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October 12, 2015

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

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

Dear Ms. Johnson:

Pursuant to Council Resolution R-14-511, enclosed please find an original and three copies of Entergy New Orleans, Inc. ("ENO") Final Comments Regarding the Consideration of Issues Related to Decoupling. Please file an original and two copies into the record in the above-referenced matter, and return a date-stamped copy to our courier.

Thank you for your assistance with this matter.

Sincerely,

Timothy S. Cragin

TSC/jw
Enclosures
cc: Official Service List UD-08-02 *(via electronic mail)*

BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

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

FINAL COMMENTS REGARDING THE
<u>CONSIDERATION OF ISSUES RELATED TO DECOUPLING</u>

Entergy New Orleans, Inc. ("ENO") (the "Company"),[1] pursuant to Resolution R-14-511, respectfully submits its Final Comments Regarding the Consideration of Issues Related to Decoupling. Per Resolution R-14-511, the Council of the City of New Orleans ("CNO" or the "Council") directed ENO, the Advisors, Intervenors, and other interested stakeholders to engage in a thoughtful and collaborative process to examine the potential costs, benefits, and risks associated with ENO potentially adopting some form of decoupling. Thus far, that process has involved several stakeholder meetings where ideas, concerns, and various documents were exchanged. ENO filed comments on July 13, 2015 ("Initial Comments"); and the Advisors and Intervenors filed comments regarding ENO's Initial Comments as well as other possible approaches to address decoupling on August 12, 2015. Pursuant to R-14-511, ENO is directed to file its Final Comments on decoupling within 60 days after August 12, 2015.

As a result of the collaborative stakeholder process and the feedback in the Advisors' and Intervenors' August 12, 2015 comments, ENO has examined the mechanisms proposed by all parties and has determined that an EE/DSM Rider is its preferred approach to address issues

[1] In Resolution R-15-194, the Council approved the transfer of certain assets and service obligations of Entergy Louisiana, LLC related to the Algiers portion of the City of New Orleans to ENO. That transaction closed on September 1, 2015.

related to "the lost revenue problem"[2] inherent with utility-provided energy efficiency ("EE") and demand-side management ("DSM") programs. This path would most closely align with ENO's current practices as it relates to concerns related to lost revenues. If the Council does not adopt ENO's preferred path, however, then an alternative approach was discussed in detail in the Initial Comments, which would involve a decoupling mechanism in conjunction with a to-be-designed formula rate plan ("FRP") mechanism. The Advisors have also presented an acceptable approach to decoupling that could be performed in the context of an annual rate-setting effort. ENO's preferred path, along with these two alternative paths, are described below in more detail.

Each of the three aforementioned potential paths is workable to ENO, with certain caveats. The first path outlined below clearly aligns the recovery of EE/DSM program costs, revenue impacts, and incentives with the actual achievement of the EE/DSM targets set by the Council through the use of a specific rider. In the second path, a pilot decoupling mechanism that separates utility throughput incentives by using target revenue-per-customer by rate class would be implemented in conjunction with an annual rate-setting mechanism (*e.g.*, an FRP) that allowed for timely recovery of changes in cost of service. In this multi-step process, targeted decoupling revenues by rate category would be adjusted annually and those impacts would be included within the annual rate-setting calculations. In the third path, similar to the Advisors' comments, the decoupling pilot would be run concurrently within an annual rate-setting mechanism (like an FRP) that sets authorized revenue requirement by customer class based on the results of a base rate case and would be adjusted annually to reflect changes in the fixed costs consistent with the cost allocation principles used in the rate case.

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2 CNO Resolution R-14-511, at 11, Ordering ¶ 2

Path 1 – EE/DSM Rider

Consistent with the approach outlined in its Initial Comments, ENO has a strong preference to address lost revenues through a new EE/DSM rider, which is cost-effective to administer, provides transparency, and is ultimately the least risky to ENO's customers relative to adopting some variation of revenue decoupling. At present, ENO's Energy Smart EE and DSM programs are approved and funded through March 31, 2017. Program costs, lost revenues, and any incentives earned related to the current EE and DSM programs are presently generally covered by already received and escrowed Federal Regulatory Commission ("FERC") bandwidth payment receipts with the exception of programs for the Algiers area recovered via the fuel adjustment. Additionally, there continues to be pre-existing amounts related to earlier Energy Smart efforts reflected in base rates via the now-expired FRP.

ENO believes that a new EE/DSM rider addresses two key issues: (1) it provides a stable source of funding for EE/DSM programs, whose current funding will end in early 2017; and (2) it inherently addresses the issue of lost revenues associated with utility-sponsored EE and DSM programs. ENO asserts that before the end of 2016, the Company, Advisors, Intervenors, and interested stakeholders should engage in a process to develop a more stably-funded and transparent EE/DSM policy using this proposed rider framework, which would be implemented April 2017 if the parties agree that a rider is an appropriate mechanism. The overarching goal of such an effort would be to build on Energy Smart's current level of success to deliver long-term, cost-effective EE and DSM programs to customers in New Orleans, while providing a more transparent mechanism that can be monitored and vetted by all stakeholders. Such a mechanism would be built on the same three pillars as today, namely, ENO's ability to recover program costs and lost revenues as well as an incentive mechanism that provides a balanced opportunity for the Company to participate in the program's success. The lost revenue component of the EE/DSM rider would be based on the use of "deemed savings" values, which is consistent with how Energy Smart addresses the issue of projected lost revenues. Deemed savings reflect estimates of how much energy (kWh) and/or peak demand (kW) is typically saved by EE and/or DSM measures implemented through utility-sponsored programs. The use of deemed savings approaches have been in use in many jurisdictions for some time. Estimated values are often documented by regulators with detailed assumptions and inputs that underlie such estimates.[3] The use of deemed savings is often accompanied by various evaluation, measurement, and verification ("EM&V") activities to help ensure the level of economic value that utility-sponsored EE and DSM programs provide to customers.

The approach outlined above has been taken by other states, such as Arkansas, and provides clear evidence that such a rider is not only a practical way to address lost revenues, but can lead to sustainable, robust, and successful EE and DSM programs. The following chart reflects increased spending on EE and DSM programs by Entergy Arkansas, Inc. ("EAI") since its QuickStart phase programs began in mid-2007. It should be noted that EAI uses a rider mechanism that involves annual filings to the Arkansas Public Service Commission ("APSC"), review of those filings by the APSC Staff, routine performance audits, and a periodic reset of lost revenue amounts to EAI's base rates. Having a stable framework in place, a clear and long-term funding mechanism via a rider in place, and appropriate review processes by the APSC Staff and other parties has allowed EAI to significantly ramp up its spending on cost-effective EE and DSM programs.

EAI's Actual (2008-2014) and Projected (2015) Spending on EE/DSM Programs ($m):

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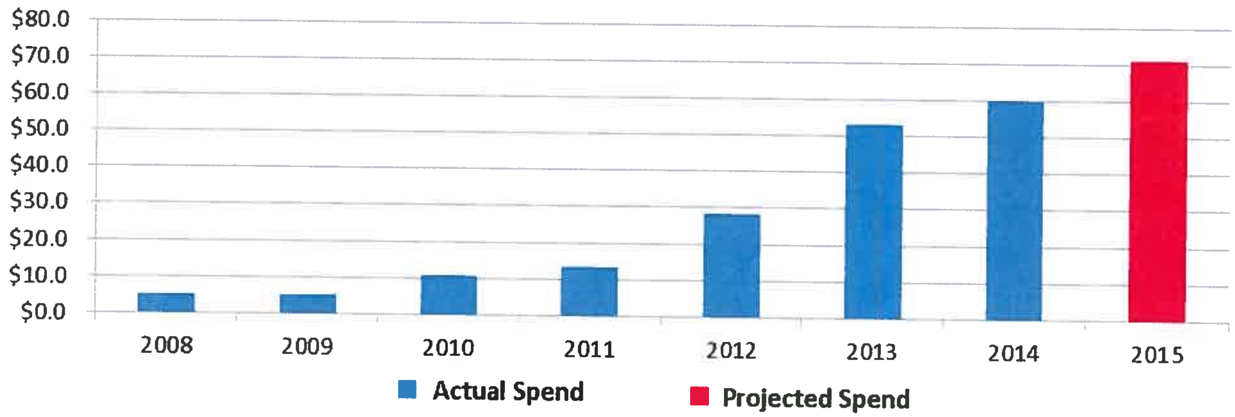
[3] *E.g.*, the Arkansas Technical Reference Manual ("TRM") Version 4.0 was approved on September 16, 2014, by Order No. 20 of Docket No. 10-100-R.



Path 2 – ENO's Decoupling/FRP Pilot Alternative

In its Initial Comments, ENO suggested that although decoupling is not the Company's preferred path, if the Council determines that a decoupling mechanism should be implemented, then a tailored decoupling mechanism within a broader, to-be-developed FRP should be utilized. Implementing decoupling alongside an FRP in conjunction with the Company's next base rate case would allow the Company to timely reflect in future rates various changes to its cost of service and related financial results on a comprehensive basis, reflecting all changes in costs and revenues as well as the effects of those changes on all customers. In contrast, a stand-alone decoupling mechanism would have relatively limited focus, which would typically focus on revenue changes and would apply to only certain customer groups. An FRP would also provide a more transparent and methodical process for the Council, Advisors, and other stakeholders to review overall financial results on a regular basis. The Company recognizes that this decoupling proceeding was not designed to necessarily determine whether an FRP would ultimately be approved in conjunction with ENO's next base rate case. Nonetheless, this path presumes that some type of new rate-setting mechanism will be needed in order incorporate the Company's proposed decoupling mechanism, and an FRP has significant advantages in this regard, as it is based on actual data.

The initial proposal also included a 2.25% K-Factor to reflect an approximation of the annual increase to ENO's cost of service using the prior six-year revenue requirement results. The use of an annual cost of service adjustment (whether via a pre-set K-Factor or some other form of rate-setting) is an essential component of a decoupling mechanism, especially if the K-Factor is employed as a stand-alone rate-setting mechanism. However, the Company's proposal to implement decoupling alongside an FRP (or other to-be-determined annual rate-setting mechanism) reduces the necessity of implementing K-Factor since changes in the cost of service will be contemplated within the annual rate-setting process and any changes in rates resulting from that process.

ENO also proposed to limit the decoupling mechanism to the Residential and Small Electric rate categories because the rate design predominantly relies upon volumetric (cents/kWh) charges, and to exclude all Lighting rate categories. The Company's analysis illustrated the significant volatility a decoupling mechanism can create for the other rate categories due to either the small number of customers included within a rate category or due to changes within the rate category over the six year historical period that was analyzed. However, implementing a decoupling mechanism along with an annual rate-setting mechanism that includes rate categories similar to an FRP ensures that all customers share in the changes to the cost of service without unduly burdening only a few rate categories.

The Joint Comments of the Alliance for Affordable Energy, Green Coast Enterprises, and Greater New Orleans Housing Alliance (hereinafter the "Intervenors") filed on August 12, 2015, recognized the efforts of the collaborative process to provide a proposal to the Council that addresses the lost revenue problem related to utility-sponsored EE/DSM programs. However, several of the comments provided by the Intervenors would result in a decoupling mechanism that does not reflect the current dynamics of a still-rebounding and growing New Orleans and do not represent a fair or feasible alternative to the Company's proposal. To be more specific, it appears that the Intervenors proposed that: 1) the Company would be held to the same level of authorized revenue regardless of the change in the number of customers between rate cases, and 2) that a K-Factor and/or other annual rate-setting adjustment that reflects increases to the changes in cost of service are inappropriate to consider within the context of this filing. Throughout the collaborative process, ENO has reiterated the necessity of including within a decoupling proposal some form of a rate-setting mechanism that addresses the dynamic environment in which ENO operates, which reflects increases or decreases in the cost of service due to required investments to serve customers, changes in the number of customers, and/ or inflationary pressures that are not completely offset through increased operational efficiencies. Increasing levels of cost of service do not automatically guarantee that the annual rate-setting adjustments result in *de facto* rate increases, as reflected in ENO's past FRP filings, which have often resulted in net FRP rate decreases. If decoupling were to become a stand-alone rate-setting mechanism, fairness would require that any method implemented recognize the anticipated level of changes in cost of service (*e.g.*, through the use of a specified K-Factor). Through the three technical conferences and in the Initial Comments, the Company has provided historical analysis that clearly demonstrates the increases in revenue requirements that are necessary for ENO to provide safe, reliable, and affordable electric service to customers in Orleans Parish.

The Intervenors also described concerns regarding the applicability of decoupling to other rate categories with more than twenty customers such as the following: Municipal Buildings, Large Electric, and Large Electric High Load Factor. While the Company's Initial Comments excluded these rate categories, further review of the impact of collapsing the two

Large Electric rate categories into one for purposes of calculating decoupling adjustments appears to be a reasonable compromise alternative that could be explored further if the Council requires implementation of a decoupling mechanism subsequent to the next base rate case, as well as the applicability of the Municipal Buildings rate category.

Path 3 – Advisors' Decoupling Pilot Alternative

In the Advisor's comments submitted on August 12, 2015, it appears that their proposal agrees with many of the elements in ENO's Initial Comments, but also includes several key differences. Both ENO's and the Advisors' proposals build upon a new, to-be-determined annual rate-setting mechanism that would be implemented after ENO's next base rate case. Obviously, at this point in time, the specifics of such an annual rate-setting mechanism are unknown, yet to be designed, and proposed by ENO. Further, assuming that ENO does propose some form of an annual rate-setting mechanism in its next base rate case, there is no guarantee that the Council will approve it as filed or will not make various revisions. The important point is that both ENO's and the Advisors' proposals presume that some form of an annual rate-setting mechanism would be in place in order to address decoupling.

ENO's proposal, as outlined in its Initial Comments, would involve a series of decoupling-related calculations performed first for certain rate classes. After that step, ENO would then perform calculations per the annual rate-setting mechanism to determine the remaining rate change in total dollars. After that second step, ENO proposed to allocate that balance (positive or negative) using a percentage of base rate allocation method to all rate classes. Based on the modeling results provided, the individual rate change components can be positive, negative, or even of opposite sign depending on actual results.

In contrast, it appears that under the Advisors' proposal, only two primary steps would be involved. First, calculations would be performed per the annual rate-setting mechanism to determine the appropriate rate change (positive or negative) to be implemented on a prospective basis. And then, rather than using a percentage of base rate allocation method, the Advisors recommend using an allocation method based on billing determinants that tie to the review period in question (*e.g.*, the historic test year). Using an allocation method based on actual results for the review period (*e.g.*, peak demand, rate class share of average of 12 coincident peak values) does appear to align with decoupling principles. ENO has investigated the feasibility of such an allocation approach and believes, based on that research, that such an approach could be implemented.

The Advisors also recommended that all rate classes be included in the mechanism, which the Company agrees with based on the design described above. The Advisors also recommended that certain fixed costs that are currently reflected in rider mechanisms should more properly be reflected in base rates and, by extension, addressed in the to-be-determined annual rate-setting mechanism. The Company understands the Advisor's position and does not object that certain fixed costs currently recovered in riders (*e.g.*, ENO's share of Ninemile Unit 6) should be recovered in revised base rates once such base rates are determined in conjunction with ENO's next base rate case proceeding.

Conclusion

While each of the three paths described within this document address the issue of the recovery of lost revenues due to the impacts of utility-sponsored EE/DSM programs, it should be noted that none of the paths discussed include a stand-alone decoupling mechanism, as was suggested by the Intervenors. ENO fully supports cost-effective EE/DSM programs and recommends that the Company, Advisors, Intervenors, and interested stakeholders engage in a process to develop a more stably-funded and more transparent EE/DSM policy that includes a cost recovery framework that could be implemented by April 2017 to coincide with end of the current Energy Smart phase as opposed to the aforementioned two alternative paths, which would need to be implemented in connection with ENO's next base rate case.

ENO continues to believe that any solution resulting from this process address not only the lost revenue problem, as described by the Council, but should also reflect timely review and recovery of all utility costs and revenues. Decoupling alone is narrowly focused on only one side of the equation—revenues. While a stand-alone decoupling mechanism may work for some utilities, such a scenario presumes that the utility has a flat to declining customer base, decreasing sales, and stagnant investment requirements. This is clearly not the case for ENO – in this post-Hurricane Katrina environment, ENO recently made significant investments in generation, transmission, and distribution infrastructure and will likely continue to do so for the foreseeable future. Implementing a rate-setting mechanism that would effectively penalize ENO by holding allowed revenues at a fixed level for a three-year period could seriously hamper future investments.

It is important to note that other regulators are evaluating whether or not decoupling is an attractive option that warrants further consideration. For example, in a similar decoupling proceeding now underway in Missouri,[4] diverse stakeholders including the AARP, the Consumers Council of Missouri, the Missouri Industrial Energy Consumers, the Office of Public Counsel, and Walmart have all expressed varying concerns as it relates to full revenue decoupling. Some of the concerns raised by those parties are legal in nature and relate to

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[4] Missouri Public Service Commission, *In the Matter of a Working Case to Consider Proposals to Create a Revenue Decoupling Mechanism for Utilities*, File No. AW-2015-0282, Comments filed September 1, 2015.

whether the Missouri Public Service Commission has the authority under statute to implement decoupling. Other concerns raised by stakeholders in the proceeding relate to increased rate volatility for customers, potential negative rate impacts, and whether or not decoupling is necessary as a policy to promote increased energy efficiency and conservation.

As has been the case throughout this proceeding, ENO continues to be concerned about setting in motion a new policy that may ultimately entail negative unforeseen and unintended consequences. As noted above, if the fundamental issue at stake is a desire by all parties including ENO to increase the role played by energy efficiency and DSM programs, the best way to accomplish that objective is to develop a long-term, stably funded policy.

Respectfully Submitted:

By: ______________________________

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ATTORNEYS FOR ENTERGY NEW ORLEANS, INC.

CERTIFICATE OF SERVICE

Docket No. UD-08-02

I hereby certify that I have this 12th day of October, 2015, served the required number of copies of the foregoing report upon all other known parties of this proceeding, by: ☒ electronic mail, ☐ facsimile, ☐ overnight mail, ☐ hand delivery, and/or ☐ United States Postal Service, postage prepaid.

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