. WHAT KEY FACTORS ARE CITED BY THESE RATING AGENCIES RELATIVE TO ENO'S RATINGS?

A. In general, both ratings agencies regard ENO's business environment positively, but Moody's in particular regards the geography of ENO's service territory negatively. Moody's would have rated ENO as "A2," five units of rating measure ("notch") above a speculative rating, but for its concern for ENO being "Small and concentrated service territory in a low-lying coastal region." Moody's reduced ENO's rating by five notches as a result. S&P would have rated ENO BBB based in part on concerns related to Entergy Corp.'s agreements to close its merchant nuclear units. Based on ENO-specific positive factors, S&P increased ENO's rating one notch to BBB+ (*i.e.*, Entergy Corp. is a negative factor in ENO's S&P credit rating).

Q. DID ENO EMPLOY A CREDIT RATING SCREENING?

A. Yes, ENO witness Hevert excluded companies that do not have investment grade ratings.[22]

Q DO YOU AGREE WITH ENO'S CREDIT SCREENING METHODOLOGY?

A. No. A screening as to whether an issuer is above or below the investment grade/speculative threshold does not address whether it has comparable risk to that of ENO. The correct metric is whether an issuer has a comparable credit rating to that of ENO.

Q. WHAT IS AN APPROPRIATE CREDIT RATING SCREENING METHODOLOGY?

A. While the proxy companies having the most comparable risk to that of ENO would have the same credit rating as ENO (*i.e.*, BBB+ from S&P), such a screening would eliminate otherwise probative data from Council consideration. As such, a credit rating screening also allowing for proxy companies having a credit rating one notch higher or one notch lower than that of ENO (*i.e.*, a BBB, BBB+, or A- from S&P) is appropriate as such a

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[22] See the Revised Direct Testimony of Robert B. Hevert, the answer to Question Q17 at page 12.

screening will allow the Council useful information regarding the returns on companies having comparable risks to that of ENO.

Q. PLEASE DESCRIBE THE CREDIT RATING SCREENING YOU EMPLOYED.

A. I screened Value Line electric utility companies to exclude companies having a S&P corporate rating outside the range of BBB to A-.

Q. HAS ENTERGY APPLIED SUCH A ONE NOTCH ABOVE OR BELOW CREDIT RATING SCREEN IN OTHER ROE ANALYSES?

A. Yes, in FERC Docket No. EL17-41 (Grand Gulf ROE), Entergy witness Adrien M. McKenzie employed a one-notch above to one-notch below credit rating screening.[23]

Q. DO CREDIT RATING AGENCIES EXPRESS AN OPINION AS TO THE RISKS ENO FACES IN COMPARISON TO OTHER UTILITIES?

A. Yes, ENO provides issuer credit opinions from Moody's[24] and S&P as part of the Application.[25] Moody's rates ENO as Ba1, which is a speculative or "junk" rating one notch below an investment-grade rating. S&P rates ENO as BBB+, an investment-grade rating three notches above a speculative rating. As such, ENO's S&P rating can be reasonably viewed as being four notches higher than that of Moody's. The reports were issued about six-weeks apart.

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[23] See FERC Docket No. EL17-41-000, *Motion to Dismiss Complaint and Answer of System Energy Resources, Inc.* Exhibit SER-103, filed before FERC on February 13, 2017.

[24] Exhibit JBT-2.

[25] Exhibit JBT-3.

Q DOES YOUR CREDIT RATING SCREEN METHODOLOGY EXCLUDE ANY COMPANIES THAT ENO'S METHODOLOGY DOES NOT?

A. Yes, Hawaiian Electric is the single company excluded from my recommended proxy companies due to its credit rating but allowed in ENO's proxy group. Hawaiian electric's S&P rating is BBB-, which is outside of my recommended credit rating range, but still reflects the lowest investment-grade rating published by S&P.

Q. WHAT IS THE TWO-STEP DCF IMPLIED ROE FOR HAWAIIAN ELECTRIC?

A. Based on my two-step DCF ROE estimation methodology described elsewhere in this testimony and as presented in Exhibit BSW-4, Hawaiian Electric's implied ROE is 10.44% which is higher than the median proxy company implied ROE of 8.09%. Inclusion of Hawaiian Electric would have raised the proxy company median implied ROE by 2 bp to 8.11%. As such, one could reasonably conclude that in the instant evaluation, employing an investment-grade credit screen versus a one notch above/below credit screen has a minor impact on my DCF ROE analysis results.

Q. DOES Mr. HEVERT EXCLUDE CONSOLIDATED EDISON, INC. FROM HIS PROXY GROUP?

A. Yes. However, Mr. Hevert reports that Consolidated Edison Inc. passes each of his Proxy Group screening criteria but fails his vertical integration screen.[26] However, Mr. Hevert's testimony does not further discuss the basis for this conclusion. Possibly Mr. Hevert's

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[26] ENO's response to DR CCPUG 1-30.

exclusion of Consolidated Edison Inc. is due to New York's competitive capacity market under which Consolidated Edison Inc. might not directly own and operate regulated production plant, however I note that ENO sources most of its capacity through PPAs and market capacity purchases (substantially, ENO's only owned source of capacity is Union PB1). As such, I do not concur with the basis for his exclusion of this company.

Q. SHOULD CONSOLIDATED EDISON, INC. BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes, as Consolidated Edison Inc. reflects many of ENO's operating and plant in service characteristics apart from production assets, it should be included as a proxy company.

Q. DOES Mr. HEVERT EXCLUDE SEMPRA ENERGY FROM HIS PROXY GROUP?

A. Yes. However, Mr. Hevert reports that Sempra Energy passes each of his Proxy Group screening criteria but fails the 60% regulated electric operating income screen.[27] Mr. Hevert reports that, while 151.60% of Sempra Energy's operating income is attributable to regulated operations (unregulated operations are reported as having an operating loss), only 50.42% of that amount is related to electric operations.

Q. SHOULD SEMPRA ENERGY BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

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[27] Id.

A. Yes. ENO is proposing a single allowed-ROE for electric and gas. As such, a company that reflects significant gas operations should not be excluded as a proxy company for that reason alone. As such, Sempra Energy should be included as a proxy company.

Q. DOES MR HEVERT EXCLUDE EDISON INTERNATIONAL FROM HIS PROXY GROUP?

A. Yes. Mr. Hevert excludes Edison International due to "[b]ankruptcy of merchant generation business unit and ongoing payments associated with settlement."[28] While Mr. Hevert does not elaborate, I take this to be the Edison Mission Energy ("EME") subsidiary which filed for Chapter 11 bankruptcy protection in 2012. Edison International passed all of Mr. Hevert's other Proxy Group screening criteria.

Q. SHOULD EDISON INTERNATIONAL BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes, it is my understanding that in 2014 the beneficial ownership of substantially all EME's assets and liabilities were transferred to a trust and that all of Edison International's related obligations were discharged.[29] As such, Edison International should not be excluded as a proxy due to this bankruptcy matter. As Edison International passes all of my proxy screens (as well as Mr. Hevert's apart from his M&A screen), it should be included as a proxy company.

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[28] Id.
[29] See Edison International press release: https://newsroom.edison.com/releases/edison-mission-energy-plan-of-reorganization-approved-by-u-s-bankruptcy-court

Q. DOES Mr. HEVERT EXCLUDE EXELON CORPORATION FROM HIS PROXY GROUP?

A. Yes. Mr. Hevert excludes Exelon Corporation from his proxy group because of "Recent negative consensus growth rates and company plans to shut down Three Mile Island Nuclear Plant".[30] As I discuss elsewhere in this testimony, negative consensus growth estimates may cause irrational DCF ROE estimates and are cause for exclusion as a proxy company.

Q. SHOULD EXELON CORPORATION BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes. Exelon Corporation's I/B/E/S mean EPS growth rate is a positive 8.82%, as opposed to the Mr. Hevert's negative consensus growth rates. Exelon Corporation passes all of Mr. Hevert's other Proxy Group screening criteria as well as all my screens. As such, Exelon Corporation should be included as a proxy company in a DCF ROE analysis that relies on I/B/E/S EPS growth data, such as my analysis presented in this testimony. I note that as of the preparation of this testimony, Exelon Corporation has the highest DCF ROE result among the proxy companies (10.64%).

Q. DOES Mr. HEVERT INCLUDE FORTIS INC. IN HIS UNIVERSE OF COMPANIES?

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30 ENO's response to DR CCPUG 1-30.

A. No. Mr. Hevert does not present a Proxy Group screening criteria report for Fortis Inc. Fortis Inc. is a member of the Value Line electric utility group (central), and it owns the regulated utilities ITC (transmission), Tucson Electric Power, and other gas and electric utility companies. I note that Mr. Hevert reports having sponsored ROE testimony on behalf of a Fortis company.[31]

Q. SHOULD FORTIS INC. BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes. Fortis Inc. is a Value Line electric utility that owns a variety of utility companies. Further, Fortis Inc. passes each of my proxy company screens, and Mr. Hevert did not apparently perform such an evaluation. As such Fortis Inc. should be included as a proxy company. I note that as of the preparation of this testimony, Fortis Inc.'s DCF ROE is slightly above the median of such values of the proxy companies.

Q. DOES Mr. HEVERT INCLUDE UNITIL CORP. IN HIS UNIVERSE OF COMPANIES?

A. No. Mr. Hevert does not present a Proxy Group screening criteria report for Unitil Corp. Unitil Corp is a member of the Value Line electric utility group (east), and it owns regulated electric and gas utilities in New England. Unitil Corp, including Unitil Energy Systems, which formed as the result of the merger of Concord Electric company and Exeter &

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[31] See Exhibit RBH-1, page 2, Docket No. DPU 15-80.

Hampton Electric Company in 2002. I note that Mr. Hevert reports having sponsored ROE testimony on behalf of a Unitil company.[32]

Q. SHOULD UNITIL CORP BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes. Unitil Corp. is a Value Line electric utility that owns regulated electric and gas utilities. Further Unitil Corp. passes each of my proxy company screens, and Mr. Hevert did not apparently perform such an evaluation. As such Unitil Corp. should be included as a proxy company. I note that as of the preparation of this testimony, Unitil Corp.'s DCF ROE is below the median of such values of the proxy companies due to a relatively low dividend yield and I/B/E/S EPS growth average estimate.

Q. DOES Mr. HEVERT EXCLUDE PPL CORPORATION FROM HIS PROXY GROUP?

A. Yes. Mr. Hevert excludes PPL Corporation from his proxy group because it fails his screen for 60% Regulated Operating Income.[33] I note that among PPL Corporation's regulated net operating income, Mr. Hevert observes a large portion is from a segment identified as "U.K. Regulated," which I take to mean the United Kingdom.

Q. SHOULD PPL CORPORATION BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

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[32] See Exhibit RBH-1, page 7, Docket No. DPU 15-80.
[33] See ENO's response to DR CCPUG 1-30.

A. No. PPL Corporation's regulated utility activity is insufficient to represent a comparable risk to that of ENO, especially considering a substantial part of its regulated activity relates to non-US activity.

Q. DOES Mr. HEVERT EXCLUDE PUBLIC SERVICE ENTERPRISE GROUP INC. FROM HIS PROXY GROUP?

A. Yes. Mr. Hevert notes that, while for 2016 and 2017, Public Service Enterprise Group Inc.'s regulated activity would pass his Proxy Group screening criteria, "Percentage of regulated net operating income to total net operating income in 2016 and 2017 was significantly influenced by lower income in the unregulated power segment, which appears to be anomalous relative to prior years."[34] Public Service Enterprise Group Inc. is separated into two main businesses: PSE&G, a regulated Transmission and Distribution ("T&D") electric and gas utility, and Power, a mostly New Jersey merchant generation company.

Q. SHOULD PUBLIC SERVICE ENTERPRISE GROUP, INC. BE INCLUDED AS A PROXY COMPANY IN THE INSTANT PROCEEDING?

A. Yes. My review of Public Service Enterprise Group Inc.'s 2017 Form 10-K Annual Report to the SEC indicates that the structural separation of generation vs. T&D is the result of deregulation in New Jersey.[35] As such, Public Service Enterprise Group Inc.'s circumstances as a whole are closer to that of ENO than of a completely unregulated

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[34] Id.
[35] Public Service Enterprise Group Inc.'s 2017 Form 10-K Annual Report to the SEC, page 1.

merchant generation company. Further, the formulaic application of Mr. Hevert's Proxy Group screening criteria would include Public Service Enterprise Group Inc. in his Proxy Group. I note that as of the preparation of testimony, Public Service Enterprise Group Inc.'s DCF ROE is 9.83%, well above the 8.09% median of such values of the proxy companies.

Q. PLEASE DESCRIBE YOUR ANALYST AND EPS GROWTH SCREEN.

A. A key component of a DCF ROE analysis is expected dividend growth, which is equal to Earnings Per Share ("EPS") growth in the case of an unchanged dividend payout ratio (*i.e.*, the percent of earnings returned to shareholders in the form of dividends). As such, EPS growth forecasts or estimates should be both robust and reasonably current. My Analyst screen excludes companies who do not have at least two analysts covering the company and who have a new EPS growth estimate or confirmation of a prior EPS growth estimate in the past 210 days.

Q. WHAT IS THE DATA SOURCE FOR YOUR EPS GROWTH ESTIMATES?

A. My DCF analysis employs data provided through the Institutional Brokers Estimate System ("I/B/E/S"), a consensus earnings estimate data aggregation system provided by Thompson Reuters. Specific to my DCF analysis, I employed I/B/E/S mean long-term (*i.e.*, up-to five years) EPS growth estimates. These I/B/E/S values represent the mean of no less than two and up-to 21 analysts covering proxy companies. Further, Thompson Reuters only publishes I/B/E/S data if a covering analyst has either issued or reiterated a growth estimate in the past 210 days.

Q. WHAT SHORT-TERM GROWTH ESTIMATES DOES ENO EMPLOY IN ITS APPLICATION.

A. ENO witness Hevert uses EPS growth rate estimates from Value Line, Zacks, and First Call.

Q. WHY IS THE I/B/E/S EPS GROWTH ESTIMATE APPROPRIATE FOR COUNCIL CONSIDERATION IN THE INSTANT DOCKET?

A. I/B/E/S seeks to estimate EPS growth by aggregating as many institutional brokers' estimates as may be available for any company. Further I/B/E/S seeks to present only fresh estimate data. I/B/E/S is an accepted data source for EPS growth estimates, and as such is appropriate for Council consideration in the instant docket.

Q. HAS ENTERGY EMPLOYED I/B/E/S EPS GROWTH ESTIMATES AS PART OF A DCF ROE ANALYSIS?

A. Yes, in FERC Docket No. EL17-41 (Grand Gulf ROE), Entergy witness Adrien M. McKenzie used I/B/E/S mean EPS growth data as part of his DCF ROE analysis.[36]

Q. DOES ENO RECOMMEND A MINIMUM OF TWO INDUSTRY ANALYSTS AS A PROXY COMPANY SCREEN IN THE INSTANT PROCEEDING?

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[36] See FERC Docket No. EL17-41-000, Motion to Dismiss Complaint and Answer of System Energy Resources, Inc. Exhibit SER-104 at page 1, filed before FERC on February 13, 2017.

A. Yes, Mr. Hevert states, "I excluded companies that were not covered by at least two utility industry equity analysts".[37]

Q. IN YOUR ANALYSIS, WERE THERE ANY COMPANIES EXCLUDED AS PROXY COMPANIES DUE TO NOT HAVING CURRENT I/B/E/S EPS GROWTH ESTIMATES?

A. Yes, Allete, Otter Tail, and Vectren Corp. each was covered by at least two analysts, but no analyst had published an EPS growth estimate or reiterated a prior such estimate in the past 210 days. As such, these companies were excluded as proxy companies in my analysis due to stale (*i.e.*, not established or reaffirmed in the past 210 days) EPS growth data. I/B/E/S reported Allete's EPS growth estimate as 6% through August 2018, after which the estimate became stale and was removed from I/B/E/S reports. I/B/E/S reported Otter Tail's EPS growth estimate as 9% through September 2018, after which the estimate became stale and was removed from I/B/E/S reports. Absent reasonably current EPS growth estimate data, my analysis excludes Allete and Otter Tail as proxy companies. I note that Vectren Corp. is excluded as a proxy company separately due to M&A activity. As the CAPM ROE estimation methodology does not rely on analyst coverage of EPS growth estimates, such analyses properly may include Allete and Otter Tail, as proxy companies.

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[37] Revised Direct Testimony of Robert B. Hevert, the answer to question Q18 at page 12.

Q. IN YOUR ANALYSIS, WERE ANY COMPANIES EXCLUDED AS PROXY COMPANIES DUE TO UNUSABLE I/B/E/S EPS GROWTH ESTIMATES?

A. Yes. Entergy Corp., FirstEnergy, and OGE Energy each was covered by at least two analysts, but I/B/E/S presented a negative EPS Growth estimate for each company. I note that each of these companies is undertaking a significant common stock offering, an activity that dilutes common equity and reduces EPS independent of changes to earnings. As such, under this circumstance a negative EPS growth estimate does not necessarily imply a negative earnings growth expectation. A negative growth factor causes the DCF model to generate implausible results, and as such these companies were excluded as proxy companies.

Q. PLEASE DESCRIBE THE DIVIDEND SCREEN YOU EMPLOYED IN YOUR ANALYSIS.

A. In a properly-conducted DCF ROE analysis, proxy companies must have a stable dividend, as dividend yield can be viewed as the starting-point of such analysis. My DCF ROE analysis excludes as proxy companies those that have not paid or declared a dividend over the six-month period ending December 31, 2018 or who have reduced their declared dividend amount during this period. Based on this screen, PG&E Corp., Summer Energy Holdings, and Wilmington Capital, who did not declare or pay a dividend, are excluded as proxy companies.

Q. DOES ENO EMPLOY A DIVIDEND SCREEN IN THE INSTANT PROCEEDING?

A. Yes. Mr. Hevert states, "I excluded companies that do not consistently pay quarterly cash dividends".[38]

Q. PLEASE DESCRIBE YOUR ECONOMIC LOGIC SCREEN.

A. Economic logic calls for equity yields to be higher than bond yields for any company. This is because both security types represent a claim on the assets of a company, but bond service requirements must be paid in full before equity dividends may be declared. As such, economic logic suggests no rational investor would invest in a company's equity when the same or better yield could be obtained by investing in that company's bonds. It is generally accepted that equity should offer a yield premium to that of bonds. As such, any DCF ROE analysis that presents an implied ROE close-to that of related debt's yield violates economic logic. My DCF ROE analysis excludes as proxy companies any company whose implied ROE is not at least 100 bp higher than the YTM on an investment-grade corporate bond.[39] I note that among the calculable implied ROEs from my analysis in the instant proceeding, no DCF ROEs violate this economic logic screen for companies that otherwise would be allowed as proxy companies.

Q. DOES Mr. HEVERT INCLUDE ENTERGY CORP. IN HIS PROXY GROUP?

A. No. Mr. Hevert states, "To avoid the circular logic that otherwise would occur, it is my practice to exclude the subject company, or its parent holding company [Entergy Corp. in

[38] Revised Direct Testimony of Robert B. Hevert, the answer to question Q18 at page 12.
[39] As a proxy for investment-grade corporate bond YTM, I employ the S&P BBB Bond Index.

the instant proceeding], from the proxy group."[40] This practice is not universally accepted. For example, in Texas Public Utility Commission ("PUCT") Docket No. 46449 (2017), Mr. Hevert did exclude American Electric Power from his ROE analysis, the parent company of the subject utility SWEPCO, but the PUCT Staff witness did include the parent. Mr. Hevert refers to "circular logic" as the fact that stocks' values are based on net income and net income growth over time, and an allowed-ROE is a key factor in generating such value.[41]

Q. DO YOU AGREE THAT ENTERGY CORP. SHOULD BE EXCLUDED AS A PROXY COMPANY BASED ON CIRCULAR LOGIC?

A. No. US utility stocks are traded on highly-liquid markets such as the New York Stock Exchange. Moment-by-moment, the market values these companies and alters their price along with related metrics such as dividend yield. As such, the market required ROR reflects perceived risks to future cash flows, and not the absolute amount of future cash flows (*i.e.*, should expected future earnings change but the perceived risks to such future earnings not change, prices generally should adjust to maintain a similar rate of return). Even allowing, *arguendo*, Mr. Hevert's concern regarding circular logic, ENO contributes only about 7.6% of Entergy Corp.'s Operating Income.[42] Further, Entergy Corp., if included as a proxy company, would constitute only one data point among many for

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[40] See the Revised Direct Testimony of Robert B. Hevert, the answer to question Q18 at page 13.
[41] See CNO DR 7-2 and ENO's response thereto.
[42] See Entergy Corp.'s 2017 annual Form 10-K report to the SEC, pages 48 and 392, which presents ENO's 2017 operating income as $95,116, and Entergy Corp.'s operating income as $1,259,682. ($95{,}116/1{,}259{,}682 = 0.0755$.)

Council consideration. As such, any adverse circular logic effect of allowing Entergy Corp. as a proxy company could be expected to be minimal.

Q. DID YOU INCLUDE ENTERGY CORP. BE AS A PROXY COMPANY IN YOUR DCF ROE ANALYSIS?

A. No, I excluded Entergy Corp. as a proxy company in my DCF ROE analysis in the instant docket. As data presented in Exhibit BSW-4 demonstrates, Entergy Corp.'s I/B/E/S mean long-term EPS growth estimate is (3.92%) (negative growth). As I discuss elsewhere in this testimony, as with the other companies having a negative I/B/E/S EPS growth estimate, Entergy Corp. is pursuing a significant ($1.15 billion) common stock offering, involving cash receipts through presale of such through derivative instruments.[43] As such, Entergy Corp., for reasons other than "circular logic" is not an appropriate proxy company for DCF ROE analysis purposes in the instant proceeding. CAPM ROE analysis does not rely on EPS growth estimates, and as such, Entergy Corp. may appropriately be used as a proxy company for such analysis.

Q. SHOULD AVANGRID BE CONSIDERED BY THE COUNCIL AS A PROXY COMPANY WHEN SETTING ENO'S ROE?

A. No, while Avangrid Networks, Inc. ("Avangrid") meets certain formulaic criteria for inclusion as a proxy company, Avangrid is 81.50% owned by Iberdrola, S.A. ("Iberdrola"),[44] a Spanish public electric utility holding company with diverse international

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[43] See ENO's response to DR CNO 1-17.
[44] See https://www.iberdrola.com/corporate-governance/structure

investments and risk profiles. The equity interest and voting control of Avangrid is not reliably reflective of the interests of Avangrid itself, but due to Iberdrola's controlling interest, the performance of Avangrid stock in terms of dividend yield and capital investment-enabled growth is influenced by the interests of majority and controlling-interest owner Iberdrola. Iberdrola, a Spanish company, is properly regarded as the parent company of Avangrid for the purposes of the instant proceeding, and Iberdrola is not a member of the universe of potential proxy companies (*i.e.*, Value Line Electric Utilities). As such Avangrid is not appropriately a proxy company in this proceeding.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING PROXY COMPANIES FOR DCF ROE ANALYSIS PURPOSES IN THIS PROCEEDING?

A. I recommend the Council set the universe of companies to potentially serve as proxy companies for ENO for ROE analysis purposes in this proceeding as the Value Line electric utility group. From that group of companies, I recommend the Council exclude certain companies based on their comparability or lack thereof to ENO. Based on appropriate screening methodologies explained in this testimony, I recommend the Council employ the following companies as proxies for ENO for ROE evaluation purposes, which are presented in the below table. The screening methodologies and results thereof are presented in Exhibit BSW-4. 24 companies among the universe of 42 companies were not excluded and as such are suitable proxy companies for DCF ROE analysis purposes.

Table 3
Proxy Companies for DCF ROE Analysis

	Company Name	**Ticker**
1	Alliant Energy Corp	LNT
2	American Electric Power Company Inc	AEP
3	Ameren Corp	AEE
4	Black Hills Corp	BKH
5	CMS Energy Corp	CMS
6	Consolidated Edison Inc	ED
7	DTE Energy Co	DTE
8	Duke Energy Corp	DUK
9	Edison International	EIX
10	El Paso Electric Co	EE
11	Exelon Corp	EXC
12	Fortis Inc	FTS
13	Idacorp Inc	IDA
14	Nextera Energy Inc	NEE
15	NorthWestern Corp	NWE
16	Pinnacle West Capital Corp	PNW
17	PNM Resources Inc	PNM
18	Portland General Electric Co	POR
19	Public Service Enterprise Group Inc	PEG
20	Sempra Energy	SRE
21	Southern Co	SO
22	Unitil Corp	UTL
23	WEC Energy Group Inc	WEC
24	Xcel Energy Inc	XEL

Q. WHAT IS THE MORE RELEVANT DCF ROE ANALYSIS METHODOLOGY FOR COUNCIL CONSIDERATION IN THE INSTANT DOCKET?

A. As I discuss elsewhere in my testimony, a constant-growth DCF analysis is flawed because a single growth factor in perpetuity implies either unreasonably low growth or impossibly high growth. As such, my two-step DCF ROE analysis is more relevant and appropriate for Council consideration in the instant docket.

Q. PLEASE DESCRIBE THE RESULTS OF YOUR DCF ROE ANALYSES.

A. Exhibit BSW-4 presents the results of my constant-growth DCF ROE analysis and my two-step DCF ROE analysis. Among proxy companies, my two-step DCF ROE analysis, unadjusted for risk and flotation costs, yields a range of implied ROEs of 5.74% to 10.64% with a median implied ROE of 8.09%.

Q. WHAT ROE AMONG THE TWO-STEP DCF ROE ANALYSIS RESULTS IS APPROPRIATE FOR COUNCIL CONSIDERATION?

A. As the Council appropriately should protect both ENO's opportunity to earn a fair return on its investment as well as protect stakeholder interests, I recommend the Council consider an allowed-ROE that is no greater than that required to reasonably allow ENO the opportunity to earn a fair return. As such, the median of the range of proxy company two-step DCF implied ROEs presented in Exhibit BSW-4 represents the appropriate such allowed-ROE.

Q. HAS ADVISOR WITNESS PROCTOR PERFORMED A ROE ANALYSIS?

A. Yes, Advisor witness James M. Proctor has performed a Capital Asset Pricing Model ("CAPM") analysis. I note that his proxy companies, with the exception of companies I excluded for lack of useable I/B/E/S growth estimates (*i.e.*, Allete, Entergy Corp., First Energy Corp., OGE Energy, and Otter Tail), corresponds with my recommended proxy companies. His CAPM ROE analysis identifies an allowed-ROE of 7.57% (unadjusted for risk and flotation costs). Further Mr. Proctor's CAPM allowed-ROE is 52 bp less than that of my two-step DCF ROE analysis result. As a DCF ROE analysis and a CAPM ROE analysis are based on different financial concepts (*i.e.*, DCF is based on dividend yields and growth factors, while CAPM is based on market returns and correlations therewith), this relative concurrence in results between these analyses is probative for the Council in the instant proceeding.

Q. DO YOU AGREE WITH Mr. PROCTOR'S CAPM ANALYSIS?

A. Yes, CAPM is a conceptually sound and market-driven (*i.e.*, based on market statistical measures) ROE estimation methodology that is commonly employed and accepted. I have reviewed Mr. Proctor's exhibits 4 through 9, and I agree with Mr. Proctor's analysis and results.

Q. DOES Mr. PROCTOR'S ADJUSTED ALLOWED-ROE BASED ON HIS CAPM ANALYSIS REPRESENT A REASONABLE ROE IN THE INSTANT PROCEEDING?

A. Yes. ENO should have the reasonable opportunity to earn a fair return on its investment. In agreement with Mr. Proctor's CAPM analysis, the Council would be allowing ENO such an opportunity if it were to set rates in the instant proceeding based upon his CAPM ROE analysis.

Q. SHOULD THE COUNCIL TAKE Mr. PROCTOR'S CAPM ROE ANALYSIS INTO ACCOUNT WHEN SETTING AN ALLOWED-ROE FOR ENO?

A. Yes, Mr. Proctor's analysis is based on accepted methodologies and data. As such, I recommend the Council take the results of his CAPM ROE analysis into account in the instant proceeding. The Council may wish to note that Mr. Proctor's CAPM ROE analysis's results are broadly consistent with those of my two-step DCF ROE analysis and that Mr. Proctor's analysis confirms that an allowed-ROE higher than my recommended

8.93% allowed-ROE (including a risk and flotation-cost adjustment that I discuss later in this testimony) is not necessary.

Risk-Related ROE Adjustments

Q. DOES Mr. PROCTOR DISCUSS RISK-RELATED ROE ADJUSTMENTS?

A. Yes, in his direct testimony, Mr. Proctor discusses the ROE-related risk factors discussed by Mr. Hevert and recommends the Council allow a risk-related ROE adjustment in this instant proceeding of 81 bp (*i.e.*, an 81 bp upward ROE adjustment).

Q. DO YOU AGREE WITH Mr. PROCTOR'S RECOMMENDATION FOR AN 84 BP UPWARD ROE ADJUSTMENT?

A. Yes. I agree that for the instant proceeding's specific circumstances, the Council may wish to allow an upward ROE adjustment. I agree with Mr. Proctor's one standard-deviation adjustment methodology as being objective and reflective of the variability of systematic risks among the Proxy Companies.

Q. SHOULD Mr. PROCTOR'S 84 BP UPWARD ROE ADJUSTMENT BE APPLIED TO YOUR DCF ROE ANALYSIS RESULT?

A. Yes. By its conceptual design, the CAPM methodology evaluates business (*i.e.*, systematic) risks and not risks that are avoidable through portfolio diversification. The DCF methodology evaluates total risk. As such, and in agreement with Mr. Proctor, a ROE adjustment intended as a risk-related adjustment is appropriately affected through the variability of CAPM proxy company implied ROEs.

Flotation Costs

Q. DOES Mr. PROCTOR DISCUSS EQUITY FLOTATION COSTS?

A. Yes. Mr. Proctor notes that Entergy Corp. expects its June 2018 equity flotation to involve a flotation cost of 1.120%.

Q. DO YOU AGREE WITH Mr. PROCTOR'S RECOMMENDATION TO ADJUST ENO'S ALLOWED-ROE TO REFLECT SUCH FLOTATION COSTS?

A. Yes, for the purposes of the instant proceeding, I agree with Mr. Proctor's recommendation. Exhibit BSW-4 presents the flotation cost-adjusted implied ROEs for the proxy companies, the median of such values is 8.12%, or approximately 3 bp greater than the median of the non-flotation-adjusted proxy company implied ROEs. My two-step DCF proxy company mean ROE analysis result of 8.09% plus these appropriate upward adjustments yields my recommended allowed-ROE of 8.93%.

Allowed-ROE Recommendation

Q. WHAT ROE ADJUSTMENTS DO YOU RECOMMEND THE COUNCIL ALLOW IN THE INSTANT PROCEEDING?

A. In agreement with Mr. Proctor, and specific to the circumstances of the instant proceeding, I recommend the Council allow ENO an 81 bp upward ROE adjustment related to business risks and a 3 bp upward ROE adjustment related to its demonstrated equity flotation costs.

Q. BETWEEN YOUR ADJUSTED DCF ROE ANALYSIS RESULT OF 8.93% AND Mr. PROCTOR'S ADJUSTED CAPM ROE ANALYSIS RESULT OF 8.42%, WHICH SHOULD THE COUNCIL APPROVE IN THE INSTANT DOCKET?

A. I recommend the Council weigh ENO's opportunity to earn a reasonable return on its investments with the interests of all stakeholders. Employing my recommended 50% equity cap, the 51 bp ROE difference between my adjusted ROE result and Mr. Proctor's adjusted ROE result results in a 35 bp change to ENO's before-tax WACC (*i.e.*, ENO's return on rate base), which applied to ENO's proposed Period II rate bases of $769.3 million and $120.1 million for gas and electric respectively[45] results in a $2.7 million and $0.4 million revenue requirement difference for electric and gas respectively. The risk and cost to ratepayers of the Council's accepting the higher 8.93% allowed-ROE is thus quantified and limited at approximately $3.1 million per year on a total company basis. Should an 8.42% allowed-ROE prove in practice inadequate to allow ENO a reasonable return to maintain its credit and access to capital, the risk and cost to ratepayers is incalculable, but likely greater than $3.1 million. Also, as Mr. Proctor's CAPM ROE analysis is expertly prepared and likely would allow ENO a reasonable return on its investments, his recommendation provides strong evidence that the Council should consider approving an allowed-ROE in the range of 8.42% to 8.93% is just and reasonable.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S ALLOWED-ROE IN THE INSTANT PROCEEDING?

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[45] See Statements BB-1 for each of gas and electric.

A. While I agree with Mr. Proctor's recommended allowed-ROE of 8.42% as being properly calculated and based on sound financial principles, for the reasons I discuss above, I recommend the Council set ENO's gas and electric ROE at 8.93% in the instant proceeding and for any FRP period the Council may authorize. I recommend the Council consider Mr. Proctor's CAPM ROE analysis and his ROE finding of 8.42% as independent support that an allowed-ROE in the range of 8.42% to 8.93% is reasonable.

V. ENO'S CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS ENO PROPOSING FOR RATEMAKING PURPOSES IN THE APPLICATION?

A. ENO witness Orlando Todd states that ENO projects its capital structure as of December 31, 2018 will consist of 52.2% common equity, with the rest consisting of long-term debt.[46] ENO is not forecasting any preferred membership interest (*i.e.*, comparable to preferred stock) as part of its capital structure in the Application. ENO is proposing that this projected capital structure be the basis for regulatory ratemaking (*i.e.*, a component of ENO's WACC).

Q. HOW HAS ENO'S EQUITY RATIO COMPARED TO THOSE OF ENTERGY CORP. AND THE EOCs?

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[46] See the Revised Direct Testimony of Orlando Todd, the answer to Question Q27 at page 14.

A. The following table presents a summary of the common equity ratios of ENO, Entergy Corp. and the other EOCs by year.

Table 4
Affiliate Equity Ratios by Year

Company	2014	2015	2016	2017	2018
Entergy Corp.	46.6%	45.0%	38.2%	34.8%	[redacted]
ENO	50.3%	70.0%	63.1%	55.8%	[redacted]
Difference from Entergy Corp.	***3.7%***	***25.0%***	***24.9%***	***21.0%***	[redacted]
EAL	44.7%	43.9%	45.3%	44.8%	[redacted]
ELL	48.5%	50.0%	48.0%	46.6%	[redacted]
EML	50.3%	54.1%	51.6%	48.7%	[redacted]
ETI	50.4%	50.2%	49.9%	53.1%	[redacted]
Average of non-ENO EOCs	48.5%	49.9%	48.7%	48.3%	[redacted]
Difference from Entergy Corp.	***1.9%***	***4.6%***	***10.5%***	***13.5%***	[redacted]

Sources: Entergy Forms 10-K Reports to the SEC (2014-2017), ENO's HSPM response to DR CNO 6-16 (2018).

Notes:

1. Values exclude the effects of any securitization bonds and the effects of cash on equity ratios.
2. ENO 2015 equity ratio was influenced by Entergy Corp.'s pre-contributing equity in anticipation of ENO's 2016 purchase of Union PB1.

Q. HOW DO ENO'S EQUITY RATIOS COMPARE TO THOSE OF ENTERGY CORP. AND THE OTHER EOCs?

A. For each year presented in the above table, ENO's equity ratio is greater than those of Entergy Corp. as well as the average of the other EOCs.

Q. WHAT DOES "DOUBLE LEVERAGE" MEAN IN THE CONTEXT OF THE INSTANT PROCEEDING?

A. A useful meaning of "double leverage" for the purposes of the instant proceeding is the practice of maintaining a significantly higher common equity ratio at the utility operating company level (*i.e.*, ENO) than is maintained at the highest corporate level ultimately owning the utility (*i.e.*, Entergy Corp.). Because the return on a utility's investment component of its revenue requirement is customarily based on its WACC and the rate of the Return on Equity ("ROE") component of WACC is typically at a higher rate than those of the debt components (especially on a pre-tax basis), a high common equity ratio tends to increase a utility's WACC and revenue requirement. A utility that engages in double leverage effectively borrows money at the top corporate level and places that money into its utility subsidiaries as common equity providing a potential return which is likely greater than its original borrowed cost.

Q. DOES ENO'S PROPOSED CAPITAL STRUCTURE CONSTITUTE DOUBLE LEVERAGE?

A. Yes. ENO's proposed equity ratio of 52.2% as compared to that of 34.1% projected for Entergy Corp. as of December 31, 2018 shifts the costs associated with common equity to the ENO level as compared to the corporate level to the extent retail rates are reflective of ENO's proposed equity ratio. As such, allowing ENO rates reflective of an equity ratio of 52.2% when the Entergy Corp. equity ratio is 34.1% would constitute double leverage.

I note that Entergy Corp. has two business segments: the Utility business segment ("Utility") and Entergy Wholesale Commodities ("EWC"),[47] with Utility containing the

[47] See Entergy Corp.'s 2017 annual report to the SEC, Form 10-K, page 191.

EOCs and EWC containing Entergy's merchant generation operations. Utility and EWC can reasonably be viewed as having distinct business models and risk profiles. As such, it may be reasonable to conclude that Entergy Corp.'s capital structure need not exactly match that of the EOCs in recognition of EWC's characteristics. However, even under the theory that some amount of double leverage within Entergy is not inappropriate, considering Utility vs. EWC risks and business models, based on the data in Table 4 above, ENO appears to be subject to greater than average costs related to such double leverage as compared to the other EOCs.

I note that Entergy Corp. has in recent years strategically shifted away from the ownership and operation of merchant nuclear facilities. As such, in future reviews of ENO's cost of service, any ENO double leverage compared to Entergy Corp. may not be justifiable by EWC's risk profile to the same extent it may be today.

Q. CAN ENO OR ENTERGY CORP. EXERCISE CONTROL OVER ENO'S EQUITY RATIO?

A. Yes, ENO or Entergy Corp. may achieve any reasonable equity ratio for ENO through the capital planning process. ENO's HSPM response to DR CNO 1-1 presents a forecast of long-term debt issuances and redemptions and a forecast of common equity dividends and infusions. ENO may choose a different mix of such capital transactions to achieve a different equity ratio.

Q. WHAT IS THE SIGNIFICANCE OF ENO'S EQUITY RATIO BEING HIGHER THAN THAT OF THE AVERAGE OF THE OTHER EOCs?

A. ENO's proposed equity ratio of 52.2% is 18.1% higher than that of Entergy Corp. as of December 31, 2018, while the average equity ratio of the other EOCs projected as of December 31, 2018 is only 15.5% higher than that of Entergy Corp. As such, the revenue requirement effect of ENO's double leverage on New Orleans ratepayers is more pronounced than that for the average ratepayer of the other EOCs.

Q. WHAT IS THE REVENUE REQUIREMENT EFFECT OF ENO'S PROPOSED EQUITY RATIO AS COMPARED TO THAT OF ENTERGY CORP.?

A. Employing ENO's Period II Excel-based cost of service models as provided in the Application ("External Model"), changing ENO's equity ratio to Entergy Corp.'s 34.1% such ratio from ENO's proposed 52.2% yields a $10.8 million reduction in electric revenue and a $1.8 million reduction in gas revenue.

Q. WHAT IS THE REVENUE REQUIREMENT EFFECT OF ENO'S PROPOSED EQUITY RATIO AS COMPARED TO THAT OF THE AVERAGE OF THE OTHER EOCs?

A. Employing ENO's Period II External Models and changing ENO's equity ratio to be consistent with the non-ENO EOCs' average equity ratio of 49.6% as opposed to ENO's proposed 52.2% yields a $1.5 million reduction in electric revenue and a $0.3 million reduction in gas revenue.

Q. WHAT IS THE REVENUE REQUIREMENT EFFECT OF ENO'S PROPOSED EQUITY RATIO AS COMPARED TO THAT OF A 50% RATIO?

A. Employing ENO's Period II External Models and changing ENO's equity ratio to 50% from ENO's proposed 52.2% yields a $1.3 million reduction in electric revenue and a $0.2 million reduction in gas revenue.

Q. WHAT IS THE EFFECT ON RATEPAYERS OF ENO'S DOUBLE LEVERAGE?

A. Based on ENO's External Models and ENO's requested ratemaking treatments incorporated therein and considering Entergy Corp.'s equity ratio of 34.1%, ENO benefits from double leverage at ratepayer expense by roughly $10.8 million and $1.8 million for electric and gas respectively. However, a 34.1% equity ratio for ENO reasonably might not be considered prudent. As such, a reasonable estimate of Entergy's benefit at ratepayer expense from ENO's double leverage is closer to $1.5 million and $0.3 million annually for electric and gas respectively based on the average non-ENO EOC equity ratio.

Q. MAY THE COUNCIL EMPLOY AN APPROPRIATE EQUITY RATIO INSTEAD OF ENO'S ACTUAL SUCH RATIO WHEN SETTING ENO'S RETAIL RATES?

A. Yes. The Council may employ an appropriate equity ratio other than ENO's actual equity ratio when considering ENO's retail revenue requirements as part of setting retail rates. For example, current retail rates allowing ENO recovery of its non-fuel costs related to its ownership of Union PB1 employ an equity ratio of the lesser of ENO's actual equity ratio or 50%.[48] Further, I note that in ENO's September 9, 2016 *Update on the Status of Gas Infrastructure Rebuild Pursuant to Council Resolutions R-07-377 and R-16-263 Docket*

[48] See Council Resolution No. R-15-542, Ordering Paragraph 2.

No. UD-07-02, in which ENO proposed the GIRP program I discuss elsewhere in this testimony, ENO's prospective cost analysis employed an "Assumed 50% Common Equity,"[49] even though ENO's actual equity ratio was not 50%.

Q. WHAT IS AN APPROPRIATE EQUITY RATIO FOR THE COUNCIL'S USE WHEN CONSIDERING ENO'S REVENUE REQUIREMENT AND SETTING ENO'S RETAIL RATES?

A. Considering that, (a) in past rate actions and investment proposals, a 50% equity ratio was accepted as reasonable and employed by ENO for cost forecasting purposes, (b) ENO's actual December 31, 2018 equity ratio constitutes inappropriate double leverage, and (c) ENO's equity ratio is greater than that of the average of the other EOCs, an appropriate equity ratio in the instant docket for Council use when considering ENO's revenue requirement and setting ENO's retail rates is the lesser of: (a) ENO's actual equity ratio, and (b) 50%, which in the instant proceeding would mean a 50% equity ratio.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL WITH REGARD TO ENO'S CAPITAL STRUCTURE AND DOUBLE LEVERAGE?

A. I recommend the Council employ an equity ratio of 50% in the instant proceeding for setting ENO's electric and gas retail rates. I recommend that for setting rates as part of any FRP evaluations the Council may approve in the instant proceeding, the Council employ an equity ratio equal to the lesser of (a) ENO's then actual equity ratio properly excluding

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[49] See Council Docket No. UD-07-02, ENO's response to DR CNO 3-19, the file styled *TC-UD0702-02ADV003-N019_b_gas wacc with cap equity at 06-2016*.

the effects of securitization bonds and cash, and (b) 50%. I recommend that in future base rate actions following the conclusion of any FRP the Council may approve in the instant proceeding, the Council consider whether Entergy Corp.'s equity ratio is probative considering Entergy Corp.'s then business characteristics (*i.e.*, considering the status of Entergy Corp.'s expected exit from merchant generation).

Q. WHAT IS YOUR RECOMMENDED WACC WHEN EMPLOYING YOUR RECOMMENDED ALLOWED-ROE, RECOMMENDED LONG-TERM DEBT COST RATE, AND RECOMMENDED EQUITY RATIO CAP?

A. I present below a calculation of my recommended WACC for ENO for regulatory ratemaking purposes in the instant docket. I note that, while I recommend an allowed-ROE for the duration of any FRP the Council may employ, any future FRP evaluation may employ a different WACC due to changes in the other related factors.

Figure 1
Advisor Recommended WACC

WACC Component	Capital Ratio	Cost Rate	Before Tax	After Tax
LONG TERM BOND DEBT	50.00%	4.88%	2.44%	2.44%
PREFERRED STOCK	0.00%	0.00%	0.00%	0.00%
COMMON EQUITY	50.00%	8.93%	6.04%	4.47%
TOTAL	100.00%		8.48%	6.91%

VI. AMI STRANDED PLANT

Q. PLEASE DESCRIBE THE APPLICATION'S TREATMENT OF PLANT TO BE RETIRED AS PART OF ENO'S AMI DEPLOYMENT.

A. Council Resolution No. R-18-37, which approves a February 8, 2018 Agreement in Principle ("AIP") resolving Council Docket No. UD-16-04 ("AMI AIP") authorizes ENO in deploy an AMI program in New Orleans. As part of the AMI deployment ENO must retire certain related existing plant, such as meters, prior to its full recovery through depreciation (“Stranded Plant”). The AMI AIP provides for ENO’s recovery of the remaining net book value of such Stranded Plant:

> *Upon commencement of AMI deployment, ENO is authorized to reclassify the amount of the remaining **net book value** as of 12/31/2017 for the existing plant that will be retired as a result of the AMI deployment to separate electric and gas regulatory assets (in FERC account 182.2). These regulatory assets shall be amortized in a straight-line manner over 12 years, starting with the effective date of new rates resulting from ENO' s 2018 Rate Case. These regulatory assets shall be excluded from rate base. However, ENO will be allowed to include $2,400,000 per year in its annual electric revenue requirement and $360,000 in its gas revenue requirement ("Retired Plant Revenue Requirements") for a period of twelve (12) years, coinciding with the amortization of the regulatory assets described above.*[50]
>
> (Emphasis added.)

Per the AMI AIP, the net book value of the Stranded Plant (*i.e.*, historical cost less accumulated depreciation) constitutes the regulatory assets to amortized over a 12-year period and at a specific rate of cost recovery.

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[50] AMI AIP, Paragraph 9 at page 3.

Q. WHERE IN THE APPLICATION DOES ENO ADDRESS THE AMI AIP WITH REGARD TO STRANDED PLANT?

A. ENO Witness Myra L. Talkington sponsors proforma adjustment AJ15 which, among other AMI-related adjustments, removes the balance sheet components of Stranded Plant from ENO's per-books cost of service studies. AJ15 also debits O&M in the amount of $2,400,000,[51] which is reflective of the AMI AIP's allowed recovery of and on stranded plant net book value.[52]

Q. DOES ENO CORRECTLY IMPLEMENT THE TERMS OF THE AMI AIP REGARDING STRANDED PLANT?

A. No, ENO incorrectly removes from its cost of service studies rate base credits related to Stranded Plant. Through AJ15, ENO incorrectly removes (*i.e.*, debits rate base) ADIT from both its Period I and Period II cost of service studies in the amounts of $6,227,006 and $823,146 for electric and gas respectively.[53] ENO's proposed proforma adjustment incorrectly increases its proposed revenue requirement.

Q. WHY IS IT INCORRECT FOR ENO TO REMOVE THESE ADIT AMOUNTS FROM RATE BASE?

A. ENO is incorrect to remove these ADIT amounts from its cost of service study rate base for two reasons. First, ENO continues to enjoy the benefit of cost-free capital from ADIT

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[51] Statement CC-1, electric, Page 2 of 4, Line 5.
[52] See AMI AIP, Paragraph 9 at page 3.
[53] See Application, supplemental workpaper styled *AJ15 - AMI_EP1 EP2 GP1 GP2_WP*, tab "Tax Workpaper".

related to these regulatory assets. Inclusion of ADIT as a credit to rate base is consistent with customary ratemaking related to regulatory assets. Second, ENO's proposed treatment of these ADIT amounts is not provided for in the AMI AIP. The AMI AIP specifically states that the regulatory assets reflect the **net book value** of the Stranded Plant. Net book value does not include ADIT; a useful term for net book value and ADIT together is *related rate base* or *rate base component*. Based on statements in the Application, such as RB 2.4 which presents Net Book Value of Plant in Service, ENO would agree that net book value does not include ADIT. As such, no part of the AMI AIP indicates that ENO may remove these ADIT amounts from rate base in the instant proceeding.

Q. WHAT IS THE CORRECT REGULATORY RATEMAKING TREATMENT FOR THESE ADIT AMOUNTS?

A. ENO's cost of service studies' rate base should reflect these ADIT amounts. ENO proforma adjustment AJ15 should not debit rate base by $6,227,006 and $823,146 for electric and gas respectively. Advisor adjustment ADV07, as presented in the Direct Testimony of Cortney A. Crouch, reflects this appropriate correction.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ADIT RELATED TO THE STRANDED PLANT?

A. I recommend the Council deny ENO's request as part of AJ15 to debit rate base by $6,227,006 and $823,146 for electric and gas respectively by setting rates consistent with the reversal of these debits.

VII. DEPRECIATION RATES AND PITA

Q. HAS ENO PROPOSED NEW DEPRECIATION RATES IN ITS APPLICATION?

A. Yes. ENO Witness Donald J. Clayton sponsors new depreciation rates based on a study conducted by Tangibl, LLC. The study employs accepted depreciation study methodologies to create what is commonly referred to as *Iowa Curve* factors taking into account survivor curves, expected retirement dates, and salvage factors.

Q. WHAT IS THE ANNUAL COST OF SERVICE IMPACT FOR ENO OF THE NEW PROPOSED DEPRECIATION RATES?

A. Mr. Clayton reports that ENO's proposed depreciation rates would increase ENO's depreciation expense by $2.5 million and $0.1 million for electric and gas respectively as compared to retaining ENO's currently approved depreciation rates.[54] Of note, the $2.5 million increase includes a $1.0 million expense to allow ENO recovery of $10.2 million in stranded costs over a 10-year period.[55]

Q. IS IT APPROPRIATE TO ALLOW RECOVERY OF STRANDED COSTS OVER A 10-YEAR PERIOD?

A. Yes. Consistent with accepted FERC accounting instructions,[56] absent some mechanism to remove such stranded costs from its rate base, ENO could continue to earn a return on

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54 See the Revised Direct Testimony of Donald J. Clayton at page 16.
55 *WP Exhibit DJC-3 Summary E*, Tab *Sched 2*, Excel Row 120, "General Plant."
56 Specifically, FERC Electric Instruction No. 10 - *Additions and Retirements of Electric Plant*, part B (2).

these stranded costs indefinitely at its WACC.[57] It is appropriate to remove this component of ENO's rate base, and given its $10.2 million amount, a 10-year period for recovery of these stranded costs is reasonable in the interest of rate stability. I note that should ENO's proposed depreciation rates remain in effect past the 10-year period, the $1.0 million annual expense will serve to further credit ENO's rate base, so ENO would not unjustly thereafter benefit.

Q. SHOULD THE COUNCIL ACCEPT ENO'S PROPOSED DEPRECIATION RATES?

A. Yes. My review of Mr. Clayton's testimony indicates that ENO's proposed depreciation rates are based on accepted analytical methodologies and represent an incremental change to depreciation rates that ENO reports as having been in effect since 1980 and 2009 for electric and gas respectively. Further, as depreciation represents recovery of ENO's investments in plant, ENO's requested overall increase in depreciation rates serves to slightly hasten the decline in ENO's appropriate dollar return on rate base. As I discuss elsewhere in this testimony, ENO's proposed depreciation rates also appropriately provide for removing stranded costs from rate base of a 10-year period. As such, I recommend the Council adopt ENO's proposed new depreciation rates.

Q. PLEASE DESCRIBE PITA.

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[57] For example, see ENO's response to DR CCPUG 2-17 where ENO states that it stopped recording depreciation on generating units upon their deactivation.

A. Excess-ADIT may occur when income tax rates decline. In the case of the Tax Cuts and Jobs Act of 2017 ("TCJA"), the applicable federal income tax rate was reduced from 35% to 21%. The TCJA's new income tax rate applicable to ENO reduced the amount of ENO's required ADIT, with the difference which is referred to as "excess-ADIT," being returnable to ratepayers. Excess-ADIT is separable into Unprotected Excess-ADIT ("UPITA") and Protected Excess-ADIT ("PITA"). As of the expected rate-effective date in the instant proceeding all UPITA is expected to either have been returned to ratepayers or otherwise employed for utility operation purposes. PITA, which is related to plant in service, is required to be returned to ratepayers according to the remaining book life of its related assets, most often according to the Average Rate Assumption Method ("ARAM"), a period of time ENO estimates as "approximately 40 years."[58]

Q. WILL PITA BE RETURNED TO RATEPAYERS IN EQUAL AMOUNTS OVER 40-YEARS?

A. No. As ENO explains, PITA is returned according to "turn over the remaining book life of each related asset."[59] Further, ENO has not calculated specific PITA amortization amounts by year, nor has it actually projected the total ARAM period.[60] As such, future PITA amortization amounts may vary.

[58] Revised Direct Testimony of Joshua B. Thomas, the answer to question Q47 at page 38.
[59] ENO's response to DR CNO 3-7, part c.
[60] See ENO's response to DR CNO 3-7, part g.

Q. WOULD THE COUNCIL'S APPROVAL OF ENO'S PROPOSED DEPRECIATION RATES AFFECT THE RATE AT WHICH PROTECTED EXCESS ADIT IS RETURNED TO RATEPAYERS?

A. Yes, as ENO employs ARAM for calculating the period of return of PITA, a change to its depreciation rates affects the rate at which PITA is returned to ratepayers.[61] As such, I expect that an increase in ENO's depreciation rates would generally slightly increase the rate at which PITA may be returned to ratepayers. ENO has indicated that providing calculations of such would be "unduly burdensome to perform" but would supplement the Advisors' request for such calculations when complete.[62] As of the preparation of this testimony, ENO has not provided the requested calculations, therefore I cannot state what the amount of PITA amortization would be should the Council approve ENO's proposed depreciation rates.

Q. WHAT IS THE APPROPRIATE MECHANISM FOR REFLECTING CHANGES IN PITA AMORTIZATION AMOUNTS IN ENO'S RATES?

A. Upon the Council's setting new retail rates, PITA is appropriately returned to ratepayers through base rates. As such, the effect on PITA amortization due to a change in ARAM, should be reflected in base rate actions, such as the instant proceeding. However, as I discuss in this testimony, as of the preparation of this testimony, ENO has not estimated its prospective PITA amortization rate consistent with its proposed depreciation rates.

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[61] See ENO's response to DR CNO 1-22.
[62] Id.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED DEPRECIATION RATES AND RETURN TO RATEPAYERS OF PITA?

A. I recommend the Council approve the electric and gas depreciation rates proposed by Mr. Clayton. I further recommend the Council adopt electric and gas rates for ENO reflective of the costs related to such depreciation rates. Further, I recommend the Council consider the materiality of the effect on PITA amortization due to any new depreciation rates the Council may approve in the instant proceeding or due to changes in annual PITA amortization according to ARAM and take appropriate action as part of the next base rate action before the Council.

VIII. <u>OUT OF PERIOD PROFORMA ADJUSTMENTS</u>

Q. IS ENO SEEKING RECOVERY OF COSTS RELATED TO INVESTMENTS IT EXPECTS TO MAKE AFTER PERIOD II?

A. Yes. ENO is proposing to include in its cost of service studies costs related to plant additions it expects to make in 2019. The below table summarizes the approximate impact of this proposal on ENO's Period II cost of service study.

Table 5
ENO-Proposed Out-of-Period Proforma Plant Additions

Proforma Adjustment to Period II as of December 31, 2019	**Gas**	**Electric**
Plant in Service [1]	$21.2 million	$103.8 million
Accumulated Depreciation [2]	$3.2 million	$37.1 million
Net Plant in Service	$18.0 million	$66.7 million
ADIT [3]	($0.2) million	($1.7) million
Rate Base (Net Plant less ADIT)	$17.8 million	$65.0 million
Return on Rate Base (WACC = 8.48%) [4]	$1.5 million	$5.5 million
Depreciation Expense [5]	$0.6 million	$2.3 million
Total Revenue Requirement	**$2.1 million**	**$7.8 million**

1. See Statement BB-2, AJ14
2. See Statement BB-3, AJ14
3. See AJ03A and ENO's response to DR CNO 10-3, Addendum 1.
4. Advisors' recommended before-tax WACC.
5. See AJ16 and ENO's response to DR CNO 10-3, does not reflect depreciation on $4.3 million in 2018 distribution reliability investments added from the Initial Application.

I note that the gas values presented above are inclusive of ENO's proposed GIRP investment through December 31, 2019. As the above table demonstrates AJ14 constitutes a substantial proforma increase to ENO's revenue requirements.

Q. IS THE COUNCIL REQUIRED TO SET RATES BASED ON AJ14?

A. No, the Code of the City of New Orleans, Section 158-132 (1) provides for a summary of revenue requirements for Periods I and II, and not for further future-period or out-of-period adjustments. Further, the Council is not required to employ any particular methodology when setting ENO's rates, such as accepting ENO's proforma adjustments, especially to the extent such proforma adjustments do not reflect ENO's overall cost to provide utility service.

Q. SHOULD THE COUNCIL ALLOW ENO RECOVERY OF COSTS RELATED TO AJ14 IN THE INSTANT PROCEEDING?

A. Yes, as Advisor witness Prep discusses in his testimony, accepted prospective regulatory ratemaking principles allow for inclusion of proforma out-of-period adjustments that are known and measurable and that that coincide with the rate effective period (*i.e.*, the period starting August 2019). The capital investments presented in AJ14 are known and measurable in that they are budgeted and reflect plant additions can reasonably be expected to be closed by December 31, 2019.

Further, the Council's allowing ENO recovery of costs related to AJ14 is consistent with the Council's long-standing practice of constructive regulatory treatment for ENO. Out of period proforma adjustments to ENO's revenue requirement, such as AJ14 and its related costs are an example of an effective alternative to exact cost recovery riders that, as I discuss elsewhere in my testimony are unnecessary and may constitute inappropriate single-issue ratemaking.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING AJ14?

A. I recommend that the Council set rates in the instant proceeding reflective of allowing ENO recovery of costs related to AJ14. I also recommend the Council review the plant closings presented in AJ14 during any future rate action involving a 2019 test year (*i.e.*, ENO's proposed first FRP evaluation) to ensure all the plant closings presented in AJ14 were indeed accomplished.

IX. NEW BILLING OPTIONS

Q. WHAT NEW BILLING OPTIONS IS ENO PROPOSING IN THE APPLICATION?

A. ENO witness Smith sponsors ENO's request to implement a) a pre-pay option for residential electric and gas service, b) a fixed billing option for residential electric service, and c) a green power option for residential electric service. As the respective names suggest, participation in each would be entirely optional for each ratepayer.

Pre-pay Option

Q. PLEASE DESCRIBE ENO's PROPOSED PRE-PAY OPTION.

A. ENO Witness Smith sponsors the electric and gas prepay options: Schedule PES and Schedule PGS respectively. Prepay is available on an optional basis to certain residential electric or gas customers who have received smart meters under ENO's AMI deployment. Pre-pay customers are charged the same rates as they would under traditional post-pay billing (*i.e.*, monthly billing). Unlike with post-pay billing, a deposit is not required to initial service; either gas or electric service commences with at $35 initial pre-pay balance. Service is disconnected upon a zero or negative balance, but not on nights, weekends, or during weather moratoriums. Consistent with ENO's AMI technology's ability to disconnect and reconnect electric, but not gas, service remotely, reconnect fees do not apply to Schedule PES but do apply to Schedule PGS. ENO expects to initially offer pre-pay in 2020.

Q. HOW MANY CUSTOMERS DOES ENO INITIALLY EXPECT TO TAKE SERVICE UNDER PRE-PAY?

A. ENO indicates "that approximately 14% of ENO's customers indicated that they were likely or highly likely to participate."[63] However, in response to discovery, ENO states that in 2020, only 212 customers will participate in pre-pay.[64]

Q. HOW SHOULD PRE-PAY BALANCES BE ACCOUNTED FOR REGULATORY RATEMAKING PURPOSES?

A. At a 212-customer participation-level, ENO will maintain no significant pre-pay balances, but should 14% of ENO's residential customers choose pre-pay, ENO would maintain substantial cash balances. Such balances should be treated as a credit to ENO's regulatory rate base, much as are customer deposits. I recommend the Council evaluate the proper allocation of such credits as part of any rate action where pre-pay balances are expected to be significant.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED SCHEDULE PES AND SCHEDULE PGS?

A. As ENO has presented Schedule PES and Schedule PGS as voluntary and involving no additional ratepayer costs to those who choose to participate, I recommend the Council approve Schedule PES and Schedule PGS as options for qualifying residential customers. As ENO is expecting minimal initial participation, I recommend the Council evaluate pre-pay for any unexpected negative consequences for those who choose to participate, such as excessive disconnections. Finally, I recommend the Council direct ENO to treat any

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63 Revised Direct Testimony of Raiford L. Smith, the answer to question Q10 at page 9
64 See ENO's response to DR CNO 2-11, part c

pre-pay balances as rate base credits in future base rate action filings, such as FRP evaluations.

Fixed Bill Option

Q. PLEASE DESCRIBE ENO'S PROPOSED FIXED BILL OPTION.

A. ENO witness Smith sponsors Schedule FBO, which provides an electric residential fixed bill option. Schedule FBO involves a 12-month agreement with ENO that fixes residential electric billing against variations caused by weather. ENO would include in the fixed bill amount a weather risk adjustment, a price risk adjustment, and a usage risk adjustment. As such, Schedule FBO may be seen as insurance against adverse variations in weather and electricity prices, with ENO's "adjustments" constituting the insurance premium. However, should a ratepayer's actual usage exceed expected usage by 15% or more, ENO may cancel the fixed bill agreement.

Q. WHAT INDICATIVE ADJUSTMENT PREMIUMS HAS ENO PRESENTED?

A. Exhibit RLS-5 presents an indicative Weather Adjustment premium of 7.97% and a 2.06% fuel premium. Actual premium amounts would be calculated based on then-available data. ENO expects that over the long-term it expects net revenues from its Schedule FBO adjustment premiums, meaning ENO expects Schedule FBO participants to credit non-participants, although there is risk in any given year of under-collection of participants revenue responsibility. ENO proposes a Usage Risk Adjustment of 5% for the first year that a customer participates in Schedule FBO.[65]

Q. DOES ENO ALREADY HAVE A BILL LEVELING OPTION FOR RESIDENTIAL CUSTOMERS?

A. Yes, ENO currently offers and proposes to continue to offer Service Schedule EOBP on an optional basis to electric customers, which allows for levelized billing or equal pay. Levelized billing generates bills equal to the average of the customer's past twelve bills plus one-twelfth of any current period difference therefrom. As such, bills variations are smoothed. Equal pay similarly smooths bill variations by generating bills equal to one-twelfth of the current bill and the prior eleven months' bills. These billing options smooth bill variations, but do not insure against bill increases, as the normally-generated bill amounts eventually become payable.

Q. SHOULD THE COUNCIL APPROVE SCHEDULE FBO?

A. No. While Schedule FBO is optional for ratepayers, ENO states that "30% of ENO's residential customers are either likely or highly likely to participate in a fixed bill option."[66] I am concerned that imposing insurance premiums of potentially approximately 8% plus a further 5% first-year adjustment on a substantial minority of customers constitutes a cost in excess of benefit, especially should Schedule FBO takers disproportionately represent low and fixed-income citizens. When a level billing option already exists, selling insurance

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65 See ENO's response to DR CNO 11-4.
66 Revised Direct Testimony of Raiford L. Smith, the answer to question Q37 at page 26.

with a substantial premium is in my opinion unnecessary and imposes an unnecessary cost on ratepayers, potentially the most economically vulnerable ratepayers.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED SCHEDULE FBO IN THE INSTANT PROCEEDING?

A. I recommend the Council not approve Schedule FBO in the instant proceeding.

Green Power Option

Q. PLEASE DESCRIBE ENO'S PROPOSED GREEN POWER OPTION.

A. ENO witness Smith sponsors Rider Schedule Green Power Option ("GPO"), which provides customers the option to match some or all of their electric consumption against Renewable Energy Credits ("REC"). Rider GPO would be available to all electric customer classes, but initially not to those choosing pre-pay or fixed-bill. The primary component of the Rider GPO rate will be the purchase of RECs, but also recovery of administrative costs.[67] A 1,000 kWh customer (*i.e.*, typical residential customer) who chose 100% GPO participation would experience a $10/mo. Rider GPO surcharge.[68]

Q. MAY ENO PROFIT FROM RIDER GPO?

A. Yes, but not materially or over the long-term. The estimated O&M costs related to GPO do not constitute a substantial risk to ratepayers should ENO's actual such costs be less. Mr. Smith observes that any collections in excess of actual expenses would be corrected

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[67] See HSPM workpaper styled *WP_ENO GP Billing Solutions Cost Estimates_HSPM.*
[68] See the Revised Direct Testimony of Raiford L. Smith, Table 1 at page 48.

for prospectively as part of any FRP evaluation. This approach is consistent with my observations elsewhere in this testimony that ENO's rates should be set based on ENO's overall cost of service and that single-issue ratemaking is generally appropriately avoided. ENO also anticipates infrequent adjustments to Rider GPO's rate.

Q. SHOULD THE COUNCIL APPROVE RIDER GPO?

A. Yes, Rider GPO represents a voluntary program for ratepayers who may wish to offset the environmental impact of their electricity consumption. As described by Mr. Smith, Rider GPO would impose substantially no costs or risks to non-participants. As such, Rider GPO represents a valuable option for ratepayers who wish to participate in REC offsets.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING RIDER GPO?

A. I recommend the Council approve Rider GPO as sponsored by ENO witness Smith. I recommend the Council evaluate the program's actual costs of operation as part of future rate actions, such as FRP evaluations and take any further appropriate action at that time, including adjustments to Rider GPO's rates.

X. SINGLE ISSUE RATEMAKING AND SPECIAL COST RECOVERY RIDERS

Q. WHAT SPECIAL COST RECOVERY RIDERS IS ENO REQUESTING IN THE INSTANT PROCEEDING?

A. ENO is requesting the Council approve the following riders that would provide exact cost recovery for their respective costs (*i.e.*, a near-guarantee that ENO will recover all of its costs contemporaneous with their incurrence or through a true-up mechanism involving carrying costs for any under collection balance).[69]

1. Securitized Storm Cost Offset Rider ("SSCO") – revenue requirement effect of ADIT on costs recovered through the issuance proceeds of ENO's securitization bonds.
2. Gas Infrastructure Replacement Program Rider ("GIRP") – recovery of costs related to ENO's gas distribution pipe investments made after December 31, 2019 and recovery of ENO's proposed $20 million utility conflict survey program.
3. Advanced Metering Infrastructure Charge Rider ("AMICE" and "AMICG" for electric and gas respectively) – recovery of ENO's costs related to AMI investments after December 31, 2019 and return to ratepayers of any realized operational savings related to AMI deployment.
4. Purchased Power and Capacity Acquisition Cost Recovery Rider ("PPCACR") – specifically with regard to recovery of costs related to capacity additions made after December 31, 2019.
5. Distribution Grid Modernization Rider ("DGM") – recovery of costs related to certain ENO distribution plant investments made after December 31, 2019.

Single-Issue Ratemaking

Q. WHAT IS SINGLE-ISSUE RATEMAKING?

[69] 1. SSCO, EECR-1, AMICE, and AMICG, do not involve a true-up mechanism.

A. Single-issue ratemaking is a deviation from the accepted regulatory ratemaking principle that rates should generally be based on a utility's overall costs and risks. The Supreme Court of Louisiana has found that: "Single issue ratemaking occurs when a utility's rates are altered *on the basis of only one of the numerous factors* that are considered when determining the revenue requirements of a regulated utility."[70] (Emphasis added). Said differently, single-issue ratemaking occurs when particular portions of a utility's revenue requirement are considered for recovery in isolation from the utility's total costs and revenues.

Q. WHAT IS THE CUSTOMARY METHOD FOR ESTABLISHING BASE RATES?

A. A principle of customary regulatory ratemaking is that a utility's rates should be based on its overall prudently incurred cost to provide service including costs such as taxes, plus a reasonable return on shareholder investment in the utility. The Code of the City of New Orleans, Louisiana ("Code") reflects this principle by requiring a total company and jurisdictional income statement part of rate case applications.[71] The Louisiana Supreme Court has stated: "The general approach of a regulatory agency in determining whether an existing rate structure is producing inadequate or excessive revenues is well established. The agency first selects a 'test year,' normally the most recent annual period for which complete financial data are available, and calculates the utility's revenues, expenses and investments during the test period."[72] A utility's rates should offer the utility the

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[70] Supreme Court of Louisiana, Entergy Louisiana, LLC v. Louisiana Public Service Commission, et al., No. 008-CA-0284, 990 So.2d 717, Section 2.
[71] See Code, Sec. 158-134.
[72] South Central Bell Telephone Co. v. Louisiana Public Service Commission, 352 So. 2d 964 (1977).

reasonable opportunity to recover its prudently incurred costs in the aggregate, including a reasonable return on shareholder investment in the utility.

Q. IS SINGLE-ISSUE RATEMAKING GENERALLY APPROPRIATE?

A. No. Single-issue ratemaking is generally not appropriate because its application is contrary to the generally accepted regulatory ratemaking principle that a utility's rates that produce its revenues should be based on a utility's overall costs. Single-issue ratemaking may not capture the overall impact of the portion of a utility's revenue requirement under special consideration by potentially not reflecting offsetting changes in other areas of the utility's operations. Further, single-issue ratemaking may reduce a utility's incentive to control its costs to the extent such ratemaking guarantees cost recovery through a true-up mechanism. As such, single-issue ratemaking is particularly inappropriate when other ratemaking mechanisms that are not subject to single-issue ratemaking deleterious effects are available.

Q. DOES ENTERGY AGREE THAT SINGLE-ISSUE RATEMAKING IS INAPPROPRIATE UNDER LOUISIANA LAW?

A. Yes. ELL, an ENO affiliate, defines single-issue ratemaking, saying: "Single-issue ratemaking occurs when a utility's rates are altered on the basis of only one of the numerous factors that are considered when determining the revenue requirements of a regulated utility."[73] ELL said the Louisiana Supreme Court "is the ultimate arbiter of legal issues,

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[73] Entergy Louisiana, LLC v. Louisiana Public Service Commission, et al., Original Brief on the Merits on Behalf of Appellant Entergy Louisiana, LLC, page 17.

including issues relating to the application of regulatory principles such as the rule against retroactive ratemaking and the prohibition against single-issue ratemaking, which are well-established in the jurisprudence of this Court."[74] ELL goes on to say "the Commission is prohibited from engaging in single-issue ratemaking."[75] I note that ELL was subject to Council regulation in Algiers at the time it made these statements. It is my understanding that ENO and ELL are both subject to the Louisiana Supreme Court's jurisdiction, and therefore the Council may wish to give strong weight in its consideration of ENO's proposed riders that constitute single-issue ratemaking to the Louisiana Supreme Court's rulings that single-issue ratemaking is prohibited, especially as ENO's operating affiliate ELL has accepted this prohibition.

Q. UNDER WHAT CIRCUMSTANCES MIGHT SINGLE-ISSUE RATEMAKING BE APPROPRIATE?

A. Under circumstances where a prudently-incurred cost is significantly variable and that variability is not controllable by ENO, a single-issue ratemaking treatment, such as a rider, may be appropriate.

Q. WHAT DO YOU MEAN BY SIGNIFICANTLY VARIABLE?

A. In the context of whether single-issue ratemaking may be appropriate, significantly variable means a variation in cost that is not controllable by ENO and is of magnitude such that ENO's rates reasonably might not allow it the opportunity to recover its prudently

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[74] Id., page 13.
[75] Id.

incurred total cost of service due the variability. For example, ENO's fuel costs can reasonably be viewed as variable in a magnitude such that ENO's base rates could not allow ENO the reasonable opportunity to recover its prudently incurred total cost of service. As such, the Council has allowed ENO an exact-cost recovery mechanism for fuel costs: Rider FAC.

Rider SSCO

Q. WHAT IS RIDER SSCO?

A. Council Resolution No. R-15-193 provides for the Securitized Storm Cost Offset Rider ("Rider SSCO"), which reflects the revenue requirement effect of tax reserve credits (*i.e.*, ADIT) related to Hurricane Isaac storm restoration costs and casualty loss deductions. The Application presents a revenue requirement effect of ($1,221,739) (a revenue credit) for Period II.[76] Of note, the amount ENO collects and remits to the City's related to franchise taxes reflects the Rider SSCO's bill impact (currently a reduction).[77]

Q. IS RIDER SSCO AFFIXED TO ENO'S SECURITIZATION BOND?

A. No. Council Resolution No. R-15-193 ("Financing Order"), the securitization bond financing order, does not associate Rider SSCO with the servicing of the securitization bond: "The calculation of the SSCO offset will in no way affect the calculation and collection of the SSCR charge."[78] Further, the securitization bond's prospectus does not

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[76] AJ23.2.
[77] See Council Resolution No. R-15-195, Ordering Paragraph 6 at page 18.
[78] Council Resolution NO R-15-193, financing order paragraph 69 at page 34.

mention Rider SSCO. Rider SSCO is unrelated to the debt service of the securitization bond. As such, Rider SSCO is not necessary for ENO to properly service the securitization bond (*i.e.*, collect funds pursuant to Rider SSCR to enable debt service payments on ENO's securitization bond). I note that Rider SSCR remains a requirement to enable the collection of debt service funds for ENO's securitization bond.

Q. SHOULD THE COUNCIL CONTINUE TO AUTHORIZE RIDER SSCO?

A. No. Rider SSCO is not required as part of ENO's role servicer of the securitization bond. While appropriate at the time of the securitization bond's issuance, due in part to the then base rate freeze, Rider SSCO now constitutes inappropriate single-issue ratemaking. Further, Rider SSCO is allocated on a volumetric basis, while the customary cost responsibility allocation of ADIT balances is most often based on other allocation factors.

Q. IF THE COUNCIL DOES NOT AUTHORIZE RIDER SSCO AS PART OF THE RATES THE COUNCIL MAY SET AS PART OF THE INSTANT PROCEEDING, HOW SHOULD RATES REFLECT ITS REVENUE CREDIT?

A. Rider SSCO is based on certain ADIT credits, which when multiplied by ENO's before-tax WACC result in its revenue credit. If the Council does not continue to authorize Rider SSCO, these ADIT credits should be included in ENO's rate base, which in turn will reduce ENO's revenues by approximately the same amount as the effect of Rider SSCO, although the distribution of this credit among the rate classes would be different than with Rider

SSCO. In a July 13, 2018 filing with the Council,[79] ENO states that the total ADIT applicable to Rider SSCO for the period August 2019-July 2020 totals $6,156,060. Consistent with the reasons for my recommendation elsewhere in this testimony that the Council allow ENO's proposed out-of-period AJ14 proforma adjustment, a credit to ADIT account 283 in the amount of $6,156,060, which reflects an out-of-period expected such value, would properly account for the elimination of Rider SSCO in the instant proceeding. Advisor Adjustment ADV04, as presented in Ms. Crouch's testimony, affects the elimination of Rider SSCO and its realignment into base rates.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING RIDER SSCO?

A. As Rider SSCO is not needed and would constitute inappropriate single-issue ratemaking, I recommend the Council not continue to authorize Rider SSCO among the rates it may approve in the instant proceeding. Instead, I recommend the Council set base rates that take into account the ADIT balances underlying Rider SSCO. Also, as Rider SSCO is currently referenced in various service schedules (*i.e.*, in the applicability sections thereof), I recommend the Council direct that references to Rider SSCO be removed therefrom as part of ENO's compliance filing at the conclusion of the instant proceeding.

GIRP Rider

Q. PLEASE DESCRIBE THE GIRP RIDER ENO IS PROPOSING.

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[79] ENO's July 13, 2018 annual SSCO rate filing in Council Docket No. UD-14-01.

A. ENO Exhibit PBG-12 presents a proposed Rider Schedule GIRP ("GIRP Rider"). The proposed GIRP Rider would allow ENO exact recovery of its GIRP-related capital costs and related O&M through a quarterly rate setting mechanism and annual true-up to actuals. The proposed GIRP Rider's rate is affected as a single percent adjustment to each gas rate class (*i.e.*, Residential. Small General, Large General, Small Municipal, and Large Municipal) with the exception of the customers ENO describes as "Non-Jurisdictional" ("NJ"). I note that ENO is projecting no GIRP Rider-related revenues for the initial rate-effective period of the instant proceeding.[80]

Q. WHAT GIRP-RELATED COSTS DO ENO PROPOSE TO BE RECOVERED THROUGH BASE RATES?

A. ENO's Period II gas cost of service studies include costs related to GIRP investments totaling approximately $39.5 million through December 31, 2019. Employing the allowed-ROE and equity ratio I recommend in this testimony, I estimate ENO's 2019 revenue requirement related to these investments to be approximately $4.2 million and the average typical residential bill (100 ccf/mo.) impact to be $6.12. Thereafter, GIRP-related costs, such as capital-related costs and costs related to deferred utility survey costs are proposed to be recovered through the GIRP Rider. As such, the initial GIRP Rider rate would be zero.

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[80] See Application, *Statement AA-2 Summary of Impact of Proposed Gas Rates – Including AMICE for the test year ended December 31, 2018*.

Q. DOES ENO'S PROPOSED GIRP RIDER CONSTITUTE INAPPROPRIATE SINGLE-ISSUE RATEMAKING?

A. Yes, ENO's proposed GIRP Rider would allow ENO recovery of certain GIRP-related capital and O&M costs outside of the established regulatory ratemaking practice of considering all of ENO's costs when setting rates. As such, ENO's proposed GIRP Rider constitutes inappropriate single-issue ratemaking and any Council-authorized GIRP-related costs are more appropriately recovered in base rates.

Q. IS ENO'S PROPOSED GIRP RIDER NECESSARY?

A. No, ENO's proposed GIRP rider is not required to allow ENO a reasonable opportunity to recover its prudently-incurred costs any GIRP investments the Council may approve. These GIRP-related costs are predictable and manageable by ENO. As such, other ratemaking mechanisms exist to allow ENO the opportunity to recover such costs such as ENO's proposed Formula Rate Plan ("FRP") that Advisor Witness Prep recommends the Council approve subject to certain modifications.

Q. HAVE YOU TESTIFIED BEFORE THE COUNCIL REGARDING A GIRP RIDER IN THE PAST?

A. Yes, in my August 18, 2017 direct testimony in Council Docket No. UD-07-02, I testified that a rider to recover GIRP-related costs would contribute to inappropriate single-issue ratemaking and was inappropriate.[81]

Q. HAVE ENO WITNESSES AGREED THAT A FRP EVALUATION WOULD BE AN APPROPRIATE GIRP-RELATED COST RECOVERY MECHANISM?

A. Yes. In Council Docket No. UD-07-02, ENO witness Bourg testified, "ENO agrees that a properly structured FRP would provide an appropriate means to adjust ENO's gas rates to allow it to recover its gas revenue requirements, including its GIRP-related costs and a reasonable return on its investment."[82]

Q. SHOULD THE COUNCIL APPROVE ENO'S PROPOSED GIRP RIDER?

A. No. ENO's proposed GIRP Rider is not necessary to allow ENO the reasonable opportunity to recover any prudently-incurred GIRP-related costs and is contrary to the accepted regulatory principle prohibiting single-issue ratemaking. As such, ENO's proposed GIRP Rider would not serve the public interest and I do not recommend that the Council approve it. I note that, due in large part to GIRP's expected ratepayer impact and evolving scope and total cost, Mr. Rogers also recommends that the Council not approve GIRP investments beyond those budgeted for 2019 until ENO may demonstrate any such investments are required for the safe operation of its gas utility. Should the Council accept

[81] See Council Docket No. UD-07-02, the Direct Testimony of Byron S. Watson, page 5.
[82] Council Docket No. UD-07-02, the Rebuttal Testimony of Michelle P. Bourg, the answer to question Q15 at page 8.

Mr. Rogers's recommendation, there could be no immediate costs recoverable through any GIRP Rider.

Q. WHAT IS ARE YOUR RECOMMENDATIONS TO THE COUNCIL REGARDING THE GIRP RIDER?

A. As the GIRP Rider is not necessary and would constitute inappropriate single-issue ratemaking, I recommend the Council not approve any GIRP-related cost recovery rider in the instant proceeding, in particular ENO's proposed GIRP Rider. I recommend the Council set gas rates reflective of ENO's proformed GIRP-related costs as of December 31, 2019 as presented its gas base rate cost of service studies. I further recommend the Council consider any proforma adjustments related to any further GIRP investments the Council may approve to the cost of service studies ENO may present as part of future rate actions such as FRP evaluations. Regarding ENO's proposed $20 million utility conflict survey commencing in 2020, as this is well outside of the test-years in the instant proceeding, I recommend the Council allow ENO to include such costs as part of a future rate action filing, such as any FRP evaluation the Council may authorize.

Riders AMICE and AMICG

Q. PLEASE DESCRIBE ENO'S PROPOSED AMI RIDERS.

A. ENO witness Thomas sponsors ENO's proposed Rider AMICE and Rider AMICG. Commencing August 2019, the expected billing cycle in which the Council is expected to set new rates as part of the instant proceeding, ENO would impose a per-customer monthly charge of $2.95 and $0.60 for electric and gas respectively. The per-customer charges are intended to allow ENO recovery of its AMI-related costs, including capital-related costs and O&M costs. ENO removes certain Period II per-books AMI-related costs from its base rate cost of service studies through AJ15. As such, ENO proposes to recover substantially all AMI-related costs through these riders.

Q. ARE ENO'S AMI RIDERS PROPERLY CONSTRUCTED?

A. No, in particular ENO seeks to allocate cost responsibility for AMI-related costs on a per-customer basis. As Mr. Prep discusses in his testimony in the instant proceeding as well in Council Docket No. UD-16-04 (AMI), this per-customer allocation methodology is inappropriate.

Q. ARE ENO'S PROPOSED AMI RIDERS NECESSARY?

A. No, ENO may be allowed the reasonable opportunity to recover its AMI-related costs through base rates. Advisor witnesses Prep and Crouch discuss ADV09, which properly adjusts ENO's cost of service to allow generally contemporaneous cost recovery of AMI-related costs due to its preforming expected related 2019 costs.

Q. DO ENO'S AMI RIDERS CONSTITUTE INAPPROPRIATE SINGLE-ISSUE RATEMAKING?

A. Yes, in general, ENO's AMI deployment reflects investment in plant such as smart meters and software that may enhance ENO's distribution operational capabilities. AMI-related costs reflect the costs related to these investments as well as changes to ENO's O&M expenses. ENO already recovers costs from these categories through base rates. As the pace of AMI deployment is known, measurable, and reasonably within ENO's control, related costs are similarly known and measurable. As such, singling-out AMI costs for recovery through riders constitutes inappropriate single-issue ratemaking.

Q. HAVE YOU TESTIFIED REGARDING AN AMI CUSTOMER CHARGE IN THE PAST?

A. Yes, in Council Docket UD-16-04, on May 26, 2017 I testified that an AMI customer charge (*i.e.*, Rider AMICE and Rider AMICG) constitutes single-issue ratemaking,[83] and I recommended the Council deny ENO's request for an AMI customer charge.[84]

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S REQUEST FOR AMI RIDERS?

A. As special riders to recover AMI-related costs are not necessary to allow ENO the reasonable opportunity to recover its AMI-related costs and would constitute inappropriate single-issue ratemaking, I recommend the Council deny ENO's request for Rider AMICE and Rider AMICG. Concurrently, I note Mr. Prep recommends the Council allow a proforma to ENO's cost of service in the instant proceeding to reflect ENO's 2019 AMI-related costs.

Rider PPCACR

Q. PLEASE DESCRIBE ENO'S PROPOSED RIDER PPCACR.

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[83] See Council Docket No. UD-16-04, Direct Testimony of Byron S. Watson at page 11.
[84] See Council Docket No. UD-16-04, Direct Testimony of Byron S. Watson at page 16.

A. ENO witness Orlando Todd sponsors Rider PPCACR, which among other provisions would provide ENO exact cost recovery related to future ENO-owned capacity additions. ENO witness Rogers discusses Rider PPCACR with regard to PPAs and Long-Term Service Agreements ("LTSA"). As of August 2019, there are no expected costs includable for recovery through Rider PPCACR, so ENO presents the rider's rate as zero in the Application.

Q. IS RIDER PPCACR NECESSARY WITH REGARD TO FUTURE ADDITIONS OF ENO-OWNED CAPACITY?

A. No, Rider PPCACR is not required to allow ENO a reasonable opportunity to recover its prudently incurred costs related to future ENO-owned capacity additions. Other ratemaking mechanisms exist to allow ENO the opportunity to recover such costs. For example, ENO has proposed, and the Advisors concurrently recommend, that upon the NOPS's achieving commercial operation capability, that base rates be adjusted to reflect this change to ENO's cost of service. Other ratemaking mechanisms that allow ENO to adjust its rates to reflect plant additions include FRP evaluations, which the Advisors recommend the Council approve in the instant proceeding.

Q. DOES RIDER PPCACR CONSTITUTE INAPPROPRIATE SINGLE-ISSUE RATEMAKING REGARDING FUTURE ADDITIONS OF ENO-OWNED CAPACITY?

A. Yes, Rider PPCACR would set a separate rate for incremental ENO-owned capacity additions and ensure ENO exact cost recovery. As such non-fuel capacity-related costs are reasonably predictable and within ENO's control, Rider PPCACR's provision for exact cost recovery of non-fuel, non-LTSA costs related to ENO-owned capacity additions constitutes inappropriate single-issue ratemaking.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED RIDER PPCACR?

A. As Rider PPCACR is not necessary and constitutes inappropriate single-issue ratemaking regarding ENO-owned capacity additions, I recommend the Council not approve the portions of ENO's proposed Rider PPCACR that allow recovery of non-fuel, non-LTSA costs related to ENO-owned capacity additions. I recommend the Council consider cost recovery mechanisms for such costs, such as future-period proforma capacity-related costs that are known and measurable that ENO may present as part of any future rate action, such as a FRP evaluation. Advisor witness Rogers makes specific recommendations to the Council regarding Rider PPCACR, including redline edits to ENO's proposed Rider PPCACR to reflect the Advisors' recommendations.

Rider DGM

Q. PLEASE DESCRIBE ENO'S GRID MODERNIZATION STRATEGY.

A. ENO witness Erica H. Zimmerer discusses ENO's grid modernization strategy.[85] ENO is planning five grid modernization projects whose estimated costs total $59.3 million through January 31, 2022,[86] of this amount $12.8 million is funded through ratepayer

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[85] See the Revised Direct Testimony of Erica H. Zimmerer, question Q17 at page 22, et. seq.
[86] See the Revised Direct Testimony of Erica H. Zimmerer, Figure 3 and Figure 4 at page 29.

savings due to the effects of the TCJA.[87] Prudently-incurred costs related to the remainder, $46.5 million, would be appropriately recoverable through rates.

Rider DGM

Q. PLEASE DESCRIBE ENO'S PROPOSED RIDER DGM.

A. ENO witness Gillam describes ENO's proposed electric Distribution Grid Modernization Rider ("Rider DGM"). Commencing approximately April 30, 2020, Rider DGM will allow ENO quarterly rider rate adjustments to recover expected costs related to grid modernization investments. Rider DGM also provides for an annual true-up of rider collections versus actual revenue requirements. As such, Rider DGM constitutes contemporaneous exact-cost recovery of certain distribution investments ENO intends and classifies as grid modernization. ENO has reflected grid modernization investments through December 31, 2019 and their related cost of service into its cost of service studies, net of TCJA-related credits; Rider DGM would provide ENO recovery of costs incremental to this investment level.

Q. WHAT RIDER DGM REVENUES AND BILL IMPACTS DOES ENO FORECAST?

A. ENO's HSPM Excel files styled *DGMR _Annual_12192018* and *Rate Impacts Grid Mod_12192018* present estimated revenues and typical bill impacts for Rider DGM for the years [redacted] ENO's estimate of Rider DGM's revenue requirement [redacted] ENO's

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[87] See Council Resolution No. R-18-227, Exhibit 1, page 1.

estimate of Rider DGM's residential typical summer bill impact (1,000 kWh/mo.) [redacted]

Q. DOES RIDER DGM CONSTITUTE INAPPROPRIATE SINGLE-ISSUE RATEMAKING?

A. Yes, Rider DGM would set a separate rate for incremental distribution investments and ensure ENO exact cost recovery. As distribution-plant costs are predictable and within ENO's control, Rider DGM constitutes inappropriate single-issue ratemaking and is inappropriate. ENO's proposed electric Period II depreciation expense is $52.4 million,[88] whose effect on rate base is roughly a $52.4 million annual reduction. ENO's proposed revenue requirement related to $52.4 million in rate base is $4.1 million.[89] As such, while Rider DGM might reflect a revenue requirement increase, it does not take into account ENO's overall cost of service, one portion of which for illustrative purposes, naturally declines annually due to the accumulation of depreciation.

Q. IS RIDER DGM NECESSARY?

A. No, ENO's revenue requirements related to Rider DGM, represent a small increment to ENO's requested $428 million electric revenue requirement, and other ratemaking mechanisms are available to allow ENO recovery of its grid modernization-related costs. ENO may seek prospective recovery of grid modernization-related costs through customary rate actions such as ENO's requested FRP evaluations, which the Advisors

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[88] Statement CC6 Depreciation Expense_EP2.
[89] See Statement DD-1 Cost of Capital_EP2, whose WACC is 7.79%. 7.79% * $52.4 million = $4.1 million.

recommend the Council approve with certain modifications. Further, Advisor witness Prep recommends the Council consider certain future costs ENO may proform into such rate actions.

Q. ARE ANY ADJUSTMENTS TO ENO'S PROPOSED RATES REQUIRED SHOULD THE COUNCIL NOT APPROVE RIDER DGM?

A. No. ENO's electric cost of service studies reflect grid modernization investments through December 31, 2019, and Rider DGM's initial rates would reflect investments in 2020. As such, no adjustment to ENO's electric cost of service studies is required to reflect the Council's not approving Rider DGM.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING RIDER DGM?

A. I recommend the Council not approve ENO's proposed Rider DGM. I recommend the Council set rates consistent with ENO's proformed grid modernization investments through December 31, 2019 (as ENO has requested). I recommend that, as part of future rate actions such as FRP evaluations, the Council consider any prudently-incurred costs ENO may proform related to grid modernization investments related to the rate-effective period of that rate action.

Gas R&D Charge

Q. PLEASE DESCRIBE ENO'S PROPOSED GAS R&D CHARGE.

A. ENO witness Michelle P. Bourg proposes a $1.00 per meter (*i.e.*, customer) charge billed each July in the years 2020, 2021, and 2022, with an update to the Council thereafter making a recommendation as to the charge's continuation. ENO states that it serves approximately 106,000 gas customers,[90] which is a reasonable proxy for the number of meters for the purposes of estimating ENO's proposed gas R&D charge collections. As such, ENO proposes to collect approximately $106,000 per year for three years.

Q. FOR WHAT PURPOSE DOES ENO PROPOSE TO COLLECT ITS PROPOSED ANNUAL CHARGE?

A. Ms. Bourg states that the annual per-meter charge would be evenly applied to an Operations Technology Development ("OTD") and a Utilization Technology Development ("UTD") program. In her revised direct testimony, Ms. Bourg discusses various expected benefits from ENO's participation in these programs. ENO does not estimate the costs it would incur related to these programs; rather ENO requests a funding level that would be applied to these programs.

Q. IS THERE ANY INDICATION THESE PROGRAMS' COSTS ARE OTHER THAN PRUDENT?

A. No. Based on Ms. Bourg's description, many of these programs' benefits may involve energy efficiency and environmental benefit. I note that the Council customarily does not

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[90] See the Revised Direct Testimony of Robert B. Hevert, the answer to question Q16 at page 12.

pre-approve each of ENO's expenditures, especially expenditures in the neighborhood of $0.1 million per year.

Q. IS ENO'S PROPOSED ANNUAL PER-METER R&D CHARGE APPROPRIATELY CONSTRUCTED?

A. No, ENO's proposed per-meter annual charge would constitute single-issue ratemaking as it is a separate rate mechanism for an individual cost. Further, ENO has not stated the programs' cost, only the means of recovery. ENO did not articulate the connection between these programs' costs and a $1 per meter per year fee or why they should be split evenly from such a fee. Further, there is no discussion of why what amounts to a per-customer charge is the appropriate allocation of cost responsibility.

Q. WHAT IS THE APPROPRIATE COST RECOVERY MECHANISM FOR COSTS RELATED TO ENO'S PROPOSED OTD AND UTD PROGRAMS?

A. As the cost to participate in the OTD and UTD programs appears to be predictable, and participation is within ENO's control, the appropriate related cost recovery mechanism is gas base rates.

Q. IS ENO'S PROPOSED ANNUAL PER-METER R&D CHARGE NECESSARY?

A. No. As ENO's proposed collections related to the OTD and UTD programs total approximately $106,000 per year, ENO could easily seek recovery of these costs through base rates without jeopardizing its financial position or ability to earn a fair return on its investments. Also, based on Ms. Bourg's indication that the first such per-meter charge would apply to the July 2020 billing cycle, ENO has the opportunity to recover such costs through any gas FRP evaluation the Council may authorize, the first of which is expected to adjust rates starting in August 2020.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED ANNUAL PER-METER R&D CHARGE?

A. As ENO's proposed $1 per meter per year charge is unnecessary and would constitute inappropriate single-issue ratemaking, I recommend the Council deny ENO's proposed $1 per meter per month R&D charge. Rather, I recommend the Council consider any prudently-incurred R&D-related costs ENO may include in cost of service studies as part of future base rate filings, such as any gas FRP evaluations the Council may approve in the instant proceeding.

XI. <u>ELECTRIC VEHICLE CHARGING INFRASTRUCTURE RIDER AND ELECTRIC VEHICLE CHARGING STATION INVESTMENTS</u>

Electric Vehicle Charging Infrastructure Rider

Q. PLEASE DESCRIBE ENO'S PROPOSED ELECTRIC VEHICLE CHARGING INFRASTRUCTURE RIDER.

A. ENO witness D. Andrew Owens sponsors ENO's proposed Electric Vehicle Charging Infrastructure Rider ("EVCI"), which would allow ENO to invest in Electric Vehicle ("EV") charging station plant at the request of a ratepayer but recover related costs directly from the requesting ratepayer over a ten-year period. Rider EVCI is presented in the Application as Exhibit DAO-5. ENO's general ratemaking approach socializes the variations in the cost to serve a rate class among that rate class (*i.e.*, every ratepayer within a rate class pays the same rates even though some are more expensive to serve than others). The Council allows ENO to charge individual ratepayers for the costs associated with extra investment specific to that ratepayer (*e.g.*, a redundant feeder) through the Additional Facilities Charge rider ("AFC"). Mr. Owens notes that Rider EVCI would function similarly to Rider AFC. Mr. Owens notes several differences between Rider EVCI and Rider AFC, largely because ratepayers employing Rider EVCI are expected to generate additional revenues for ENO that would contribute to ENO's fixed cost recovery and that ENO expects some EV charging equipment may be placed "behind the meter", requiring specific legal provisions.

Q. IS RIDER EVCI PROPERLY CONSTRUCTED?

A. Yes, my review of Exhibit DAO-5 indicates that Rider EVCI would be entirely voluntary to ratepayers and would not impose any material costs on non-participant ratepayers. Rider EVCI is consistent with the theory underlying Rider AFC, which the Council has already approved. As such, Rider EVCI is properly constructed.

Q. DOES RIDER EVCI PREVENT RATEPAYERS FROM CONSTRUCTING THEIR OWN EV CHARGING STATIONS?

A. No, my review of the Application does not indicate any reason to expect Rider EVCI would prevent ratepayers from funding their own EV charging stations; a commitment under Rider EVCI is entirely voluntary. However, I note that ENO would be willing to install a new meter in certain circumstances as part of a ratepayer's commitment to participate in an EVCI-funded EV charging station. The Council may wish to make clear to ENO that similar new meter installations are appropriate for ratepayer-funded EV charging stations, subject to all of ENO's service standards (*i.e.*, ENO's policy of installing new meters should not be prejudicial to ratepayer-funded EV charging stations compared to EVCI-funding EV charging stations).

Q. WOULD RIDER EVCI LIKELY HINDER COMPETITION IN THE CONSTRUCTION AND FINANCING OF EV CHARGING STATIONS?

A. No, my review of the Application does not indicate any reason to expect ratepayers would not be able to procure EV charging stations from qualified vendors of their choosing or obtain financing for such from sources of their choosing. Rider EVCI may be seen as an optional EV charging station financing sources. The Council may wish to make clear to ENO that no part of Rider EVCI should be prejudicial to ratepayers who choose alternate EV charging station providers or financing sources.

Q. SHOULD THE COUNCIL APPROVE RIDER EVCI?

A. Yes. Rider EVCI provides an option for ratepayers to install EV charging stations, which is consistent with the Council's past support for environmentally-beneficial polices. Rider EVCI's design should impose no material costs on non-participants. Further, the appropriate venue to approve new Riders is a rate case such as the instant proceeding.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED RIDER EVCI?

A. I recommend the Council approve ENO's proposed Rider EVCI-1 as presented in Exhibit DAO-5. I recommend that the Council specifically note that Rider EVCI is not to be applied prejudicially to ratepayers who choose to construct EV charging stations outside of Rider EVCI, in terms of vendor selection, provision of related electric service, and financing sources.

EV Charger Rebate

Q. PLEASE DESCRIBE ENO'S PROPOSED EV CHARGER REBATE PROGRAM.

A. ENO witness Owens proposes that ENO offer a $250 rebate to both residential and commercial customers who install a Level 2 EV charger (*i.e.*, a 240V EV charger). A search of a popular online retailer provided multiple Level 2 EV chargers for less than the $250 rebate amount, although many customers would no doubt also have to install a new 240V circuit to where the EV would charge. ENO proposes to recover rebate costs through customary ratemaking, such as an FRP evaluation. ENO does not specify how such costs would be recovered (*e.g.*, prospective budgeting, deferral of incurred costs for later recovery). ENO notes that it has offered these rebates since April 2018, but as of September 2018 it has issued no rebates.

Q. IS IT APPROPRIATE FOR ENO TO PROVIDE REBATES FOR CUSTOMERS WHO INSTALL A LEVEL 2 EV CHARGER?

A. Yes. It is my understanding that some EV Chargers as well as some EVs allow for a timed start to the charging process, which allows charging to start during off-peak hours. As a Level 2 charger can charge an EV several times faster than can a Level 1 charger (*i.e.*, a 120V EV charger), Level 2 chargers can make off-peak EV charging feasible. As such, a Level 2 charger may be considered a load-modifying resource when used off-peak. Such use of a Level 2 charger can generate benefits for all ratepayers reflected in MISO charges and credits. Further, to the Extent Level 2 chargers are used off-peak, less carbon-intensive production resources can be expected to provide their energy than on-peak resources. As such, encouraging Level 2 EV chargers through a rebate program is consistent with the Council's policies on energy efficiency and environmental benefits.

Q. WHAT IS THE APPROPRIATE WAY TO FUND EV CHARGER REBATES?

A. As ENO's proposed Level 2 EV charger rebate program can be viewed as a Demand Side Management ("DSM") energy efficiency and environmentally beneficial program that may offer system-wide benefits, The Council's Energy Smart ("ES") Program provides an appropriate funding mechanism. The Advisors' recommended ES Program design ties funding to the rate classes according to their ES-related benefits. I note that the ES Program Year for 2020 ("PY 2020") filing is expected to be made by June 15, 2019 per Council Resolution No. R-17-430, which may be prior to the conclusion of the instant docket. While ENO may wish to include Level 2 EV charger rebates in its ES PY 2020 filing with the Council, with ENO as program administrator, any directives in the instant docket would apply to the following PY's filing and budget.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED EV CHARGER REBATES?

A. As the installation of EV-related infrastructure is consistent with the Council's policies and goals regarding Smart Cities and energy efficiency, I recommend the Council allow ENO on an interim basis to continue its $250 per Level 2 charger rebate program as described in the Application until the commencement of the ES PY 2020 whose annual budget should be made by June 15, 2019, close to the conclusion of the instant proceeding. As ENO has not specified its requested cost recovery methodology, I recommend the Council consider any related cost recovery proposal ENO may file with the Council, such as a part of any FRP evaluation filing. I recommend the Council direct ENO to propose any future EV charging rebate it may deem beneficial to ratepayers and consistent with Council policies and goals as a ES program in a future ES PY filing.

EV Charging Stations

Q. PLEASE DESCRIBE ENO'S PROPOSED INVESTMENT IN EV CHARGING STATIONS.

A. ENO proposes to invest up to $0.5 million to construct 30-50 publicly-available EV charging stations on public property. ENO proposes to recover the costs related to this investment through customary rate actions such as an FRO evaluation over a ten-year period. ENO proposes to not charge initially for the use of these charging stations (*i.e.*, EV owners could charge their EVs for free). ENO states that some such EV charging stations would be behind a ratepayer's billing meter, with that ratepayer paying for related EV charging energy, and some stations ahead of any ratepayer billing meter. For such EV charging stations installed ahead of a billing meter, the energy cost would be socialized among all electric rate payers through the formulaic operation of ENO's FAC (*i.e.*, MISO energy charges will increase, but kWh sales will not correspondingly increase). As such, the cost of providing free EV charging at these stations would be recovered through a slightly higher FAC rate. ENO states the cost of this free EV charging would be small. ENO proposes to periodically reassess this free EV charging policy.

Q. IS FREE EV CHARGING AT THE EXPENSE OF RATEPAYERS CONSISTENT WITH GENERALLY ACCEPTED REGULATORY RATEMAKING PRINCIPLES?

A. No, although the Council may deviate from generally accepted regulatory ratemaking principles in the public interest. The generally accepted regulatory ratemaking principle of cost causation does not support socializing one ratepayer group's (*i.e.*, EV charging station users) costs among other groups (*i.e.*, all other ratepayers). Further, free EV charging offers a manifest incentive for EV owners to avoid charging where energy is not free, such as at home. As such, the full cost of free EV charging is both the effect on the FAC rate and the non-fuel lost revenue under the theory the same EVs would have otherwise been charged according to an ENO service schedule involving a volumetric rate (*e.g.*, residential service). These are distortions to rates set consistent with the cost causation principle.

Q. DOES ENO ESTIMATE THE COST TO RATEPAYERS OF ITS PROPOSED FREE EV CHARGING SERVICE?

A. No. However, ENO states that it will build 30-50 Level 2 EV chargers[91] which typically operate with electric loads in the range of 3-6 kW.[92] In the illustrative case of ENO building 40 such ahead of the meter chargers being in use half of the time at an average

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[91] See the Revised Direct Testimony of D. Andrew Owens, the answer to question Q80 at page 68.
[92] See the Revised Direct Testimony of D. Andrew Owens, the answer to question Q61 at page 52.

load of 5 kW, ENO would be annually providing 876,000 kWh of energy to EV users at the general ratepayer expense. ENO's proposed Small Electric rate is $0.0523/kWh (middle rate block), and ENO's proposed FAC rate is $0.020111/kWh,[93] for a total incremental $0.072411/kWh. At this rate and EV charging consumption, $64,432 annually would be socialized among all rate classes to support free EV charging.

Q. COULD FREE EV CHARGING HINDER COMPETITION IN THE EV CHARGING MARKETPLACE?

A. Yes, EV owners reasonably could be expected to prefer free EV charging stations over those that charged a fee. As such, Non-ENO EV charging station providers could be deterred from installing EV charging stations near an ENO free EV charging station. Free EV charging at the general ratepayer expense can be regarded as anti-competitive. However, EV charging stations that are behind a ratepayer meter (*i.e.*, that ratepayer is providing the free charging), in my opinion are not anti-competitive as individual ratepayers should be free to offer amenities deemed valuable to their business or purpose (*e.g.*, businesses often offer free phone charging to entice customers).

Q. IS APPROVAL OF ENO'S PROPOSED INVESTMENT IN EV CHARGING STATIONS AND FREE EV CHARGING THEREFROM NECESSARY IN THE INSTANT DOCKET?

[93] See Statement AA-5_E

A. No. Council Docket No. UD-18-01 (EVs) is an appropriate venue to consider issues related to EV charging. Further, as part of Council Docket No. UD-18-01, Council Resolution No. R-18-537 provides for interested parties to participate in Council's evaluation of EV-related matters, including the development of an issues list, the filing of comments, and two technical conferences. This schedule proceeds through shortly after the expected conclusion of the instant proceeding in July 2019. There may be a benefit to the Council in considering ENO's proposals for EV charging station investments and free EV charging therefrom as part of Docket No. UD-18-01 due to its procedural schedule that solicits the input of interested stakeholders. As such, it is not necessary for the Council to reach a conclusion regarding ENO's proposed investment in EV charging stations and free EV charging therefrom in the instant proceeding. The Council's consideration of this issue as part of the EV docket may provide for greater stakeholder input than is likely in the instant proceeding, and the procedural timeframe of both proceedings is comparable.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ENO'S PROPOSED $0.5 MILLION INVESTMENT IN EV CHARGING STATIONS AND PROVIDING FREE EV CHARGING THEREFROM?

A. Adding EV charging stations is consistent with the Council's goals and policies regarding Smart Cities and environmental benefits for New Orleans, however a Council determination is not necessary in the instant proceeding. Indeed, Council consideration of issues related to EVs may be better accomplished as part of Docket No. UD-18-01. As such, I recommend the Council make no determination as to ENO's proposed investment in EV charging stations that provide free EV charging therefrom as part of the instant proceeding. Rather, I recommend the Council evaluate all EV-related matters, including ENO's proposals in the Application, as part of the EV docket where the Council may then hear input from all stakeholders and consider all costs and EV-related policies in total.

XII. REGULATORY LAG

Q. WHAT IS REGULATORY LAG IN TERMS OF COST TO ENO?

A. A useful description of any cost to ENO of regulatory lag for the purposes of the instant proceeding is ENO's properly authorizable revenue requirement that is unrecoverable due to either a prescribed interval between rate actions (*e.g.*, annual FRP evaluations) or due to the interval for review of a request for changes in rates (*e.g.*, a five-month FRP evaluation period). Regulatory lag cost can be a cost to ENO (*i.e.*, authorizable revenue requirement exceeds revenues collectable in rates) or a benefit to ENO (*i.e.*, revenues collectable in rates exceed properly authorizable revenue requirement).

An example of regulatory lag as a benefit to ENO can be found in the instant proceeding. ENO has proposed in its July 31, 2018 *Application of Entergy New Orleans, LLC for a Change in Electric and Gas Rates Pursuant to Council Resolutions R-15-194 and R-17-504 and For Related Relief* ("Initial Application") to reduce its electric revenue requirement by $20 million[94] and its gas revenue requirement by $0.9 million.[95] Due to the customary evidentiary process employed by the Council in base rate cases, ENO's complex 4,050-page Initial Application package , ENO's layering of the testimonies of 16

[94] See Initial Application, Table 1 at page 10.
[95] See Initial Application, Table 2 at page 11.

witnesses, and the errors and deficiencies in the Initial Application that required ENO to withdraw its Initial Application and submit its Application on September 21, 2018 (52 days after the Initial Application), the Council is not expected to set new rates in the instant proceeding until August 2019. During this one-year period from July 31, 2018-August 1, 2019, consistent with the prospective ratemaking regulatory principle, ENO will be allowed to continue to collect the $20.9 million in revenue in excess of its requested revenue requirement, and as of the filing of this testimony, no party to the instant proceeding has suggested ENO should be required to relinquish these funds.

Q. WHAT IS REGULATORY LEAD IN TERMS OF COST TO ENO?

A. Regulatory lead cost is similar to regulatory lag, but where allowed revenues are based on a revenue requirement that has not yet occurred. An example of regulatory lead can be found in the Application, specifically ENO's proposed proforma adjustment AJ14. AJ14 proforms ENO's cost of service to reflect its plant-related rate base as of December 31, 2019. As rates are expected to be adjusted by the Council in August 2019, AJ14 represents regulatory lead of five months (August-December 2019).

Q. IN THE INSTANT PROCEEDING, DO THE ADVISORS RECOMMEND THE COUNCIL ALLOW ENO TO BENEFIT FROM REGULATORY LEAD IN CERTAIN CIRCUMSTANCES?

A. Yes, in his direct testimony, Mr. Prep discusses ENO's proforma AJ14 that seeks to allow ENO recovery of costs related to capital investments ENO may make through December 31, 2019, which is the year following Period II. Mr. Prep recommends the Council allow AJ14 and take its effect into account when setting ENO's rates. Mr. Prep recommends the

Council consider any similar such plant-related proforma adjustment ENO may make to its cost of service as part of any FRP evaluation cost of service study ENO may file with the Council. For example, ENO proposes that the first FRP evaluation test year be 2019 as part of its proposed 2020 FRP evaluation filing. Mr. Prep recommends the Council consider any proforma to that that test year cost of service study reflecting ENO's plant-in-service related costs as of 2021. Mr. Prep's recommendations constitute regulatory lead that can be expected to benefit ENO.

Q. HAS ENO PREPARED AN EXHIBIT ILLUSTRATING REGULATORY LAG?

A. Yes, ENO witness Joshua B. Thomas sponsors Exhibit JBT-8, which seeks to compare the cash flow effect on ENO of cost recovery through an annual FRP evaluation versus through a rider whose rates are set quarterly. Over a two-year period involving $8 million in capital investments made semi-annually, Exhibit JBT-8 calculates that cost recovery through an annual FRP would deprive ENO of $0.8 million in collections as compared to recovery through a rider whose rates are set quarterly. Based on the timelines relevant to the instant docket, one can interpret what Mr. Thomas refers to as Year 1 and Year 2 as being 2020 and 2021 respectively in the context of the instant proceeding.

Q. DOES THE SCENARIO Mr. THOMAS PRESENTS FAIRLY PORTRAY REGULATORY LAG RELATIVE TO THE INSTANT PROCEEDING?

A. No. In the case of capital investments, regulatory lag's cost to ENO substantially occurs from the time the plant being closed to service (*i.e.*, becoming an asset accumulating depreciation) to the conclusion of the next relevant rate action (*e.g.*, when rates are adjusted as part of a FRP evaluation). Thereafter, for such an investment subject to customary base rate cost recovery, ENO generally would enjoy a regulatory lag benefit for the remainder of its depreciable life. This is due to the effect on revenue requirement of normal accumulation of depreciation – revenue requirement related to an individual asset generally declines over its depreciable life. As such, Exhibit JBT-8's ending its analysis in the year in which capital investments are made does not present an expected regulator lag benefit to ENO. Also, Mr. Thomas selected a period of maximum regulatory lag – 20-months – for the first of his illustrative investments. Mr. Thomas presents a $2 million capital investment that based on his formulas, is placed into service on January 1, 2020, immediately after such an investment would have been proformed into base rates as part of ENO's AJ14 proforma adjustment in the instant docket. Had this illustrative $2 million been placed into service one day earlier, ENO would have benefited from five months of regulatory lead (August-December 2019). By presenting a scenario involving only costs related to regulatory lag, Exhibit JBT-8 illustrates only a limited picture of the effects of regulatory lag.

Q. HAVE YOU PREPARED AN EXHIBIT ILLUSTRATING THE EFFECTS OF REGULATORY LAG AND LEAD?

A. Yes, Exhibit No. ___ (BSW-6) ("Exhibit BSW-6"), page 1, presents the same investment scenario as does Exhibit JBT-8, but it compares a monthly rider to an annual FRP evaluation. In the interest of comparability, I retained the rates and factors employed by Mr. Thomas in Exhibit JBT-8. Exhibit BSW-6 presents the same $0.8 million regulatory lag cost to ENO as does Exhibit JBT-8.

Q. HAVE YOU EVALUATED THE EFFECT OF THE COUNCIL ALLOWING A PROFORMA SUCH AS THE ONE Mr. PREP RECOMMENDS THE COUNCIL CONSIDER AS PART OF FRP EVALUATIONS IT MAY APPROVE IN THE INSTANT PROCEEDING?

A. Yes, in my Exhibit BSW-6, page 2, I present the same annual FRP evaluation versus monthly rider as on page 1, but with the annual FRP evaluation allowing proforma adjustments such as the one Mr. Prep recommends the Council consider.

Q. WHAT IS THE RESULT OF YOUR ANALYSIS OF Mr. THOMAS'S INVESTMENT SCENARIO, BUT REFLECTIVE OF Mr. PREP'S RECOMMENDATION REGARDING FRP EVALUATIONS?

A. Without an out-of-period proforma adjustment to the FRP cost of service study, I calculated a grand-total $0.8 million regulatory lag cost. With an out-of-period adjustment consistent with Mr. Prep's recommendation regarding out-of-period FRP evaluation proforma adjustments, I calculate a regulatory lag cost to ENO of only $0.1 million. I note that, without further capital investments beyond the $8 million contemplated in Exhibit JBT-8 and Exhibit BSW-6, for years 2022 and beyond, ENO would suffer no regulatory lag costs and even could enjoy a slight regulatory lag benefit.

Q. DO EITHER EXHIBIT JBT-8 OR EXHIBIT BSW-6 REFLECT CIRCUMSTANCES OR CALCULATIONS THAT ENO REASONABLY MAY PRESENT TO THE COUNCIL FOR RATEMAKING CONSIDERATION?

A. No, both Mr. Thomas's exhibit and my exhibit are hypothetical and illustrative related to regulatory lag and regulatory lead. In practice, ENO's revenue calculations are more complex, and the Council has the authority to set rates employing mechanisms other than either a FRP or a rider (*e.g.*, the Advisors' recommendation that ENO be allowed a rate adjustment upon NOPS's achieving commercial operations, the Council's allowing ENO retroactive recovery of storm-related O&M costs following weather events). As such, the Council may wish to consider Exhibit JBT-8 and Exhibit BSW-6 as illustrative as to the concept of regulatory lag and regulatory lead.

Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING REGULATORY LAG AND REGULATORY LEAD IN THE INSTANT DOCKET?

A. As I demonstrate in Exhibit BSW-6, both costs to ENO and benefits to ENO related to regulatory lag and regulatory lead are possible under the ratemaking structures the Council is asked to consider in the instant docket. While ENO, in Exhibit JBT-8, has presented an illustrative scenario wherein ENO could suffer certain costs related to regulatory lag, such costs can be substantially mitigated through the Advisors' recommended proforma adjustments to FRP evaluation cost of service studies. I recommend the Council evaluate the fairness of ENO's cost of service and rate structure when viewed as a whole and not give undue attention to individual subsets of ENO's cost of service wherein ENO might experience some costs related to regulatory lag.

XIII. BILL IMPACTS IN ADDITION TO THOSE PRESENTED IN THE APPLICATION

Q. WHAT REVENUE REQUIREMENT CHANGE IS ENO PROPOSING IN THE APPLICATION?

A. Statement AA-2 (Period II) in the Application presents a revenue reduction of $20.3 million and $0.1 million for electric and gas respectively.

Q. DOES THE APPLICATION PRESENT ALL THE NEAR-TERM RATE INCREASES THAT MAY BE EXPECTED?

A. No. While ENO presents in its Application a $20.4 million total-company decrease in revenues as of August 2019, through proposed riders and expected ENO activities in 2020, ENO's $20.4 million revenue reduction request becomes an increase by 2020. The below table presents estimates of 2020 revenue requirements and the typical residential bill (1,000 kWh/mo. electric, 100 ccf/mo. gas) impact therefrom. I note that the table's values represent an increment beyond the specific project's 2019 revenue requirement and typical bill impact, except for NOPS, which has no expected 2019 revenue requirement.

Table 6
2020 Rate Increments Due to ENO Activity Beyond Rate Case

Project	2020 Revenue Requirement Increment (millions)	Typical Residential Bill Incremental Impact [1]	Percent Increment to 2019 Proposed Typical Base Bill [2]
AMI (Electric)	$1.6	$0.49	0.5%
NOPS	$30.7	$6.36	7.2%
Grid Modernization	$4.0	$0.95	1.1%
Electric Total	**$36.5**	**$7.80**	**8.8%**
AMI (Gas)	$0.4	$0.61	0.9%
GIRP	$3.8	$5.49	8.2%
R&D Charge	$0.1	$0.08	0.3%
Gas Total	**$4.3**	**$6.18**	**9.4%**

4. 1,000 kWh/mo. for electric, 100 ccf/mo. for gas.
5. See Statement AA-5. Typical electric base bill: $88.56. Percent increment is to Legacy-ENO proposed typical bill amount.

Q. WHAT IS THE ESTIMATED RATEPAYER IMPACT RELATED TO AMI IN 2020?

A. ENO expects [redacted] in 2020 revenue requirement for electric and gas respectively related to its AMI deployment, reflective of the costs related to its Council-authorized accelerated deployment schedule and ENO's proposed 10.50% initial electric allowed-ROE and 10.85% proposed gas allowed-ROE and 52.2% equity ratio.[96] [redacted][97] As with ENO's NOPS revenue requirement estimate, ENO does not assume any RIM-related electric ROE adjustment in 2020. ENO's estimate, when reflective of the Advisors' recommended

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96 See ENO's HSPM response to DR CNO 5-25, the file styled, *Revised JAL-2 WP2 ENO Elec Business Case_HPSM*, electric and *Revised JAL-2 WP2 ENO Gas Business Case_HPSM*.

97 See ENO's HSPM response to HSPM DR CNO 6-16.

8.93% allowed-ROE and 50% equity ratio cap, is [redacted] for electric and gas respectively.

Q. WHAT IS THE ESTIMATED RATEPAYER IMPACT RELATED TO NOPS IN 2020?

A. ENO expects to increase annual base rate revenue requirement by approximately $33.1 million upon NOPS's achieving commercial operation status, expected in 2020, representing a $6.85 monthly typical residential (*i.e.*, 1,000 kWh/mo.) bill increase.[98] ENO's estimate reflects its requested 52.5% equity ratio and a ROE of 10.50%, which I note assumes that ENO will not have achieved substantial improvements in its distribution reliability metric, System Average Interruption Duration Index ("SAIFI"), by 2020. ENO's analysis when employing an allowed-ROE of 8.93% and an equity ratio of 50%, as I recommend in this testimony, results in a $30.7 million annual base rate revenue requirement increase and a $6.36 monthly typical residential bill increase.

Q. WHAT IS THE ESTIMATED RATEPAYER IMPACT RELATED TO GRID MODERNIZATION IN 2020?

A. ENO proposes to spend $59.3 million toward grid modernization from the period 2018-2022,[99] [redacted][100] Of this $59.3 million, $12.8 million is funded through the

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[98] ENO's response to DR CNO 1-59
[99] See the Revised Direct Testimony of Erica H. Zimmerer, Figure 3 and Figure 4 at page 29.
[100] See ENO's HSPM response to DR CNO 7-6.

application of TCJA-related savings payable from ENO to ratepayers. This $12.8 million is modeled as fully offsetting ENO's grid modernization-related costs for Period II, based on ENO's proposal of an initial Rider DGM rate of zero. ENO does not further discuss or estimate the effect on capital investment or O&M expense in 2020 and beyond, and as of the preparation of this testimony, a final plan for grid modernization has not been approved by the Council in Docket No. UD-17-04. As such, a precise estimate of grid modernization revenue requirements is not possible. However, ENO has sponsored an estimated grid modernization timeline showing project completion in early 2022.[101] Assuming roughly 1/3 of the remaining proposed spending is closed to service by 2020, I estimate the related 2020 revenue requirement to be in the rough range of $4 million.

Q. WHAT IS THE ESTIMATED RATEPAYER IMPACT RELATED TO GIRP IN 2020?

A. ENO proposes to file its initial GIRP rider rate calculation in 2020, and its indicative initial surcharge on base gas rates is [redacted][102] I note that this surcharge percent was calculated using ENO's proposed 10.75% allowed-ROE and 52.2% equity ratio and allocated on a base rate basis. Based on my recommended allowed-ROE and equity ratio and employing ENO's proposed Distribution Mains allocation factors,[103] I estimate that the 2020 approximate residential typical monthly bill impact related to GIRP is $5.49 or 8.2% in addition to the effect of the GIRP investments through December 31, 2019 which are

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[101] The Revised Direct Testimony of Erica H. Zimmerer, Figure 3 at page 29.
[102] ENO's HSPM response to DR CNO 2-8.
[103] Statement AF2, gas Period II.

reflected in ENO's 2019 base rates. As GIRP investments may proceed according to ENO's proposed budget, I estimate that the residential typical monthly bill impact in addition to the bill impact of GIRP investments reflected in 2019 rates would rise to $15.49 or 23.3% by 2026 and gradually fall thereafter. I present the analysis related to these bill impacts in Exhibit No. ___ (BSW-5).

Q. WHAT IS THE ESTIMATED TYPICAL BILL IMPACT OF ALL OF ENO'S PROPOSED GIRP INVESTMENTS AND UTILITY CONFLICT SURVEY COSTS?

A. I estimate that the typical monthly residential bill (100 ccf/mo.) impact of both the $39.5 million GIRP investment ENO has proformed into its base rate plant in service and the additional $85.2 million ENO proposes to invest over the 2020-2027 period and ENO's proposed $20 million utility conflict survey ($144.7 million total) as approximately $11.43 in 2020, rising to $20.45 in 2026, and declining thereafter as capitalized costs are depreciated and amortized.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, at this time.