

In the Matter of:

CNO Docket
No. UD-18-07
EXHIBIT
ENO-60

Application of Entergy New Orleans, LLC, et al

Lane Kollen

March 15, 2019

CURREN COURT REPORTERS

504-833-3330

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BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

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

* * * * *

Deposition of LANE KOLLEN, 570 Colonial
Park Drive, Suite 305, Roswell, Georgia 30075,
taken at the law offices of ROEDEL PARSONS KOCH
BLACHE BALHOFF & McCOLLISTER, located at 1515
Poydras Street, Suite 2330, New Orleans,
Louisiana 70112, commencing at 10:02 A.M., on
Friday, the 15th day of March, 2019.

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- and -
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- AND -

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ALSO PRESENT:

Polly Rosemond
Kenneth Gallagher
Lisa Walther (via telephone)

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E X A M I N A T I O N I N D E X

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S T I P U L A T I O N

It is stipulated and agreed by
and among counsel for the parties hereto that
the deposition of the aforementioned witness is
hereby being taken under the Louisiana Code of
Civil Procedure, Article 1421, et seq., for all
purposes, in accordance with law;

That the formalities of reading and
signing are specifically not waived.

That the formalities of filing, sealing,
and certification are specifically waived;

That all objections, save those
as to the form of the question and the
responsiveness of the answer, are hereby
reserved until such time as this
deposition, or any part thereof, may be
used or sought to be used in evidence.

* * * * *

KATHY ELLSWORTH SHAW, Certified
Court Reporter, State of Louisiana,
officiated in administering the oath to
the witness.

1 P R O C E E D I N G S

2 MR. PERRIEN:

3 I'll make my appearance for the
4 record. I'm Stephen Perrien with the
5 firm Taggart Morton. I represent Entergy
6 New Orleans. And this is a deposition in
7 Docket No. 18-07, which we refer to often
8 as 2018 combined rate case.

9 We'll go around the room and make
10 appearances and introductions.

11 MS. MAURICE-ANDERSON:

12 Good morning. Alyssa
13 Maurice-Anderson, the assistant general
14 counsel representing Entergy New Orleans.
15 Also here we have Polly Rosemond, who is
16 director of --

17 MS. ROSEMOND:

18 Regulatory operations.

19 MS. MAURICE-ANDERSON:

20 -- regulatory operations for Entergy
21 New Orleans, and Ken Gallagher,
22 consultant to Entergy New Orleans.

23 MS. TOURNILLON:

24 Good morning. Carrie Tournillon
25 with Kean Miller on behalf of Air

1 Products and Chemicals.

2 MR. PARSONS:

3 And Kent Parsons of Roedel Parsons
4 on behalf of CCPUG, or Crescent City
5 Power Users Group, and I'll be defending
6 Mr. Kollen's deposition.

7 MS. MAURICE-ANDERSON:

8 Good morning. Did someone join on
9 the phone?

10 MS. WALTHER:

11 Yes. This is Lisa Walther.

12 MS. MAURICE-ANDERSON:

13 Also with Entergy.

14 Lisa, we're just getting started.

15 MS. WALTHER:

16 Okay. Thanks.

17 MR. PERRIEN:

18 Mr. Parsons, we're going to have the
19 usual stipulation for this deposition?

20 MR. PARSONS:

21 Yeah. Yeah. And we'd like to
22 reserve the right to read and sign.

23 MR. PERRIEN:

24 Okay. We'd also like to reserve the
25 right to have further depositions of

1 Mr. Kollen as things progress in this
2 proceeding, say he files more testimony
3 or we get something new in discovery that
4 we haven't gotten heretofore. We'd like
5 to reserve that right.

6 MR. PARSONS:

7 That's fine.

8 EXAMINATION BY MR. PERRIEN:

9 Q. Mr. Kollen, can you state your name
10 and address?

11 A. My name is Lane Kollen. My business
12 address is 570 Colonial Park Drive, Suite 305,
13 Roswell, Georgia 30075.

14 Q. Some very quick ground rules that
15 I'm sure you're familiar with. If I ask you a
16 question you don't understand, could you please
17 let me know and ask me to rephrase it?

18 A. I will.

19 Q. If I ask you a question and you
20 don't know the answer, please feel free to say
21 "I don't know." But if you do know the answer,
22 you understand you need to tell me the answer?
23 You're required to tell me the answer?

24 A. I think that's generally true,
25 perhaps not in all situations, but generally

1 true.

2 Q. Is there anything that would affect
3 your ability to understand what we're doing
4 here today?

5 A. I don't think so.

6 Q. And you --

7 A. I'm mentally competent, if that's
8 what you mean, yes.

9 Q. And then the court reporter did
10 swear you in; correct?

11 A. She did, yes.

12 Q. And so you're under oath?

13 A. Yes.

14 Q. Sitting here today, do you have any
15 changes to your testimony?

16 A. No.

17 Q. To the best of your knowledge, it's
18 true and correct?

19 A. Yes.

20 Q. How did you prepare your testimony?

21 A. Well, I reviewed the filing and
22 identified potential issues and then we
23 developed discovery. We reviewed the discovery
24 responses to our discovery as well as the
25 responses to other parties' discovery,

1 including the advisors, and then we quantified
2 the issues and I drafted my testimony.

3 Q. You said that you identified
4 potential issues. Are you saying that there
5 were issues that you had identified that did
6 not make it into your testimony?

7 A. No. I'm saying that our practice is
8 to review a filing and then identify potential
9 issues and then develop discovery to develop
10 those potential issues, and some are not issues
11 and some are issues. The ones that are not
12 issues are not issues, so --

13 Q. In this identification process, was
14 it own solely you undertaking this process, or
15 was it taken on as a group effort?

16 A. It was primarily me from the
17 perspective of the revenue requirement issues,
18 although there was some coordination with
19 Mr. Baudino with respect to the capital
20 structure and with Mr. Futral and also with
21 Mr. Baron with respect to the structure of the
22 Company's filing and the role in the different
23 riders into base rates.

24 Q. Sitting here today, do you recall
25 any of those individuals that you mentioned

1 having input on your revenue requirement
2 recommendations?

3 A. Ultimately, no. In other words, I
4 may have discussed some of the issues with
5 them, but I am the sole arbiter of what goes
6 into the testimony, you know, subject to review
7 by counsel. But, in any event, none of them
8 made decisions with respect to the issues that
9 I addressed.

10 Q. Did you rely on any documents in the
11 preparation of your testimony that are not
12 discussed herein?

13 A. I don't recall that I did, other
14 than the filing itself and I did a thorough
15 review of the filing and responses to discovery
16 as well. So I did review, I believe, all of
17 the discovery responses, but did not rely upon
18 each of those responses. To the extent that I
19 relied on a response, I believe I was careful,
20 sufficiently careful to cite the source of the
21 information in the testimony.

22 Q. What about if it was a source that
23 was outside of discovery? Is it cited in your
24 testimony?

25 A. I can't think of an example of that,

1 but perhaps you can, so --

2 Q. (Nods head affirmatively.)

3 A. Okay, then.

4 Q. Like there's some Energy Information
5 Administration data?

6 A. Yes. Yes. Okay. That's correct.
7 That was not provided in response to discovery.
8 That was independently accessed by Mr. Futral.

9 Q. And did Mr. Futral explain to you
10 how he accessed that data?

11 A. From the Energy Information
12 Administration website.

13 Q. Did he explain why he selected that
14 data?

15 A. He did it under my direction.

16 Q. Okay. So why did you direct him to
17 get that data?

18 A. We were looking for analytical
19 support --

20 (Whereupon Mr. Beatmann enters the
21 proceedings.)

22 MR. PERRIEN:

23 Off the record.

24 (Whereupon a recess was held.)

25 MR. PERRIEN:

1 We're going to go back on.

2 THE WITNESS:

3 Yeah.

4 MR. PERRIEN:

5 And we were in Mr. Kollen's answer
6 to my question and his last words were
7 "analytical support," if Mr. Kollen can
8 pick up there.

9 THE WITNESS:

10 We were looking for analytical
11 support for service lives of different
12 types of generating capacity, and my
13 experience had been in a variety of rate
14 cases that there was a significant range
15 of service lives for different types of
16 generating capacity and we were looking
17 for a centralized database that would
18 have information with respect to that
19 issue. And we -- Mr. Futral was able to
20 locate that on the Energy Information
21 Administration website.

22 EXAMINATION BY MR. PERRIEN:

23 Q. Did you obtain any other data other
24 than this information from the Energy
25 Information Administration website with respect

1 to your analytical support of different service
2 lives?

3 A. I don't recall that we did or at
4 least not to my recollection or knowledge.

5 Q. So it's a fair statement to say that
6 your recommendation with respect to the service
7 life of generating units in this proceeding is
8 based on the data from the Energy Information
9 Administration and not other data?

10 A. I think that's generally true. As I
11 mentioned before, I have had quite a bit of
12 exposure in many, many rate proceedings over
13 the years where we have specifically looked at
14 generating unit lives for depreciation
15 purposes, but I didn't have that information
16 synthesized in any one place and so we did rely
17 directly upon the EIA information, but I have
18 in my head that there was a significant range
19 of service lives for different types of
20 generating capacity.

21 Q. In your head, what was the range
22 that you had?

23 A. Well, I've seen -- For combined
24 cycle capacity, I've seen anywhere from 30 to
25 70 years, 30 being at the low end and 70 being

1 at the top end. And for combustion turbine
2 capacity, that generally runs 35 or 70 or more
3 years. I've seen some units that had actual
4 service lives exceeding 70 years.

5 Q. You said some units. Which type of
6 units?

7 A. I said turbines.

8 Q. CTs?

9 A. Yes.

10 Q. Okay. That's fine.

11 Talking about the group that's in
12 your head, can you identify the units that are
13 in that head category of information that you
14 drew upon?

15 A. No, I can't. And that was my
16 recollection from working on a number of cases
17 as I mentioned before. And so we -- I tasked
18 Mr. Futral with trying to locate some
19 analytical support for the lives of generating
20 units, actual lives for retired units, and
21 projected lives for those that were still
22 operating. And, you know, preferably in a
23 single location, which is what we found with
24 the EIA data. And so I did not directly rely
25 upon depreciation studies or projected service

1 lives or actual service lives from other
2 proceedings, but I had in my mind boundaries,
3 the ones that we discussed previously,
4 consisting of those ranges.

5 Q. So from this group in your head, can
6 you recall the name of a unit that had a
7 70-year service life?

8 A. I don't recall. I have addressed it
9 in other testimony, and -- the service life
10 issue. I do recall that we looked at -- Now,
11 as we're talking, I do recall that we looked at
12 a piece of testimony by Mr. King, Charlie King
13 of Snavelly King Majoros. It's a D.C. firm,
14 where Mr. King was a depreciation expert, since
15 retired, and he testified in one of the Entergy
16 System Agreement cases before the FERC. And I
17 recall that he had a schedule that had service
18 lives for different capacity on -- essentially
19 a list of different units in that.

20 And if I recall correctly,
21 Mr. Futral found that and I quickly reviewed
22 it, but we did not directly rely upon it other
23 than it just confirmed by recollection that
24 there was a significant range of service lives
25 for different types of capacity.

1 Q. And so this document you found was
2 testimony you said?

3 A. It was appended to testimony, but I
4 believe it was an exhibit attached to
5 Mr. King's testimony in one of the FERC System
6 Agreement proceedings. I don't recall what
7 that was.

8 Q. What about the vintage of the
9 proceeding?

10 A. It was probably ten or more years
11 ago.

12 Q. Twenty or more?

13 A. No, I don't think so. There was
14 a -- There were a number of System Agreement
15 proceedings at the FERC that involved
16 depreciation, but I think there was one in
17 particular that had to do with the
18 reasonableness of the retail jurisdictional
19 depreciation rates. And I think that was the
20 proceeding in which Mr. King testified on
21 behalf of the LPSC.

22 Q. Do you recall what types of units
23 were in the depreciation study?

24 A. I think they were all combined cycle
25 and combustion turbines.

1 MR. PERRIEN:

2 We had someone join on the phone.

3 Can you please introduce yourself?

4 MR. GUILLOT:

5 Hey, Stephen. Brian Guillot,

6 Entergy Regulatory.

7 MR. PERRIEN:

8 Okay.

9 EXAMINATION BY MR. PERRIEN:

10 Q. And that testimony was with respect
11 to all of the Entergy operating companies?

12 A. Yes, because the LPSC took the
13 position that there was, A, a lack of
14 consistency in the development of depreciation
15 rates for production generating units and, B,
16 that many of the retail rates were not
17 consistent with the FERC Uniform System.

18 Q. So that's one source outside of the
19 Energy Information Administration data that
20 you've identified, this Charlie King
21 depreciation study and testimony. Anything
22 else?

23 A. I don't recall reviewing anything
24 else. And, again, I'm reluctant to concede
25 that it was a source, but it did refresh my

1 recollection and effectively confirm the broad
2 range of service lives for different types of
3 generating capacity.

4 Q. Yeah. I may have misstated that.
5 Let me get that clear.

6 My recollection of your testimony
7 just a few minutes ago is that this was
8 actually not a source, but it was something
9 that refreshed your recollection in that the
10 Energy Information Administration data was the
11 basis for your analytical support. Is that
12 fair?

13 A. Yes. Yeah. I think that that's
14 accurate. You know, again, I had my
15 recollection of a broad range of service lives
16 for different types of generating capacity,
17 Mr. King's exhibit which had, I don't know, 50,
18 a hundred generating units confirmed that, and
19 then we -- Mr. Futral located the Energy
20 Information Administration information, and
21 that is what I relied on directly.

22 Q. So in your experience, other than
23 what we've discussed, there's nothing else that
24 jumped into your mind as something that you may
25 have reviewed in developing your service life

1 recommendations?

2 A. Just, you know, my general
3 experience in that area, but nothing
4 specifically comes to mind.

5 Q. No unit names?

6 A. I cited a number of them in here out
7 of the Energy Information Administration
8 database, but I have cited other ones over the
9 years in testimony, but I don't recall them
10 sitting here right now.

11 Q. And you didn't recall them when you
12 were putting together your testimony; right?

13 A. I didn't make really any significant
14 effort to recall them because that would have
15 required additional research and, you know,
16 going back into my testimony, which I did
17 not -- to prior testimony in other cases, which
18 I did not do, so --

19 Q. Did you have any substantive input
20 into anyone else's testimony on your team?

21 A. I did extensively discuss some of
22 the riders with Mr. Baudino because the ones
23 that he addressed are, to some extent,
24 interrelated with, for example, the electric
25 formula rate plan and the gas formula rate plan

1 and the base revenue requirements for electric
2 and gas in this proceeding. So I did have
3 those discussions with Mr. Baudino.

4 Q. Okay. And did your discussions with
5 him lead to any specific recommendations in
6 Mr. Baudino's testimony?

7 A. I don't know to what extent he
8 relied upon our discussions, but he drafted his
9 own testimony and I reviewed it and to my
10 recollection, I didn't have any modifications
11 or anything to it.

12 Q. So sitting here today, you can't
13 point to a recommendation in either Mr. Baudino
14 or Mr. Baron's that you felt you gave a
15 substantive contribution to?

16 A. Well, I guess that's probably in the
17 eye of the witness who drafted their own
18 testimony. And as I indicated, I had a number
19 of discussions with Mr. Baudino about the
20 riders that he addressed in his testimony and
21 to the extent that that had an effect or
22 influenced his testimony, that would be, you
23 know, probably more dependent upon his
24 assessment of that than mine.

25 Q. Is there any recommendation of

1 Mr. Baudino's testimony that you would
2 characterize as Mr. Kollen's work?

3 A. I don't think so.

4 Q. And what were the opinions that you
5 voiced to Mr. Baudino about the electric
6 formula rate plan or gas formula rate plan?

7 A. Well, I went through the same things
8 with him that are reflected in my testimony
9 with respect to those plans and there's a
10 little bit of overlap on the testimony with --
11 between my presentation and the substance of
12 Mr. Baudino's testimony with respect to those
13 riders. But, you know, the things that we
14 discussed were the fact that the Company is
15 proposing a test year, Period 1, Period 2, with
16 adjustments that go all the way through the end
17 of 2019, and then is also proposing to use 2019
18 calendar year, the actual results with
19 rate-making adjustments as the first evaluation
20 period for the electric formula rate plan and
21 the gas formula rate plan.

22 And then in addition to that come
23 the riders that Mr. Baudino discussed in his
24 testimony. And so the nature of our discussion
25 was how these riders interacted and how they

1 would continually -- or continue to result in
2 rate increases indefinitely, and we also talked
3 about the RIM.

4 Q. And so that mention of rate
5 increases indefinitely, that sort of made it
6 into your testimony on page 4, lines 15 through
7 22?

8 A. I don't know if the discussion made
9 it into my testimony, but I do make that point.

10 Q. I mean, what's in your testimony is
11 what you just said in the last portion of your
12 response; right?

13 A. That's correct, but I don't know if
14 it was a result of the discussions with Mr.
15 Baudino or independently developed. I suspect
16 the latter.

17 Q. Isn't it true that the utility
18 industry right now is going through an
19 infrastructure modernization period?

20 A. The utility industry has been going
21 through infrastructure modernization since it
22 was initiated in the 1800s. So there's nothing
23 new under the sun here.

24 Q. Right. So the fact that rates may
25 increase in the future is not a new phenomenon;

1 right?

2 A. That's not a new phenomenon, but
3 essentially a rate resetting, if you will, to a
4 significant extent on automatic pilot is
5 something that is new or increasingly in
6 practice. Increasing in practice, let's put it
7 that way. So --

8 Q. Okay.

9 A. I mean, if you look back -- and I'm
10 old enough to make this commentary -- but if
11 you look back into the 1970s and the 1980s, you
12 didn't have this proliferation of riders. In
13 fact, many utilities didn't have purchase gas
14 adjustment clauses. They didn't have fuel or
15 purchase power adjustment clauses. That was
16 all built into base rates. So I'm saying that
17 over time, and particularly as we're now in the
18 2010s decade, we are seeing an increasing
19 proliferation of these automatic rate
20 adjustment mechanisms.

21 Q. Sitting here today, don't all the
22 utilities in Louisiana have automatic
23 adjustment clauses?

24 A. There are a number of utilities
25 subject to the jurisdiction of the Louisiana

1 Public Service Commission that have formula
2 rate plans. Those are subject to review by the
3 Commission or the Commission staff, but -- And
4 to the best of my recollection, at least the
5 investor-owned utilities have either PGAs or
6 FACs.

7 Q. And sitting here today in 2019, no
8 one would call that unusual, would they?

9 A. No. And, you know, CCPUG and for
10 that matter neither I nor Mr. Baudino is
11 proposing abolishment of fuel adjustment clause
12 or, you know, PGA, or even opposing an electric
13 formula rate plan or a gas formula rate plan.

14 Q. You used this term "automatic pilot"
15 and I'm afraid that that could come across as
16 pejorative. Did you mean to use "automatic
17 pilot" as a pejorative term, as a criticism of
18 these types of mechanisms?

19 A. I meant it as descriptive, neutral
20 in terms of opinion, in terms of something to
21 be commended or something to be opposed. But,
22 generally speaking, I think that the
23 traditional base revenue requirement forms of
24 recovery using historical test years are
25 probably the most appropriate because they

1 provide appropriate behavioral incentives with
2 the exception of costs that are volatile and of
3 significant magnitude that they merit recovery
4 through a rider or some type of clause
5 recovery, such as fuel and purchase power costs
6 or purchase gas costs.

7 Q. When you used the term "automatic
8 pilot," does that include formula rate plans?

9 A. In terms of just a broad, general
10 description, it would include formula rate
11 plans because of the reduced level of scrutiny
12 compared to a traditional base revenue
13 requirement case.

14 Q. When you talk about a base revenue
15 case, though, are you talking about something
16 that happens every year or something that
17 happens periodically?

18 A. In some cases, it does happen every
19 year. In other cases, it happens less
20 frequently. Periodically suggests that there's
21 a pattern to it, but I don't know if I would
22 necessarily agree with that, but it would
23 happen whenever the utility felt it had had a
24 revenue deficiency presumably.

25 Q. I mean, weren't you a participant in

1 a yearly earnings review of Gulf States
2 Utilities Company?

3 A. Many years ago, yes. That was a
4 merger condition of the Entergy acquisition of
5 the Gulf States Utilities Company.

6 Q. Okay.

7 A. And the reason for that was to
8 ensure that the savings resulting from the
9 merger were reflected on a timely basis in the
10 rates of the Gulf States Utilities customers.

11 Q. So are you saying that annual
12 formula rate plans or base rate setting
13 processes are only in the public interest if
14 the expectation is that rates are going down?

15 A. That is not what I said.

16 Q. Okay.

17 A. Your question started out focused on
18 the concept of automatic pilot and you then
19 asked me if I thought that was a term that I
20 offered pejoratively and I said no, it was
21 neutral. And so now we keep going back to this
22 series of questions on whether or not it was
23 pejorative and it was not intended to be.

24 Q. Okay. What did you do to prepare
25 for this deposition?

1 A. I read my testimony and I talked to
2 counsel for CCPUG.

3 Q. Did you talk to anyone other than
4 your attorney?

5 A. In terms of preparation, no. I
6 mean, it's kind of a broad question. I talked
7 to my wife. She knew I was coming here. So if
8 we could just limit it to preparation.

9 Q. No. Limited to, like,
10 professional --

11 A. Okay. Right.

12 Q. -- responsibilities in this
13 proceeding.

14 A. I'm just asking for the
15 clarification. You told me to do that, of
16 course, so --

17 Q. Did you review any documents?

18 A. I reviewed the quantifications that
19 we had developed.

20 Q. Okay. So did you review electronic
21 files or paper?

22 A. I reviewed the Excel workbook on my
23 iPad, which is -- doesn't really have formulas
24 or anything like that. So that would be the
25 analog of reviewing a paper version of that, of

1 that Excel workbook.

2 Q. Is there a version of the Excel
3 workbook that has formulas in it?

4 A. I don't believe it does. Because if
5 I touch the cell, it doesn't go anyplace.

6 Q. I got it. I got it.

7 But was there another version?

8 A. Oh, yes. Yeah. And we provided
9 that at the time we filed my testimony.

10 Q. And is that a single file?

11 A. No. There are two files, to the
12 best of my recollection. It's an Excel
13 workbook and then there's another workbook with
14 three tabs that calculates the New Orleans
15 Public Service or the NOPS revenue requirement.
16 I don't think we integrated that into the basic
17 Excel workbook.

18 Q. Okay. All right. So did you review
19 both of those workbooks?

20 A. I did, yes.

21 Q. Did you review anything else?

22 A. I don't recall that I did.

23 Q. I wanted to ask you some questions
24 about your Excel workbook.

25 A. Okay.

1 Q. And if you have your iPad -- if not,
2 Ms. Maurice-Anderson will share her laptop.

3 A. I'd rather look at the laptop. It
4 might be actually more helpful because, the
5 iPad, I don't have a full version of Excel in
6 my iPad and so I think that's probably why.

7 Q. So I'm going to ask you periodically
8 in this deposition to sort of turn it back to
9 us so we can see where you're going.

10 A. Okay. Sure.

11 Q. So we can make sure that we're
12 tracing things as you intended to calculate
13 things. Okay? And what we're interested in is
14 in your cash working capital recommendation and
15 its quantification. Can you sort of walk us
16 through how you would -- how we would look at
17 that in its elements?

18 A. Well, we -- I have to find where the
19 keys are here. If you look at the tab labeled
20 "As adjusted BB-12, open parens, E, close
21 parens, CWC," that would be for the electric
22 case working capital, there is a note, The
23 Baudino average dividend yield for the
24 comparison group is 3.26 percent. These
25 calculations are shown in Exhibit RAB-2. (As

1 read.)

2 Q. All right. Okay. Are there any
3 other elements to that calculation? Is
4 there -- I thought it was a three-part formula,
5 but that's just my recollection. 0.326 times
6 capital structure times something or --

7 A. Yeah, I think that's right. Yeah,
8 the line item, line 56, Common equity
9 dividends, basically the cell C56 on that same
10 tab in the workbook has a formula and it says,
11 Rate base I9 times a million times cost of
12 capital F17 times .0326. (As read.)

13 Q. And so --

14 A. So I think I could probably just,
15 you know, describe it in laymen's terms, but --

16 Q. Sure.

17 A. But basically it's the weighted cost
18 of the cost of equity times the rate base gives
19 you the return on equity and then the 3.26
20 gives you the ratio of the cash to the rest of
21 the rate of return. I don't remember exactly
22 what the cells say, but that's generally the
23 concept, to split the return on equity between
24 the dividend and the growth.

25 Q. Okay.

1 A. The growth would not be a cash
2 expense for cash working capital purposes, but
3 the cash dividend would be a cash expense.

4 Q. So if you're splitting something,
5 that sounds like subtraction to me, not
6 multiplication. Can you help me understand why
7 you're multiplying the dividend yield?

8 A. Yeah. What you have to do is -- you
9 know, we calculated the weighted average cost
10 of capital using a 9.35 percent return on
11 equity.

12 Q. Right.

13 A. And so basically what you have to do
14 is you have to calculate what portion of the
15 earnings on common as a result of that
16 9.35 percent is a cash dividend versus a
17 non-cash growth factor. So that's what that
18 calculation is intended to do.

19 Q. Okay.

20 A. And then that, in turn, feeds into
21 the cash working capital calculation with an
22 appropriate expense lag days.

23 Q. All right. Did Entergy New Orleans
24 actually pay these dividends in cash?

25 A. Entergy New Orleans does have a

1 history of paying dividends up to Entergy
2 Corporation, but what we did is -- Let me step
3 back a minute here.

4 When the rate of return experts do
5 their analysis, like Mr. Baudino, when he did
6 his analysis, he develops a comparable group
7 and that comparable group is intended to be
8 comparable to Entergy Corporation because
9 Entergy Corporation is publicly traded.
10 Entergy New Orleans is not. So the presumption
11 by the rate of return expert is that the parent
12 Company is the rate of return or the required
13 return on equity; whereas the individual
14 utility is the entity that has the long-term
15 debt.

16 Just to make sure that we're clear
17 where we're picking up the return on equity as
18 opposed to the cost of long-term debt, the
19 return on equity is always done at the parent
20 company when there's a utility holding company.
21 And so using the discounted cash flow
22 methodology, the rate of return analyst
23 develops first a dividend yield and then an
24 expected growth and some of those do then under
25 the discounted cash flow methodology is the

1 required return on equity.

2 So that's why ENO is not in the
3 group. Entergy is the -- basically the bogie
4 and then you develop a group, a comparative
5 group with similar risk characteristics. And
6 from that, Mr. Baudino developed a dividend
7 yield of 3.26 percent and a growth factor of
8 whatever the difference is between that and
9 9.35 percent.

10 Q. So are you telling me that
11 Mr. Baudino developed an ROE for Entergy
12 Corporation and that is his recommendation for
13 ENO is that it had Entergy Corporation's return
14 on equity?

15 A. Well, that's generally the standard,
16 yes. I mean, you have to develop a comparative
17 group and it has to have market data. So it
18 necessarily involves the parent companies of
19 subsidiary utility companies necessarily.

20 Q. And so you're saying that
21 Mr. Baudino didn't do anything to his
22 recommendation to adjust it for ENO-specific
23 factors; right?

24 A. You'll have to ask him that. I'm
25 not aware that he did, but, you know, his

1 analysis is his analysis. I'm just telling you
2 my understanding of what he did. I didn't, you
3 know, develop the analytical methodology for
4 him, nor did I review the mechanics of it. I
5 simply took the result.

6 Q. Do all of his methods rely upon a
7 common dividend yield?

8 A. Well, there's only one. To my
9 recollection, there's only one that has a
10 dividend yield component and it's Mr. Baudino's
11 primary methodology; that is, a discounted cash
12 flow. I believe that he also uses CAPM, the
13 capital asset pricing model, but that does not
14 have a dividend yield component, and I believe
15 he uses some form of risk premium.

16 But, in any event, this -- his
17 recommendation to my understanding is based
18 exclusively on the DCF, but it's informed to
19 the extent judgment is involved by the results
20 of the other methodologies. So most directly
21 as a mechanical matter, it's a DCF and so that
22 way, we can derive the dividend yield directly
23 from his work papers and schedules.

24 Q. So this dividend component to cash
25 working capital, it's different than all the

1 other elements in the cash working capital
2 analysis; isn't it?

3 A. Each line item is different for the
4 most part.

5 Q. I mean, is it different in the sense
6 of the source of the data?

7 A. Well, the source of the data is the
8 Company's filing coupled with the independent
9 analysis performed by Mr. Baudino. And the
10 reason that it starts with the Company's filing
11 is because you have a rate of return that is
12 applied to rate base and so that rate base, by
13 and large, is what is included in the Company's
14 filing plus or minus any adjustments that we
15 have recommended.

16 Q. I think I was too vague in my
17 question.

18 A. I'm sorry. Was I too precise in my
19 answer then?

20 MR. PARSONS:

21 I'm sorry I didn't object.

22 EXAMINATION BY MR. PERRIEN:

23 Q. The cash working capital analysis,
24 that's what I'm talking about, the cash working
25 capital, not the ROE, isn't it based on

1 ENO-specific data?

2 A. I think I would agree with that and
3 I certainly would agree with it as well with
4 respect to the cash dividend component because
5 it's a 9.35 percent return on equity as
6 recommended by Mr. Baudino for ENO. So --

7 Q. Aren't the leads and the lags based
8 on actual ENO-specific experience?

9 A. Some of them are, but what
10 Mr. Gallagher did was he assumed that there
11 were no expense lags associated with the cash
12 dividend component of the return on equity. He
13 basically said, "Hey, it's infinity and you
14 don't have a cash disbursement with respect to
15 income." And so that just wasn't even a line
16 item in Mr. Gallagher's cash working capital,
17 but it truly is a cash disbursement. The
18 Company collects revenues, holds those revenues
19 as an extended period of time before it pays
20 dividends to Entergy.

21 Q. Couldn't that actual information
22 have been used in this study?

23 A. I suppose you could do it that way,
24 but, you know, because of the way in which the
25 return on equity is developed and then applied

1 to the rate base, I really had to work within
2 the construct of the revenue requirement
3 formula.

4 Q. Well, what about for the leads and
5 the lags only? Not the amount. I get the
6 amount came from Baudino's recommendation
7 applying it to rate base. But the actual leads
8 and lags, couldn't you have gotten that from
9 ENO-specific data?

10 A. For the cash dividend?

11 Q. Yes.

12 A. Yes and no. I mean, I'm not sure
13 that I even looked at it because I didn't think
14 it was necessarily meaningful in the case of
15 ENO because, really, the return on equity was
16 derived for Entergy Corporation, then
17 essentially computed, necessarily really, for
18 ENO, and so the source of the dividend, in
19 other words, the construct of the rate of
20 return, has a dividend yield component. So you
21 have to work with what you have. And so, you
22 know, that's why I went with a dividend yield
23 from the rate of return developed by
24 Mr. Baudino rather than attempting to look at
25 the dividend payments made by ENO to Entergy.

1 Q. Okay. You sort of switched focus to
2 dividend yield. And, again, I was sort of
3 focused on the lags, the timing. I'm not
4 worried about the amount. I'm worried about
5 the lags. Why didn't you use the ENO lags?

6 A. Well, because I had to use something
7 that was consistent with the derivation of the
8 return on equity. And Entergy New Orleans'
9 dividends will vary over time, depending upon
10 whatever its cash needs are. In other words,
11 Entergy Corporation manages ENO's capital
12 structure and so if Entergy New Orleans needs
13 more cash, Entergy Corporation infuses that
14 cash as an equity investment into Entergy New
15 Orleans. If Entergy New Orleans has more cash
16 than what it needs, it can push that up to
17 Entergy Corporation in the form of dividends.
18 But I didn't even look at the pattern of
19 dividends from ENO to Entergy Corporation
20 because of, as I said, the fact that the return
21 on equity was developed at the Entergy
22 Corporation level and then imputed down to
23 Entergy New Orleans, and so that was my data
24 source.

25 Q. Isn't the cash working capital

1 adjustment intended to measure Entergy New
2 Orleans' cash needs?

3 A. Yes, that's correct. And, indeed,
4 that return on equity piece is an important
5 issue in the revenue requirement. And so if a
6 portion of it is a dividend yield applied to
7 the rate base, that is the -- essentially the
8 cash that's being generated through the revenue
9 requirement and available for dividends, all
10 else equal.

11 Q. And would you agree that every other
12 element of the cash working capital analysis --
13 well, every element in Mr. Gallagher's cash
14 working capital analysis relies on ENO-specific
15 data? Correct?

16 A. Yes and no. Some of it has to do
17 with charges from Entergy Services, Inc., and
18 some from Entergy Nuclear. I think that's the
19 name. Entergy Operations, Inc. I'm sorry.
20 You know, but it would measure the effect or
21 the timing of the cash payments to those
22 affiliates specifically for ENO.

23 Q. Those cash payments, but those are
24 ENO's payments to those affiliates, not Entergy
25 Louisiana's; right?

1 A. That's true. And the return on
2 equity is applied specifically to ENO. And so
3 it's the return that ENO gets on its rate base
4 and it's the cash piece of that that's
5 available then based upon ENO's
6 characteristics. So I would say, you know,
7 unequivocally that the 3.26 percent dividend
8 yield component of the return on equity is
9 ENO's, ENO-specific.

10 Q. Again, I didn't ask you about the
11 dividend yield. I asked you about the lags,
12 but that's fine.

13 So let's go to this. The dividend
14 is paid quarterly. What is that a reference
15 to?

16 A. The common stock dividend that
17 Entergy Corporation pays is paid quarterly.

18 Q. And so you intentionally disregarded
19 Entergy New Orleans' payment of dividends in
20 either 2018 or 2017 or even before that; right?

21 A. I told you the source of the return
22 on equity and the two components, the cash
23 dividend piece and the non-cash growth piece,
24 and so I didn't ignore Entergy New Orleans, but
25 that's what's imputed or pushed into the rate

1 case. Okay? If your question is did I look at
2 the Entergy New Orleans -- the pattern of
3 Entergy New Orleans' cash dividend payments to
4 Entergy Corporation, I did not. We went
5 through that before.

6 Q. Okay. And so the service period of
7 45.63 days is not based on ENO-specific data;
8 correct?

9 A. Well, I mean, it is and it isn't
10 because --

11 Q. Whoa. Whoa. I'm sorry. Go ahead.

12 A. Because Entergy Corporation -- A
13 quarter is a quarter, is it not? I mean, can
14 we agree on that? So, you know, Entergy has
15 the same calendar quarter as Entergy New
16 Orleans does. Okay. So there -- Obviously the
17 service period is the same. Okay? Regardless
18 of whether we look at it from Entergy
19 Corporation's perspective or Entergy New
20 Orleans' perspective. But since Entergy New
21 Orleans -- I didn't look at Entergy New
22 Orleans' payment of dividends to Entergy
23 Corporation specifically. I looked at Entergy
24 Corporation's payment of dividends to its
25 shareholders because that was how the return on

1 equity was derived. That's why I say it is and
2 it isn't because that's a true statement.

3 Q. Okay. This term you used, "dividend
4 component," for our discussion right now, do
5 you think of dividend component as sort of a
6 single noun, two-word noun? In other words,
7 can I just say dividend and we understand what
8 we're talking about?

9 A. I don't know if I can just agree
10 with that because dividend yield is used to
11 derive the dollar amount of the cash dividend
12 and then it would really depend on the context
13 of your question. If you're talking about
14 dividend yield, we could talk about dividend
15 yield. If you're talking about the dollar
16 amount that results from that, we talk about
17 that. We can talk about the expense lag days.
18 We can talk about that.

19 Q. How about this? Would you agree
20 that Mr. Kollen said in his testimony that
21 dividend component --

22 A. Where? Where is this?

23 MR. PARSONS:

24 Page?

25 MR. PERRIEN:

1 Let's look at page 27.

2 THE WITNESS:

3 Okay. I want to make sure I get
4 this right.

5 MR. PERRIEN:

6 Sure.

7 EXAMINATION BY MR. PERRIEN:

8 Q. In your testimony on page 27, you
9 say, The dividend component is a cash expense?
10 (As read.)

11 A. Yes, I do say that and it is.

12 Q. Now, so what FERC account is
13 dividend component in?

14 A. It would be in dividends declared
15 FERC account, and to the extent that a
16 particular utility declared a dividend, then
17 that is a liability account. I don't recall
18 what the FERC account number is. But it would
19 be a liability account.

20 Q. So you're saying that's not an
21 expense account, though; right?

22 A. Well, it's considered to be an
23 expense because it's a -- Well, it's a
24 residual. Just like revenues is not an expense
25 account and then you have a series of expense

1 accounts and then you have the residual of the
2 revenues minus the expenses, all of which go
3 into the calculation of cash working capital
4 and then net income is the residual. So it's
5 the final expense, if you will.

6 Because, really, when you look at
7 the revenue requirement, it is all of the
8 expenses, right, including operating expenses,
9 plus interest expense, plus net earnings or
10 earnings on common, equals the revenue
11 requirement. So earnings on common in that
12 perspective or in that context is an expense.

13 Q. Does dividend component show up as a
14 line item in the income statement that's
15 required by the FERC in its FERC Form 1s?

16 A. It does not unless it's a preferred
17 dividend. Preferred dividends are separate
18 line items for financial reporting. Now,
19 dividends are reported in the notes of
20 financial statements under GAAP and under the
21 Uniform System, but its net income is the line
22 item that is shown on the income statement.
23 And, for that matter, you know, you might have
24 operation and maintenance expense as a single
25 line item on your income statement for

1 financial reporting purposes, but, you know,
2 when you get into a cash working capital study,
3 you disaggregate that significantly.

4 Q. Are any of the other elements of the
5 cash working capital calculation involve
6 elements of the cost of capital?

7 A. Yes. Interest expense is.

8 Q. What's the FERC account for that?

9 A. I think it is maybe 421. Something
10 like that.

11 Q. Subject to check?

12 A. Yeah. Let's mark it subject to
13 check.

14 MR. PARSONS:

15 What does that book say?

16 THE WITNESS:

17 Well, you have the authority. At
18 least 22 years ago, it was the authority.

19 EXAMINATION BY MR. PERRIEN:

20 Q. Does it appear on the income
21 statement required by FERC Form 1?

22 A. It does, yes. So does net income or
23 earnings on common.

24 Q. But not this dividend declared
25 account that you mention; right?

1 A. Well, that was in response to a
2 different question. You said where do
3 dividends show up under the Uniform System of
4 Accounts and I said that there's a dividend
5 declared liability account and that is
6 different than the net income account. You
7 have net income, then that is additive to
8 retained earnings, which is a component of
9 common equity. And then after you have the
10 declared dividends, it's subtracted from
11 retained earnings because it's a separate
12 liability. And then when it's actually paid,
13 then that liability goes off the books and cash
14 goes down.

15 Q. What's the FERC account for net
16 income?

17 A. There isn't any because it's a
18 residual.

19 Q. Okay.

20 A. That's a very clever question. Did
21 you get that from Mr. Gallagher?

22 Q. Have you made this recommendation in
23 other jurisdictions?

24 A. I have.

25 Q. Okay. Which ones?

1 A. Kentucky.

2 Q. Do you have a docket number for me?

3 A. Not off the top of my head, but if
4 you look at my resume', we can --

5 Q. Help me. Help me as much as you
6 can.

7 A. Is that something that we agreed to
8 ahead of time? I don't think so.

9 Q. Well, you could get a data request.

10 A. This is a second ask. Okay.

11 Let's see. Possibly 2017-00321. It
12 was a Duke Energy Electric case, possibly.

13 Q. Okay.

14 A. The reason I'm hesitating is because
15 some of the utilities in Kentucky use
16 capitalization, some use rate base as the
17 manager of investment, and if you use
18 capitalization, you don't have a calculation of
19 cash working capital. So I just don't recall
20 specifically which ones were.

21 I think both the Duke Energy cases.
22 2018-00261 is a Duke Energy Kentucky Gas case.
23 The two -- Kentucky Utilities and Louisville
24 Gas and Electric cases that I testified in
25 earlier this year, they are capitalization so

1 they would not have cash working capital
2 calculation.

3 I think 2018-00281, Atmos. I think
4 that -- I think that they are a rate base and I
5 think I may have addressed it.

6 And then there's a case where I'm
7 filing testimony today and that's final ready.
8 It may have already been filed, but that is a
9 Kentucky American Water case. It's not on my
10 resume' and I'm addressing that issue in that
11 case.

12 Q. Okay. So this -- Any other
13 proceedings that you made this recommendation?

14 A. I don't recall.

15 Q. Okay. So the vintage of this type
16 of recommendation or this -- I'm not trying
17 to -- I just want to understand how far back in
18 testimonies you have to dig in.

19 Is this a rather recent
20 recommendation development in your history of
21 filing testimony?

22 A. I think so. Because there's been
23 increasing -- I testify a lot in Kentucky and
24 there's been a movement away from
25 capitalization to rate base and even for those

1 utilities that had rate base as the measure of
2 investment, many of them just used the
3 one-eighth O&M expense formula instead of cash
4 working capital. And so this has become a
5 circumstance where in that jurisdiction, the
6 Commission does not -- the Kentucky Commission
7 does not have a definitive policy on cash
8 working capital. So we're helping define that
9 basically through my testimony.

10 Q. So are you done?

11 A. Yes. I'm sorry. I was listening
12 for your question.

13 Q. So all the recommendations related
14 to this dividend component type recommendation,
15 they've all been in the Kentucky jurisdiction?

16 A. I think so with exception of the ENO
17 case.

18 Q. Okay.

19 A. Because -- Yeah, I don't recall
20 addressing this issue before specifically. And
21 what brought this to the forefront was that in
22 Kentucky, the utilities are all arguing that
23 you include non-cash expenses in cash working
24 capital, including that income for earnings on
25 common and the Commission to date has agreed

1 with that. And so what I've said, "Okay,
2 Commission. If you agree with that, then let's
3 take a little closer look at net income on
4 earnings on common and disaggregate it into a
5 cash component and a non-cash component."

6 So that really was the genesis of
7 this issue. And then I saw Mr. Gallagher and
8 greatly respect Mr. Gallagher and was thrilled
9 to see the quality of his cash working capital
10 study, but noticed that he had neglected to
11 include this important item, so --

12 Q. Those utilities you said included
13 non-cash items. Did Mr. Gallagher include any
14 non-cash items?

15 A. No.

16 Q. So from the total perspective, your
17 recommendation is somewhat out of sync because
18 it doesn't come in a context where a utility
19 has proposed to have non-cash items in its cash
20 working capital adjustment; right?

21 A. I don't know what out of sync means,
22 but I do know this, that a cash working capital
23 study is for the purpose of measuring cash
24 investment either by owners or by customers on
25 a net basis. In other words, who's putting

1 cash into the utility? If it's negative, it's
2 the customers. If it's positive, it's the
3 owners. And that's the purpose of a cash
4 working capital study. And because of the work
5 that I did on this issue in Kentucky, it became
6 obvious to me that this was a missing component
7 in Mr. Gallagher's analysis because it is a
8 cash expense.

9 Q. And in those testimonies, you've
10 characterized it as a cash expense?

11 A. I have, yes.

12 Q. Have any of those cases come to a
13 decision?

14 A. They have. Some of them have been
15 resolved by settlement. I don't believe that
16 the Commission has adjudicated this issue
17 specifically to date.

18 Q. Okay.

19 A. There are a number of pending cases
20 in which I have filed testimony, including the
21 one that will be filed today.

22 Q. Okay.

23 MR. PARSONS:

24 Stephen, excuse me. If you get to a
25 breaking point, can we take a quick

1 break?

2 MR. PERRIEN:

3 I'm going to try to -- I'm almost
4 through.

5 MR. PARSONS:

6 Oh.

7 MR. PERRIEN:

8 I'm almost through this. Not the
9 thing. Cash working capital.

10 MR. PARSONS:

11 This cash working capital?

12 MR. PERRIEN:

13 Yes.

14 MR. PARSONS:

15 That was all I was asking about.

16 MR. PERRIEN:

17 Yeah.

18 EXAMINATION BY MR. PERRIEN:

19 Q. Are you aware of any regulators
20 deciding that dividend component should be
21 included in cash working capital adjustment?

22 A. I actually am not aware of that
23 because most of the time, you -- in fact, you
24 very seldom see any earnings component in a
25 cash working capital analysis, but the

1 utilities in Kentucky have taken upon
2 themselves to include that in their cash
3 working capital studies and that's what led me
4 to really consider that more carefully within
5 the last year or two.

6 Q. Does ENO have an earnings component
7 in its cash working capital study?

8 A. It does not, not as filed. It does
9 in my version of this study, though.

10 Q. Because you've included dividend
11 component; right?

12 A. Yes. And appropriately so. It's an
13 expense in a revenue requirement. An analog of
14 an expense, let's put it this way.

15 Q. Wait. Are you changing your
16 testimony?

17 A. No, I'm not changing my testimony.
18 I'm trying to clarify it. It's not an expense
19 on the income statement for recorded in an
20 expense account, but it's an expense
21 nevertheless in the revenue requirement
22 formula, which is your operating expenses, plus
23 your interest expense, plus your return on
24 equity or net income.

25 Q. Okay. Are there any elements that

1 ENO should include in its cash working capital
2 analysis that it has not?

3 A. This is the only one that I've
4 identified that it did not include, that it
5 should have included.

6 Q. Have you ever done a cash working
7 capital study before?

8 A. I do not file testimony on behalf of
9 utilities. I'm saying that just via in order
10 to provide a little bit of foundation here for
11 the rest of my response. And so I'm usually in
12 the position -- In fact, I think a hundred
13 percent of the time in the position of starting
14 with something that the utility has filed and
15 then modifying it and for what I would consider
16 to be corrections.

17 Q. What other -- are the other earnings
18 components that the utilities that you've
19 examined include in their cash working capital
20 analysis?

21 A. Well, what they do -- These are the
22 Kentucky's and utilities in Kentucky, but it's
23 not limited to Kentucky because I've looked
24 at -- In conjunction with the work I've done in
25 Kentucky, I've looked at a lot of other

1 jurisdictions and they, too, include some form
2 of earnings and those components are whatever
3 the return on equity is times the equity in the
4 capital structure times the rate base or times
5 the capitalization, and that's what they put in
6 as an expense line item.

7 Then what they do is they assign a
8 zero expense lag days to the non-cash item or
9 to this line item, to the earnings line item,
10 and then, of course, there's a revenue lag.
11 And so what that ends up is a non-cash item
12 becomes a cash working capital investment,
13 which it absolutely is not.

14 Q. Any other earnings components?

15 A. Well, I don't think there are any
16 other earnings components other than, you know,
17 these cash working capitals that I've seen in
18 multiple jurisdictions, including Kentucky,
19 have a net income or earnings on common. Those
20 are the two terms that you most frequently see
21 and they assign a zero expense lag days to that
22 non-cash -- what they claim is a non-cash
23 earnings on common or net income. And then as
24 I thought about that over the last couple of
25 years, I thought, well, that's not true because

1 there is a cash component, a net income, or
2 earnings on common. There's a dividend
3 component and that is definitely cash. So even
4 if you buy into the argument conceptually,
5 which I think is absolutely dead wrong, that --
6 you know, that non-cash item should be included
7 in a cash working capital, then, you know, at
8 least you should have the decency to separate
9 the two components.

10 Q. Is depreciation included in the cash
11 working capital studies of these utilities?

12 A. It should not be because it's a
13 non-cash item, but some jurisdictions do
14 include non-cash items such as depreciation
15 expense, deferred income tax expense,
16 amortization expense, earnings on common or net
17 income and they assign zero expense lag days,
18 which provides a very high cash working capital
19 requirement, positive addition to rate base.
20 And I think that's fundamentally flawed, but a
21 number of jurisdictions do that.

22 Q. Okay.

23 MR. PERRIEN:

24 That's all I have on cash working
25 capital right now. We can take a break.

1 I know you wanted to take a break, so
2 let's go ahead and do that.

3 (Whereupon a recess was taken.)

4 {EXAMINATION BY MR. PERRIEN:

5 Q. Let's jump to the scintillating
6 topic of negative salvage.

7 A. Okay.

8 Q. Please tell me, what is negative
9 salvage?

10 A. Negative salvage is a cost of
11 removal that exceeds the net income from
12 salvage. So salvage would be -- Salvage income
13 would be a reduction to the depreciation rate
14 and negative net salvage or cost of removal is
15 addition.

16 Q. Now, I noticed that you noted that
17 -- in your testimony, that actual salvage
18 experience is zero percent for Union Power
19 Block 1; right?

20 A. Yes.

21 Q. Why is that significant?

22 A. Well, typically a depreciation
23 analyst will look at the historic experience as
24 far as cost of removal and salvage income and
25 will look at that and frequently in what are

1 known as rolling bands, you know, five years,
2 ten years, 20 years, to see whence -- what the
3 experience has been and what the patterns are.
4 And so it's a factor in the depreciation
5 analysis.

6 Q. Okay. And is it your testimony in
7 here that the net negative salvage percentage
8 should be based on the experience of Union
9 Power Block 1?

10 A. Well, I think that's a starting
11 point. And then the question is whether or not
12 there's any compelling evidence that would
13 cause you to change that position, and whether
14 or not it should be changed at this time or at
15 a later date, based upon evidence at a later
16 date. And depreciation studies typically are
17 done every three to five years and so they're
18 essentially something -- It's a closed loop
19 process, depreciation. So if you don't get it
20 today, you get it tomorrow basically. And, you
21 know, these assumptions, which are used in
22 depreciation studies, they frequently change
23 and the data experience changes over time as
24 well.

25 Q. So what factors should you take in

1 making that decision whether you should change
2 it now or change it later?

3 A. Well, right now, there is no
4 experience for Union Power Block 1 with respect
5 to the net salvage, and so -- But over time,
6 there may be some. It depends on a lot of
7 factors, including the maintenance experience
8 and, you know, whether or not components or
9 retirement units are pulled out of service and
10 replaced or if the particular utility considers
11 that to be maintenance expense. There's a
12 diversion practice among utilities.

13 Q. Well, isn't at some point in the
14 future a unit going to be dismantled and there
15 be something to replace it or it would go to a
16 brownfield state maybe?

17 A. I think what you're talking about is
18 end of life.

19 Q. Uh-huh (indicating affirmatively).

20 A. Demolition or dismantling or
21 something of that sort. Some utilities do
22 that, some do not. You know, for example,
23 Entergy did not for -- I think with respect to
24 the Blytheville turbines in Arkansas, did not
25 do anything with them for ten or 20 years.

1 They just were there. At least the
2 infrastructure. I think they did sell the
3 turbines someplace in South America or
4 something like that. And so, you know, until
5 ten or 20 years after the units were retired,
6 they didn't do anything with the
7 infrastructure.

8 Q. Do you have, like, sort of a
9 ballpark or some estimate of what time Entergy
10 New Orleans should look at the negative salvage
11 issue for Union?

12 A. Well, there's two different types of
13 salvage. You've got your interim salvage and
14 your terminal salvage. And my assessment is
15 that it should look at it when -- in terms of
16 the depreciation rates, when it actually has
17 some interim experience. As far as the
18 terminal salvage, that's more of a regulatory
19 philosophy, whether or not you collect during
20 the period that the asset provides service for
21 a future demolition under the assumption that
22 you will demolish or whether or not you wait to
23 make that decision at a later date. That's a
24 regulatory philosophy. It's not necessarily a
25 mechanical calculation.

1 Q. Is it your opinion that every newly
2 constructed unit when it enters service should
3 have a zero percent negative salvage rate?

4 A. I think that's appropriate. I do.
5 I know that there's diversions of opinion on
6 that with the utility's depreciation experts
7 arguing from, you know, day one, there should
8 be a net negative salvage component in the
9 depreciation rate.

10 I don't share that position. I
11 think it should be -- start out effectively at
12 zero and then once there is experience, then
13 reflect that in the depreciation rates at that
14 time. So there's essentially more or less a
15 current recovery of the net salvage experience.
16 Not starting at the beginning and trying to
17 look ahead over 30 to 50 years and saying,
18 "What are we going to have for net negative
19 salvage?" Why not just do it when you start
20 having that experience and then set the
21 depreciation rate to reflect that as a current
22 recovery at that time? I've recommended that
23 in a number of proceedings, so --

24 Q. Doesn't that implicate some
25 intergenerational equity issues?

1 A. I don't think so. I don't think so
2 at all. I think that the earliest usage of the
3 asset is the highest cost to customers, whoever
4 the customers are at that time, because the
5 investment is at its peak. It hasn't had book
6 and tax depreciation. The cost curve will
7 decline over time and then over time as that
8 cost curve declines, then maintenance expense
9 starts out at almost zero and you have no
10 replacement of components, so you have no
11 interim retirements and you have no net
12 negative salvage or net income for that matter.
13 But then as the units age or as the assets age
14 and the cost curve comes down in terms of the
15 return on the investment, then maintenance
16 tends to start going up and then you start
17 having more experience as you replace
18 components with net negative salvage. And so
19 as that goes up, then your line tends to be --
20 It will drop initially and then it will sort of
21 flat line for a period of time. And then as
22 the unit ages further, then it tends to go up.
23 But if you actually trace through the cost of
24 owning and operating an asset, I think it's a
25 false argument that, you know, you should

1 collect today for a cost that you will incur
2 tomorrow.

3 Q. Okay.

4 A. And particularly in light of the
5 overall cost curve that, you know, you see in a
6 regulated utility environment.

7 Q. So the factor -- one of the factors
8 that is contributing to the steady state that
9 you were gesturing with your hand, that sort of
10 -- that flat line cost experience --

11 A. Right. It's kind of what I would
12 call the sweet spot of an asset.

13 Q. Okay. The sweet spot of the asset
14 is that in your concept or model that you're
15 sort of conceiving of, the negative salvage
16 rate is increasing at that point in time?

17 A. It will, yes, but at the same time,
18 the return on investment is going down. And so
19 you have one set of costs related to the same
20 asset that will increase over time and another
21 set of costs that will decrease over time.

22 Q. All right. And do you have sort of
23 a ballpark of when you think this sweet spot
24 occurs?

25 A. It's probably in the ten- to 30- or,

1 you know, 15- to 35-year period.

2 Q. Okay.

3 A. But I haven't really done any
4 studies to that effect. That's just a very
5 rough estimate and it doesn't necessarily mean
6 that the maintenance goes up, you know,
7 proportionately to the reduction in the cost --
8 the return-on portion of the cost curve or that
9 the net negative salvage goes up in that same
10 proportion. But these are just three
11 components of the total cost.

12 Q. Union Power Block 1 is not a new
13 unit; right?

14 A. It is not a new unit. I think it's
15 about 15 years or so old.

16 Q. So you would agree that it's at a
17 point in time where its negative salvage should
18 be increasing; right?

19 A. Well, there's been no experience
20 whatsoever in the last several years since
21 Entergy New Orleans has owned it. So there
22 will come a point where it does incur net
23 negative salvage as it replaces components. I
24 think physically, you know, components wear
25 out, and if they are retirement units that are

1 replaced, then the accounting for that is not
2 as maintenance expense, but as a plant
3 retirement for that retirement unit and then a
4 replacement of that retirement unit with a new
5 retirement unit, at which time it's additive to
6 the capital cost of the plant.

7 Q. Right.

8 A. But some utilities have different
9 thresholds for retirement units. So, for
10 example, maybe a very big piece of equipment
11 that's replaced, but it's not a retirement unit
12 for a particular utility, so that's a
13 maintenance expense. For other utilities, it's
14 not a maintenance expense. It's a replacement
15 of the capital component.

16 Q. Would your recommendation be
17 different if we had retirement data from the
18 previous owner?

19 A. I don't know. I haven't had a
20 chance to look at it. The discovery response
21 said that you don't have that data, so I would
22 be surprised if you came up with it now. I
23 think that would be a little unfair, even if
24 you could come up with it.

25 Q. Okay. Good.

1 So that we don't have the data, but
2 we know it's an -- it's not a new unit, what do
3 you do in that circumstance, Mr. Kollen?

4 A. Well, we know that we, I think, have
5 about three years of data since Entergy New
6 Orleans has owned that unit, that share of the
7 unit. And there are no -- have been no cost of
8 removal costs and that may very well be because
9 Entergy, not that it isn't replacing and
10 repairing equipment, but that may just be a
11 maintenance expense. So, effectively, Entergy
12 New Orleans may have that in maintenance
13 expense. I didn't look into Entergy New
14 Orleans' plant accounting and compare that
15 between maintenance expense and retirement
16 units, and there really is no normative
17 standard.

18 But, in any event, you know, it may
19 very well be that Entergy New Orleans has
20 higher maintenance expense because it's not
21 treating these as a interim retirements and
22 it's just replacing equipment as it goes as a
23 maintenance expense.

24 Q. Okay.

25 A. In which case, it would be redundant

1 to include net negative salvage, you know, even
2 under an assumed or hypothetical level. But
3 I'm not making that argument. I'm just
4 pointing that out.

5 Q. So your testimony is based on the
6 three years of experience, the negative salvage
7 rate should not be changed?

8 A. Well, that's one factor, yes. I
9 mean, it's zero, zero, and so what that means,
10 you know, for whatever reason, whether the
11 Company is booking that cost as a maintenance
12 expense if, in fact, it has any cost, and some
13 utilities do -- In any event, the evidence, at
14 least, you know, the available evidence is that
15 it's zero and I think it's inappropriate to
16 just hypothesize a cost that hasn't been
17 incurred.

18 Q. Okay. And I want to explore with
19 you why the ELL data should not be used. In
20 your testimony, you say there is insufficient
21 data with respect to the ELL data that was
22 provided in discovery to use that with respect
23 to Power Block 1; right?

24 MR. PARSONS:

25 Can you just refer to the page you

1 were looking at so the transcript is
2 clear?

3 MR. PERRIEN:

4 Sure. Page 31.

5 THE WITNESS:

6 Yeah, negative 8 percent net salvage
7 estimate -- I'm reading this now from a
8 response to CCPUG discovery. The
9 negative 8 percent net salvage estimate
10 was based on the experience of Entergy
11 Louisiana for other production, which
12 includes facilities similar to the Union
13 Power Block. (As read.)

14 I don't recall that we were
15 provided -- Oh, it says, A net salvage
16 analysis is included in the attached.
17 (As read.) But there's a variety of
18 units included in the ELL data, some
19 older, some newer, and operated in
20 different ways.

21 MR. PERRIEN:

22 Okay.

23 THE WITNESS:

24 I just don't think just because you
25 have data and you have it for generating

1 units for another entity that it's
2 directly transferable to Entergy New
3 Orleans or to this particular unit.

4 MR. PERRIEN:

5 Okay.

6 THE WITNESS:

7 Let the unit stand on it's own. All
8 of the other ones do.

9 EXAMINATION BY MR. PERRIEN:

10 Q. Okay. So this sentence on line 19,
11 The type -- You see those words, The type? (As
12 read.)

13 A. Yes. Yes.

14 Q. What does that refer to? What do
15 you mean by "the type"?

16 A. I'm having trouble right now
17 recalling what the quote/unquote net salvage
18 analysis for Entergy Louisiana, what that was.
19 My recollection is that it was insufficiently
20 detailed to determine the type or age of the
21 equipment for Entergy Louisiana. That's my
22 recollection, but I'm not a hundred percent
23 certain sitting here right now.

24 Q. Okay. And so I'm asking you sort of
25 what type information would you need to say

1 that that data should be used with respect to
2 ENO's Power Block 1? I mean, do you need to
3 know, like, the model or the manufacturer?

4 A. No. Typically these similar assets
5 are grouped together. The depreciation
6 analysts typically will so these experience
7 bands that we discussed before by plant
8 account. And, you know, so that reflects the
9 history of all of the assets in these
10 particular plant accounts, older and newer.
11 Okay? But the problem -- And that's fine if
12 you're developing a depreciation rate for a
13 particular utility with a certain asset base.
14 The problem comes in when you take that, which
15 may be very accurate for Entergy Louisiana, but
16 to try to take that and then superimpose it on
17 a single asset with another utility. That's
18 not appropriate. It doesn't transfer that way
19 because it's very factually specific. This is
20 actual experience data for ELL, okay, for its
21 generating units. And, you know, I don't know
22 what time period it was, you know, what those
23 assets are, or anything like that. But the
24 best evidence on Union Power Block 1 is the
25 actual experience, and then as you gain

1 experience -- And this is what happens in
2 depreciation studies. As you gain experience
3 you continue to update and revise your
4 depreciation rates.

5 Q. Okay.

6 A. And I'm in total agreement with that
7 over time, yeah.

8 Q. All right. Can we flip to the next
9 page?

10 A. Oh, sure.

11 Q. You use the term interim retirements
12 and you have it in bold -- I mean, well you
13 have in italics. My bad.

14 A. Right.

15 Q. What is interim retirements as
16 you're using it in that sentence?

17 A. Yeah. This is -- You have an asset
18 like Union Power Block No. 1 and most of that
19 asset survives from the date it goes into
20 service until the date it dies, or what they
21 call retires. Okay? They sort of talk about
22 assets as, like, a living item. It lives for
23 40 years, 50 years, whatever, not to get too
24 much in the weeds. But now, some of the
25 equipment doesn't last from day one to day 365

1 in year 40. Okay? Most of it does.

2 So you see, you know, the plant in
3 service, it stays constant from day one until
4 the last day of its life, then drops to zero,
5 right, because it's no longer in service. But
6 some of the asset may need to be replaced over
7 time. Moving parts tend to wear out. Some of
8 the moving parts are considered to be
9 maintenance and some are considered to be parts
10 or retirement units and that's what we were
11 talking about before, you know.

12 If you have a very high level for
13 your retirement unit, in other words, this
14 valve is not a retirement unit for one utility
15 but it is a retirement unit for another utility
16 and you replace that valve, there's an interim
17 retirement for the utility where that is a
18 retirement unit. But for the utility where
19 that's not a retirement unit, it's just part of
20 your maintenance expense.

21 But the term "interim retirements"
22 here has a technical meaning and it means where
23 you retire a retirement unit; in other words, a
24 property unit -- sometimes you hear that term
25 used, but where you retire a property unit

1 before the terminal or the retirement date of
2 the total asset.

3 Q. And so when you say exposed to
4 interim retirement, are you trying to tell me
5 there's a subset of components to Power Block 1
6 that are subject to interim retirement and some
7 that are not?

8 A. Right. Right. The components that
9 live to the end of the life, okay, are not
10 subject to interim retirement. They're subject
11 to terminal retirement. Okay?

12 Q. Uh-huh (indicating affirmatively).

13 A. But for components that would retire
14 someplace from day one to the last day of the
15 life of the asset, that would be an interim
16 retirement to the extent that it's a retirement
17 unit or a property unit. So in my experience,
18 the interim retirements -- and, again,
19 depending upon the utility because there's very
20 wide variation in practice among utilities.
21 But it could be maybe 10 percent of the
22 original installed cost of a plant that might
23 be subject or exposed to interim retirement
24 over the life of the asset.

25 And what the depreciation analyst

1 does is it looks at the retirement history, the
2 interim retirement history, and it develops
3 what's called a retirement curve or an interim
4 retirement curve. You may have heard the term
5 Iowa curve. And that attempts to simulate,
6 based upon the actual data, the actual
7 retirement data, what that interim retirement
8 pattern will be.

9 And you can only have net negative
10 salvage during the life of an asset, okay, if
11 you have interim retirements. And so at this
12 point, since there is no history of net
13 negative salvage, there must have been no
14 interim retirement. So at least at this point,
15 it appears to me that there's been no exposure,
16 you know, of the plant dollars to interim
17 retirement, therefore, no net negative salvage
18 and no salvage income on an interim basis.

19 But even if there is, and I think
20 that there likely will be based on my
21 experience, there will likely be some time
22 before year 40 or year 50 or whatever the case
23 it is with the particular asset, then your net
24 negative salvage is only on the interim
25 retirements. It's not on the entire plant that

1 lasts all the way to the end of the life. So
2 if over the course of the life of this asset,
3 10 percent of the asset cost will be retired on
4 an interim basis and the equipment replaced,
5 then you're only going to have net negative
6 salvage on that 10 percent of the plant, not a
7 hundred percent.

8 And what Entergy New Orleans did in
9 its filing here, or what Mr. Clayton did, was
10 he applied the net negative 8 percent to the
11 entirety of the Union Power Block plant in
12 service. And if anything, it should be like
13 .8 percent, not 8 percent. If the interim
14 retirement exposure --

15 First of all, I don't think any
16 should be included, but if some is included,
17 then it should be, you know, whatever the
18 interim retirement exposure is, whether it's
19 10 percent, 15 percent or whatever. Not a
20 hundred percent of the plant, and that what's
21 Mr. Clayton put in, a hundred percent of the
22 plant.

23 Q. In your experience, what would be
24 the interim exposure -- the percentage of plant
25 that is exposed to interim retirement?

1 A. It's hard to say because there's
2 such differences between the utilities on their
3 maintenance, what they book as maintenance
4 expense on the one hand or interim retirements
5 or plant costs and retirements on the other
6 hand and that all depends on where the utility
7 sets their limits on, you know, the so-called
8 retirement units. But I would just say, you
9 know, maybe a starting point rule of thumb
10 might be 10 percent. For some types of assets,
11 it's higher, so --

12 MR. PERRIEN:

13 Can we take a break right now?

14 MR. PARSONS:

15 Sure.

16 MR. PERRIEN:

17 Thanks.

18 (Whereupon a recess was taken.)

19 MR. PERRIEN:

20 On the phone, do we still have Lisa?

21 MS. WALTHER:

22 Yes.

23 MR. PERRIEN:

24 Do we have anyone else?

25 (No response.)

1 EXAMINATION BY MR. PERRIEN:

2 Q. I wanted to ask you about your
3 adjustments related to eliminating the 2019
4 capital additions.

5 A. Okay. All right.

6 Q. And your recommendation is that 2019
7 capital additions should be excluded from the
8 cost-of-service study; right?

9 A. Yes.

10 Q. Did you notice that other
11 adjustments reduced the amount of capital
12 additions proformed into rate base in
13 Adjustment 14?

14 A. I'm not sure I understand your
15 question.

16 Q. Okay. Adjustment 14 is the capital
17 addition adjustment?

18 A. Yes, among other things, right.

19 Q. Okay. Are you aware that other
20 adjustments removed items, capital items that
21 were put into rate base through Adjustment 14?

22 A. Yes.

23 Q. Which adjustments were those?

24 A. I think they were things for the
25 AMI. There may have been a few other things.

1 That's one that I recall specifically.

2 Q. And then there was another component
3 was the miscellaneous adjustment had some
4 capital backed out also. Does that --

5 A. I just don't recall.

6 Q. Sitting here today, do you recall
7 eliminating the Adjustment 15 effect also?

8 A. I don't know.

9 Q. Do you understand that this is of
10 some concern because your adjustment could end
11 up being overstated?

12 A. I don't know.

13 Q. Do you understand the concern that
14 there could be a double count?

15 A. Well, I only understand what you've
16 told me. I do understand what you've told me,
17 but I don't know if it's a valid concern or
18 not. I don't know. I'd have to go back and
19 look.

20 Q. Let's change gears to -- Now, in
21 your testimony on page 39, you say that
22 short-term debt is the lowest cost form of
23 financing at line 10; correct?

24 A. Yes.

25 Q. Is it your position that ENO should

1 use a hundred percent of its money pool
2 borrowing capacity as much as possible
3 throughout the year?

4 A. No, I didn't say that.

5 Q. Is that your opinion outside of this
6 testimony?

7 A. Use the maximum, no. I think
8 Entergy New Orleans has a hundred and fifty
9 million dollars of borrowing capacity. I think
10 I may have actually even said that. Yeah,
11 authorized by the FERC.

12 Q. Okay.

13 A. And I didn't make a recommendation
14 as to whether or not ENO adequately or
15 sufficiently used short-term debt or not. I
16 just said it needs to go into the capital
17 structure.

18 Q. So are you saying that you didn't
19 make an analysis of the prudence of ENO's use
20 of short-term borrowings in 2018 or 2017?

21 A. Not specifically. You know, it
22 was -- Money pool borrowings, and investments
23 for that matter, are up and down. And so you
24 really have to look at it longer, in a longer
25 sense, what is an appropriate amount of

1 short-term debt outstanding on average, and I
2 recommended 2 percent. In some cases, it might
3 be 5 percent, but I thought 2 percent was a
4 reasonable level.

5 Q. Are you telling the Council that ENO
6 was imprudent in the way it used short-term
7 capital?

8 A. Not specifically. I'm saying that
9 it should maximize it within reasonable levels,
10 but not up to a hundred and fifty million. And
11 what I then did was rather than saying, for
12 example, 5 percent of the capital structure,
13 which would have been -- instead of, I think,
14 16 million or something like that, it would
15 have been closer to 40 million if I had gone up
16 to 5 percent. That would still be well, well
17 less than the 150 million total amount of
18 short-term debt authorized by the FERC and
19 apparently a level that Entergy thought it
20 should request authority for. But I thought,
21 well, let's back that down. We'll back it down
22 to 2 percent.

23 And I think that utilities, because
24 it is such a low-cost form of financing, that
25 it should tend to run it at the high side

1 rather than the low side and -- But 2 percent
2 is not inconsistent with the Company's history
3 on short-term debt. As I point out here,
4 slightly less than 2 percent based upon the
5 13-month average outstanding.

6 Q. I'm going to show you a portion of a
7 data request right now with respect to money
8 pool borrowings.

9 MR. PARSONS:

10 From whom to whom?

11 MR. PERRIEN:

12 It's -- I don't recall. Here it is.
13 Here's the cover sheet. It's from Power
14 Users Group to ENO 134.

15 MR. PARSONS:

16 Are you planning on marking these as
17 exhibits to the deposition?

18 MR. PERRIEN:

19 No. No. I mean, everyone has
20 these. There's an individual Bates
21 number at the bottom.

22 MR. PARSONS:

23 All right. All right.

24 MR. PERRIEN:

25 And that -- you know, we'll use that

1 if we're really going to do anything with
2 this.

3 THE WITNESS:

4 Right. Okay. I see that.

5 MR. PERRIEN:

6 I want to direct Mr. Kollen's
7 attention to Footnote 1.

8 EXAMINATION BY MR. PERRIEN:

9 Q. Do you see Footnote 1?

10 A. Yes.

11 Q. How did you interpret the money pool
12 borrowings amounts shown on this page?

13 MR. PARSONS:

14 Excuse me. How did you interpret?

15 MR. PERRIEN:

16 Yes.

17 MR. PARSONS:

18 That's the question?

19 MR. PERRIEN:

20 Yeah, that's the question.

21 THE WITNESS:

22 It says balances shown represent
23 liability balances and it's got the
24 account up at the top, the payable and
25 money pool borrowing and it says balances

1 shown represent liability balances. I
2 interpreted that as borrowings.

3 EXAMINATION BY MR. PERRIEN:

4 Q. And the amounts that are on the
5 money pool column?

6 A. Yes.

7 Q. Let me -- Can I see it quickly?

8 A. Oh, sure.

9 (Tenders document to counsel.)

10 Q. They have amounts that are in
11 parentheses?

12 A. Yes. Correct.

13 Q. Did you take those to be credit
14 balances or debt balances?

15 A. Credit balances, liability. I took
16 the footnote literally. Are you suggesting
17 something else?

18 Q. No. I'm just asking.

19 A. Oh, okay.

20 Q. Okay.

21 MR. PARSONS:

22 Just for the record, what RFP is
23 that?

24 MR. PERRIEN:

25 That's PUG 134 and the Bates numbers

1 are TH272 through TH275.

2 MR. PARSONS:

3 Thank you.

4 EXAMINATION BY MR. PERRIEN:

5 Q. I'm not -- On page 40, line 7, you
6 had the \$16.8 million number that you're saying
7 should be imputed into the capital structure;
8 right?

9 A. Right. The Company had zero, and so
10 I looked at the Company's experience and it
11 varies, obviously, but I took kind of a -- you
12 know, an estimate of it and it's about
13 2 percent.

14 Q. Okay. So did you come up with the
15 16.8 or the 2 percent? Which one was the one
16 that is the starting point for the
17 recommendation?

18 A. The 2 percent.

19 Q. Okay. The 2 percent.

20 And then elsewhere in your
21 testimony, you say that going forward, we
22 should use a 13-month average; right?

23 A. Point me to where I said that --

24 Q. Page 49, line --

25 A. -- so that I have a sense of the

1 context.

2 I think the reason I addressed it in
3 that matter on page 49 in conjunction with the
4 electric formula rate plan is that the proposed
5 tariff, the Company's proposed electric formula
6 rate plan had a 13-month average and,
7 therefore, the cost of capital.

8 Q. Okay.

9 A. I don't know. I don't recall that
10 it had short-term debt, but I think it may have
11 long -- Well, I know that it had long-term debt
12 and I think that it was a 13-month average for
13 the evaluation period.

14 Q. So is it your recommendation to use
15 the 13-month average to calculate the
16 short-term debt component that you're
17 proposing?

18 A. It is in conjunction or in the
19 context of the electric formula rate plan, and
20 so -- But I believe that the starting point was
21 the Company's proposed electric formula rate
22 plan that already had a 13-month average built
23 into it. So I didn't think that that was, you
24 know, something that I wanted to address or
25 oppose for the formula rate plan.

1 Q. So you thought it was reasonable?

2 A. For that purpose. That's why I said
3 context is important, yeah.

4 Q. Reasonable for setting base rates?

5 A. Well, it's a little bit different
6 for setting base rates because the question is
7 what should be the level of short-term debt and
8 I did look and I did look historically. The
9 13-month average that I saw was roughly
10 2 percent of total capitalization. And so I
11 think that that's consistent with the -- you
12 know, the test -- or Period 2 used for the base
13 rate revenue requirement.

14 Q. And that's what I'm trying to get.
15 I'm also trying to get clear is should be.
16 When you say "should be," are you saying,
17 "Council, ENO was imprudent and they should
18 have used 2 percent of the short-term debt in
19 that year"?

20 A. I'm trying to think. I honestly
21 don't remember right now in the Test Period 1
22 and Test Period 2, but I believe that in both
23 cases, it was a capital structure as of the end
24 of 2018 and -- rather than the 13-month
25 average. And that, of course, would be

1 different than what the Company has proposed,
2 if I recall correctly, for the formula rate
3 plans, which have a 13-month average in them.

4 So, you know, that's why context is
5 important. The Company's filing was not
6 exactly consistent with what it has in the
7 formula rate plan and so I tried to work what
8 was in the Company's base rate plan on the one
9 hand and what was in the formula rate plan on
10 the other hand. So I didn't attempt to
11 reconcile that.

12 Q. I'll try my question again.

13 I want to really understand what
14 you're trying to say especially to the
15 regulator. Are you saying that ENO did
16 something imprudent with short-term debt?

17 A. No. I'm saying this is how I
18 recommend that you determine the capital
19 structure and the cost or the rate of return
20 that will be applied to rate base. And I'm not
21 saying you did anything wrong, you know,
22 historically or that you're doing anything
23 wrong prospectively, but I'm saying that the
24 Commission should, I think, make a presumption
25 that you're going to use 2 percent short-term

1 debt at least for purposes of setting the base
2 rates.

3 Then when you get to the formula
4 rate plan, I just worked really within the
5 construct that the Company had developed. Like
6 I said, I didn't try to reconcile that because
7 the Company really didn't try to reconcile
8 that. I mean, if there's a difference, it's a
9 difference in the Company's approach, so --

10 Q. Well, wouldn't you agree that your
11 adjustment in this base rate case, that
12 16 million, is a lot higher than the 13-month
13 average? Right?

14 A. No, it's not that significantly
15 different, I don't think, based upon -- Okay.
16 I misread my own testimony. I don't know the
17 answer to that.

18 Q. Well, I mean, on your testimony on
19 page 39, line 4, you say the 13-month average
20 is 7.87.

21 A. Oh, right. Correct. Yes. That's
22 correct. I did say that, yes.

23 Q. So essentially when you go to 16.8,
24 you're doubling it; right?

25 A. Well, that's true, but it has

1 borrowed as much as \$43.7 million on any one
2 day. And so in the case of setting base rates,
3 based upon the historic period, the 16.8 or the
4 2 percent amount of capitalization, I think, is
5 a reasonable level to set rates, and then going
6 forward under the formula rate plans that use a
7 13-month average, that's fine.

8 Q. Okay. So what was the basis for the
9 2 percent? If it's not the 13-month average,
10 what was your basis?

11 A. Well, what I said was that I looked
12 at the Company's history. I looked at the
13 amount of available short-term debt financing,
14 a hundred and fifty million dollars, was the
15 Company really reflecting in it's filing a
16 reasonable level. And that was without
17 characterization of what actually had taken
18 place in 2018 or 2017, but what is a reasonable
19 level. And it could be more than that. I
20 mean, I could certainly make an argument that
21 5 percent is reasonable because it reduces the
22 cost of capital, but the Company's is about
23 1 percent, just in the historic on a 13-month
24 average basis, and I think that's too low for
25 setting rates going forward.

1 Q. Okay. So from your answer, it
2 sounds like you had two factors, actual usage
3 and then the money pool capacity. Is that fair
4 to say?

5 A. Yeah. Short-term debt, borrowing
6 capacity in total and the money pool is, for
7 all practical purposes, unlimited within those
8 constraints because Entergy Corporation
9 essentially funds that money pool or the other
10 operating companies do if they invest money
11 into it, if they have excess cash. So --

12 Q. Is there an obligation of any
13 company to put money in the money pool?

14 A. No, not that I'm aware of.

15 Q. So the money pool could have zero
16 dollars in it; right?

17 A. I don't recall if Entergy
18 Corporation has an obligation or does fund it
19 in the event that there's no money from the
20 other companies, but -- I don't recall that.
21 But if Entergy Corporation does not have an
22 obligation through an affiliate to fund it,
23 then it's possible that the money pool could
24 have a zero dollar balance under that scenario.
25 But I don't know if that's correct. I just

1 don't recall.

2 Q. Should the overall balance for the
3 money pool be a factor in determining what the
4 percentage that you would use for ratemaking?

5 A. No. I think that the Company has
6 access to other short-term debt. I think I
7 described that. It has a \$25 million credit
8 facility. That's fairly low cost. And, you
9 know, we're paying commitment fees and banking
10 fees on that already. So the cost of borrowing
11 against that credit facility on margin is very
12 low. I don't think it's as low as the money
13 pool, but --

14 Q. Well, why didn't you blend that
15 credit facility and the money pool borrowing?

16 A. Well, because the money pool is the
17 starting point. If there's available borrowing
18 capacity from the money pool, that's where you
19 start. And I just assumed that there was, but
20 I also assumed a 2 percent cost for short-term
21 debt. So it doesn't, you know -- Even if the
22 credit facility is slightly higher than the
23 money -- cost of the borrowings under the money
24 pool, it's still probably 2 percent or less.

25 Q. So you're saying that the 2 percent

1 is an assumed number and is not related to the
2 actual cost of the money pool borrowings?

3 A. It is consistent with the Company's
4 recent actual cost of borrowings from the
5 Entergy money pool, and I'm trying to think
6 that -- I don't know if I cite directly in here
7 what the actual percentage cost was, but it was
8 less than 2 percent from the money pool.

9 Q. Is there any sort of mathematical
10 analysis in your work papers that comes up with
11 the 2 percent cost rate?

12 A. No. It's a matter of judgment.

13 Q. What about the 2 percent capital
14 structure piece? Is there a numerical analysis
15 that's somewhere in your work papers about
16 that?

17 A. Well, the Company had during 2018
18 roughly 1 percent and it had zero percent in
19 its actual filing. But at times, it's had as
20 much as 40-some million dollars of short-term
21 debt outstanding. So basically the upper limit
22 would be a hundred and fifty million obviously,
23 but as a practical matter, the Company doesn't
24 really seem to run it up more than 50 million.
25 And yet on average, it had only 8 million in,

1 you know, the Period 2 test period. So it
2 seemed, you know, at the low end of a
3 reasonable range is how I came up with the 2
4 percent.

5 So it's within those boundaries, a
6 hundred and fifty million at the maximum,
7 8 million at the minimum. Okay? Forty-some
8 million toward the lower end as opposed to the
9 upper end and I basically kind of reached a
10 midpoint. Now, that's not a mathematical
11 analysis, but it's a form of approximate
12 mathematical analysis, if you will.

13 Q. Would it be fair to call it a
14 combination of judgment and some mathematical
15 analysis?

16 A. Yeah. I think so. I think that's
17 fair.

18 Q. Okay.

19 A. See how agreeable I am?

20 Q. You are.

21 Now, when we go over to your table
22 that's in your testimony on page 42, can you
23 explain how that 2 percent affected the other
24 balances?

25 A. Yes. The \$16.8 million -- Well,

1 first of all, I first calculated what 2 percent
2 would be the dollar equivalent of assuming a
3 fixed total capitalization dollars and that was
4 the \$16.8 million. And then I simply reduced
5 the long-term debt and the common equity in
6 proportion to their dollars unadjusted, and so
7 that the total then came up to the same without
8 the short-term debt.

9 Q. Okay. So going back to your
10 recommendation about the FRP -- Do you have
11 that page folded over, page 49?

12 A. Forty-nine. Okay.

13 Q. In that portion of your testimony,
14 you say either include the 13-month average or
15 reduce the common equity to exclude short-term
16 investments, if any, using a 13-month average.
17 How does that reconcile against what you did in
18 the table, or is that something different?

19 A. Well, the Company is using, if I
20 recall correctly, a 13-month average in the
21 formula rate plans for the capital structure
22 and the cost of the capital, or more
23 specifically, the long-term debt in the
24 capital. And so what I tried to do is fit the
25 short-term debt into that, and then, you know,

1 when you set the base revenue requirement, for
2 example, you make an assumption about what is a
3 reasonable level of operation and maintenance
4 expense.

5 But when you get to a formula rate
6 plan, it looks back on the historic period and
7 unless there's a specific rate-making
8 adjustment, you use actual dollars or actual
9 costs. And so, you know, again, I didn't
10 really disserve the basic structure of what the
11 Company was proposing for the formula rate plan
12 except to add the short-term debt in and the
13 basic structure is you use the actual cost from
14 the evaluation period unless there's some
15 rate-making adjustment that is specified. So,
16 again, I didn't -- you know, didn't recommend
17 changing or disturbing the basic structure that
18 the Company proposed.

19 Q. Well, where did you get this reduced
20 common equity part from?

21 A. Oh, that's your question. Oh, okay.

22 Because the way I view it is that if
23 you borrow money, that's clearly something that
24 is on the utility, but if the utility has extra
25 money, it's investing it in effectively a

1 non-utility function. It's loaning money to
2 another affiliate. And given that, it's not
3 funding it through excess capitalization across
4 the board. It's funding it through common
5 equity. It's a non-utility investment.

6 Q. Mr. Kollen, are you criticizing ENO
7 for not including short-term debt in its
8 capital structure?

9 A. In the filing, yes. Yes. Because
10 as a matter of reality, it does borrow short
11 term and I think it could reasonably do more on
12 that, but, you know, again, I'm not even
13 looking back or assessing the prudence of what
14 the Company has or hadn't done. I'm just
15 simply saying it's reasonable to have it with a
16 2 percent level for setting the rate rather
17 than zero as the Company has proposed.

18 Q. Are you aware that the minimum
19 filing requirements with respect to cost of
20 capital do not include short-term debt?

21 A. I think I have seen that, that it
22 doesn't require that, but it doesn't limit the
23 Company from including it either, is my
24 recollection and understanding.

25 Q. Has the Council ever used short-term

1 debt in determining the weighted cost of
2 capital of ENO previously?

3 A. That would be a little hard to tell
4 from the way the orders are structured, but I
5 don't know the answer to that.

6 Q. Okay.

7 MR. PERRIEN:

8 Let me take a short break.

9 MR. PARSONS:

10 All right.

11 (Whereupon a recess was taken.)

12 MR. PERRIEN:

13 I have no more questions at this
14 time subject to our reservation of rights
15 to redepose Mr. Kollen or continue this
16 deposition however you think of it.

17 MR. PARSONS:

18 Anybody else have any questions?

19 MS. TOURNILLON:

20 No.

21 MR. PARSONS:

22 No redirect on CCPUG's part.

23 MR. PERRIEN:

24 Thank you.

25 THE WITNESS:

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You're welcome.
(Whereupon the deposition was
concluded at 12:32 P.M.)

* * * * *

1 REPORTER'S CERTIFICATE

2 This certification is valid only for a
3 transcript accompanied by my original signature
4 and original required seal on this page.

5 I, Kathy Ellsworth Shaw, Certified Court
6 Reporter in and for the State of Louisiana, as
7 the officer before whom this testimony was
8 taken, do hereby certify that LANE KOLLEN, to
9 whom oath was administered, after having been
10 duly sworn by me upon authority of R.S.
11 37:2554, did testify as hereinabove set forth
12 in the foregoing 99 pages; that this testimony
13 was reported by me in stenotype reporting
14 method, was prepared and transcribed by me or
15 under my personal direction and supervision,
16 and is a true and correct transcript to the
17 best of my ability and understanding; that the
18 transcript has been prepared in compliance with
19 transcript format guidelines required by
20 statute or by rules of the board, and that I am
21 informed about the complete arrangement,
22 financial or otherwise, with the person or
23 entity making arrangements for deposition
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25 the prohibition on contractual relationships,
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this matter nor is there any such relationship
between myself and a party litigant in this
matter nor is there any such relationship
between myself and a party litigant in this
matter; I am not related to counsel or to the
parties herein, nor am I otherwise interested
in the outcome of this matter.

21 _____
22 KATHY ELLSWORTH SHAW, CCR, RPR
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25 749 Aurora Avenue
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