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

In the Matter of:

Application of Entergy New Orleans, LLC, et al

Lane Kollen

March 15, 2019

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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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ALSO PRESENT:

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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.

P R O C E E D I N G S

MR. PERRIEN:
I'll make my appearance for the record. I'm Stephen Perrien with the firm Taggart Morton. I represent Entergy New Orleans. And this is a deposition in Docket No. 18-07, which we refer to often as 2018 combined rate case.
We'll go around the room and make appearances and introductions.
MS. MAURICE-ANDERSON:
Good morning. Alyssa Maurice-Anderson, the assistant general counsel representing Entergy New Orleans. Also here we have Polly Rosemond, who is director of --
MS. ROSEMOND:
Regulatory operations.
MS. MAURICE-ANDERSON:
-- regulatory operations for Entergy New Orleans, and Ken Gallagher, consultant to Entergy New Orleans.
MS. TOURNILLON:
Good morning. Carrie Tournillon with Kean Miller on behalf of Air

Products and Chemicals.
MR. PARSONS:
And Kent Parsons of Roedel Parsons on behalf of CCPUG, or Crescent City Power Users Group, and I'll be defending Mr. Kollen's deposition.
MS. MAURICE-ANDERSON:
Good morning. Did someone join on the phone?
MS. WALTHER:
Yes. This is Lisa Walther.
MS. MAURICE-ANDERSON:
Also with Entergy.
Lisa, we're just getting started.
MS. WALTHER:
Okay. Thanks.
MR. PERRIEN:
Mr. Parsons, we're going to have the usual stipulation for this deposition?
MR. PARSONS:
Yeah. Yeah. And we'd like to reserve the right to read and sign.
MR. PERRIEN:
Okay. We'd also like to reserve the right to have further depositions of

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

MR. PARSONS:

That's fine.

EXAMINATION BY MR. PERRIEN:

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

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

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

A. I will.

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

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

true.
Q. Is there anything that would affect your ability to understand what we're doing here today?
A. I don't think so.
Q. And you --
A. I'm mentally competent, if that's what you mean, yes.
Q. And then the court reporter did swear you in; correct?
A. She did, yes.
Q. And so you're under oath?
A. Yes.
Q. Sitting here today, do you have any changes to your testimony?
A. No.
Q. To the best of your knowledge, it's true and correct?
A. Yes.
Q. How did you prepare your testimony?
A. Well, I reviewed the filing and identified potential issues and then we developed discovery. We reviewed the discovery responses to our discovery as well as the responses to other parties' discovery,

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

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

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

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

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

Q. Sitting here today, do you recall any of those individuals that you mentioned having input on your revenue requirement recommendations?

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

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

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

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

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

but perhaps you can, so --
Q. (Nods head affirmatively.)
A. Okay, then.
Q. Like there's some Energy Information Administration data?
A. Yes. Yes. Okay. That's correct. That was not provided in response to discovery. That was independently accessed by Mr. Futral.
Q. And did Mr. Futral explain to you how he accessed that data?
A. From the Energy Information Administration website.
Q. Did he explain why he selected that data?
A. He did it under my direction.
Q. Okay. So why did you direct him to get that data?
A. We were looking for analytical support --
(Whereupon Mr. Beatmann enters the proceedings.)
MR. PERRIEN:
Off the record.
(Whereupon a recess was held.)
MR. PERRIEN:

We're going to go back on.

THE WITNESS:

Yeah.

MR. PERRIEN:

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

THE WITNESS:

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

EXAMINATION BY MR. PERRIEN:

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

to your analytical support of different service lives?
A. I don't recall that we did or at least not to my recollection or knowledge.
Q. So it's a fair statement to say that your recommendation with respect to the service life of generating units in this proceeding is based on the data from the Energy Information Administration and not other data?
A. I think that's generally true. As I mentioned before, I have had quite a bit of exposure in many, many rate proceedings over the years where we have specifically looked at generating unit lives for depreciation purposes, but I didn't have that information synthesized in any one place and so we did rely directly upon the EIA information, but I have in my head that there was a significant range of service lives for different types of generating capacity.
Q. In your head, what was the range that you had?
A. Well, I've seen -- For combined cycle capacity, I've seen anywhere from 30 to 70 years, 30 being at the low end and 70 being

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

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

A. I said turbines.

Q. CTs?

A. Yes.

Q. Okay. That's fine.

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

A. No, I can't. And that was my recollection from working on a number of cases as I mentioned before. And so we -- I tasked Mr. Futral with trying to locate some analytical support for the lives of generating units, actual lives for retired units, and projected lives for those that were still operating. And, you know, preferably in a single location, which is what we found with the EIA data. And so I did not directly rely upon depreciation studies or projected service lives or actual service lives from other proceedings, but I had in my mind boundaries, the ones that we discussed previously, consisting of those ranges.

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

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

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

Q. And so this document you found was testimony you said?
A. It was appended to testimony, but I believe it was an exhibit attached to Mr. King's testimony in one of the FERC System Agreement proceedings. I don't recall what that was.
Q. What about the vintage of the proceeding?
A. It was probably ten or more years ago.
Q. Twenty or more?
A. No, I don't think so. There was a -- There were a number of System Agreement proceedings at the FERC that involved depreciation, but I think there was one in particular that had to do with the reasonableness of the retail jurisdictional depreciation rates. And I think that was the proceeding in which Mr. King testified on behalf of the LPSC.
Q. Do you recall what types of units were in the depreciation study?
A. I think they were all combined cycle and combustion turbines.

MR. PERRIEN:
We had someone join on the phone. Can you please introduce yourself?
MR. GUILLOT:
Hey, Stephen. Brian Guillot, Entergy Regulatory.
MR. PERRIEN:
Okay.
EXAMINATION BY MR. PERRIEN:
Q. And that testimony was with respect to all of the Entergy operating companies?
A. Yes, because the LPSC took the position that there was, A, a lack of consistency in the development of depreciation rates for production generating units and, B, that many of the retail rates were not consistent with the FERC Uniform System.
Q. So that's one source outside of the Energy Information Administration data that you've identified, this Charlie King depreciation study and testimony. Anything else?
A. I don't recall reviewing anything else. And, again, I'm reluctant to concede that it was a source, but it did refresh my

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

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

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

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

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

recommendations?
A. Just, you know, my general experience in that area, but nothing specifically comes to mind.
Q. No unit names?
A. I cited a number of them in here out of the Energy Information Administration database, but I have cited other ones over the years in testimony, but I don't recall them sitting here right now.
Q. And you didn't recall them when you were putting together your testimony; right?
A. I didn't make really any significant effort to recall them because that would have required additional research and, you know, going back into my testimony, which I did not -- to prior testimony in other cases, which I did not do, so --
Q. Did you have any substantive input into anyone else's testimony on your team?
A. I did extensively discuss some of the riders with Mr. Baudino because the ones that he addressed are, to some extent, interrelated with, for example, the electric formula rate plan and the gas formula rate plan

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

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

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

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

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

Q. Is there any recommendation of

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

A. I don't think so.

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

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

And then in addition to that come the riders that Mr. Baudino discussed in his testimony. And so the nature of our discussion was how these riders interacted and how they would continually -- or continue to result in rate increases indefinitely, and we also talked about the RIM.

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

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

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

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

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

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

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

right?
A. That's not a new phenomenon, but essentially a rate resetting, if you will, to a significant extent on automatic pilot is something that is new or increasingly in practice. Increasing in practice, let's put it that way. So --
Q. Okay.
A. I mean, if you look back -- and I'm old enough to make this commentary -- but if you look back into the 1970s and the 1980s, you didn't have this proliferation of riders. In fact, many utilities didn't have purchase gas adjustment clauses. They didn't have fuel or purchase power adjustment clauses. That was all built into base rates. So I'm saying that over time, and particularly as we're now in the 2010s decade, we are seeing an increasing proliferation of these automatic rate adjustment mechanisms.
Q. Sitting here today, don't all the utilities in Louisiana have automatic adjustment clauses?
A. There are a number of utilities subject to the jurisdiction of the Louisiana

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

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

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

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

A. I meant it as descriptive, neutral in terms of opinion, in terms of something to be commended or something to be opposed. But, generally speaking, I think that the traditional base revenue requirement forms of recovery using historical test years are probably the most appropriate because they provide appropriate behavioral incentives with the exception of costs that are volatile and of significant magnitude that they merit recovery through a rider or some type of clause recovery, such as fuel and purchase power costs or purchase gas costs.

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

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

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

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

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

a yearly earnings review of Gulf States Utilities Company?

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

Q. Okay.

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

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

A. That is not what I said.

Q. Okay.

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

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

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

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

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

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

A. Okay. Right.

Q. -- responsibilities in this proceeding.

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

Q. Did you review any documents?

A. I reviewed the quantifications that we had developed.

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

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

that Excel workbook.
Q. Is there a version of the Excel workbook that has formulas in it?
A. I don't believe it does. Because if I touch the cell, it doesn't go anyplace.
Q. I got it. I got it.
But was there another version?
A. Oh, yes. Yeah. And we provided that at the time we filed my testimony.
Q. And is that a single file?
A. No. There are two files, to the best of my recollection. It's an Excel workbook and then there's another workbook with three tabs that calculates the New Orleans Public Service or the NOPS revenue requirement. I don't think we integrated that into the basic Excel workbook.
Q. Okay. All right. So did you review both of those workbooks?
A. I did, yes.
Q. Did you review anything else?
A. I don't recall that I did.
Q. I wanted to ask you some questions about your Excel workbook.
A. Okay.

Q. And if you have your iPad -- if not, Ms. Maurice-Anderson will share her laptop.
A. I'd rather look at the laptop. It might be actually more helpful because, the iPad, I don't have a full version of Excel in my iPad and so I think that's probably why.
Q. So I'm going to ask you periodically in this deposition to sort of turn it back to us so we can see where you're going.
A. Okay. Sure.
Q. So we can make sure that we're tracing things as you intended to calculate things. Okay? And what we're interested in is in your cash working capital recommendation and its quantification. Can you sort of walk us through how you would -- how we would look at that in its elements?
A. Well, we -- I have to find where the keys are here. If you look at the tab labeled "As adjusted BB-12, open parens, E, close parens, CWC," that would be for the electric case working capital, there is a note, The Baudino average dividend yield for the comparison group is 3.26 percent. These calculations are shown in Exhibit RAB-2. (As

read.)

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

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

Q. And so --

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

Q. Sure.

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

Q. Okay.

A. The growth would not be a cash expense for cash working capital purposes, but the cash dividend would be a cash expense.
Q. So if you're splitting something, that sounds like subtraction to me, not multiplication. Can you help me understand why you're multiplying the dividend yield?
A. Yeah. What you have to do is -- you know, we calculated the weighted average cost of capital using a 9.35 percent return on equity.
Q. Right.
A. And so basically what you have to do is you have to calculate what portion of the earnings on common as a result of that 9.35 percent is a cash dividend versus a non-cash growth factor. So that's what that calculation is intended to do.
Q. Okay.
A. And then that, in turn, feeds into the cash working capital calculation with an appropriate expense lag days.
Q. All right. Did Entergy New Orleans actually pay these dividends in cash?
A. Entergy New Orleans does have a

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

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

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

required return on equity.
So that's why ENO is not in the group. Entergy is the -- basically the bogie and then you develop a group, a comparative group with similar risk characteristics. And from that, Mr. Baudino developed a dividend yield of 3.26 percent and a growth factor of whatever the difference is between that and 9.35 percent.
Q. So are you telling me that Mr. Baudino developed an ROE for Entergy Corporation and that is his recommendation for ENO is that it had Entergy Corporation's return on equity?
A. Well, that's generally the standard, yes. I mean, you have to develop a comparative group and it has to have market data. So it necessarily involves the parent companies of subsidiary utility companies necessarily.
Q. And so you're saying that Mr. Baudino didn't do anything to his recommendation to adjust it for ENO-specific factors; right?
A. You'll have to ask him that. I'm not aware that he did, but, you know, his

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

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

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

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

Q. So this dividend component to cash working capital, it's different than all the other elements in the cash working capital analysis; isn't it?

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

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

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

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

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

MR. PARSONS:

I'm sorry I didn't object.

EXAMINATION BY MR. PERRIEN:

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

ENO-specific data?
A. I think I would agree with that and I certainly would agree with it as well with respect to the cash dividend component because it's a 9.35 percent return on equity as recommended by Mr. Baudino for ENO. So --
Q. Aren't the leads and the lags based on actual ENO-specific experience?
A. Some of them are, but what Mr. Gallagher did was he assumed that there were no expense lags associated with the cash dividend component of the return on equity. He basically said, "Hey, it's infinity and you don't have a cash disbursement with respect to income." And so that just wasn't even a line item in Mr. Gallagher's cash working capital, but it truly is a cash disbursement. The Company collects revenues, holds those revenues as an extended period of time before it pays dividends to Entergy.
Q. Couldn't that actual information have been used in this study?
A. I suppose you could do it that way, but, you know, because of the way in which the return on equity is developed and then applied

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

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

A. For the cash dividend?

Q. Yes.

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

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

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

Q. Isn't the cash working capital

adjustment intended to measure Entergy New Orleans' cash needs?
A. Yes, that's correct. And, indeed, that return on equity piece is an important issue in the revenue requirement. And so if a portion of it is a dividend yield applied to the rate base, that is the -- essentially the cash that's being generated through the revenue requirement and available for dividends, all else equal.
Q. And would you agree that every other element of the cash working capital analysis -- well, every element in Mr. Gallagher's cash working capital analysis relies on ENO-specific data? Correct?
A. Yes and no. Some of it has to do with charges from Entergy Services, Inc., and some from Entergy Nuclear. I think that's the name. Entergy Operations, Inc. I'm sorry. You know, but it would measure the effect or the timing of the cash payments to those affiliates specifically for ENO.
Q. Those cash payments, but those are ENO's payments to those affiliates, not Entergy Louisiana's; right?

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

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

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

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

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

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

case. Okay? If your question is did I look at the Entergy New Orleans -- the pattern of Entergy New Orleans' cash dividend payments to Entergy Corporation, I did not. We went through that before.
Q. Okay. And so the service period of 45.63 days is not based on ENO-specific data; correct?
A. Well, I mean, it is and it isn't because --
Q. Whoa. Whoa. I'm sorry. Go ahead.
A. Because Entergy Corporation -- A quarter is a quarter, is it not? I mean, can we agree on that? So, you know, Entergy has the same calendar quarter as Entergy New Orleans does. Okay. So there -- Obviously the service period is the same. Okay? Regardless of whether we look at it from Entergy Corporation's perspective or Entergy New Orleans' perspective. But since Entergy New Orleans -- I didn't look at Entergy New Orleans' payment of dividends to Entergy Corporation specifically. I looked at Entergy Corporation's payment of dividends to its shareholders because that was how the return on

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

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

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

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

A. Where? Where is this?

MR. PARSONS:

Page?

MR. PERRIEN:

Let's look at page 27.
THE WITNESS:
Okay. I want to make sure I get this right.
MR. PERRIEN:
Sure.
EXAMINATION BY MR. PERRIEN:
Q. In your testimony on page 27, you say, The dividend component is a cash expense? (As read.)
A. Yes, I do say that and it is.
Q. Now, so what FERC account is dividend component in?
A. It would be in dividends declared FERC account, and to the extent that a particular utility declared a dividend, then that is a liability account. I don't recall what the FERC account number is. But it would be a liability account.
Q. So you're saying that's not an expense account, though; right?
A. Well, it's considered to be an expense because it's a -- Well, it's a residual. Just like revenues is not an expense account and then you have a series of expense

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

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

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

A. It does not unless it's a preferred dividend. Preferred dividends are separate line items for financial reporting. Now, dividends are reported in the notes of financial statements under GAAP and under the Uniform System, but its net income is the line item that is shown on the income statement. And, for that matter, you know, you might have operation and maintenance expense as a single line item on your income statement for financial reporting purposes, but, you know, when you get into a cash working capital study, you disaggregate that significantly.

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

A. Yes. Interest expense is.

Q. What's the FERC account for that?

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

Q. Subject to check?

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

MR. PARSONS:

What does that book say?

THE WITNESS:

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

EXAMINATION BY MR. PERRIEN:

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

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

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

A. Well, that was in response to a different question. You said where do dividends show up under the Uniform System of Accounts and I said that there's a dividend declared liability account and that is different than the net income account. You have net income, then that is additive to retained earnings, which is a component of common equity. And then after you have the declared dividends, it's subtracted from retained earnings because it's a separate liability. And then when it's actually paid, then that liability goes off the books and cash goes down.
Q. What's the FERC account for net income?
A. There isn't any because it's a residual.
Q. Okay.
A. That's a very clever question. Did you get that from Mr. Gallagher?
Q. Have you made this recommendation in other jurisdictions?
A. I have.
Q. Okay. Which ones?

A. Kentucky.
Q. Do you have a docket number for me?
A. Not off the top of my head, but if you look at my resume', we can --
Q. Help me. Help me as much as you can.
A. Is that something that we agreed to ahead of time? I don't think so.
Q. Well, you could get a data request.
A. This is a second ask. Okay.
Let's see. Possibly 2017-00321. It was a Duke Energy Electric case, possibly.
Q. Okay.
A. The reason I'm hesitating is because some of the utilities in Kentucky use capitalization, some use rate base as the manager of investment, and if you use capitalization, you don't have a calculation of cash working capital. So I just don't recall specifically which ones were.
I think both the Duke Energy cases. 2018-00261 is a Duke Energy Kentucky Gas case. The two -- Kentucky Utilities and Louisville Gas and Electric cases that I testified in earlier this year, they are capitalization so

they would not have cash working capital calculation.

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

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

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

A. I don't recall.

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

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

A. I think so. Because there's been increasing -- I testify a lot in Kentucky and there's been a movement away from capitalization to rate base and even for those utilities that had rate base as the measure of investment, many of them just used the one-eighth O&M expense formula instead of cash working capital. And so this has become a circumstance where in that jurisdiction, the Commission does not -- the Kentucky Commission does not have a definitive policy on cash working capital. So we're helping define that basically through my testimony.

Q. So are you done?

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

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

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

Q. Okay.

A. Because -- Yeah, I don't recall addressing this issue before specifically. And what brought this to the forefront was that in Kentucky, the utilities are all arguing that you include non-cash expenses in cash working capital, including that income for earnings on common and the Commission to date has agreed with that. And so what I've said, "Okay, Commission. If you agree with that, then let's take a little closer look at net income on earnings on common and disaggregate it into a cash component and a non-cash component."

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

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

A. No.

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

A. I don't know what out of sync means, but I do know this, that a cash working capital study is for the purpose of measuring cash investment either by owners or by customers on a net basis. In other words, who's putting cash into the utility? If it's negative, it's the customers. If it's positive, it's the owners. And that's the purpose of a cash working capital study. And because of the work that I did on this issue in Kentucky, it became obvious to me that this was a missing component in Mr. Gallagher's analysis because it is a cash expense.

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

A. I have, yes.

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

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

Q. Okay.

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

Q. Okay.

MR. PARSONS:

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

MR. PERRIEN:

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

MR. PARSONS:

Oh.

MR. PERRIEN:

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

MR. PARSONS:

This cash working capital?

MR. PERRIEN:

Yes.

MR. PARSONS:

That was all I was asking about.

MR. PERRIEN:

Yeah.

EXAMINATION BY MR. PERRIEN:

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

A.   I actually am not aware of that because most of the time, you -- in fact, you very seldom see any earnings component in a cash working capital analysis, but the utilities in Kentucky have taken upon themselves to include that in their cash working capital studies and that's what led me to really consider that more carefully within the last year or two.

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

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

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

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

Q. Wait. Are you changing your testimony?

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

Q. Okay. Are there any elements that

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

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

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

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

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

A. Well, what they do -- These are the Kentucky's and utilities in Kentucky, but it's not limited to Kentucky because I've looked at -- In conjunction with the work I've done in Kentucky, I've looked at a lot of other jurisdictions and they, too, include some form of earnings and those components are whatever the return on equity is times the equity in the capital structure times the rate base or times the capitalization, and that's what they put in as an expense line item.

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

Q. Any other earnings components?

A. Well, I don't think there are any other earnings components other than, you know, these cash working capitals that I've seen in multiple jurisdictions, including Kentucky, have a net income or earnings on common. Those are the two terms that you most frequently see and they assign a zero expense lag days to that non-cash -- what they claim is a non-cash earnings on common or net income. And then as I thought about that over the last couple of years, I thought, well, that's not true because there is a cash component, a net income, or earnings on common. There's a dividend component and that is definitely cash. So even if you buy into the argument conceptually, which I think is absolutely dead wrong, that -- you know, that non-cash item should be included in a cash working capital, then, you know, at least you should have the decency to separate the two components.

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

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

Q. Okay.

MR. PERRIEN:

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

I know you wanted to take a break, so let's go ahead and do that.
(Whereupon a recess was taken.)
{EXAMINATION BY MR. PERRIEN:
Q. Let's jump to the scintillating topic of negative salvage.
A. Okay.
Q. Please tell me, what is negative salvage?
A. Negative salvage is a cost of removal that exceeds the net income from salvage. So salvage would be -- Salvage income would be a reduction to the depreciation rate and negative net salvage or cost of removal is addition.
Q. Now, I noticed that you noted that -- in your testimony, that actual salvage experience is zero percent for Union Power Block 1; right?
A. Yes.
Q. Why is that significant?
A. Well, typically a depreciation analyst will look at the historic experience as far as cost of removal and salvage income and will look at that and frequently in what are

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

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

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

Q. So what factors should you take in

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

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

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

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

Q. Uh-huh (indicating affirmatively).

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

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

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

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

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

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

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

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

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

collect today for a cost that you will incur tomorrow.
Q. Okay.
A. And particularly in light of the overall cost curve that, you know, you see in a regulated utility environment.
Q. So the factor -- one of the factors that is contributing to the steady state that you were gesturing with your hand, that sort of -- that flat line cost experience --
A. Right. It's kind of what I would call the sweet spot of an asset.
Q. Okay. The sweet spot of the asset is that in your concept or model that you're sort of conceiving of, the negative salvage rate is increasing at that point in time?
A. It will, yes, but at the same time, the return on investment is going down. And so you have one set of costs related to the same asset that will increase over time and another set of costs that will decrease over time.
Q. All right. And do you have sort of a ballpark of when you think this sweet spot occurs?
A. It's probably in the ten- to 30- or,

you know, 15- to 35-year period.

Q. Okay.

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

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

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

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

A. Well, there's been no experience whatsoever in the last several years since Entergy New Orleans has owned it. So there will come a point where it does incur net negative salvage as it replaces components. I think physically, you know, components wear out, and if they are retirement units that are replaced, then the accounting for that is not as maintenance expense, but as a plant retirement for that retirement unit and then a replacement of that retirement unit with a new retirement unit, at which time it's additive to the capital cost of the plant.

Q. Right.

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

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

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

Q. Okay. Good.

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

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

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

Q. Okay.

A. In which case, it would be redundant

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

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

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

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

MR. PARSONS:

Can you just refer to the page you

were looking at so the transcript is
clear?

MR. PERRIEN:
Sure. Page 31.

THE WITNESS:
Yeah, negative 8 percent net salvage estimate -- I'm reading this now from a response to CCPUG discovery. The negative 8 percent net salvage estimate was based on the experience of Entergy Louisiana for other production, which includes facilities similar to the Union Power Block. (As read.)
I don't recall that we were provided -- Oh, it says, A net salvage analysis is included in the attached. (As read.) But there's a variety of units included in the ELL data, some older, some newer, and operated in different ways.

MR. PERRIEN:
Okay.

THE WITNESS:
I just don't think just because you have data and you have it for generating

units for another entity that it's
directly transferable to Entergy New
Orleans or to this particular unit.
MR. PERRIEN:
Okay.
THE WITNESS:
Let the unit stand on it's own. All
of the other ones do.
EXAMINATION BY MR. PERRIEN:
Q. Okay. So this sentence on line 19, The type -- You see those words, The type? (As read.)
A. Yes. Yes.
Q. What does that refer to? What do you mean by "the type"?
A. I'm having trouble right now recalling what the quote/unquote net salvage analysis for Entergy Louisiana, what that was. My recollection is that it was insufficiently detailed to determine the type or age of the equipment for Entergy Louisiana. That's my recollection, but I'm not a hundred percent certain sitting here right now.
Q. Okay. And so I'm asking you sort of what type information would you need to say

that that data should be used with respect to
ENO's Power Block 1? I mean, do you need to
know, like, the model or the manufacturer?
A. No. Typically these similar assets
are grouped together. The depreciation
analysts typically will so these experience
bands that we discussed before by plant
account. And, you know, so that reflects the
history of all of the assets in these
particular plant accounts, older and newer.
Okay? But the problem -- And that's fine if
you're developing a depreciation rate for a
particular utility with a certain asset base.
The problem comes in when you take that, which
may be very accurate for Entergy Louisiana, but
to try to take that and then superimpose it on
a single asset with another utility. That's
not appropriate. It doesn't transfer that way
because it's very factually specific. This is
actual experience data for ELL, okay, for its
generating units. And, you know, I don't know
what time period it was, you know, what those
assets are, or anything like that. But the
best evidence on Union Power Block 1 is the
actual experience, and then as you gain

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

Q. Okay.

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

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

A. Oh, sure.

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

A. Right.

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

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

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

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

But the term "interim retirements" here has a technical meaning and it means where you retire a retirement unit; in other words, a property unit -- sometimes you hear that term used, but where you retire a property unit before the terminal or the retirement date of the total asset.

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

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

Q. Uh-huh (indicating affirmatively).

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

And what the depreciation analyst

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

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

But even if there is, and I think that there likely will be based on my experience, there will likely be some time before year 40 or year 50 or whatever the case it is with the particular asset, then your net negative salvage is only on the interim retirements. It's not on the entire plant that lasts all the way to the end of the life. So if over the course of the life of this asset, 10 percent of the asset cost will be retired on an interim basis and the equipment replaced, then you're only going to have net negative salvage on that 10 percent of the plant, not a hundred percent.

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

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

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

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

MR. PERRIEN:
Can we take a break right now?
MR. PARSONS:
Sure.
MR. PERRIEN:
Thanks.
(Whereupon a recess was taken.)
MR. PERRIEN:
On the phone, do we still have Lisa?
MS. WALTHER:
Yes.
MR. PERRIEN:
Do we have anyone else?
(No response.)

EXAMINATION BY MR. PERRIEN:

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

A. Okay. All right.

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

A. Yes.

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

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

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

A. Yes, among other things, right.

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

A. Yes.

Q. Which adjustments were those?

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

That's one that I recall specifically.

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

A. I just don't recall.

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

A. I don't know.

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

A. I don't know.

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

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

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

A. Yes.

Q. Is it your position that ENO should

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

A. No, I didn't say that.

Q. Is that your opinion outside of this testimony?

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

Q. Okay.

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

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

A. Not specifically. You know, it was -- Money pool borrowings, and investments for that matter, are up and down. And so you really have to look at it longer, in a longer sense, what is an appropriate amount of short-term debt outstanding on average, and I recommended 2 percent. In some cases, it might be 5 percent, but I thought 2 percent was a reasonable level.

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

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

And I think that utilities, because it is such a low-cost form of financing, that it should tend to run it at the high side rather than the low side and -- But 2 percent is not inconsistent with the Company's history on short-term debt. As I point out here, slightly less than 2 percent based upon the 13-month average outstanding.

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

MR. PARSONS:

From whom to whom?

MR. PERRIEN:

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

MR. PARSONS:

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

MR. PERRIEN:

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

MR. PARSONS:

All right. All right.

MR. PERRIEN:

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

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

THE WITNESS:

Right. Okay. I see that.

MR. PERRIEN:

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

EXAMINATION BY MR. PERRIEN:

Q. Do you see Footnote 1?

A. Yes.

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

MR. PARSONS:

Excuse me. How did you interpret?

MR. PERRIEN:

Yes.

MR. PARSONS:

That's the question?

MR. PERRIEN:

Yeah, that's the question.

THE WITNESS:

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

shown represent liability balances. I
interpreted that as borrowings.

EXAMINATION BY MR. PERRIEN:

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

A. Yes.

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

A. Oh, sure.

(Tenders document to counsel.)

Q. They have amounts that are in parentheses?

A. Yes. Correct.

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

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

Q. No. I'm just asking.

A. Oh, okay.

Q. Okay.

MR. PARSONS:

Just for the record, what RFP is that?

MR. PERRIEN:

That's PUG 134 and the Bates numbers

are TH272 through TH275.

MR. PARSONS:

Thank you.

EXAMINATION BY MR. PERRIEN:

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

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

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

A. The 2 percent.

Q. Okay. The 2 percent.

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

A. Point me to where I said that --

Q. Page 49, line --

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

context.

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

Q. Okay.

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

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

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

Q. So you thought it was reasonable?
A. For that purpose. That's why I said context is important, yeah.
Q. Reasonable for setting base rates?
A. Well, it's a little bit different for setting base rates because the question is what should be the level of short-term debt and I did look and I did look historically. The 13-month average that I saw was roughly 2 percent of total capitalization. And so I think that that's consistent with the -- you know, the test -- or Period 2 used for the base rate revenue requirement.
Q. And that's what I'm trying to get. I'm also trying to get clear is should be. When you say "should be," are you saying, "Council, ENO was imprudent and they should have used 2 percent of the short-term debt in that year"?
A. I'm trying to think. I honestly don't remember right now in the Test Period 1 and Test Period 2, but I believe that in both cases, it was a capital structure as of the end of 2018 and -- rather than the 13-month average. And that, of course, would be

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

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

Q. I'll try my question again.

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

A. No. I'm saying this is how I recommend that you determine the capital structure and the cost or the rate of return that will be applied to rate base. And I'm not saying you did anything wrong, you know, historically or that you're doing anything wrong prospectively, but I'm saying that the Commission should, I think, make a presumption that you're going to use 2 percent short-term debt at least for purposes of setting the base rates.

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

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

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

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

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

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

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

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

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

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

Q. Okay. So from your answer, it sounds like you had two factors, actual usage and then the money pool capacity. Is that fair to say?
A. Yeah. Short-term debt, borrowing capacity in total and the money pool is, for all practical purposes, unlimited within those constraints because Entergy Corporation essentially funds that money pool or the other operating companies do if they invest money into it, if they have excess cash. So --
Q. Is there an obligation of any company to put money in the money pool?
A. No, not that I'm aware of.
Q. So the money pool could have zero dollars in it; right?
A. I don't recall if Entergy Corporation has an obligation or does fund it in the event that there's no money from the other companies, but -- I don't recall that. But if Entergy Corporation does not have an obligation through an affiliate to fund it, then it's possible that the money pool could have a zero dollar balance under that scenario. But I don't know if that's correct. I just

don't recall.

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

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

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

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

Q. So you're saying that the 2 percent

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

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

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

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

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

A. Well, the Company had during 2018 roughly 1 percent and it had zero percent in its actual filing. But at times, it's had as much as 40-some million dollars of short-term debt outstanding. So basically the upper limit would be a hundred and fifty million obviously, but as a practical matter, the Company doesn't really seem to run it up more than 50 million. And yet on average, it had only 8 million in, you know, the Period 2 test period. So it seemed, you know, at the low end of a reasonable range is how I came up with the 2 percent.

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

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

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

Q. Okay.

A. See how agreeable I am?

Q. You are.

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

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

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

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

A.   Forty-nine. Okay.

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

A.   Well, the Company is using, if I recall correctly, a 13-month average in the formula rate plans for the capital structure and the cost of the capital, or more specifically, the long-term debt in the capital. And so what I tried to do is fit the short-term debt into that, and then, you know, when you set the base revenue requirement, for example, you make an assumption about what is a reasonable level of operation and maintenance expense.

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

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

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

Because the way I view it is that if you borrow money, that's clearly something that is on the utility, but if the utility has extra money, it's investing it in effectively a non-utility function. It's loaning money to another affiliate. And given that, it's not funding it through excess capitalization across the board. It's funding it through common equity. It's a non-utility investment.

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

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

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

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

Q. Has the Council ever used short-term

debt in determining the weighted cost of
capital of ENO previously?
A. That would be a little hard to tell
from the way the orders are structured, but I
don't know the answer to that.
Q. Okay.
MR. PERRIEN:
Let me take a short break.
MR. PARSONS:
All right.
(Whereupon a recess was taken.)
MR. PERRIEN:
I have no more questions at this
time subject to our reservation of rights
to redepose Mr. Kollen or continue this
deposition however you think of it.
MR. PARSONS:
Anybody else have any questions?
MS. TOURNILLON:
No.
MR. PARSONS:
No redirect on CCPUG's part.
MR. PERRIEN:
Thank you.
THE WITNESS:

You're welcome.

(Whereupon the deposition was concluded at 12:32 P.M.)

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REPORTER'S CERTIFICATE

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

I, Kathy Ellsworth Shaw, Certified Court Reporter in and for the State of Louisiana, as the officer before whom this testimony was taken, do hereby certify that LANE KOLLEN, to whom oath was administered, after having been duly sworn by me upon authority of R.S. 37:2554, did testify as hereinabove set forth in the foregoing 99 pages; that this testimony was reported by me in stenotype reporting method, was prepared and transcribed by me or under my personal direction and supervision, and is a true and correct transcript to the best of my ability and understanding; that the transcript has been prepared in compliance with transcript format guidelines required by statute or by rules of the board, and that I am informed about the complete arrangement, financial or otherwise, with the person or entity making arrangements for deposition services; that I have acted in compliance with the prohibition on contractual relationships, as defined by Louisiana Code of Civil Procedure Article 1434 and in rules and advisory opinions of the board; that I have no actual knowledge of any prohibited employment or contractual relationship, direct or indirect, between a court reporting firm and any party litigant in 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.

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