NO. R-10-144

BY: COUNCILMEMBERS MIDURA, CARTER, HEDGE-MORRELL AND

WILLARD-LEWIS

IN THE MATTER OF ENTERGY NEW ORLEANS, INC.’S APPLICATION OF ENTERGY NEW

ORLEANS, INC. FOR A CHANGE IN ELECTRIC AND

GAS RATES PURSUANT TO COUNCIL RESOLUTION R-06-459

DOCKET NO. UD-08-03

RESOLUTION AND ORDER ACCEPTING REGULATORY AUDIT OF

ENTERGY NEW ORLEANS, INC’S HURRICANES GUSTAV AND IKE

STORM COSTS 2008-2009

WHEREAS, pursuant to the Constitution of the State of Louisiana and the Home Rule Charter of the City

of New Orleans (“Charter”), the Council of the City of New Orleans (“Council”) is the governmental

body with the power of supervision, regulation and control over public utilities providing service within

the City of New Orleans; and

WHEREAS, pursuant to its powers of supervision, regulation and control over public utilities, the Council

is responsible for fixing and changing rates and charges of public utilities and making all necessary rules

and regulations to govern applications for the fixing and changing of rates and charges of public utilities;

and

WHEREAS, Entergy New Orleans, Inc. (“ENO” or “Company”) is a public utility providing electric

service to all of New Orleans, except the Fifteenth Ward (“Algiers”), and gas service to all of New

Orleans; and

WHEREAS, Entergy Louisiana, LLC (“ELL”) provides electric service to the Algiers section of New

Orleans; and

WHEREAS, in Council Resolution R-09-136, the Council approved the electric and gas rate settlement

contained in the 2009 Agreement in Principle (“AIP”) regarding the Application of Entergy New Orleans,

Inc. for a Change in Electric and Gas Rates in Council Docket No. UD-08-03; and

WHEREAS, the 2009 AIP contained the following provisions regarding the treatment of Hurricanes

Gustav and Ike storm-related costs:

“Paragraph 38: The council’s Advisors shall conduct an audit of ENO’s Hurricane Gustav/Ike storm

costs. In connection with this audit, ENO shall furnish such cost data as required, including all supporting

data, to the Council’s Advisors on or before May 31, 2009. Preliminary audit findings shall be presented

to the Company and the Council by October 31, 2009 as follows:

a. ENO shall include the capital costs incurred as a result of Hurricanes Gustav/Ike in Account 186 as

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138 of 438 of the date when base rates set forth herein become effective. These capital costs, including

carrying costs, shall be transferred to ENO’s rate base as Plant in Service at 12/31/2009, included in

ENO’s initial annual FRP Evaluation Period filings and shall be recovered through base rates set in that

proceeding. While these costs are in Account 186, ENO shall accrue carrying charges on these

costs until ENO begins recovering such costs through base rates. Such carrying costs shall be computed

using ENO’s 2009 weighted average cost of capital or “WACC” as authorized in this Docket.

b. ENO shall exclude the non-capital direct labor including associated labor loading from the actual

amount of Gustav/Ike costs being sought from cost recovery. The Company’s continued use of Storm

Reserve Accounting will be approved by the Council in any final order approving this settlement for

use during the three year FRP period.

c. to the extent that it is determined that any costs included in the audit findings are not stormrelated

costs, but rather are costs of normal ongoing operations, ENO shall be entitled to seek recovery

of any prudently costs as normal capital in the 2010 FRP filing.

d. No carrying charges will be allowed on Deferred Operating and Maintenance (“O&M”) costs

associated with the amounts of Gustav/Ike O&M costs being sought for cost recovery by ENO”; and

WHEREAS, on May 29, 2009, ENO made an initial filing captioned “Audit Pursuant to Resolution

R-09-136 of Accounting Data Reflecting Storm Restoration Costs Incurred by Entergy New Orleans, Inc.

as a Result of Hurricanes Gustav and Ike “; and

WHEREAS, on October 19, 2009, and October 27, 2009, ENO made a first and second supplemental

filing respectively; and

WHEREAS, the objective of the Regulatory Audit was to:

1. identify the types and amounts of costs incurred and booked by ENO as storm recovery costs during

the specified period of September 2008 through September 2009, and evaluate the appropriateness and

manner in which those transactions were recorded by ENO;

2. verify the accuracy and validity of the storm costs transactions;

3. determine if the transactions include only those costs associated with Hurricanes Gustav and Ike’s

storm restoration activities, including an analysis of those costs already included in the Company’s base

rates (“normal”) and those costs which are true storm related and are “incremental” to those costs

already accounted for in the Company’s base rate revenue requirements;

4. identify the amounts of capital related storm costs that should be allowed for recovery in the

Company’s base rates;

5. determine those storm related costs and the amount thereof which are operating and maintenance

(“O&M”) storm costs allowable for recovery through the Council’s approved Storm Reserve Rider;

and

6. insure that ENO’s recovery of costs associated with Hurricanes Gustav and Ike is not duplicative

through other rate mechanisms or sources of funding.

WHEREAS, the Regulatory Audit covered all costs recorded and booked by ENO as storm costs of

Hurricanes Gustav and Ike through September 30, 2009; and

WHEREAS, in conducting the audit, representatives of the Council’s Consulting Engineer, Legend

Consulting Group Limited, and the Council’s Certified Public Accounting Firms Bruno & Tervelon,

L.L.P. and Pailet, Meunier and LeBlanc, L.L.P. met with representatives of ENO, and its service

company Entergy Services, Inc. (“ESI”), familiar with the procedures and operation of its accounting

systems; analyzed the data base of storm cost transactions provided by ENO that was derived from its

system; reviewed all ENO reports and documentation, including supervisory approvals, supporting the

sampled transactions; and

WHEREAS the Consulting Engineer performed additional analyses based on Company data, methodology

and assumptions as provided in responses to data requests; identified revisions to the Company’s filing

related to capital classification and storm cost deductions based on those analyses required by the 2009

AIP; developed a statistically significant sample of storm cost transactions representing the majority of

storm costs; and determined the total amount of storm costs to be recovered through base rates and

the Storm Reserve Account; and

WHEREAS, based on the provisions and requirements of the 2009 AIP with respect to the treatment of

Hurricanes Gustav and Ike costs for regulatory ratemaking purposes, our Consulting Engineer found:

1. ENO incurred Hurricanes Gustav and Ike storm costs of $34,025,984, less exceptions noted of

$402,049, for a total amount of $33,623,935 in Gustav and Ike accrued

and storm related costs.

2. ENO incurred Hurricanes Gustav and Ike storm-related capital expenditures of $12,092,591.

3. ENO should be allowed to seek recovery in its Formula Rate Plan for Test Year 2009 of $640,000 in

projected carrying charges allowed for inclusion in base rates.

4. ENO incurred storm-related non-capital deferred O&M costs of $21,531,345.

5. $1,358,140 of direct labor and associated loaders should be excluded from the amounts sought for

recovery by ENO as non-capital deferred O&M costs ($21,531,345); resulting in $20,173,205 allowed

for recovery from the restricted Storm Reserve Account.

6. The Company’s Hurricane Gustav and Ike’s storm recovery costs in the amount of $32,265,795 are

reasonable and appropriate for subsequent inclusion in the base rates of ENO in the case of capital

costs and recovery through withdrawals from the Storm Reserve Account in the case of Deferred O&M

costs; and

WHEREAS, a summary comparison of the amounts sought for recovery by the Company in its Filings and

the Findings of the Regulatory Audit are presented below:

Item Company Filings Regulatory Audit Findings

Accrued & Booked Storm Related Costs $34,025,984 $34,025,984

Audit Adjustments ($345,920) ($402,049)

Deferred O&M Deduction ($820,000) ($1,358,140)

Total Storm Costs Eligible for Recovery $32,860,064 $32,265,795

WHEREAS, during the course of the audit, our Consulting Engineer found ENO and ESI’s methodology

and supporting analyses to be confusing as they related to the classification of storm costs between

those that were distribution project capital costs and those that were O&M costs during storm recovery

periods; and

WHEREAS, to avoid such confusion in the future, our Consulting Engineer has made certain

recommendations, which we adopt, and they are set out below; now, therefore:

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF NEW ORLEANS THAT:

The Regulatory Audit of Entergy New Orleans, Inc.’s Hurricane Gustav and Ike Storm Costs 2008-2009

submitted pursuant to Council Resolution R-09-136 and prepared by Legend Consulting Group Ltd. is

hereby ACCEPTED.

BE IT FURTHER RESOLVED BY THE COUNCIL OF THE CITY OF NEW ORLEANS THAT the

Council adopts the recommendations of the Consulting Engineer with respect to clarifying the

classification of storm costs between distribution project capital costs and O&M costs. Specifically, not

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140 of 438 later than April 30, 2010, ENO is directed to:

1. Identify all cost drivers for storm distribution capital projects, which must include but is not limited

to, internal labor, mutual assistance labor, contract labor, transportation and equipment, and capital

minor materials.

2. Identify and quantitatively define a minimum of three (3)

classes of storm severity.

3. Develop a representative and quantitatively supportable capital allocation factor to use for each

individual cost driver, per each class of storm event during storm recovery. Furthermore, unique

allocation factors shall be developed for both removal and installation activities for each type of labor

cost per each class of storm event.

4. The aforementioned analyses should be based on a comprehensive review of the past four (4) years

of storm employee time sheets, contract descriptions and invoices, input from personnel in

distribution departments, distribution records and all other applicable documentation.

5. The appropriate storm allocation factors should be applied monthly to the balance of capital materials

for that month, based on the weighted average of allocation factors derived from the relative total labor

expenditures of the storm for that month to support ENO’s methodology.

6. ENO’s recommendations, report and subsequent analyses

should be filed with the Council for subsequent

consideration and the proper regulatory treatment in any

subsequent storm events no later than April 30, 2010.

THE FOREGOING RESOLUTION WAS READ IN FULL, THE ROLL WAS CALLED ON THE ADOPTION THEREOF AND RESULTED AS FOLLOWS:

YEAS: Carter, Clarkson, Head, Hedge-Morrell,

Willard-Lewis - 5

NAYS: 0

ABSENT: Fielkow, Midura - 2

AND THE RESOLUTION WAS ADOPTED.