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June 28, 2024

VIA ELECTRONIC MAIL (clerkofcouncil@nola.gov)
Clerk of Council
City Hall, Room 1E09
1300 Perdido Street
New Orleans, LA 70112

Re: Joint Application of Delta States Utilities NO, LLC and Entergy New Orleans, LLC Authorizing Delta States Utilities NO, LLC to Operate as a Jurisdictional Natural Gas Local Distributions Company, CNO Docket UD-24-01
KM File No. 33965-1

Dear Clerk of Council:

Enclosed please find for electronic filing in the above referenced docket, are the PUBLIC VERSIONS of the Rebuttal Testimonies of Jeffrey Yuknis, Brian Little, Jay A. Lewis, and David E. Dismukes, Ph.D., on behalf of Delta States Utilities NO, LLC ("DSU NO"). Copies of the public versions of the DSU NO rebuttal testimonies will be served upon all parties of record in this proceeding as identified in the Official Service List for this proceeding. Copies of the HSPM versions of Mr. Yuknis, Mr. Little, Mr. Lewis and Dr. Dismukes rebuttal testimonies will be served upon appropriate reviewing representatives who have signed the Official Protective Order for this proceeding. Copies of the HSPM-CS versions of Mr. Little and Dr. Dismukes rebuttal testimonies will be served only upon the Council Advisors pursuant to the Official Protective Order and procedures established in this proceeding for commercially sensitive information. As confirmed with your office, the requisite original and number of hard copies are not mandatory to formalize this filing in the docket.

Should you have any questions regarding the above, please do not hesitate to contact me. Thank you for your assistance with this matter.

Very truly yours,

C-RT

Carrie R. Tournillon

CRT:tp
Enclosures
cc: Official Service List UD-24-01 (via e-mail) (Public Versions – Mr. Yuknis, Mr. Little and Dr. Dismukes)
Reviewing Representatives (via e-mail) (HSPM Versions)
Council Advisors (via e-mail) (HSPM-CS Versions)

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	**))))))))))))))**	**DOCKET NO. UD-24-01___**

Rebuttal Testimony of

Jeffrey Yuknis

On behalf of

Delta States Utilities NO, LLC

<u>Public-Redacted Version</u>

Contains Highly Sensitive Protected Material Being Provided Only to Appropriate Reviewing Representatives Who Have Executed the Official Protective Order

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STATE OF LOUISIANA)
) **SS**
PARISH OF ORLEANS)

Affidavit of Jeffrey Yuknis

Jeffrey Yuknis, being first duly sworn, on his oath states:

1. My name is Jeffrey Yuknis. I am Managing Director of Bernhard Capital Partners. My principal place of business is located at 400 Convention St., Suite 1010, Baton Rouge, LA 70802.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which were prepared in written form for introduction into evidence in this proceeding before the Council of the City of New Orleans.

3. I hereby swear and affirm that my testimony is true and correct and that they show the matters and things that it purports to show.

Jeffrey Yuknis

Subscribed and sworn to before me this 26th day of June, 2024.

Notary Public

OFFICIAL SEAL
SARAH GUIDRY
BAR ROLL # 40609
STATE OF LOUISIANA
PARISH OF ORLEANS
MY COMMISSION IS FOR LIFE

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Rebuttal Testimony of Jeffrey Yuknis

I. INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffrey Yuknis. My business address for Bernhard Capital Partners ("**Bernhard Capital**") is 400 Convention St., Suite 1010, Baton Rouge, LA 70802.

Q HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A Yes. I submitted Direct Testimony on behalf of Delta States Utilities NO, LLC ("**DSU NO**") in support of DSU NO's acquisition of certain assets of Entergy New Orleans, LLC ("**ENO**") that are primarily used for its natural gas distribution company ("**ENO Gas Business**") operations and assumption of certain liabilities relating to such operations ("**Proposed Transaction**"). The assets (the "**Purchased Assets**") and the liabilities ("**Assumed Liabilities**") are defined in the Purchase and Sale Agreement ("**PSA**") (collectively, with other ancillary agreements, the "**Transaction Agreements**"), and they are described in my Direct Testimony. I will generally refer to the acquisition of the Purchased Assets and the assumption of the Assumed Liabilities in accordance with the Transaction Agreements as the "**Transaction**" and the final closing of the Transaction pursuant to the Transaction Agreements as the "**Closing**."

The purpose of my Direct Testimony was to support approval of the Proposed Transaction, its associated financing, and the encumbrance of the ENO Gas Business assets, including the Purchased Assets, as being in the public interest pursuant to Resolution R-06-88 of the Council of the City of New Orleans ("**NOCC**" or "**Council**"). I also testified in support of several commitments made by DSU NO.[1]

Q SINCE FILING YOUR DIRECT TESTIMONY, HAS THERE BEEN AND ADDITIONAL GAS ACQUISITION ANNOUNCED INVOLVING ANOTHER BERNHARD CAPITAL PORTFOLIO COMPANY?

[1] Direct Testimony of Jeffrey Yuknis, DSU NO witness, at page 6 (December 11, 2024).

A Yes. In February 2024, Bernhard Capital and CenterPoint Energy Resources Corp. ("**CERC**") announced an agreement whereby affiliates of DSU NO will acquire CERC's Louisiana and Mississippi natural gas distribution assets for approximately $1.2 billion. The CERC transaction, when combined with the Proposed Transaction, will bring significantly more benefits to the City of New Orleans and State of Louisiana: it will spread transition costs among more customers through increased economies of scale; it will add an additional 500 experienced gas operations employees, including approximately 350 Louisiana based employees, to the "Delta Utilities" team through commitments to offer employment to CERC's existing employees primarily involved in gas operations; it will result in approximately 100 additional new hires; it will create additional economies of scale in the operation of the natural gas service in five service areas (ENO, ELL, CERC Arla, CERC Entex and CERC MS); and it will result in a significantly larger ($1.7 billion) corporate headquarters being located in New Orleans, which is expected to bring significant economic benefits to New Orleans and Louisiana, as discussed in DSU NO witness David E. Dismukes, Ph.D. rebuttal testimony and specifically his Exhibit DED-4.

Q IS THE PROPOSED TRANSACTION BETWEEN DSU NO AND ENO IN THE PUBLIC INTEREST INDEPENDET OF THE CERC TRANSACTION?

A Yes. While the combination of the Proposed Transaction and the CERC transaction will provide significantly more benefits to gas customers, the Proposed Transaction that is pending before the Council will provide significant benefits to ENO gas customers, the City, and the State, and is in the public interest independent of the CERC transaction. However, it is important to keep in perspective the much larger benefits to come from the combined transactions.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A The purpose of my testimony is to respond to the witness testimony offered by the Advisors to the Council ("**Advisors**") regarding the Joint Application by DSU NO and ENO. My testimony is divided into several parts. I first summarize the Transaction and emphasize its benefits. Since the filing of DSU NO's direct testimonies in this proceeding, we have had the opportunity to work to further define and quantify the benefits of the Transaction. I will summarize these additional benefits and benefit quantifications in my rebuttal testimony and refer to the testimonies of DSU NO rebuttal witnesses where such benefits and quantifications are discussed in more detail with supporting analysis.

I then offer several responses and clarifications to the Advisors' assessments, discuss the primary concerns identified by the Advisors, and offer solutions.

Next, I discuss the Advisors' review of the 18 public interest factors set forth in Resolution R-06-88.

Lastly, I provide a response to the Advisors' proposed conditions for approval. I share the conditions to which DSU NO agrees and propose alternatives to those conditions with which we disagree or disagree in part. I also respond to the recommendations made by the Alliance for Affordable Energy ("AAE").

II. GENERAL RESPONSE TO ADVISORS

Q HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY THE ADVISORS?

A Yes. On behalf of DSU NO, I want to express our appreciation for the Advisor's review of the Joint Application of DSU NO and ENO.

DSU NO is encouraged by the Direct Testimony filed by the Advisors, as we understood there to be significant agreement on numerous issues. We are eager to continue our collaboration and see an opportunity to work through the remaining issues and proposed conditions.

III. SUMMARY OF PROPOSED TRANSACTION AND BENEFITS

Q CAN YOU PLEASE SUMMARIZE THE TRANSACTION AND ITS ASSOCIATED BENEFITS?

A The Proposed Transaction will result in a new, stand-alone "fit-for-purpose" natural gas local distribution company ("**LDC**") that possesses the financial, technical, and managerial expertise in the industry with a strong commitment to Louisiana and local job creation. A list of primary benefits of The Proposed Transaction include:

- Establish a fit-for-purpose natural gas LDC and shared services company;
- Implement a greenfield, modern cloud-based information technology ("**IT**") system;
- Deliver significant economic benefits to the City of New Orleans and State of Louisiana;
- Create opportunities for a lower projected O&M growth rate;
- Free up capital at ENO; and
- Allow the Gas Business to access capital markets at a lower risk premium.

In addition to the benefits associated with the stand-alone Proposed Transaction, DSU NO customers will see significant additional benefits upon the closing of both the ENO and CERC transactions, as described later in my testimony.

For a detailed summary of the primary benefits of the Proposed Transaction, please see JY-4, Section B.

Q CAN YOU EXPAND UPON THE BENEFITS OF A "FIT-FOR-PURPOSE" NATURAL GAS LDC?

A As a result of the Proposed Transaction, ENO's existing LDC customers will be served by a new, stand-alone "fit-for-purpose" LDC with a core focus on providing safe, reliable and cost-effective natural gas service to customers, without contending for electric utility capital investment. The core focus on DSU NO's gas distribution operations will eliminate capital pressure or resource competition experienced by the smaller Gas Business being integrated with the much larger electric utility. The "fit-for-purpose" structure allows DSU NO to dedicate its efforts and resources exclusively to the benefit of the gas distribution operations particularly with respect to customer service, reliability, safety, growth and affordability.

Additionally, the transfer of gas assets from an integrated electric and gas utility platform, where the gas assets comprise a very small portion of the total Entergy business, to a DSU platform where the entire enterprise (including DSU NO and its affiliate company Delta States Utilities LA, LLC or "**DSU LA**" that is seeking authority to acquire the Entergy Louisiana, LLC gas assets, which collectively will be referred to as "**DSU**") is core focused on the provision of gas service enhances the ability for decisions to be made to the benefit of the gas utility and its customers without consideration of the impact on other utility operations.

DSU NO customers will also benefit from a "fit-for-purpose" systems infrastructure and a shared services organization (Delta States Utilities Services, LLC or "**DSU Services**") that is created specific to gas distribution operations, rather than utilizing some of the same customer care systems, technology, and other systems as an affiliated electric utility. Customers are expected to benefit from the modern IT and customer interfaces, including the development of a customer service center dedicated solely to gas customers instead of shared among gas and electric customers, resulting in streamlined resolution of customer inquiries.

Q CAN YOU PLEASE EXPAND ON THE BENEFITS OF A MODERN CLOUD-BASED IT SYSTEM?

A As discussed in the rebuttal testimony of Mr. Brian Little, the transition plan will result in the ability to create greenfield modern IT systems, which will provide significant benefits and cost efficiencies for customers. A few of these benefits include minimizing the level of overall customization by using “off-the-shelf" software, reducing the number of platforms and vendors within the IT ecosystem through use of fit-for-purpose systems, improving integration between platforms and systems, increasing ease of scalability, improving customer service/satisfaction, and minimizing risk associated with challenges to find resources to support legacy systems.

Please refer to Mr. Little’s testimony for an in-depth discussion of the benefits of a modern, cloud-based IT system that DSU NO is already in the process of developing for implementation for Day One for DSU NO’s safe and reliable operation of the ENO LDC on day one post-Closing (“**Day One Readiness**”).

Q WHAT ECONOMIC BENEFITS WILL THE TRANSACTION PROVIDE TO THE CITY OF NEW ORLEANS?

A The Proposed Transaction will provide several substantial economic benefits to the City of New Orleans. First, as Dr. David Dismukes testifies, the Proposed Transaction will lead to a new natural gas utility valued at approximately $500 million (Entergy only transaction) and multi-state natural gas utilities valued at $1.7 billion (Entergy + CERC transactions), with corporate headquarters of Delta Utilities located in New Orleans.[2] Locating Delta Utilities' corporate headquarters in New Orleans, will generate significant economic benefits for the city from both DSU's transition capital investments and its operational activities.

As presented in DSU NO 2nd Supplementary Response to CNO 1-14, Attachment F, which is provided in Exhibit DED-4 to the rebuttal testimony of DSU NO witness Dr. David Dismukes, DSU's transition capital investments are estimated to lead to 112 job-years of employment, generate almost $7 million in new labor income, contribute over $11 million in value added (also known as gross state product or "**GSP**") and $29 million in economic output.[3]

On an operational basis, DSU headquarter activities for the Proposed Transaction are projected to create 442 annual ongoing employment opportunities, resulting in $30 million in new annual labor income.[4] Additionally, these operations are anticipated to contribute $87 million in value added or GSP

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[2] Rebuttal Testimony of David E. Dismukes, Ph.D., DSU NO witness, at Exhibit DED-4 (June 28, 2024).

[3] See Exhibit DED-4, Slide 19, to the Rebuttal Testimony of David E. Dismukes, Ph.D. (June 28, 2024).

[4] See Exhibit DED-4, Slide 18, to the Rebuttal Testimony of David E. Dismukes, Ph.D. (June 28, 2024).

and $168 million in economic output, highlighting the substantial economic contributions from these business units [5]

Included within the creation of job-years discussed above, as a result of the Proposed Transaction, DSU estimates the creation of approximately 100 new local jobs in Louisiana to facilitate DSU NO's providing of high-quality gas service to customers, with nearly all jobs to be located at the New Orleans headquarters. The new jobs will staff a new shared services organization that will enable DSU NO to continue to provide safe, reliable and affordable LDC services, including, for example, customer service employees for staffing a new call center and personnel for shared services in the areas of customer service, human resources, information technology, management, finance and accounting, regulatory, gas supply, government, legal, stores, supply chain, fleet and environmental functions.

Please refer to Dr. Dismuke's Rebuttal Testimony for further detail on the economic benefits of the Proposed Transaction.

Q DOES DSU NO EXPECT THE PROPOSED TRANSACTION TO RESULT IN O&M SAVINGS TO GAS CUSTOMERS?

A Yes. While the Advisors note that the DSU NO O&M costs are not expected to increase the revenue requirement in a meaningful way,[6] DSU NO anticipates

[5] *See* Exhibit DED-4, slide 18, to the Rebuttal Testimony of David E. Dismukes, Ph.D., DSU NO witness (June 28, 2024).

[6] Direct Testimony of Byron S. Watson at 36.

that the Proposed Transaction will result in O&M *savings* compared to ENO's historical O&M increases. As discussed by Mr. Brian Little in his rebuttal Testimony, the ENO Gas Business experienced an historical O&M increases of approximately 8.5% annually from 2019-2023, whereas DSU NO's estimated forecast provides a potential benefit given its estimated forecast increases at only 3% to primarily account for inflation. Additionally, there are comparative cost efficiencies associated with the greenfield modern, cloud-based IT system platform, providing long term benefits to the customers of DSU NO, as further discussed in the Direct Testimony of Mr. Brian Little.

Q CAN YOU PLEASE DISCUSS HOW FREEING UP CAPITAL AT ENO IS A BENEFIT TO RATEPAYERS?

A In her Rebuttal Testimony, Ms. Maurice-Anderson discusses how ENO is developing a plan to convert debt and equity capital supporting the current gas assets to capital for new resilient and reliable grid assets. This would allow ENO to avoid the current higher costs associated with obtaining new debt capital and make investments in its electric grid that are expected to provide substantial, long-term benefits to its customers, particularly in the areas of resilience and reliability.

Please refer to Ms. Maurice-Anderson's Rebuttal Testimony for further discussion on how freeing up capital at ENO will benefit ratepayers.

Q CAN YOU PLEASE DISCUSS HOW THE PROPOSED TRANSACTION WILL ALLOW THE GAS BUSINESS TO ACCESS CAPITAL MARKETS AT A LOWER RISK PREMIUM?

A As discussed by Ms. Maurice-Anderson's Rebuttal Testimony, the Proposed Transaction provides gas customers the opportunity to access capital markets without as significant of a risk premium as is associated with an electric utility operating in a concentrated geographic area susceptible to more frequent and more severe storm activity.

Please refer to Ms. Maurice-Anderson's Rebuttal Testimony for further discussion on how the proposed transaction will allow the gas business to access capital markets at a lower risk premium.

Q. PLEASE DISCUSS THE ADDITIONAL BENEFITS TO DSU NO CUSTOMERS IF BOTH THE ENTERGY AND CERC TRANSACTIONS ARE APPROVED.

A**.** While the Proposed Transaction stands independently on its own merit;, it is important that we mention the additional benefits to DSU NO customers if both the Proposed Transaction and CERC transaction are approved.

First, the economic benefits to New Orleans will be significantly greater. With the Entergy and CERC transactions, DSU will be valued at $1.7 billion. It is also important to highlight the total potential economic impact of locating the corporate headquarters in New Orleans if both the CERC and Entergy transaction are approved. With the Entergy and CERC transactions, the transition capital investments are anticipated to expand to 335 job-years of employment opportunities and expand labor income to $20 million, GSP to $33 million, and economic output to $87 million.[7]

On an operational basis, the new corporate headquarters operations for all business units, encompassing ELL, ENO, and CERC, are projected to create 885 new ongoing annual employment opportunities, resulting in over $60 million in new annual labor income, an additional $173 million in GSP and $337 million in annual economic output.[8]

If the CERC gas businesses and current Entergy Gas Business are operated on a combined basis, the scale of the operations throughout the state of LA will increase significantly. This will allow DSU NO to access additional operational personnel from CERC and leverage their breadth of experience. The CERC assets that DSU proposes to acquire were part of a 4 million customer gas utility operation, where operating gas utilities was core to their business. Approximately 500 experienced gas employees are expected to join Delta Utilities, with approximately 350 being Louisiana based, along with an additional 100 new hires (over and above those to be hired in connection with the Proposed Transaction). These additional resources will significantly benefit

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[7] See Exhibit DED-4, Slide 19, to the Rebuttal Testimony of David E. Dismukes, Ph.D. (June 28, 2024).

[8] *See* Exhibit DED-4 to the Rebuttal Testimony of David E. Dismukes, Ph.D., DSU NO witness (June 28, 2024); this economic benefits analysis was initially provided in DSU NO 2nd Supplemental Response to CNO 1-14, Attachment F.

DSU NO in both the short and long term, particularly during significant weather or other emergency events.

Additionally, CERC has deployed technologies (*e.g.*, Picarro methane leak detection technology) that can be incorporated into the operations of DSU NO to the benefit of gas customers.

Further, as noted in DSU NO response to CNO-DSU NO 3-13, the consolidated transactions are expected to result in an additional beneficial O&M shared services savings to DSU NO customers due to the synergies and cost efficiencies associated with the combined shared services entity. These savings to DSU NO are estimated to be up to 10% of these shared services costs.[9]

Q. DID THE JOINT APPLICANTS MAKE ANY COMMITMENTS TO THE COUNCIL?

A As stated in the testimony of the Advisors' technical consultant and witness in this proceeding, Mr. Joe Rogers, "DSU NO and its affiliate companies make a significant number of commitments to the Council," underscoring our dedication to ensuring that the Transaction is a success and the identified benefits are delivered to ratepayers. To further demonstrate our dedication, we have agreed to memorialize these commitments as conditions to approval, as recommended by Mr. Rogers. The conditions to approval are discussed in further detail in

[9] See Exhibit JY-1, DSU NO Response to CNO-DSU 3-13.

Section VIII. Response to Advisors Proposed Conditions and also set for in Exhibit JY-2 to my rebuttal testimony.

IV. RESPONSE AND CLARIFICATIONS TO ADVISORS RATE IMPACT CONCERNS AND RATE CHANGE ANALYSIS

Q DOES DSU NO AGREE WITH THE CONCERNS IDENTIFIED BY THE ADVISORS WITH RESPECT TO RATE IMPACTS?

A We appreciate and understand the Advisors' identified concerns and recommendations. We agree that there are certain concerns that need to be addressed and/or mitigated on behalf of customers. However, DSU NO does have some differences in its assessment and quantification of certain concerns, which will be addressed herein and within the rebuttal testimonies of Dr. Dismukes, Mr. Little, and Mr. Lewis.

Q PLEASE SUMMARIZE ADVISOR WITNESS WATSON'S ESTIMATED RATE IMPACTS.

A Mr. Watson's Direct Testimony estimates an increase to the gas revenue requirement as a result of the Proposed Transaction, which he then uses to estimate an impact on a residential gas bill.[10]

Q. DO YOU AGREE WITH MR. WATSON'S ESTIMATED RATE IMPACTS?

[10] Direct Testimony of Byron S. Watson, Advisors witness, at pages 45-46 (May 31, 2024).

A. I agree with Mr. Watson with respect to the key ratemaking items that can cause a difference in revenue requirement between ENO and DSU NO ownership. However, I do not agree with Mr. Watson's calculation of the incremental revenue requirement and the resulting typical bill impacts, which overstate the impact of the Proposed Transaction on rates. Mr. Watson's estimations are based upon assumptions which Dr. Dismukes discusses in detail and adjusts in his Rebuttal Testimony. These assumptions include:

(1) Use of an incomplete estimate of the loss of accumulated deferred income tax ("ADIT") net of accumulated new ADIT;

(2) Inclusion of a change in the cost of debt as transaction-specific;

(3) Use of a 15-year depreciation rate for new software that is recommended to be booked to intangible plant (instead of recovered through a regulatory asset as proposed by DSU NO);

(4) Use of an understated value of retained ENO plant assets, thereby understating the financial credit that can be passed along to New Orleans residential natural gas customers as an offset to DSU NO's Transition Plan costs; and

(5) Use of a customer class allocation factor that overstates residential customer revenue responsibilities;

(6) Use of an average monthly residential usage level that does not reflect historic or anticipated normal residential usage patterns for New Orleans natural gas residential customers.

In addition, as discussed in Dr. Dismukes' rebuttal testimony, the Advisors' testimonies do not recognize the significant qualitative/non-quantitative and quantitative benefits of the Proposed Transaction in their analysis of whether the Proposed Transaction results in a net benefit and is in the public interest.

Q DO YOU AGREE WITH MR. WATSON'S ASSERTION THAT DSU NO'S DEBT IS NOT SOURCED FROM AN ARMS-LENGTH PARTY?

A No, I do not. All debt has been sourced through a competitive process with third party lenders and pursuant to arms-length negotiations. As summarized in a memorandum prepared by Jefferies ("**Jefferies Memo**"), DSU NO's placement agent in a 4(a)(2) Debt Private Placement, the financing process undertaken by DSU NO and its affiliates on behalf of DSU NO and Jefferies was prudent and was conducted by experienced lenders at arms-length, such that it resulted in the objectively best financing option available at the time of the commitment. See Exhibit JY-3 to my rebuttal testimony for a copy of the Jefferies Memo.

Q WILL COSTS TO DSU NO CUSTOMERS INCREASE IF THE LOUISIANA PUBLIC SERVICE COMMISSION ("LPSC") DOES NOT APPROVE THE TRANSFER OF THE ENTERGY LOUISIANA, LLC ("ELL") GAS BUSINESS TO DELTA STATES UTILITIES LA, LLC ("DSU LA"), AS RAISED BY MR. ROGERS IN HIS DIRECT TESTIMONY?

A No. Mr. Rogers notes in his Direct Testimony that the majority of the anticipated Transition costs are related to new IT systems that would be utilized by DSU Services and allocated to both DSU NO and DSU LA. He also states that "if LPSC does not approve the transfer of the ELL Gas Business to DSU LA and the Gas Transaction was allowed by the Council to proceed, the cost to gas customers could increase due to a larger allocation of both Transaction Costs and ongoing service costs from DSU Services."[11]

While Mr. Rogers's reasoning is sound, it is important that we clarify that the Joint Applicants would not proceed with the Proposed Transaction without the approval of the LPSC of the proposed transaction between ELL and DSU LA relating to DSU LA's acquisition of ELL's natural gas assets. Specifically, Sections 10.2(f) and 10.3(g) of the PSA and the Purchase and Sale Agreement between ELL and DSU LA requires the satisfaction of the closing conditions of the other transaction, which includes required regulatory approvals.[12] Thus, absent amendment of the PSA between DSU NO and ENO and the Purchase and Sale Agreement between DSU LA and Entergy Louisiana, LLC ("ELL"), the LPSC and the Council must each approve the respective Entergy/DSU transaction pending before it for either proposed transaction to close.

Q **DO YOU AGREE THAT DSU NO HAS NOT IDENTIFIED ANY QUANTIFIABLE BENEFITS OF THE PROPOSED TRANSACTION AS CLAIMED BY MR. ROGERS IN HIS DISCUSSION OF THE 18 FACTORS?**

A No. DSU NO has provided considerable discussion and analysis in discovery supporting both quantifiable and non-quantifiable benefits of the Proposed

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[11] Direct Testimony of Joseph W. Rogers, Advisors witness, at 7 (May 31, 2024).

[12] *See* HSPM Direct Testimony of Jeffrey Yuknis at Exhibit JY-3 (Transaction Agreements), and specifically, PSA Sections 1.1 (definition of Required Buyer Regulatory Approvals) and Section 10.1(f), and Buyer's Disclosure Schedule 1.1(h).

Transaction - - both of which are imperative factors in the determination of a transaction providing net benefits. For example, in response to CNO 1-14 (Attachment D),[13] DSU NO provided extensive information on the benefits of a new, modern cloud-based IT system that is in the process of being developed for implementation at a new shared services company for the benefit of the customers of DSU NO. This IT system will replace the existing on-premises systems to be retained by ENO, as those systems are necessary to serve the remaining ENO electric customers. As further discussed in the Rebuttal Testimony of Mr. Brian Little, the existing systems were developed as early as 2005, with critical systems already beyond their supported life and others nearing the end of their supported life.

Also, in response to CNO 1-14 (Attachment F),[14] DSU NO provided analysis of Dr. David Dismukes quantifying millions in economic benefits of the Proposed Transaction to the City of New Orleans and state of Louisiana. These benefits are further discussed and quantified in the rebuttal testimonies of Mr. Brian Little and Dr. David Dismukes.

Further, to address the Advisors' concerns, Dr. Dismukes has prepared a benefits-costs analysis ("**CBA**") of the IT system and Proposed Transaction,

[13] Attachment D to DSU NO Response to CNO 1-14 is provided as Exhibit BL-7 to the Rebuttal Testimony of Mr. Brian Little.

[14] Attachment F to DSU NO Response to CNO 1-14 is provided as Exhibit DED-4 to the Rebuttal Testimony of Dr. David E. Dismukes.

which he presents in his rebuttal testimony. However, as discussed by Dr. Dismukes, such analysis is only one aspect of a net benefits determination. There are numerous benefits of the Proposed Transaction that cannot be numerically quantified at this time but are nonetheless known benefits that should be considered by the Council in its public interest evaluation. While the quantifiable and nonquantifiable aspects of the transaction demonstrate a net benefit on their own, the CBA provides further support that, even using a conservative analysis and only considering numerically quantifiable benefits, the CBA demonstrates a net benefit to customers.

Q DOES DSU NO AGREE WITH MR. WATSON'S EXPLANATION OF DSU NO'S PROPOSAL FOR ADOPTION OF ENO RATES AT CLOSING AND/OR SUPPORTED BY ENO'S MOST RECENT GFRP EVALUATION PERIOD AND CONCLUSION REGARDING SAME?

A Yes. Mr. Watson correctly interprets my testimony that DSU NO is requesting to adopt ENO's rates at closing of the proposed Transaction and/or supported by ENO's most recent evaluation period[15] - - meaning, for example, that if the closing occurs after the CY 2024 evaluation period but prior to implementation of new rates effective September 1, 2025, DSU NO would be allowed to conclude the GFRP proceeding and implement new rates effective September 1, 2025. DSU NO also agree with Mr. Watson's conclusion that it is reasonable

[15] Direct Testimony of Byron S. Watson at 17:9 – 18:6 (May 31, 2024).

for DSU NO to complete any ongoing GFRP Evaluation and set new rates post-Transaction close as of September 1, as doing so allows DSU NO the reasonable opportunity to recover costs transferred to it from ENO consistent with the prospective ratemaking principle.[16]

However, I would clarify that DSU NO has also proposed to allow it to file a GFRP based on a prior evaluation period under ENO's ownership and implement the associated rate change effective September 1, should closing occur between January 1 and April 30, so long as ENO still owns the gas assets during the GFRP evaluation period. DSU NO acknowledges that this scenario is unlikely and would require the cooperation and assistance of ENO beyond that which is currently contemplated in the Interim Cooperation Agreement.

Q. DOES DSU NO AGREE WITH THE ADVISORS' REPRESENTATIONS REGARDING ITS COMMITMENTS FOR ITS INITIAL RATE ACTION?

A. Yes. As discussed by Advisors' witness Mr. Victor Prep, DSU NO has agreed to file an initial rate action not sooner than 15 months post-Closing and based on an historical 12-month test year. Further, DSU NO has committed to providing a complete cost of service study with its initial rate action, including the cost of serving these existing large commercial gas contracts ("**NJ Contracts**") and the cost of delivering gas to the New Orleans Power Station

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[16] Direct Testimony of Byron S. Watson at 18:7-12 (May 31, 2024).

("**NOPS**"). Further, as Mr. Prep states in his testimony, DSU NO has committed to not executing any new NJ Contracts without express Council approval.

Q. DOES DSU NO AGREE WITH MR. PREP'S RECOMMENDATIONS AS TO WHAT THE COUNCIL SHOULD REQUIRE DSU NO TO INCLUDE IN ITS INITIAL RATE ACTION AND HIS RECOMMENDATIONS WITH RESPECT TO NOPS?

A. Not entirely but this could be a matter of semantics. On page 24 of his direct testimony (emphasis added in below), Mr. Prep provides the following recommendations to the Council:

> 1) The Council should memorialize DSU NO's commitment to file a fully allocated cost of service study, and inform DSU NO that its general rate case should include the following: (i) all customer classes served, including NJ customers; (ii) a cost of service component of adjusted relative customer class rates of return, upon which adjustments to customer class revenue requirements would be based; (iii) revised rates and rate schedules *<u>based on the fully allocated cost of service study</u>*; and (iv) a revised Purchase Gas Adjustment tariff and NJ customer contracts that are *<u>based on the fully allocated cost of service study</u>*.
>
> …
>
> 3) The Council should include as a condition that the agreement and rate to deliver gas to NOPS shall be reviewed *<u>based on an updated cost of service analysis</u>* and a current review of gas transportation rates and contracts offered by intrastate gas distribution companies.

DSU NO agrees that rates and rate schedules should be based on cost of service principles. However, for various reasons, rates, rate schedules and contracts typically are not exactly based on fully allocated cost of service. Thus, my concern is with a requirement to “base” rates, rate schedules and contracts on the fully allocated cost of service study that DSU NO will provide in the initial rate action. DSU NO would instead be agreeable to a condition that requires DSU NO to include rates, rate schedules and contracts “in consideration of” a fully allocated cost of service study with the result of any allocation being subject to review and approval by the Council.

Q. DOES DSU NO AGREE WITH THE ADVISORS’ RECOMMENDATION FOR DSU NO TO PROVIDE MONTHLY REPORTS TO THE COUNCIL WITH THE CHANGES TO THE PROJECT TIMETABLE, IMPACTS FROM RELATED REGULATORY PROCEEDINGS, AND CHANGES TO THE PROPOSED TREATMENT OF SHARED COSTS AND PROJECTED REVENUE REQUIREMENTS?

A. DSU NO appreciates the need for the Council to stay updated on the items identified by Mr. Prep in his direct testimony[17]. DSU NO is agreeable to reporting on the overall DSU NO project timeline adjustments, material impacts on DSU NO related to final orders in other regulatory proceedings, and modifications to the proposed treatment of shared service costs, commencing after Council approval of the Proposed Transaction. Given the administrative burden and hypothetical nature of ongoing revenue requirement projections, DSU NO prefers to provide the items listed above which would support cost

[17] See Direct Testimony of Victor M. Prep at page 26 (May 31, 2024).

impacts to DSU NO customers. Further, DSU NO would prefer to report less frequently than monthly but is willing to discuss this with the Advisors to develop a reporting schedule that is acceptable to the Council and DSU NO.

Q. DOES DSU NO AGREE WITH THE ADVISORS' RECOMMENDATION RELATED TO THE RATEMAKING TREATMENT FOR BOTH PENSION AND OPEB?A. The Advisors recommend that the Council advise DSU NO that it is expected to propose a ratemaking treatment comparable to that ENO has proposed in recent FRP Evaluation filings for both pension and Other Post Employment Benefits ("**OPEB**").[18] As discussed in my direct testimony in this proceeding, DSU NO agrees to use a comparable treatment to that which ENO has proposed in recent FRP Evaluation filings for both pensions and OPEB. DSU NO is open to discussing with the Advisors the details of what is contemplated by their recommendation for a thorough review in the DSU NO's initial rate action.

V. <u>SOLUTIONS FOR PRIMARY CONCERNS IDENTIFIED BY THE ADVISORS</u>

Q FROM YOUR PERSPECTIVE, WHAT ARE THE PRIMARY CONCERNS RAISED BY THE ADVISORS?

A The primary concerns raised by the Advisors are described below.

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[18] Direct Testimony of Byron S. Watson at 53:4-6 (May 31, 2024).

> *DSU NO's request for a regulatory asset for Transition costs will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction.*[19]
>
> ….
>
> *The loss of a net credit Accumulated Deferred Income Tax ("**ADIT**") balance when the Transaction closes will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction.*[20]
>
> *….*
>
> *DSU NO's currently higher cost of debt will lead to a higher overall proposed revenue requirement for DSU NO and cause gas rates to increase solely as a result of the Gas Transaction*.[21]

Q DOES DSU NO AGREE WITH THE ADVISORS CONCERN REGARING THE IMPACT OF TRANSITION COSTS ON CUSTOMER RATES?

A DSU NO certainly appreciates the Advisors being concerned with impacts to customers as a result of the Proposed Transaction. However, as presented in Dr. Dismukes testimony, there are several adjustments and additional considerations that, when incorporated into the Advisors rate impact calculation, significantly reduce potential rate impacts associated with the standalone Entergy transaction initially and into the future. And when you consider the

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[19] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 10 (May 31, 2024).

[20] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 10 (May 31, 2024).

[21] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 10 (May 31, 2024).

acquisition of natural gas assets of CERC by affiliates of DSU NO, potential rate impacts are even further.

Q HAS DSU NO PROPOSED MITIGATION FOR IMPACT OF THE TRANSITION COSTS ON CUSTOMER RATES?

A As discussed in the rebuttal testimonies of DSU NO witnesses Dr. Dismukes and Mr. Jay Lewis, DSU NO's proposal to defer costs of transitioning to a standalone LDC for Day One Readiness at closing ("**Transition Plan**") to a regulatory asset is a creative solution to mitigate the impacts of the Transition Plan on customer rates. The use of the regulatory asset and a 25-year amortization period, as proposed by DSU NO, is beneficial to customers for several reasons:

First, DSU NO is proposing for recovery of the regulatory asset and carrying costs not to begin until the Council resets DSU NO's rates in a future rate case that would not be filed sooner than 15-months post-closing. This will result in the Transition Plan costs having zero effect on customer rates until approximately two or more years post-closing - - even though DSU NO would have already incurred almost all of such costs over approximately 18-24 months leading up to closing.

Second, DSU NO has proposed a 25-year amortization period for recovery of the regulatory asset. This is an extended period for depreciation of the Transition Plan costs, and much longer than the 15-year amortization period proposed by the Advisors for the IT asset costs of the Transition Plan. As a result, it will serve to mitigate the impact of the Transition Plan costs on customer rates. Dr. Dismukes estimates that the first-year revenue requirement associated with the DSU NO proposed 25-year amortization period is approximately $0.5 million more favorable to customers than the Advisors' proposed 15-year period, when accounting for ADIT impacts.[22]

And third, the use of a regulatory asset with an extended amortization period will result in a comparatively larger amount of ADIT development attributed to the Transition Plan costs than would occur under the Advisors proposed use of intangible plant for the largest portion of Transition Plan costs (IT costs). This ADIT development has short term impacts associated with the period between closing and the next rate filing, during which DSU NO has proposed to maintain steady rates, but also into the future as the extended amortization period produces ADIT over an extended term. This is discussed in more detail in Mr. Lewis' rebuttal testimony.

A list of mitigation measures already proposed by DSU NO in the joint application is included in Exhibit JY-4 to my rebuttal testimony.

Q DOES DSU NO AGREE WITH THE ADVISORS CONCERN REGARDING IMPACTS FROM LOSS OF A NET ADIT BALANCE WHEN THE TRANSACTION CLOSES?

[22] Rebuttal Testimony of David E. Dismukes, Ph.D. at 27.

A As discussed in Mr. Lewis direct testimony, DSU NO generally agrees with the Advisors description of ADIT and how it affects ratemaking, and with the fact that the existing ADIT at ENO will largely not transfer to DSU NO. However, calculation of any impact from the loss of certain ADIT on the books of ENO that will not transfer to DSU NO at Closing is complex and cannot be done with any precision at this time. Further, there are several forms of new ADIT to be created by and following closing of the Transaction that were not included in the Advisors calculation and that would result in a smaller ADIT impact on customers. As Mr. Lewis testifies, these include: 1) depreciation of the assets DSU NO acquires from ENO; 2) depreciation of new assets DSU NO constructs or acquires after the transaction; and 3) differences between the regulatory/accounting and tax treatment of Transition Plan costs incurred by DSU NO. In addition to not requesting recovery of any acquisition premium, DSU NO is open to discussing the potential for sharing with gas customers a portion of the goodwill tax benefits created by DSU NO's commitment not to recover the premium it is paying to ENO for acquisition of the gas assets, as an additional means of mitigating the net revenue requirement impact of the loss of the net ADIT balance for a period of time.

Q DOES DSU NO AGREE WITH THE ADVISORS' RECOMMENDATION FOR MITIGATION OF THE IMPACT OF THE LOSS OF A NET ADIT BALANACE AT CLOSING?

A DSU NO agrees that it is appropriate to identify this issue at this time and consider how it might be dealt with in DSU NO's initial rate application, but DSU NO finds it premature to attempt to quantify this issue for purposes of additional mitigation commitments. Further, as discussed in Mr. Lewis' rebuttal testimony, DSU NO has concerns with the Advisors proposed form of mitigation (regulatory liability). However, DSU NO commits to working with the Advisors leading up to and in its initial rate filing to more precisely identify any ADIT impact and address this issue in a way that is fair and equitable to all parties, such as through a sharing with customers of a portion of the goodwill tax benefit created by DSU NO's commitment not to seek recovery of the acquisition premium to further mitigate the net ADIT impact.

Moreover, DSU NO has already proposed a creative solution to help mitigate any impact from the loss of a net ADIT balance. As discussed above and more thoroughly in the rebuttal testimony of Mr. Lewis, DSU NO has already made commitments through its proposals in the application (*e.g.*, adopting ENO rates at closing, deferring transition costs to a regulatory asset with a 25-year amortization period to commence following its initial rate proceeding, not seeking recovery of goodwill, etc.) that will mitigate ADIT impacts to customers.

Q DOES DSU NO AGREE WITH THE ADVISORS' CONCERNS RELATED TO HIGHER COST OF DEBT?

A As stated by Dr. Dismukes, while the Advisors are correct that DSU NO's current long-term debt rates are higher than the consolidated average debt cost across all of ENO's current issuances, this higher cost of debt is simply a reflection of current market conditions and not a reflection of the relative financing positions or financial risks, between DSU NO and ENO.[23] DSU NO's current debt rate is competitive given current market conditions, and it is reasonable to believe that ENO would face similar debt costs if it were to seek financing in the current market. Notably, ENO has represented to parties that it would likely face higher interest rates on new long-term debt instruments in the current market, that are which is 99 basis points higher than DSU NO's present obligations.[24] As ENO seeks new long-term debt financing and its legacy notes expire, it is safe to assume that ENO's average cost of debt would increase from its current levels.[25]

Dr. Dismukes concludes that the Advisors' attribution of the higher debt cost to the transaction overstates the DSU NO incremental revenue requirement by several million dollars, testifying that while DSU NO's debt costs will initially be higher than what is currently on ENO's books, he does not believe the higher debt cost is appropriately attributable to the Proposed Transaction and should not be viewed as an increased cost to ratepayers of the Proposed Transaction.[26]

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[23] See Rebuttal Testimony of DSU NO witness David E. Dismukes, Ph.D.

[24] See HSPM Exhibit AMA-2 to the Rebuttal Testimony of ENO witness Alyssa Maurice-Anderson; see also discussion in the Rebuttal Testimony of DSU NO witness David E. Dismukes.

[25] See Rebuttal Testimony of DSU NO witness David E. Dismukes, Ph.D.

[26] See HSPM-CS Exhibit DED-1, tab DED-1, p1, Row 26, to the Rebuttal Testimony of DSU NO witness David E. Dismukes, Ph.D.

VI. DSU NO RESPONSE TO ADVISORS' RECOMMENDATION RELATING TO ACCOUNTING AND REPORTING

Q. PLEASE SUMMARIZE THE ADVISORS' RECOMMENDATIONS RELATED TO ACCOUNTING AND REPORTING.

A. The Advisors make several recommendations related to accounting and reporting.

First, the Advisors make a series of recommendations to ensure DSU NO accounting aligns with FERC guidance and require that it provides the Council with financials audited by third parties. The Advisors recommend that DSU NO keep its books of account according to FERC accounting guidance and present its per book accounting by FERC Account as part of rate action applications. They also recommend that DSU NO's audit conforms with FERC accounting and its independently audited financial statements be presented to the Council at least annually and as part of any rate action.

Next, the Advisors recommend that the most current draft of the shared services agreement between Delta States Utilities Services, LLC ("**DSU Services**") and DSU NO be provided prior to approval of the Proposed Transaction.

Last, the Advisors present recommendations related to the tracking, reporting, and auditing of Transaction and Transition costs. The Advisors recommend that DSU NO submit monthly reports for the Council's consideration of DSU NO's detailed Transaction Costs and Transition Costs. Pending final

Council approval of the Proposed Transaction, if granted, such reports could be submitted quarterly. The Advisors also recommend that DSU NO be required to perform an independent audit of its accounting and internal controls processes post-closing to ensure proper allocation and segregation of Transition Costs, Transaction Costs, and other types of costs and expenditures.

Q. DOES DSU NO AGREE WITH THE ADVISORS' RECOMMENDATIONS RELATED TO ALIGNING WITH FERC GUIDANCE?

A. Yes, DSU NO intends to follow and comply with FERC 18 CFT Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act and all FERC accounting orders and guidance relative to a gas utility. Additionally, DSU NO's chart of accounts will be designed and structured in accordance with the Uniform System of Accounts.

Q. DOES DSU NO AGREE WITH THE ADVISORS' RECOMMENDATIONS RELATING TO THIRD-PARTY AUDITS OF ITS FINANCIALS?

A. DSU committed to preparing third party audited consolidated financial statements in discovery. While DSU NO believes these audited financial statements will be sufficient for and supportive of regulatory ratemaking given DSU NO's commitments stated immediately above, DSU NO welcomes discussion with the Advisors regarding requirements and/or preferences for rate case actions.

Q. DOES DSU NO AGREE TO PROVIDE A DRAFT OF THE SHARED SERVICES AGREEMENT BETWEEN DSU SERVICES AND DSU NO PRIOR TO ANY ORDER APPROVING THE TRANSACTION?

A. As discussed in Mr. Little's Rebuttal Testimony, DSU NO has been working to develop an interim shared services agreement to be executed between DSU Services, DSU NO, and DSU LA that will include similar services and allocation methodologies of the costs of such services as exist today for the ELL and ENO gas utilities until a more refined and streamlined methodology is developed. Given the complexities of the allocation methodology and the lack of impact on customer rates, DSU NO intends to continue to develop this agreement as it works to stand up the shared services company but proposes that it provide the agreement to the Advisors closer to Closing.

Q. DOES DSU NO AGREE TO REPORT TRANSACTION AND TRANSITION COSTS AS RECOMMENDED BY ADVISORS?

A. As discussed in DSU NO's response to CNO-DSU 5-1,[27] upon completion of the first full quarter after regulatory approvals of the transaction, DSU NO will commence filing quarterly reports of the Transition Plan costs. The Transition Plan costs will be reviewed for prudency by the Council when DSU NO files its initial rate case.

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[27] See Exhibit BL-17, DSU NO Response to CNO-DSU-5-1, to the Rebuttal Testimony of Mr. Brian Little.

Regarding Transaction Costs, DSU NO has committed not to request recovery of Transaction Costs in this filing or in future filings. Mr. Little also notes how a number of the Transaction Costs are not readily allocated to DSU NO because they are part of a multi-jurisdictional transaction, making the process of continuously delegating costs to DSU NO administratively burdensome, particularly considering that DSU NO will not be seeking recovery of such costs.

Because of this, the reporting of Transaction costs were not proposed to be provided to the Council. However, while DSU NO believes reporting on Transition Costs should be sufficient to allow the Council to ensure ratepayers are only paying for prudently incurred Transition Plan costs, DSU NO is open to preparing an accounting of Transaction Costs to submit to the Council as part of its initial rate proceeding to accommodate the Advisors concerns.

For further details on DSU NO's position on tracking and auditing Transaction and Transition costs, please refer to Mr. Little's Rebuttal Testimony.

Q. DOES DSU NO AGREE TO PERFORM AN INDEPENDENT AUDIT OF ACCOUNTING AND INTERNAL CONTROLS TO ENSURE PROPER ALLOCATION AND SEGREGATION OF TRANSITION COSTS, TRANSACTION COSTS, AND OTHER TYPES OF COSTS AND EXPENDITURES.

The Advisors recommend that DSU NO be required to perform an independent audit of its accounting and internal controls processes post-closing to ensure proper allocation and segregation of Transition Costs, Transaction

Costs, and other types of costs and expenditures. DSU NO recognizes the importance of such an audit. However, DSU NO believes such review and evaluation should be incorporated into an annual audit of its financials post-Closing but prior to any rate action.

VII. 18 FACTOR TEST

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE ADVISORS' 18 FACTOR REVIEW.

A. We appreciate Mr. Rogers's thorough review and consideration of the eighteen (18) factors listed in Council Resolution R-06-88. Based on our review of Mr. Roger's summary of each factor, we are encouraged to see that DSU NO and the Advisors are completely or partially aligned on the large majority of the public interest factors for Council approval. The table below summarizes my understanding of the level of agreement between DSU NO and the Advisors on each of the eighteen factors, which I will further discuss herein.

	Factor	Level of DSU NO Agreement[1]		
		Complete Agreement	Partial Agreement	Disagreement
a	Transfer is in the public interest		x	
b	Purchaser is ready, willing, and able to provide safe, reliable, and adequate service		x	
c	Transfer will maintain or improve financial condition of the resulting public utility or common carrier ratepayer	x		
d	Transfer will maintain or improve the quality of service to public utility or common carrier	x		
e	Transfer will provide net benefits to ratepayers in both the short and long term and provide a ratemaking method that will ensure ratepayers will receive benefits			x
f	Transfer will not adversely affect competition	x		
g	Transfer will maintain or improve the quality of management of the resulting public utility		x	
h	Transfer will be fair and reasonable to the affected public utility employees	x		
i	Transfer will be fair and reasonable to the majority of all affected public utility shareholders	x		
j	Transfer will be beneficial on an overall basis to City and local economies and to communities in the area served by the public utility or common carrier		x	
k	Transfer will preserve the jurisdiction of the Council and the ability of the Council to effectively regulate and audit the public utility's operations	x		
l	Conditions are necessary to prevent adverse consequences which may result from the transfer		x	
m	Concerns with the history of compliance or noncompliance that the proposed acquiring entity or principals or affiliates have had with regulatory authorities in the City or other jurisdictions	x		
n	The acquiring entity, persons, or corporations have the financial ability to operate the public utility and maintain or upgrade the quality of the physical system		x	
o	If repairs and/or improvements are required and the ability of the acquiring entity to make those repairs and/or improvements	x		
p	Ability of acquiring entity to obtain all necessary health, safety, and other permits	x		
q	Manner of financing the transfer inappropriately encumbers the utility assets or negatively impacts rates			x
r	If there are any conditions which should be attached to the proposal		x	

[1] DSU NO's interpretation of the level of agreement between DSU NO and Advisors on each of the 18 factors.

<u>Areas of Partial Agreement</u>

Q. PLEASE EXPLAIN WHY IS DSU NO IS IN PARTIAL AGREEMENT WITH THE ADVISORS POSITION AS TO WHETHER THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST (FACTOR A)?

A. The Advisors have reserved their position on whether the Proposed Transaction is in the public interest pending additional information being provided in the record. Further Advisors' witness Mr. Rogers recommends the Council approve the Proposed Transaction subject to the inclusion of conditions and if "the ratepayers harm, which results solely from the Gas Transaction, that the Advisors have identified and quantified for both future DSU NO gas customers and ENO electric customers, can be eliminated or mitigated to the Council's satisfaction."[2] DSU NO respects and appreciates the Advisors approach to its evaluation of the Proposed Transaction and agrees with conditioning approval on commitments made by DSU NO.[3] However, DSU NO has proposed creative solutions in the joint application that already significantly mitigate impacts to customers.[4] Thus, DSU NO disagrees with the Advisors quantification of ratepayer impacts. Further, as discussed in detail in the rebuttal testimonies of Dr. David Dismukes and Mr. Jay Lewis, not all impacts identified by the Advisors

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[2] Direct Testimony of Joseph W. Rogers at 35-36.

[3] See Exhibit JY-2 to my rebuttal testimony.

[4] See Exhibit JY-4, Section A, to my rebuttal testimony.

as being solely the result of to the Proposed Transaction should be attributed to the Proposed Transaction (*e.g.*, cost of debt, loss of the net ADIT balance at Closing). In addition, as discussed in both the rebuttal testimony of Dr. David Dismukes, Mr. Brian Little, and ENO rebuttal witnesses, the Proposed Transaction creates significant benefits for ENO gas customers,[5] including benefits that otherwise would not be possible absent the Proposed Transaction, such as the implementation of a greenfield, "fit-for-purpose" IT system.

Over the course of the last few months, DSU NO has provided details on the benefits of its Transition Plan and developed analysis to help quantify the benefits of the Proposed Transaction - - such as with respect to the modern, cloud-based IT system and millions in direct, indirect and induced economic benefits associated with DSU locating its corporate headquarters in New Orleans, creating approximately 100 new, good-paying jobs, and retaining the approximately 200 Entergy employees primarily involved in gas operations, among other investments of DSU in the local New Orleans communities. These benefits have not yet been afforded appropriate recognition by the Advisors, in consideration of the costs required to stand up a new LDC. As discussed in the rebuttal testimony of Dr. David Dismukes, a net benefit analysis requires consideration of the quantifiable and nonquantifiable benefits, and analysis of the significant benefits proposed herein clearly demonstrate a net benefit to

[5] See Exhibit JY-4, Section B, to my rebuttal testimony.

Customers. However, even when only a selection of the quantifiable benefits are compared with the Transition Plan estimated costs, the Proposed Transaction is still expected to result in net benefits to customers. Thus, based on the mitigations already proposed by DSU NO and the customer benefits identified (including non-quantitative/qualitative and quantitative), DSU NO believes the Council can and should determine the Proposed Transaction is in the public interest, as presented in the joint application and testimonies of the Joint Applicants.

Q. MR. ROGERS ASSERTS THAT DSU IS NOT YET READY TO PROVIDE SAFE, RELIABLE, AND ADEQUATE SERVICE TO RATEPAYERS (FACTOR B). PLEASE EXPLAIN DSU NO'S PARTIAL AGREEMENT WITH THIS CONCLUSION.

A. DSU NO has a Transition Plan in place to facilitate Day One Readiness upon Closing of the Proposed Transaction, which should mitigate the concerns of Mr. Rogers.[6] To further ensure the Day One Readiness standard is achieved, DSU is committed to offer employment to retain all employees of Entergy who are primarily involved in the ENO Gas Business, is committed to assuming commitments and obligations of the ENO Gas Business with respect to capital improvements and other storm and incident protocols, as was discussed in

[6] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 16 (May 31, 2024).

detail in my direct testimony, and is requesting the Council authorize the transfer of customer-specific data (*e.g*., advanced metering infrastructure or "AMI" data) from ENO to DSU NO. Thus, the LDC will continue to be operated by the same employees responsible for providing the safe and reliable natural gas service being provided today, pursuant to the same rate schedules and commitments for capital improvements and the same incident reporting and storm damage protocols, allowing a seamless transition from ENO to DSU NO.

In Mr. Rogers's testimony, he acknowledges that DSU NO's commitment to offer employment to retain approximately 200 employees that are primarily engaged in the ENO and ELL gas LDC business will facilitate DSU NO's readiness and ability to provide safe and reliable service to Orleans parish ratepayers. As Mr. Rogers states, "DSU will be able to leverage the knowledge and experience of these employees to provide safe and reliable service to Orleans parish ratepayers."[7]

Q ONE OF DSU'S COMMITMENTS IS TO CONTINE INVESTING IN THE RELIABILITY AND SAFETY OF THE GAS SYSTEM. CAN YOU DESCRIBE THIS COMMITMENT?

A As stated in my Direct Testimony, DSU NO is committed to assuming the commitments and obligations of the ENO Gas Business with respect to various plans for capital improvements, including specifically, ENO's Gas Infrastructure

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[7] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 17 (May 31, 2024).

Replacement Program ("**GIRP**") and ongoing Integrity Management Program ("**IM Program**"), which are discussed in detail in the Direct Testimony of ENO witness Mr. Anthony P. Arnould, Jr. Both programs are funded through the **GFRP**.

The continued investment in the capital improvement programs will help ensure that DSU NO will continue to provide a high level of safe, reliable and adequate LDC service to all of ENO's customers.

Q. MR. ROGERS NOTES THAT IT IS DIFFICULT TO ASSESS IF THE TRANSACTION WILL MAINTAIN OR IMPROVE THE QUALITY OF MANAGEMENT OF THE RESULTING PUBLIC UTILITY (FACTOR G). DOES DSU HAVE ADDITIONAL INFORMATION TO PROVIDE THAT WILL HELP WITH THIS ASSESSMENT?

A. DSU NO partially agrees with Mr. Roger's assessment of Factor G, as he caveats with his confirmation that the Proposed Transaction will improve the quality of management of the resulting public utility, stating that it is difficult to assess with certainty without knowing the management structure and personnel that would be in place for DSU NO below the DSU board and above the operational management employees.[8] DSU NO is now able to share additional information on the personnel expected to serve in these management positions,

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[8] Direct Testimony of Joseph W. Rogers, Advisors witness, at page 27-28 (May 31, 2024).

which should ease Mr. Rogers's reservations. As disclosed in confidential discovery and public rebuttal testimony of ENO witness Mr. Anthony P. Arnould, Jr., DSU is hiring Mr. Arnould, who is a key employee of Entergy who is responsible for overseeing all aspects of the safe, reliable delivery of natural gas service to ENO and ELL customers.[9]

Further, while we cannot provide the names of other individuals at this time, we can provide a summary of their experience and background. Please see HSPM Exhibit JY-6 for new details on the experienced management team being onboarded for DSU (under the umbrella of "Delta Utilities" which would include other affiliates associated with the CERC transaction if approved).

With the additional information provided above, the Council should feel confident that DSU NO's management has the financial, technical, and managerial expertise to own and operate the gas system, satisfying the requirement to maintain or improve the quality of management of the LDC.

Q. PLEASE EXPLAIN DSU NO'S PARTIAL AGREEMENT WITH MR. ROGERS'S REVIEW OF THE TRANSACTION'S BENEFITS TO NEW ORLEANS' ECONOMIES AND TO THE COMMUNITIES IN THE AREA SERVED BY DSU NO (FACTOR J)?

[9] DSU NO HSPM Response to AAE 1-11 attached hereto as Exhibit JY-5 (which was previously designated HSPM); see also Rebuttal Testimony of Mr. Anthony P. Arnould, Jr.

A. Mr. Rogers acknowledges several commitments made by DSU NO that will contribute to a beneficial outcome for New Orleans, including "DSU NO's commitment to establish its headquarters in New Orleans and to offer employment to 200 employees primarily engaged in the ELL and ENO gas businesses, as well as hire approximately 100 new Louisiana-based employees to provide shared services."[10] Additionally, DSU NO's "commitment to maintaining the local management of the acquired ENO Gas Business assets to ensure the continuation of important benefits to Louisiana and the New Orleans community that it serves in terms of safety, service reliability and rates, employment, economic development, and charitable contributions"[11] will also provide beneficial outcomes to New Orleans.

DSU NO partially agrees with Mr. Rogers's review, as his confirmation that the Proposed Transaction will be beneficial to New Orleans' economies and to the communities in the area served by the public utility is contingent upon these commitments and mitigating impacts to ratepayers. As recommended by Mr. Rogers, DSU NO agrees to memorialize these commitments as conditions to the approval of the Transaction. Applying these conditions for approval mitigates the Advisor concerns related to ratepayer impact, helping to ensure ratepayer net benefit. Additional details on DSU NO's commitments and

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[10] Direct Testimony of Joseph W. Rogers at 29-30 (May 31, 2024), citing Joint Application at page 5.

[11] Direct Testimony of Joseph W. Rogers at 29-30 (May 31, 2024), citing Joint Application at page 5.

proposed conditions for approval can be found in Section VIII. Response to Advisors Proposed Conditions and Exhibit JY-2 to my rebuttal testimony.

Q. PLEASE EXPLAIN YOUR PARTIAL AGREEMENT WITH MR. ROGERS'S REVIEW OF FACTORS L AND R.

A. Mr. Rogers recommends that the Council attach as conditions for approval of the Proposed Transaction each of the commitments identified in Exhibit No.___(JWR-4). He also recommends that the Council consider the proposed conditions for approval presented in the testimonies of Advisor Witness Byron S. Watson and Advisor Witness Victor M. Prep.[12]

DSU NO agrees to memorialize all commitments made in the Joint Application; however, DSU NO cannot agree to several additional conditions recommended as proposed but is confident the additional analysis provided in the DSU NO Rebuttal Testimony and further discussion with Advisors will result in agreeable alternative solutions to the remaining items. I discuss DSU NO's response to these proposed conditions and offer alternative solutions in Section VIII. Response to Advisors Proposed Conditions.

[12] Direct Testimony of Joseph W. Rogers at page 35-37 (May 31, 2024).

Q. PLEASE EXPLAIN DSU NO'S PARTIAL AGREEMENT WITH MR. ROGERS'S CONCLUSIONS RELATED TO THE ACQUIRING ENTITY'S FINANCIAL ABILITY TO OPERATE THE PUBLIC UTILITY (FACTOR N)?

A. DSU NO partially agrees with Mr. Rogers's review as he states that the acquiring entity "potentially" has the ability to operate the public utility, noting that it is contingent upon Bernhard Capital Partners fulfilling its commitment to provide sufficient capital to support operational and capital needs. To offer greater assurances to the Council, DSU NO has agreed to memorialize its and Bernhard Capital Partners' commitment as a condition for approval. *See* Exhibit JY-2 to my rebuttal testimony.

<u>Areas of Disagreement</u>

Q. WHY DOES DSU NO NOT AGREE WITH MR. ROGERS'S CONCLUSIONS RELATED TO PROVIDING NET BENEFITS TO CUSTOMERS (FACTOR E)?

A. In his direct testimony, Mr. Rogers concludes that the Proposed Transaction will result in a significant rate increase to customers at the end of the 23-to-27 month period post-Closing. However, as Dr. David Dismukes testifies, adjustments and additional consideration should be incorporate into the Advisors revenue requirement analysis to prevent the Advisors estimated revenue requirement increase and bill impacts from being overstated. This is more thoroughly addressed in the rebuttal testimony of Dr. David Dismukes and HSPM-CS Exhibit DED-1 to Dr. Dismukes' rebuttal testimony.

Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH MR. ROGERS'S ASSERTION THAT THE MANNER IN WHICH DSU NO PROPOSES TO FINANCE THE TRANSACTION WILL IMPACT RATES (FACTOR Q)?

A. Mr. Rogers notes that DSU NO's current cost of debt is substantially higher than ENO's present total cost of debt, which according to Mr. Watson, would result in DSU NO receiving a higher WACC than that of ENO in its 2024 FRP if it were to request a WACC today. However, as discussed by Dr. Dismukes in their rebuttal testimony, the difference in the cost of debt is only a temporary impact as ENO will need to refinance debt and issue new debt over time, and will be subject to the same market as DSU NO.

In addition, as discussed previously herein and in further detail in Dr. Dismukes' rebuttal testimony, the Advisors are correct that DSU NO's current long-term debt rates will initially be higher than what is currently on ENO books. However, ENO's forecasted debt rates are higher than those presented by DSU NO, supporting the current ENO debt rate will increase with refinances as the existing debt reaches maturity. This impact is simply a reflection of current market conditions and not a reflection of the relative financing positions or financial risks between DSU NO and ENO. Dr. Dismukes concludes that the higher debt costs are not appropriately attributable to the Proposed Transaction nor should it be viewed as an increase cost to ratepayers of the Proposed Transaction.

VIII. RESPONSE TO ADVISORS PROPOSED CONDITIONS

Q. PLEASE SUMMARIZE THE ADVISORS' POSITION ON CONDITIONS FOR APPROVAL.

A. Throughout their testimony, the Advisors propose numerous conditions for approval. The majority of these conditions come from Mr. Rogers's recommendation to memorialize the commitments made by DSU NO as conditions for approval. Mr. Watson and Mr. Prep proposed various additional conditions for approval.

Q. WHICH CONDITIONS DOES DSU NO AGREE TO?

A. Exhibit JY-2 summarizes the conditions to which DSU NO agrees. Section A includes all of the commitments that DSU NO has made in its Joint Application, direct testimonies and discovery responses to date. DSU NO agrees to memorialize these commitments as conditions for approval. Section B includes additional conditions to which DSU NO agrees – or agrees to work towards developing a solution.

Q. DO YOU DISAGREE WITH ANY CONDITIONS PROPOSED BY THE ADVISORS?

A. Yes. The Advisors include several recommendations in their Direct Testimonies for additional conditions beyond the commitments already agreed to by DSU NO to which DSU NO cannot agree to as proposed.

Q PLEASE IDENTIFY THE ADDITIONAL ADVISOR RECOMMENDATIONS WITH WHICH DSU NO AGREES.

A Please see Section B of Exhibit JY-2 to my rebuttal testimony.

IX. RESPONSE TO RECOMMENDATIONS OF THE ALLIANCE FOR AFFORDABLE ENERGY ("AAE")

Q WHAT ARE THE PRIMARY RECOMMENDATIONS OF AAE's WITNESS MR. KARL RÁBAGO?

A Mr. Rábago recommends that the Council should deny approval of the proposed Transaction and provides three alternative paths for the Council's consideration - - each of which would require the retirement and managed decapitalization plan for the gas distribution utility.[13]

Q DOES DSU NO AGREE WITH THE AAE'S RECOMMENDATION AND ITS ALTERNATIVE PATH FORWARDS?

A No. As discussed extensively in the rebuttal testimony of Dr. Dismukes, the AAE's recommendations would either force DSU NO to decapitalize its natural gas investment or municipalize the ENO system and decapitalize the system on its own. While climate change and the elimination of GHG emissions are important public policy topics, they are also independent and have no direct

[13] Direct Testimony of Karl Rábago at 6-8 (May 31, 2024).

relevance on whether this Transaction is in the public interest. The Alliance's proposals go far outside the scope of this proceeding, contain no CBA or rate impact analysis, and have wide ranging economic, social, and political ramifications for a large number of other stakeholders in New Orleans and Louisiana, particularly the citizens thereof. The AAE's municipalization recommendations also have wide-ranging consequences and yet are offered with zero evidence that the outcome would be in the public interest and adequately serve ratepayers and other stakeholders' interests.

Q IS THERE ANY RECOMMENDATION OF THE AAE THAT DSU NO COULD SUPPORT?

A Yes. In his direct testimony, Mr. Rábago recommends the Council require DSU NO to make significant commitments to gas efficiency programs investments and performance for residential and small commercial customers.[14] While DSU NO cannot commit to something so vague and ambiguous, DSU NO is open to discussing implementation of energy efficiency programs. Such discussions should occur during (or just prior to) DSU NO's initial rate case. This would allow DSU NO time to evaluate where there may be efficiencies of scale in terms of energy efficiency programs that its affiliates will participate in pursuant to LPSC rules and regulations. Those LPSC programs are being developed over

[14] Direct Testimony of Karl Rabago at 7-8 (May 31, 2024).

the next year or two by a third-party administrator hired by the LPSC and are expected to be in place for January 1, 2026.

Q. DO YOU HAVE ANY ADDITIONAL RESPONSE TO THE POSITION OF THE ALLIANCE?

A. Yes. There are numerous economic and environmental benefits for customers and the communities to be served by DSU NO as a result of the Proposed Transaction by keeping natural gas as a competitive electricity alternative. Along with enhanced safety, reliability and resiliency from the continuation of pipeline replacement and modernization programs, additional benefits include:

a) Continuing to deliver a competitive energy resource alternative to New Orleans customers and potential economic development projects;

b) Continuing to promote the benefits of natural gas in new construction and fuel conversion projects, including new and existing single and multi-family units, new residential subdivisions, new small commercial customers, schools, propane conversions, new and existing large commercial and industrial customers, combined heat and power load customers, and new natural gas back-up generators, among others.

c) Preserving natural gas as an end-user energy resource can lead to economic advantages for end users, particularly residential customers. As shown in Exhibits DED-8 to Dr. Dismukes rebuttal testimony, the average New Orleans residential customer will save approximately $723 per year using natural gas for space heating relative to electric-resistance heating, as well as approximately $420 per year using natural gas for water heating relative to an electric water heater. [Such analysis uses 2020 usage data (which is the most recent data available from EIA's Residential Energy Consumption Survey), as well as 2020 revenues for consistency, that likely under-reports the economic benefits of natural gas relative to electricity compared to use of 2022 revenues.]

d) Providing an efficient supply of energy needed by the public. It is well recognized that burning natural gas directly, for space heating, water heating, and other appliance uses, is generally more efficient than using electricity, which requires a power generation facility to combust a fuel and incur the losses of generation, transmit this electricity over high voltage and ultimately lower voltage transmission and distribution lines to end users. All of these losses are typically larger, resulting in lower efficiencies relative to just burning natural gas on-site;

e) Provides resilient and redundant power sources when Louisiana citizens and their critical infrastructure need it most. Natural gas has proven to be able to withstand storms experienced in Louisiana, provides the fuel for backup generators at schools, hospitals, critical service providers such as police and fire stations, emergency shelters and residential structures. In fact, nation-wide, the proliferation of home generator installations over the past decade has been considerable. This transaction will help to maintain natural gas as a resource for assuring reliable basic services for many households and communities, particularly where these interruptions are a part of life.

f) Encouraging the development and use of resources such as renewable natural gas ("**RNG**"). RNG production improves the state's environmental performance by capturing what would otherwise be direct methane emissions from landfills, farms, wastewater treatment facilities and food waste aggregation facilities, and converting the waste product to a useful energy resource. Customers using RNG can improve their Scope 1 emissions performance; and

g) With continued research and technological development, interstate, intrastate and LDC pipeline networks can be used for hydrogen blending, and stand-alone pipelines can be used for transportation of hydrogen from production sites to end-users under established regulatory protocols.

X. CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A As discussed in my testimony and as supported by the testimony of DSU NO's other rebuttal witnesses, Mr. Little, Dr. Dismukes and Mr. Lewis, DSU NO has identified and supported that the Proposed Transaction will result in significant benefits to ENO customers, the City of New Orleans and the state of Louisiana. DSU NO's proposed Transition Plan, and particularly its investment in a new, modern cloud-based IT system will result in significant benefits to customers. And when combined with the estimated economic direct, indirect and induced benefits from the Proposed Transaction and location of DSU's headquarters in New Orleans, the Proposed Transaction will result in overall net benefits (quantitative and non-quantitative/qualitative) is and in the public interest.

Q CAN YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COUNCIL?

A. Yes. I recommend that the Council give appropriate weight to the significant benefits (non-quantitative/qualitative and quantitative) that will result from the Proposed Transaction and determine that the Proposed Transaction, inclusive of the relief requested by DSU NO in the Joint Application and conditions, is in the public interest. I further recommend that such approval be consistent with the requested relief in the joint application and conditioned on the conditions set for in Exhibit JY-2, Section A, and that DSU NO and the Advisors continue to work to reach agreement on approaches to address concerns subject of the Advisors recommendations, as identified in Exhibit JY-2, Section B.

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)))	**DOCKET NO. UD-24-01** **MAY 3, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	))))))))	

CNO-DSU 3-13 Please refer to DR CNO 1-10 and the response thereto. Please respond to this DR under the hypothetical where both the DSU NO sale, the DSU LA sale, and the CenterPoint Transaction are closed consistent with their respective applications before their relevant regulators.

a. To the extent this hypothetical does not cause a different response than the one to the referenced DR, please state as such and explain why the hypothetical causes no change.

Response:

The CenterPoint Transaction is a separate transaction, and while DSU NO's closing of both the Entergy and CenterPoint transactions is expected to provide enhanced benefits to gas customers of each utility, each transaction stands on its own; each transaction is expected to result in benefits to customers of the acquired natural gas assets should only one transaction close.

Subject to and without waiving these objections, DSU NO responds:

Under the proposed hypothetical, DSU NO's preliminary analysis results in an anticipated reduction in total shared services O&M costs of up to 10 percent due to synergies achieved through a consolidated shared services organization providing common services to five utilities. Although robust, the Transition Plan involves a significant technology and business infrastructure implementation over an extended period and the anticipated synergies will evolve as the total project elements become more defined and implementation decisions are carried out. DSU NO would be allocated its share of those savings. However, it is premature for DSU NO to update the spreadsheet provided in DSU NO's response to CNO 1-8. Please see DSU NO's Response to CNO-DSU 3-8.

(a) N/A

Prepared by: AEA and associated consultants

Section A. Commitments Made by DSU NO in Joint Applications, Direct Testimonies, and Discovery Responses to Date

No.	Summary of Commitment	Reference	Commitment Language
1	Provide high quality safe, reliable, and affordable local gas distribution	Direct Testimony of Jeffrey Yuknis, Appendix B, page 5	"DSU NO is committed to continue to provide high quality safe, reliable, and affordable local gas distribution services to its New Orleans customers."
2	Maintain company-level management as well as investment-level management in Louisiana	Joint Application, page 11	"Further, DSU's parent company is committed to maintaining company level management as well as investment-level management in Louisiana, and has an experienced team in place to ensure the parties work jointly and in cooperation with the Council on a smooth and seamless acquisition and transition."
3	Stand up a "fit-for-purpose" system to replace retained assets and provide services on day one post-closing	Direct Testimony of Jeffrey Yuknis, page 5-6	"DSU NO is fully committed to standing up new "fit-for-purpose" systems to replace retained assets such that they are fully functional to provide a seamless transition and safe and reliable services independent of ENO, Entergy Louisiana, LLC ("ELL) and Entergy Services, LLC ("ESL") (collectively "Entergy") on day one post-Closing ("Day One Readiness")."
4	Collaborate with ENO Gas business through the date of closing	Direct Testimony of Brian K. Little, page 12	"DSU NO and the ENO Gas Business are fully committed to working collaboratively through the date of Closing to ensure Day One Readiness for providing safe and reliable gas services to customers, with a limited need for transition services post-Closing, and with the majority of such transition services to be provided on a consultative basis as needed under a Transition Services Agreement. As evidence of their respective commitment to the Transition, an Interim Cooperation Agreement ("ICA") was executed along with the PSA."
5	Make significant investments in improving business in the short- and long-term	Direct Testimony of Brian K. Little, page 30	"BCP and DSU NO are committed to making significant investments in improving the business - both in the short-term as part of the Transition Plan process and build-out of the shared services functions and standalone systems prior to Transaction Closing, and in long-term improvements in the facilities and infrastructure of the business post-Closing. Many of these investments and improvements will directly enhance the customer experience and the overall reliability of the service provided."
6	Establish headquarters in NO	Joint Application, page 14	"DSU NO's commitment to be headquartered in New Orleans"
7	Maintain local management of ENO Gas Business	Joint Application, page 5	"DSU NO is committed to maintaining the local management of the acquired ENO Gas Business assets to ensure the continuation of important benefits to Louisiana and the New Orleans community that it serves in terms of safety, service reliability and rates, employment, economic development, and charitable contributions."
8	Provide sufficient capital to safely and reliably maintain and operate the DSU NO system	DSU NO response to CNO 2-7.b	"Bernhard Capital Partners ("Bernhard Capital") is committed to providing sufficient capital to safely and reliably maintain and operate the DSU NO system post-closing, to accommodate all operational and capital needs of the utility, and to support responsible growth of the utility into the future."

No.	Summary of Commitment	Reference	Commitment Language
9	Support communities in which it does Business in Louisiana and maintain strong community and economic development support in service area	Direct Testimony of Brian K. Little, page 26	" ... DSU, as well as, BCP is committed to supporting the communities in which it does business in Louisiana, and as part of this Transaction, is committed to maintaining the strong community and economic development support in the DSU Utilities' service area."
10	Invest in growth to enhance economies of scale, buying power, and operational efficiencies	Direct Testimony of Jeffrey Yuknis, page 34	"Bernhard Capital is committed to investing in the growth of the DSU LDCs through expansion of systems and the acquisition of additional systems. This growth strategy will provide customer and resource growth that will enhance economies of scale, buying power, and operational efficiencies benefitting all customers of the systems."
11	Maintain ENO Rates and continue to operate under ENO Rates in effect as of the Closing and/or supported by ENO's most recent GFRP test year until any necessary rate adjustments are approved by Council	Joint Application, page 22	"DSU NO is committing to maintain the ENO Rates and to continue to operate under ENO Rates in effect as of the Closing and/or supported by ENO's most recent GFRP test year, until any necessary rate adjustments are approved by the Council in the DSU NO rate proceeding, which rate adjustments would be expected to occur approximately 23-25 months post-Closing ... "
12	Submit a full rate review no sooner than 15 months post-closing	Joint Application, page 23	"In addition, DSU NO agrees to submit to a full rate review following Closing of the Transaction, no sooner than fifteen (15) months post-Closing. Following Closing, DSU NO would begin a 12-month period that will serve as an historical test year for the DSU Rate Case."
13	Not seek recovery of Transaction costs	Joint Application, page 13	"DSU NO 's commitment not to seek recovery of Transaction costs or any acquisition premium associated with the Transaction"
14	Assume and adopt rates and rate schedules of the ENO Gas Business and assume plans for capital improvements	Joint Application, page 5	" ... DSU NO commits to assume and adopt the rates and rate schedules of the ENO Gas Business, as well as to assume the commitments and obligations of the ENO Gas Business with respect to various plans for capital improvements, including specifically ENO's GIRP and ongoing Integrity Management Program IM Program."
15	Adopt ENO's Incident Command System	Joint Application, page 5	"DSU NO is also committed to adopting ENO's Incident Command System ("ICS") structure until such time that DSU NO develops plans specific to DSU NO."

No.	Summary of Commitment	Reference	Commitment Language
16	Offer employment to approximately 200 existing ELL/ENO employees and approximately 100 new Louisiana-based employees	Joint Application, page 5	"DSU also commits to establish its headquarters in New Orleans, Louisiana and to offer employment to approximately 200 employees primarily engaged in the Entergy Louisiana, LLC ("ELL") and ENO gas businesses, as well as to hire approximately 100 new Louisiana based employees to provide shared services that will no longer be provided by ENO, ELL, and Entergy Services, LLC ("ESL") (collectively, "Entergy") post-Closing."
17	Provide employees with substantially similar pay and benefits	Joint Application, page 11	"As previously mentioned, DSU will offer employment to retain approximately 200 employees that are primarily engaged in the ENO and ELL gas LDC businesses. As part of such offer of employment, DSU has committed to providing these employees pay and benefits substantially similar to and no less beneficial than what they currently receive from ENO, ELL and ESL ("Entergy"), ensuring that the Transaction is fair and reasonable to Entergy's employees."
18	Honor employee tenure as it relates to vacation, retirement, pension, holidays, disability and leave policies	Joint Application, page 13	"DSU NO's and its affiliate companies' commitment to offer employment to all of the active employees primarily engaged in the ENO Gas Business and those who return from leave with substantially similar or no less favorable compensation, benefits, and post-retirement benefits as they are currently receiving; and to honor the tenure of such employees as it relates to vacation time, retirement, pension, holidays, disability and leave policies"
19	Honor bargaining-unit agreement in place at ENO Gas Business	Direct Testimony of Jeffrey Yuknis, Appendix B	DSU has also committed to honoring the bargaining-unit agreement in place at ENO Gas Business, and to assuming the employee pension assets and liabilities associated with the gas utilities, including more than 160 Entergy retirees.
20	Assume employee pension assets and liabilities associated, including more than 160 retirees	Joint Application, page 13	"DSU NO's and its affiliate companies' commitment to assuming the employee pension assets and liabilities associated with the ENO and ELL gas LDCs, including more than 160 retirees primarily involved in the ELL and ENO Gas Business"
21	Transfer cash, cash equivalents, or assets in kind held by Entergy pension trust to new trust for DSU defined benefit pension plans	ENO's response to DR CNO 1-44.b	ENO states, "Cash and cash equivalents or, to the extent agreed to by the parties, assets in kind held by the Entergy pension trust will be transferred to a trust established for the DSU defined benefit pension plans."
22	Maintain communications with and providing updates to the stakeholders of the utility	Direct Testimony of Jeffrey Yuknis, page 20	"Since the initial town hall meeting, DSU and ENO have worked collaboratively to respond to employee questions regarding the Transaction and their employment. During the course of the Transaction, DSU and DSU NO are committed to maintaining communications with, and providing updates to, the stakeholders of the utility."

No.	Summary of Commitment	Reference	Commitment Language
23	Establish and maintain a robust internal controls process	DSU response to CNO 1-6.b	"DSU NO is fully committed to establishing and maintaining a robust internal controls process to govern the business post-closing of the transaction. As described in CNO 1-6(a), we are engaged in a process not only to implement the appropriate systems to ensure Day One Readiness of the operations, but also are focused during this transition process upon establishing and designing the key control processes related to operating effectiveness and controls over financial reporting. In doing so, we expect to design a compliance program that follows, in large part, the principles set forth in the Sarbanes-Oxley Act of 2002 (SOX). Similar to a SOX compliance program in a public company, DSU NO's effo1i will include the identification of significant risks to the business; the design of controls aimed to mitigate those risks; a plan for testing to confirm the effectiveness of control design and perfo1mance; and a process to confirm that an effective control environment is in place."
24	Comply with requirements associated with its financing and operation as a BCP portfolio company	DSU response to CNO 1-6.c	"At a minimum, DSU NO will comply with the requirements associated with its financing and operation as a BCP portfolio company, which includes the generation of third party audited consolidated financial statements in accordance with GAAP to be accompanied by an opinion of DSU NO's third party auditors stating that such statements present fairly in all material respects DSU NO's financial position and the results of its operations within 120 days after the end of each fiscal year (or 150 days after the end of the first full fiscal year after closing)."
25	Not treat CWIP as of the close of the Gas Transaction as a component of any non-recoverable acquisition premium	Joint Application, page 8	“DSU NO requests that the NOCC recognize that Purchased Assets currently recorded by ENO as CWIP not be considered an acquisition premium, or not specifically determine that CWIP included as a Purchased Asset is an acquisition premium, and that DSU NO be allowed the opportunity to include the assets in rate base once they are placed in service, with recovery subject to any prudence review.”
26	Not execute any new large commercial gas contracts without expressed Council approval	DSU response to CNO 1-4.b and 4-18.a	“DSU NO will serve and bill the large commercial gas customers in New Orleans consistent with Entergy New Orleans’ past, and most recent, practice and the terms and conditions of the assumed contracts. DSU NO intends to continue the current process of applying the revenue of the large commercial customers against the revenue requirement of the jurisdictional customers. Any material modification to the current process would be pursuant to subsequent filing with the NOCC.” **CNO Question:** “Please confirm that DSU NO will not execute any new NJ contracts without express Council approval.” **DSU Response:** “Confirmed.”

No.	Summary of Commitment	Reference	Commitment Language
27	Perform a fully allocated cost of service study in DSU NO's next rate case	DSU response to CNO 2-9.a and 4-18.a	"Once DSU NO stands up and operates the LDC for a period sufficient to establish a historical test year, DSU NO will file a rate case providing the Council with the opportunity to fully review and approve its cost of service and proposed rate setting mechanisms. Until such time that the Council issues a final order in that subsequent rate proceeding, DSU NO will continue to utilize the ENO rates, rate schedules, riders and service conditions." **CNO Question:** "Please confirm if DSU NO will provide a complete cost of service analysis as part of its proposed Council rate action, including the cost of serving these existing large commercial gas contracts." **DSU Response:** "Confirmed."

Section B. DSU NO Responses to and New Commitments Based on Advisors Recommendations

No.	Advisors' Recommendation	Reference	DSU NO Response / Commitment	DSU NO Reference
1	Consider approval of the Gas Transaction if ratepayer harm is eliminated or mitigated to the Council's satisfaction	Direct Testimony of Joseph Rogers, page 35-36	In the Joint Application and Rebuttal Testimony, DSU NO proposed several meaningful mitigation measures and proposed to work with Advisors to further develop creative solutions.	Exhibit JY-4 to Rebuttal Testimony of Jeffrey Yuknis
2	Attach as conditions to approval of The Gas Transaction each of the commitments identified in Exhibit No.-(JWR-4)	Direct Testimony of Joseph Rogers, page 36-37	DSU NO agrees to memorialize these commitments as conditions to approval.	Exhibit JY-2, Section A, to Rebuttal Testimony of Jeffrey Yuknis, pg.
3	Require DSU NO to keep its books according to FERC accounting guidance and present its per book accounting by FERC Account as part of its rate action applications	Direct Testimony of Byron Watson, page 50	DSU NO agrees to keep its books according to FERC accounting guidance.	Rebuttal Testimony of Brian Little
4	Require DSU NO to present independently audited financial results at least annually and base rate action filings before the Council on audited financial data	Direct Testimony of Byron Watson, page 50	DSU committed to preparing third party audited consolidated financial statements in discovery. While DSU NO believes these audited financial statements will be sufficient for and supportive of regulatory ratemaking, DSU NO welcomes discussion with the Advisors regarding requirements and/or preferences for rate case actions.	Rebuttal Testimony of Brian Little; Rebuttal Testimony of Jeffrey Yuknis
5	Advise DSU NO that its ROE, total debt cost rate, and equity ratio may be set while taking into account relevant metrics from comparable utilities having roughly a "BBB" credit ratings and not on any actual DSU NO data	Direct Testimony of Byron Watson, page 51-52	DSU agrees that the Council will review its cost of debt, equity and capital structure, among other ratemaking items in the initial rate case to be filed by DSU NO not sooner than 15 months post-closing.	Direct Testimony of Jeffrey Yuknis

No.	Advisors' Recommendation	Reference	DSU NO Response / Commitment	DSU NO Reference
6	Require DSU NO to eliminate or substantially mitigate the ratepayer harm due to the loss of a net-credit ADIT balance through a regulatory liability in DSU NO's rate base whose amortization expense and related ADIT are not in DSU NO's cost of service. The regulatory liability would amortize over the average life of ENO's ADIT had the Gas Transaction not occurred	Direct Testimony of Byron Watson, page 51	DSU NO agrees that the impact of the loss of a net-credit ADIT balance is a legitimate concern and agrees to work with the Advisors to address in the future rate proceeding in a way that is fair and equitable to all parties; DSU NO has concerns with use of a regulatory liability, but has mitigated impact of ADIT through regulatory asset proposal with extended (25-year) amortization period. Further, by agreeing to maintain ENO rates and rate schedules for approximately two or more years post-Closing, DSU NO would be foregoing several million in revenue requirement (as quantified in the Rebuttal Testimony of Jay A. Lewis), based on Mr. Watson's calculation of ADIT impacts, to the benefit of gas customers. DSU NO is also open to discussing sharing with customers a portion of goodwill tax benefits to further mitigate the net revenue requirement impacts of ENO ADIT not transferring at closing.	Rebuttal Testimony of Jay Lewis
7	Require that DSU NO agree to not seek recovery of the proposed regulatory asset or to substantially mitigate to the Council's satisfaction the ratepayer impacts of the proposed regulatory asset as a condition of approval	Direct Testimony of Byron Watson, page 52	DSU NO has already proposed several meaningful measures to mitigate the impact of Transition Costs on ratepayers. This includes the use of a regulatory asset to be amortized over an extended 25-year period. Further, DSU NO analysis supports that the Transition Plan will result in qualitative and quantitative benefits to customers as well as prudently incurred costs that should be recoverable. The DSU analysis also supports that the proposed regulatory asset will serve to mitigate the most significant rate impacts estimated by the Advisors.	Rebuttal Testimony of David E. Dismukes, Ph.D. Exhibit JY-4 to Rebuttal Testimony of Jeffrey Yuknis Rebuttal Testimony of Jay Lewis
8	Advise DSU NO that it is expected to propose a ratemaking treatment comparable to that ENO has proposed in recent FRP Evaluation filings for both pensions and OPEB Treatment of post-retirement benefits and conduct a thorough review as part of DSU NO's initial rate case.	Direct Testimony of Byron Watson, page 53	DSU NO agrees to use a comparable treatment to that which ENO has proposed in recent FRP Evaluation filings for both pensions and OPEB. DSU NO is open to discussing with the Advisors the details of what is contemplated by their recommendation for a thorough review in the DSU NO's initial rate action.	Direct Testimony of Jeffrey Yuknis and Rebuttal Testimony of Jeffrey Yuknis

No.	Advisors' Recommendation	Reference	DSU NO Response / Commitment	DSU NO Reference
9	Consider the following reports applicable to DSU NO and affirmation when considering the Gas Transaction: 1) The most current draft of the shared services agreement between DSU Services and DSU NO, including a detail of cost categories and allocations of shared services costs; 2) Monthly reports of DSU NO's detailed Transaction Costs and Transition Costs, if Transition costs are allowed by the Council to be recovered from ratepayers, including the internal control processes and recording to accounts to demonstrate the separation of Transaction Costs. Pending final Council approval of the transaction, if granted, such reports could be submitted quarterly."	Direct Testimony of Victor Prep, page 24	DSU Agrees to these reporting conditions as follows: 1) Given the complexities of the allocation methodology and the lack of impact on customer rates, DSU NO intends to continue to develop the shared services agreement as it works to stand up the shared services company but proposes that it provide the agreement to the Advisors closer to Closing. 2) Upon completion of the first full quarter after regulatory approvals of the transaction, DSU NO will commence filing quarterly reports of the Transition Plan costs. DSU NO has committed not to request recovery of Transaction Costs in this filing or in future filings. While DSU NO believes reporting on Transition Costs should be sufficient to allow the Council to ensure ratepayers are only paying for prudently incurred Transition Plan costs, DSU NO is open to preparing an accounting of Transaction Costs to submit to the Council as part of its initial rate proceeding to accommodate the Advisors concerns.	Rebuttal Testimony of Brian Little
10	Perform an independent accounting audit of DSU's accounting and internal controls processes post-closing to assure that costs are properly allocated to DSU NO and segregated into appropriate accounts to record Transition Costs, Transaction Costs, and other types of costs and expenditures	Direct Testimony of Victor Prep, page 26	DSU NO has committed to an annual financial statement audit and therefore its internal controls over financial reporting including controls that would provide assurance for the proper accounting and allocation of transition and transaction costs to the appropriate financial statement accounts would be an overall part of the scope of this financial statement audit.	Rebuttal Testimony of Brian Little

No.	Advisors' Recommendation	Reference	DSU NO Response / Commitment	DSU NO Reference
11	Provide monthly updates to the Council on changes to the project timetable, impacts from related regulatory proceedings, and changes to the proposed treatment of shared costs and projected revenue requirements	Direct Testimony of Victor Prep, page 26	DSU NO appreciates the need for the Council to stay updated on the items identified by Mr. Prep in his direct testimony. DSU NO is agreeable to reporting on the overall DSU NO project timeline adjustments, material impacts on DSU NO related to final orders in other regulatory proceedings, and modifications to the proposed treatment of shared service costs, commencing after Council approval of the Proposed Transaction. Further, DSU NO would prefer to report less frequently than monthly but is willing to discuss this with the Advisors to develop a reporting schedule that is acceptable to the Council and DSU NO.	Rebuttal Testimony of Jeffrey Yuknis
12	Include as a condition that the agreement and rate to deliver gas to NOPS shall be based on an updated cost of service analysis and a current review of gas transportation rates and contracts offered by intrastate gas distribution companies	Direct Testimony of Victor Prep, page 24	DSU NO agrees that rates and rate schedules should be based on cost of service principles. However, for various reasons, rates, rate schedules and contracts typically are not exactly based on fully allocated cost of service. However, DSU NO is concerned with a requirement to "base" rates, rate schedules and contracts on the fully allocated cost of service study that DSU NO will provide in the initial rate action. DSU NO would instead be agreeable to a condition that requires DSU NO to include rates, rate schedules and contracts 'in consideration of' a fully allocated cost of service study with the result of any allocation being subject to review and approval by the Council.	Rebuttal Testimony of Jeffrey Yuknis

Jefferies

Jefferies LLC

520 Madison Avenue
New York, NY 10022
tel 212.284.2300
Jefferies.com

DATE: June 24, 2024

TO: Jeffrey Yuknis

FROM: Jefferies

RE: Summary of Financing

Dear Mr. Yuknis,

At your request, we have prepared a summary of the process used to acquire financing for the proposed acquisition by Delta States Utilities NO, LLC ("DSU NO") of the natural gas assets and liabilities associated with operations of Entergy New Orleans, LLC ("ENO"), as the local distribution company in the City of New Orleans and regulated by the Council of the City of New Orleans.

To meet several objectives for DSU NO's debt financing, Bernhard Capital Partners engaged Jefferies[1] to act as its placement agent in a 4(a)(2) Debt Private Placement to partially fund DSU's acquisition of ENO. Debt financing objectives for DSU NO included:

- Achieving long-term, fixed-rate financing to match the long-term and expected stable performance of ENO.
- Creating rate stability outlook for ENO customers, regulators, and DSU NO.
- Targeting long-term, buy-and-hold debt lenders to maximize stability in the ENO capital structure.
- Structuring transaction to Investment Grade to achieve the lowest debt cost for a long-term financing.
- Eliminating interest rate market volatility risk during the regulatory approval process (and the associated risk of higher interest expense for many years post-closing) by locking in Treasury rates and lender spreads up front

The 4(a)(2) debt private placement market has been a go-to source of capital for high-quality utility companies/credits that may not meet the requirements/demands of the public investment grade bond market (minimum deal size of $300 million to achieve best execution, SEC registration, delayed draws to match regulatory approvals in the case of an acquisition). Despite global volatility, the debt private placement market remained open and eager to invest in utility opportunities. Long-term (10-year) fixed-rate debt tenor is a sweet spot for this market, and DSU NO was able to take advantage of this demand.

Jefferies's debt private placement professionals led the debt marketing process for DSU NO and its affiliates, leveraging their over 20 years of experience structuring and executing debt private placements for utility companies. The debt private placement team engaged with 25 lenders for the transaction. Each of the lenders is experienced in debt private placements and has teams that focus on utility transactions. Jefferies facilitated group and select one-on-one conference calls with lenders to market the transaction.

A positive and competitive outcome was achieved as bids were received from 6 premier lenders and ultimately Jefferies recommended placing the offering with the three most competitive lenders from a price and tenor standpoint (Prudential, HSBC AM, and Nuveen/TIAA-Cref). The lenders agreed to lock the rate and fund via a long-delayed draw to eliminate volatility risk during the regulatory approval process. The transaction priced at +250bpswas 10bps wide of the most recent comparable transaction (South Jersey Industries), which priced a 10-yr at +240bps.

In our judgment, the financing process undertaken by DSU NO and its affiliates on behalf of DSU NO and Jefferies, as described herein, was prudent and was conducted by experienced lenders at arms-length, such that it resulted in the objectively best financing option available at the time of the commitment.

[1] Jefferies is one of the world's leading full-service investment banking and capital markets firms. *See* Global Full-Service Investment Banking and Capital Markets (jefferies.com).

Section A. Mitigations Proposed by DSU NO in Joint Application, Direct Testimony, and Discovery

No.	Summary of Mitigation by DSU NO	Reference
1	Not seek recovery of Transaction costs	Joint Application
2	Not seek recovery of any acquisition premium associated with the transaction	Joint Application
3	Adopt ENO’s rates at closing of the Proposed Transaction and/or supported by ENO’s most recent evaluation period and hold rates steady to the GFRP for approximately 24-27 months post-Closing until future case	Joint Application
4	Provide customers with full benefit of Transition Plan but with no rate adjustment until prudency review and approval of NOCC in subsequent rate filing	Direct Testimony of Brian Little; Rebuttal Testimony of Jeffrey Yuknis
5	Extend amortization period of Transition Plan costs through use of regulatory asset with proposed 25-year amortization period. Dr. Dismukes estimates that the first-year revenue requirement associated with the DSU NO proposed 25-year amortization period is approximately $0.5 million more favorable to customers than the Advisors’ proposed 15-year period, when accounting for estimated ADIT impacts	Rebuttal Testimony of Jay Lewis; Rebuttal Testimony of David E. Dismukes, Ph.D.
6	Absorb loss of ADIT for period between Closing of the Proposed Transaction and final outcome of the future rate filing	Rebuttal Testimony of Jay Lewis
7	Locate corporate headquarters in New Orleans, Louisiana	Rebuttal Testimony of David E. Dismukes, Ph.D.
8	Continue capital expenditure programs, including the GIRP and IM programs	Joint Application
9	Offer employment to all approximately 200 active employees primarily engaged in the ENO Gas Business and those who return from leave	Joint Application
10	Openness to discussing sharing a portion of goodwill amortization to further mitigate the remaining net impact of ADIT on customers	Rebuttal Testimony of Jeffrey Yuknis
11	Agree to not execute any new large commercial gas contracts without expressed Council approval	DSU response to CNO 1-4.b and 4-18.a
12	Agree to cost of service study to evaluate allocation of costs to all customer classes	Rebuttal Testimony of David E. Dismukes, Ph.D.
13	Implement full cost of service analysis to assist development of appropriate cost allocation to large commercial gas customers	Rebuttal Testimony of Jeffrey Yuknis
14	Implement full cost of service analysis to assist development of appropriate cost allocation to NOPS transportation service	Rebuttal Testimony of Jeffrey Yuknis
15	Use a fixed-fee contract for major IT system implementation components to mitigate risk of cost overruns	Rebuttal Testimony of Brian Little

Section B. Customer Benefits of DSU NO Acquisition

No.	Benefit	Reference
1. Establish a fit-for-purpose natural gas LDC and shared services company		
1a	Eliminate need to contend for capital with and among significantly larger electric utilities	Rebuttal Testimony of Jeffrey Yuknis
1b	Dedicate effort and resources to the gas business	Rebuttal Testimony of Jeffrey Yuknis
1c	Enhance ability for decisions to be made to the benefit of the gas utility and its customers	Rebuttal Testimony of Jeffrey Yuknis
1d	Establish a shared services company specifically designed for gas distribution operations	Rebuttal Testimony of Jeffrey Yuknis
1e	Streamline resolution of customer inquiries with a customer service center dedicated solely to gas customers	Rebuttal Testimony of Jeffrey Yuknis
2. Implement a greenfield, modern cloud-based information technology (“IT”) system		
2a	Minimize customization and enable cost-effective adaptability through off-the-shelf software	Rebuttal Testimony of Brian Little
2b	Reduce total number of platforms and vendors within the ecosystem	Rebuttal Testimony of Brian Little
2c	Improve cost efficiency through the unification and standardization of disparate IT systems and improved system maintenance	Rebuttal Testimony of David E. Dismukes, Ph.D.
2d	Improve integration between systems to create “single source of truth master data”	Rebuttal Testimony of Brian Little
2e	Provide adaptability and scalability to respond to changing business requirements with the ability to near-instantly scale capacity without rearchitecting or majorly augmenting hardware or software	Rebuttal Testimony of Brian Little and David E. Dismukes, Ph.D.
2f	Improve customer service and customer satisfaction with streamlined access to important dimensions of gas service and local call-in lines exclusive to gas customers	Rebuttal Testimony of Brian Little and David E. Dismukes, Ph.D.
2g	Minimize risk associated with reduced or ending support for legacy systems	Rebuttal Testimony of Brian Little
2h	Improve resiliency during major weather events such as hurricanes where the newly decentralized system avoids “single points of failure” that cause systems to go offline	Rebuttal Testimony of Brian Little and David E. Dismukes, Ph.D.
2i	Increase efficiency of operations by streamlining processes	Rebuttal Testimony of Brian Little
2j	Update systems at a lower cost and with little to no downtime by using cloud-based systems instead of on-premise systems	Rebuttal Testimony of Brian Little
2k	Enable a cost structure that delivers more efficient and predictable operating costs	Rebuttal Testimony of Brian Little

No.	Benefit	Reference
2l	Benefit from lower TCO of a cloud-based system as compared to legacy on-premise system	Rebuttal Testimony of Brian Little
2m	Improve security through a more standardized configuration and automation of frequent security updates	Rebuttal Testimony of David E. Dismukes, Ph.D.
2n	Increase economic development through leveraging partnership with Accenture, including their opening of a regional office in New Orleans	Exhibit BL-7 to Rebuttal Testimony of Brian Little
3. Deliver significant economic benefits to the City of New Orleans and State of Louisiana		
3a	Establish the headquarters of a new natural gas utility valued at approximately $500 million in New Orleans	Rebuttal Testimony of David E. Dismukes, Ph.D.
3a	By locating the DSU NO headquarters in New Orleans, DSU's transition capital investments are estimated to lead to 112 job-years of employment, generate almost $7 million in new labor income, contribute over $11 million in value added (also known as gross state product or "GSP"), and $29 million in economic output.	Rebuttal Testimony of David E. Dismukes, Ph.D.
3b	By locating the DSU NO headquarters in New Orleans, on an operational basis, DSU's annual expenditures are estimated to lead to 442 job-years of employment opportunities, $30 million in new annual labor income, almost $87 million in value added or GSP, and $168 million in economic output.	Rebuttal Testimony of David E. Dismukes, Ph.D.
3c	Create approximately 100 new local jobs in Louisiana to facilitate DSU NO's providing of high-quality gas service to customers, with nearly all jobs to be located at the New Orleans headquarters	Rebuttal Testimony of Jeffrey Yuknis
4. Create opportunities for a lower projected O&M growth rate		
4a	Expect lower O&M growth at DSU NO compared to historical O&M growth at ENO	Rebuttal Testimony of Brian Little
5. Free up capital at ENO		
5a	Convert capital supporting current gas assets to capital for new resilient and reliable grid investments	Rebuttal Testimony of Alyssa Maurice-Anderson
6. Allow the Gas Business to access capital markets at a lower risk premium		
6a	Allow the Gas Business to access capital markets without as significant of a risk premium by separating from electric operations	Rebuttal Testimony of Alyssa Maurice-Anderson

No.	Benefit	Reference
7. Additional benefits not provided by purchasing entities in other similar transactions		
7a	No recovery of acquisition premium (goodwill)	Joint Application
7b	No recovery of transaction costs	Joint Application
7c	No rate adjustments requested in application	Joint Application
7d	Adopt ENO's rates at closing of the Proposed Transaction and/or supported by ENO's most recent evaluation period and hold rates steady to the GFRP for approximately 24-27 months post-Closing until future case	Joint Application
7e	Guarantee employment to all gas employees of ENO and ELL with substantially similar pay and benefits	Joint Application
7f	Continue pension obligations for existing pension employees	Joint Application
7g	Commitment to community involvement including charitable causes and workforce development	Joint Application
8. Additional benefits if CERC and Entergy transactions are approved		
8a	Establish the headquarters of a new multi-state natural gas utility valued at approximately $1.7 billion in New Orleans	Rebuttal Testimony of Jeffrey Yuknis
8b	By locating the DSU NO headquarters in New Orleans, with the Entergy and CERC transactions, the transition capital investments are anticipated to expand to 335 job-years of employment opportunities and expand labor income to $20 million, GSP to $33 million, and economic output to $87 million	Rebuttal Testimony of Jeffrey Yuknis
8c	By locating the DSU NO headquarters in New Orleans, on an operational basis, the new corporate headquarters operations for all business units, encompassing ELL, ENO, and CERC, are projected to create 885 new ongoing annual employment opportunities, resulting in over $60 million in new annual labor income, an additional $173 million in annual GSP and $337 million in annual economic output	Rebuttal Testimony of Jeffrey Yuknis
8d	Receive efficiencies of scale by operating current Entergy Gas Business and CERC gas businesses through a consolidated shared services structure	Rebuttal Testimony of Jeffrey Yuknis
8e	Allow DSU NO to access additional personnel from CERC and leverage their breadth of expertise	Rebuttal Testimony of Jeffrey Yuknis

No.	Benefit	Reference
8f	Hire an additional 100 new employees (over and above those to be hired in connection with the Entergy Transaction)	Rebuttal Testimony of Jeffrey Yuknis
8g	Leverage technologies deployed by CERC (e.g., *Picarro* methane leak detection technology)	Rebuttal Testimony of Jeffrey Yuknis
8h	Receive additional beneficial O&M shared services savings (estimated to be up to 10% savings) due to synergies and cost efficiencies	Rebuttal Testimony of Jeffrey Yuknis

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)))	**DOCKET NO. UD-24-01** **MAY 17, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	)))))))	

AAE-DSU 1-11: Please detail the experience and qualifications of the DSU team relating to managing and operating a gas distribution utility. Please relate this experience and these qualifications to the challenges of operating a gas distribution utility in the current business, regulatory, and climate environment.

Response:

THIS RESPONSE CONTAINS HIGHLY SENSITIVE PROTECTED MATERIAL THAT IS BEING PROVIDED ONLY TO APPROPRIATE REVIEWING REPRESENTATIVES WHO HAVE EXECUTED TO COUNCIL'S OFFICIAL PROTECTIVE ORDER.

DSU NO directs AAE to see the pre-filed Direct Testimony of DSU NO witness Brian Little and his Exhibit BL-1 thereto. In addition, DSU NO (and its affiliate DSU LA) has made the commitment to offer employment to approximately 200 existing Entergy employees who currently operate the gas distribution system today and will ensure institutional knowledge is retained at DSU NO to facilitate a seamless transition and Day One readiness. This includes the hiring of Mr. Anthony P. Arnould, Jr., who is currently the Director of Gas Distribution for Entergy Services, LLC. As discussed in Mr. Arnould's Direct Testimony in this proceeding, Mr. Arnould currently oversees all aspects of the safe, reliable delivery of natural gas service to natural gas customers of ENO and ELL. His specific responsibilities that provide him with significant and valuable experience in operating a natural gas utility include, but are not limited to, safety, compliance with applicable pipeline safety regulations, operations, customer service, construction, maintenance, engineering, planning, and gas real-time system monitoring and dispatch for the gas distribution system. Post-Closing, his continued management of these natural gas operations will provide continuity and help to facilitate seamless transition. Further, DSU NO anticipates the hiring of approximately 100 new employees for the new shared services company, and is currently in discussions with a number of utility experienced candidates to begin filling these roles.

Prepared by: Jeffrey Yuknis, Member DSU Board of Managers, Managing Director Bernhard Capital Partners, Member BCP Investment Committee

HSPM EXHIBIT JY-6

(Experienced Management Team)

REDACTED

Contains Highly Sensitive Protected Material Being Provided Only to Appropriate Reviewing Representatives Who Have Executed the Council's Official Protective Order

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	**)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)** **)**	**DOCKET NO. UD-24-01**

Rebuttal Testimony of

Jay A. Lewis

On behalf of

Delta States Utilities NO, LLC

Public-Redacted Version

Contains Highly Sensitive Protected Material Being Provided Only to Appropriate Reviewing Representatives Who Have Executed to Official Protective Order

June 28, 2024

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE.	)	**DOCKET NO. UD-24-01**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	)	

STATE OF LOUISIANA)

PARISH OF Ouachita **)**

Affidavit of Jay A. Lewis

Jay A. Lewis, being first duly sworn, on his oath states:

1. My name is Jay A. Lewis. I am employed by the University of Louisiana at Monroe as an Instructor of Accounting. I am also a Principal of ASD@Work, LLC, through which I perform financial consulting services. My principal place of business is located at 3 Melrose Court, Monroe, Louisiana 71203.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which were prepared in written form for introduction into evidence in this proceeding before the Council of the City of New Orleans.

3. I hereby swear and affirm that my testimony is true and correct and that they show the matters and things that it purports to show.

Jay A. Lewis

Jay A. Lewis

Subscribed and sworn to before me this 25 day of June, 2024.

Notary Public

OFFICIAL SEAL
WILLIAM STRATTON
NOTARY ID # 88515
STATE OF LOUISIANA
PARISH OF OUACHITA
My Commission is for Life

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	)))))))))))))	**DOCKET NO. UD-24-01**

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BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	**))))))))))))**	**DOCKET NO. UD-24-01**

<u>Rebuttal Testimony of Jay A. Lewis</u>

I. <u>INTRODUCTION</u>

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Jay A. Lewis. My business address is 3 Melrose Court, Monroe, Louisiana 71203. I am employed by the University of Louisiana at Monroe as an Instructor of Accounting. I am also a Principal of ASD@Work, LLC, through which I perform financial consulting services.

Q2. ON WHOSE BEHALF ARE YOU SUBMITTING THIS DIRECT TESTIMONY?

A. I am testifying on behalf of Delta States Utilities NO, LLC ("DSU NO").

Q3. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Master of Business Administration from Tulane University and a Bachelor of Business Administration degree in Accounting from the University of Louisiana at Monroe. I am a Certified Public Accountant and licensed to practice in Louisiana and Mississippi. I am a member of the American Institute of Certified Public Accountants and the Society of Louisiana Certified Public Accountants. I am also past Chairman of the Accounting Standards Committee of the Edison Electric Institute. I began my career with Entergy Services, Inc. (now Entergy Services, LLC ("ESL")) in 1999 as Director of Accounting Policy and Research. Beginning in 2004, I served as the Vice President and Chief Financial Officer of the Utility Operations Group. In 2008, I was named Vice President and Chief Accounting Officer-Designate for Enexus, a company proposed to be created by Entergy Corporation through a spinoff transaction. I assumed the position of Vice President, Finance for ESL in May 2010 and transferred to the position of Vice President, Regulatory Strategy in July 2011. I assumed the position of Vice President, Regulatory Policy in January 2014, and I retired from ESL in August 2018. Prior to my career with ESL, I was employed for 16 years in public accounting roles with Legier & Materne and Deloitte & Touche. In August 2016, I became an Instructor of Accounting at the University of Louisiana at Monroe. A copy of my resume is provided in Appendix A to my rebuttal testimony.

Q4. HAVE YOU PREVIOUSLY TESTIFIED IN ANY REGULATORY PROCEEDING?

A. Yes, I have testified before the Federal Energy Regulatory Commission ("FERC"), the Arkansas Public Service Commission ("APSC"), the Louisiana Public Service Commission ("LPSC"), the Louisiana Pilotage Fee Commission, the Public Utility Commission of Texas, the Council of the City of New Orleans (the "Council"), and the Mississippi Public Service Commission ("MPSC") on a variety of accounting and financial matters. A list of my prior testimony is attached as Appendix B to my rebuttal testimony.

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the witness testimony offered by the Advisors to the Council ("Advisors") regarding the Joint Application by DSU NO and Entergy New Orleans, LLC ("ENO") for DSU-NO's acquisition of certain assets of ENO that are primarily used for its natural gas distribution operations ("Proposed Transaction"). Specifically, my testimony will address the Advisors' discussion of changes in Accumulated Deferred Income Taxes ("ADIT") that will result from the Proposed Transaction.

Q6. PLEASE SUMMARIZE THE ADVISORS' DIRECT TESTIMONY REGARDING ADIT.

A. Advisor Witness Byron S. Watson addresses changes in ADIT resulting from the Proposed Transaction, so my testimony will focus on responding to Mr. Watson's discussion of these issues. Mr. Watson discusses the nature of ADIT and summarizes ENO's gas ADIT balances as of December 31, 2024. Mr. Watson discusses the importance of ADIT in ratemaking, stating that ENO's proposed 2024 FRP gas rate base is reduced by $65.4 million as a result of ADIT, and that this reduces ENO's gas revenue requirement by $5.9 million. He then states that, as a result of the Proposed Transaction, ENO's ADIT balances will not transfer to DSU-NO, and that customers will lose this benefit in rates resulting from ADIT. He states that DSU-NO has not estimated the negative effect on ADIT from the Proposed Transaction. Mr. Watson then provides his estimate that the ratemaking impact of the Proposed Transaction on ADIT will be an approximate $55.4 million increase to rate base, comprised of a $58.1 million increase in rate base resulting from ADIT that will not transfer to DSU NO and a $2.8 million decrease in rate base that will result from ADIT resulting from accumulated depreciation between the closing of the Proposed Transaction and the rate effective period in DSU NO's initial rate application before the Council.

Q7. HOW DO YOU RESPOND?

A. As I will discuss in more detail later in my testimony, I generally agree with Mr. Watson's description of ADIT and how it affects ratemaking, and with the fact that most (if not all) of the existing ADIT at ENO will not transfer to DSU NO. This is due to the Proposed Transaction being an asset acquisition, which is the typical structure of a carveout utility transaction such as the carve out of ENO's natural gas business. Regarding his estimates of the ratemaking effects of these changes, however, I believe it is premature to estimate these effects, as these figures will be constantly changing between now and the close of the transaction, as well as through the filing of DSU NO's initial rate application. Further, there are additional ADIT that will be generated by DSU NO as a direct result of the transaction, and Mr. Watson has not considered these items in his impact estimate. Finally, there are other potential changes, such as those caused by new tax laws and regulations or modifications to tax strategy, that cannot be estimated or predicted at this time. For these reasons, I recommend that this issue be identified as a matter to be addressed and resolved in DSU NO's initial rate application when all of the effects of the transaction can be considered holistically, and that DSU NO and the Advisors work cooperatively in the meantime on a mechanism to analyze and continue to refine the effects of these issues. I discuss all of this in more detail later in this testimony.

Q8. PLEASE SUMMARIZE HOW YOUR TESTIMONY IS ORGANIZED.

A. First, I discuss the nature of ADIT, how it affects ratemaking, how it is constantly changing, and how the Proposed Transaction will affect ADIT, both from ADIT that will not transfer from ENO to DSU NO and from ADIT that will be generated by DSU NO as a result of the Proposed Transaction. Then, I discuss in detail Mr. Watson's analysis, my concerns related thereto, and a potential alternative to ensure that this complicated issue can be thoroughly analyzed and addressed in a way that is fair and equitable to all parties and more accurately determined based on known and measurable data available at the time of the initial rate filing.

II. <u>ACCUMULATED DEFERRED INCOME TAXES</u>

Q9. WHAT ARE ACCUMULATED DEFERRED INCOME TAXES?

A. ADIT are differences that have built up over time between two amounts: (1) the income taxes included by a utility in rates charged to its customers, and (2) the income taxes that have actually been paid by the utility to the Federal and State governments.

Q10. WHAT CAUSES ADIT?

A. Fundamentally, ADIT are caused by timing differences in when certain revenues and expenses are recognized for regulatory/accounting purposes, and when they are recognized for income tax purposes. These differences are a result of income tax laws and regulations that prescribe the recognition of certain revenues and expenses in time periods other than when they are recognized for regulatory/accounting purposes. These timing differences are referred to as "temporary differences."

Q11. COULD YOU PROVIDE AN EXAMPLE?

A. Yes. The most common type of temporary difference is depreciation. Consider this illustrative example: a utility constructs a gas distribution pipeline extension for $10,000, and based on depreciation studies, it applies a 3% annual depreciation rate to this asset, resulting in depreciation for regulatory/accounting purposes of $300 per year. At the same time, the federal Tax Code calls for depreciation for income tax purposes of 5% in the first year of this asset's life. As a result, a depreciation deduction of $500 is taken for income tax purposes. If the combined statutory income tax rate is 25%, this $200 difference would result in an ADIT of $50 (($500 - $300) X 25%). However, the $200 difference between these two depreciation amounts is a temporary difference that will reverse over time, as eventually tax depreciation deductions will fall below depreciation for regulatory/accounting purposes, and the ADIT liability will be "paid back" in the form of higher tax payments in later years. Revenue requirements are based on income tax expense computed on an accrual basis, regardless of when taxes are paid. In the above example, the $50 reduction in income taxes paid does not reduce income tax expense recovered in rates, nor does the subsequent "payback" of the $50 in income taxes increase income tax expense recovered in rates in later years. That is why ADIT affects rate base – customers have paid for income taxes in different amounts than the utility has paid to the government.

Q12. ARE ADIT ASSETS OR LIABILITIES?

A. Both ADIT assets and ADIT liabilities result from the various temporary differences between regulatory/accounting guidelines and income tax laws and regulations. The depreciation example above produces an ADIT liability that will be "paid back" in the form of higher tax payments in later years, as the utility will initially pay less in income taxes because of the higher tax depreciation deduction taken in the first year. Conversely, other temporary differences, such as those related to certain accrued expenses, produce ADIT assets, as expenses recorded currently for regulatory/accounting purposes cannot be deducted under income tax laws and regulations until later periods. As a result, the utility has a "receivable" related to ADIT that will be received when future tax payments are reduced for these items. Net operating loss carryforwards also produce ADIT assets.

Q13. HOW DO ADIT AFFECT CUSTOMER RATES?

A. While ADIT is treated differently in rates depending on the regulatory jurisdiction, the most common treatment is that ADIT assets increase rate base, while ADIT liabilities decrease rate base. Customer rates include a provision for return on rate base, in which customers pay a return - typically based on the utility's cost of capital – on the utility's net rate base. Accordingly, customer rates are increased by the return on ADIT assets and are decreased by the return on ADIT liabilities.

Q14. DO ADIT AMOUNTS CHANGE FROM ONE YEAR TO THE NEXT?

A Yes. On an ongoing basis, a utility measures the differences between regulatory/accounting treatment and income tax treatment of temporary differences and records the related ADIT.

As a result, ADIT balances are constantly changing in the normal course of business. Additionally, unusual transactions, changes in tax laws and regulations, or modifications to the tax strategy of the business can result in sporadic and potentially significant changes in ADIT balances.

Q15. HOW WILL THE ADIT CURRENTLY RECORDED ON THE BOOKS OF ENO FOR ITS GAS DISTRIBUTION ASSETS BE AFFECTED BY THE ACQUISTION OF THESE ASSETS BY DSU NO?

A. There will be a number of effects. Most significantly, because DSU NO's acquisition is structured as an asset acquisition, the tax basis of these assets will be based on the consideration paid and liabilities assumed for these assets by DSU NO. Generally, past ADIT liabilities recorded by ENO will become a current tax expense at ENO and will not transfer to DSU NO. Similarly, NOL carryforwards currently recorded by ENO will not transfer to DSU NO. For DSU NO, this results in a lower rate base, as NOL carryforwards are ADIT assets included in rate base. Further, to the extent that these NOL carryforwards are used by ENO to offset the taxes resulting from the transaction, ENO customers will benefit from the reduction or elimination of these amounts.

Q16. WILL THERE BE OTHER ADIT BALANCES AND TAX BENEFITS AS A RESULT OF THE ACQUISTION?

A. Yes. The costs incurred by DSU NO in conjunction with the Proposed Transaction, and on a go-forward basis after the transaction, will result in the recording of new ADIT balances and tax benefits by DSU NO. These new amounts will relate to various items, including: 1) depreciation of the assets DSU NO acquires from ENO; 2) depreciation of new assets DSU NO constructs or acquires after the transaction; 3) differences between the regulatory/accounting and tax treatment of transition plan costs incurred by DSU NO; and 4) the tax amortization of the goodwill recorded by DSU NO in conjunction with the acquisition. This is not intended to be an exhaustive list, but instead is intended to illustrate the various types of "new" ADIT and tax benefits that DSU NO will record after the Proposed Transaction closes.

III. ADVISORS' ADIT ANALYSIS

Q17. YOU EARLIER DESCRIBED THE ADVISORS' DIRECT TESTIMONY REGARDING ADIT ISSUES. WHAT ARE YOUR CONCERNS REGARDING THIS ANALYSIS?

A. Most fundamentally, it is premature to quantify the ratemaking effects of this issue. As I mention immediately above, ADIT is constantly changing in the normal course of business, and would continue to change whether the Proposed Transaction occurred or not. ENO's proposed ADIT balance as of 12/31/24 in its 2023 gas formula rate plan filing, which forms the basis for Mr. Watson's estimate of a $58.1 million increase in rate base as a result of ADIT not transferring to DSU NO, will certainly change during 2024 and up through the closing date of the Proposed Transaction, which will result in any current estimate of ADIT, or its impact on rates, not being accurate. Let me emphasize that this is not due to some flaw in Mr. Watson's calculations; rather, it is an unavoidable result of attempting to forecast ADIT balances months or years in advance. Similarly, Mr. Watson estimates that DSU NO will accumulate $2.8 million of depreciation-related ADIT between the close of the Proposed Transaction and the rate-effective period used in DSU NO's initial rate application, but every component of this calculation will be different when actual figures are available. As I mentioned above, there are other temporary differences that will result in DSU NO recording additional deferred taxes before its initial rate application, such as transition plan costs and capital expenditures, and Mr. Watson does not estimate these mitigants which are attributed to the creative transaction structure proposed by DSU NO to enhance mitigation of these issues. I would also note that, in his Rebuttal Testimony, Dr. Dismukes disputes the revenue requirement impact developed by the Advisors for ADIT for residential customers due to the use of a volume that is inconsistent with historical residential volume usage, and the use of a cost allocation that both parties agree must be updated based on the DSU NO proposed cost of service analysis to be performed prior to any adjustments in rates. All of these factors indicate the difficulty in estimating the effects of deferred tax changes on ratemaking years in advance of the applicable rate application. It is certainly appropriate to identify this issue at this time and to consider how it can be addressed, but it is premature to attempt to quantify its ratemaking effect, particularly given that there will be an opportunity to address this issue prior to any impact on customers, as discussed below.[1]

Q18. WILL THESE CHANGES IN ADIT AFFECT CUSTOMER RATES UPON CLOSING OF THE TRANSACTION?

A. No, they will not. DSU NO has committed to retain ENO's rate schedules until its first rate application that will not be filed sooner than 15-months post-closing (with expected closing to occur in 2025), and the rate adjustments resulting from that application will not affect customers until approximately two or more years after closing. This is another reason that there is no need for a premature estimate of the ratemaking effects of ADIT

[1] In response to DSU NO-CNO 2-6, the Advisors appear to agree with this position. *See* Exhibit JAL-1 to my rebuttal testimony.

changes at this time; there will be ample opportunity to deal with these issues in the normal course of business as the first application is considered by the NOCC, when actual figures are available and a more accurate and holistic analysis of transaction effects can be conducted. Further, the synergies and customer benefits of the parallel proposed transactions would be better known at that time, and holistic analysis of impacts based on known and measurable data, including a full cost of service analysis, would establish the information necessary to determine meaningful and appropriate rates moving forward.

Q19. YOU MENTIONED THAT THE PROPOSED TRANSACTION WILL RESULT IN THE RECORDING OF ADDITIONAL DEFERRED TAXES BY DSU NO. PLEASE EXPLAIN.

A. Let me address two specific examples. First, there are "transition plan costs" that DSU NO has identified related to standing up the new utility, including cloud-based information technology ("IT") systems and new processes as a part of preparing for Day One Readiness. DSU NO has proposed that these transition plan costs be deferred and considered in its initial rate application, so there will be no income statement effects from these costs for the period between transaction close and DSU NO's initial rate changes. However, for income tax purposes, these costs will be treated differently. These costs will be subject to various IRS rules regarding depreciation and amortization, and I expect that such deductions will begin concurrently with the commencement of DSU NO operations. I could easily see these costs resulting in the recording of millions of dollars of ADIT liabilities by DSU NO before its initial rate adjustments, and these ADIT liabilities will reduce DSU NO rate base. Mr. Watson's estimate does not contemplate these ADIT liabilities. This proposed structure will enhance the creation of ADIT which will assist in mitigating any revenue requirement impact remaining at the time of the future rate filing.

Q20. IN HIS TESTIMONY, MR. WATSON STATES THAT A PORTION OF THE TRANSITION COSTS "MAY BE ACCOUNTED FOR AS INTANGIBLE PLANT RATHER THAN A REGULATORY ASSET", AND THAT THIS DISTINCTION "HAS AN EFFECT ON ADIT". HOW DO YOU RESPOND?

A. Mr. Watson raises a valid question regarding another classification alternative for the IT and facilities-related portion of the transition plan costs, but it is not clear to me that his proposed classification is correct; additionally, ADIT effects are governed by amortization periods, not accounting classifications. Let me address these points separately.

First, regarding the classification of the IT and facilities transition plan costs, it is important to remember that DSU NO will be adopting and implementing a cloud-based IT infrastructure. This is fundamentally different from the on-premises model that ENO has historically employed, involving custom-designed software owned by the Entergy companies. Accordingly, I do not believe that accounting for IT-related transition plan costs as "intangible plant" is necessarily appropriate.

Second, regarding potential ADIT effects, ADIT is produced by the difference between the accounting/regulatory amortization period used for the costs, as compared to the tax amortization period used for the costs. I do not believe that the classification of the costs will affect the tax amortization period, and I do not believe that the accounting/regulatory amortization period will necessarily be different depending on whether these costs are accounted for as a Regulatory Asset or as Intangible Plant. Cloud-based infrastructure costs are a relatively new phenomenon, and I am not aware of a regulatory requirement for a particular amortization period for those types of costs. If so ordered by the Council, DSU NO could use, for example, the 25-year[2] amortization period proposed by DSU NO for the regulatory asset in its incremental revenue requirement model,[3] which reduces the revenue requirement for these costs, even if they were classified as Intangible Plant. Further, I believe the tax amortization period for these costs is likely to be shorter than the amortization period that is chosen, regardless of the classification of the costs. In that case, the accounting for these costs will continue to produce an ADIT liability, as I discussed above. In fact, the DSU NO proposed 25-year extended amortization period would result in a lower annual revenue requirement for the recovery of these costs as compared to the Advisor-proposed 15-year amortization period, given the lower annual amortization and the higher amount of ADIT that would result. Dr. Dismukes estimates that the first-year revenue requirement associated with the DSU NO proposed 25-year amortization period is approximately $0.5 million more favorable to customers than the Advisors' proposed 15-year period, when accounting for ADIT impacts.[4]

Q21. YOU MENTIONED A SECOND EXAMPLE OF DEFERRED TAXES THAT WILL BE PRODUCED BY THE PROPOSED TRANSACTION. PLEASE EXPLAIN.

A. I was referring to the goodwill that DSU NO will record as a result of the Proposed Transaction. In accordance with FERC guidelines, ENO assets will be recorded by DSU NO at their original cost. Accordingly, any purchase price premium above the book value

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[2] DSU NO's proposed amortization period would be 25 years from implementation of new rates following its initial rate case, but would be about 27 or more years from closing of the transaction.
[3] See Exhibit DED-1 to the Rebuttal Testimony of David E. Dismukes, PhD.
[4] See Rebuttal Testimony of David E. Dismukes (June 28, 2024).

of these assets will be recorded by DSU NO as goodwill (in FERC parlance, an "acquisition adjustment" recorded in FERC Account #114). DSU NO has committed not to seek recovery of this goodwill through the regulatory process. However, current accounting guidelines call for goodwill to be maintained on the books, subject to a periodic "impairment" test that might result in its write down in the future. What this means is that DSU NO's books are not expected to reflect any amortization of these costs; the goodwill will simply remain on the balance sheet as an asset. Conversely, tax law calls for the amortization of goodwill over a defined period. Thus, DSU NO's commitment not to seek recovery of the goodwill, combined with the amortization of that goodwill for tax purposes, will result in tax deductions related to goodwill, and my understanding is that DSU NO is open to discussing sharing with customers a portion of this tax benefit to further mitigate the net revenue requirement impacts of ENO ADIT not transferring at closing, as set forth in the rebuttal testimony of DSU NO witness Mr. Jeffrey Yuknis.

Q22. ARE THERE OTHER EXAMPLES OF FACTORS THAT COMPLICATE FORECASTING ADIT EFFECTS?

A. Yes. One that comes to mind is the passage of new tax laws and/or regulations. As an example, the Inflation Reduction Act passed by Congress in 2022 includes a number of provisions affecting corporations, partnerships and other taxpayers, and these provisions are only currently coming into effect. There is a new Corporate Alternative Minimum Tax, for example, which could result in large corporations such as Entergy paying additional income taxes. If such payments were to occur, it would increase rate base under Entergy ownership of the gas assets. Conversely, my understanding is that these provisions will not apply to DSU NO and its affiliates, so no such payments or increased rate base will occur under DSU NO ownership of the gas assets. I have no knowledge of how these provisions might affect ENO's tax position between now and the closing of this transaction, but this is an example of the type of change that can further complicate the forecasting of the ADIT effects of the Proposed Transaction and result in ADIT impacts far less than estimated by Mr. Watson. As an example of the inherent variability of ADIT, ENO's ADIT, adjusted for ratemaking, increased by 14% in 2022 and the Advisors estimate it will decrease by 14% in 2024 based on known and measurable changes.[5]

IV. POTENTIAL MITIGATION & QUANTIFICATION

Q23. HAS DSU NO ALREADY ATTEMPTED TO MITIGATE POTENTIAL RATE EFFECTS ON CUSTOMERS THROUGH ITS PROPOSED TRANSACTION STRUCTURE?

A. Yes, DSU NO has proposed a creative transaction structure that inherently contains a number of mitigation tactics that I believe are significant and that demonstrate its commitment to positive outcomes for customers as a result of the Proposed Transaction. First, DSU NO has committed to no changes in customer rates for a period of roughly two or more years after the closing of the Proposed Transaction until final outcome of a future rate filing. During this period, DSU NO will absorb any revenue requirement increases that would have occurred to accommodate the elimination of ADIT at closing; thus, the rates will still reflect the beneficial effects of the ADIT for which DSU NO did not receive the related tax payment reductions. This is a significant commitment; Mr. Watson's testimony estimates the annual revenue increase related to ADIT to be $[redacted] million.[6] While

[5] See Tab "WP1 AJ05B.1_G Loss of ADIT" in UD-24-01 BSW Direct Workpapers Revenue_Bill Impact HSPM-CS.
[6] See HSPM Direct Testimony of Byron S. Watson, Table 3, rows "Loss of ADIT" and "Accumulation of New ADIT."

I reiterate my previously stated concerns about the ability to accurately quantify these amounts at this point in the process, Mr. Watson's estimates would indicate that the value of this commitment exceeds $[redacted] million, as the period between closing and implementation of rates from DSU NO's initial rate case will be at least two years, and DSU NO ADIT will be increasing throughout this period. Further, DSU NO has committed not to seek the recovery of the goodwill it records as a result of the Proposed Transaction; customers will continue to pay for the original cost to ENO of the assets DSU NO acquires from ENO, despite the fact that DSU NO will pay a premium above this original cost. These are significant commitments involving tens of millions of dollars of costs that DSU NO will absorb to mitigate effects on customers.

In addition, DSU NO has creatively proposed to defer the costs of the transition plan to a regulatory asset. While the regulatory asset would accrue carrying costs, as proposed by DSU NO, amortization of the regulatory asset would not begin until the conclusion of DSU NO's initial rate case, approximately two or more years post-closing. Moreover, DSU NO has proposed an extended amortization period for the regulatory asset of 25-years. This proposal not only mitigates the impact on customers of recovery of the transition plan costs by spreading recovery over a longer period, it also benefits customers by generating a significant amount of new ADIT on DSU NO's books that will offset its rate base. As discussed in the rebuttal testimony of DSU NO witness David E. Dismukes, Ph.D., the transition plan costs are cost effective and provide net benefits to customers and should be recoverable. As discussed above, such recovery, as proposed by DSU NO to be through a regulatory asset with an extended amortization period, also will provide customers with a creative form of mitigation of the impact of the loss of ADIT at closing -

- mitigation that would be significantly reduced through the Advisors proposed 15-year amortization of IT and facilities cost as Intangible Plant.

These creative elements of the proposed transaction work synergistically to enhance ADIT creation during a period in which DSU NO has agreed to shield the customers from any rate impact. DSU NO's proposed structure provides a period of two or more years in which the customers will not be impacted by the elimination of ENO ADIT at closing. During this period, ADIT will develop organically for the plant assets and continued capex implementation, but DSU NO has developed further strategies to enhance the development of ADIT through its proposed treatment of the transition costs as a regulatory asset. While it is impossible to precisely project ADIT at a future point in time, it is clear that DSU NO will continue to generate increasing ADIT balances, and that the transaction structure proposed by DSU NO involves creative and substantial mitigation steps that serve to minimize the potential rate effects of ENO's ADIT not transferring to DSU NO.

Q24. MR. WATSON RECOMMENDS THAT THE COUNCIL REQUIRE DSU NO TO MITIGATE THE RATEPAYER HARM RELATED TO CHANGES IN ADIT. HOW DO YOU RESPOND?

A. As I mentioned earlier, it is certainly appropriate to identify this issue at this time and consider how it might be dealt with in DSU NO's initial rate application, but it is premature to attempt to quantify this issue for purposes of additional mitigation commitments. Mr. Watson states that "mitigation could be in the form of a regulatory liability in DSU NO's rate base whose amortization expense and related ADIT are not in DSU-NO's cost of service." I am concerned that the establishment of a regulatory liability traceable to the ADIT previously recorded by ENO could be a violation of IRS normalization provisions, which would significantly harm DSU NO customers. Regardless, there are various other ways this issue can be dealt with in DSU NO's initial rate application, as discussed previously in my rebuttal testimony. I believe it would be best to consider this issue when actual figures are available and the overall effects of the Proposed Transaction on customers and the community can be considered holistically and the mitigation strategies inherent in the Proposed Transaction structure have had time to develop with no impact to the customers.

Q25. YOU HAVE REPEATEDLY EMPHASIZED THAT IT IS PREMATURE TO ATTEMPT TO QUANTIFY THE EFFECT OF ADIT CHANGES AT THIS TIME. WHAT CAN BE DONE TO HELP THE ADVISORS AND THE COUNCIL ANALYZE THIS ISSUE AS THEY CONSIDER THIS PROPOSED TRANSACTION?

A. DSU NO is developing a model to thoroughly and thoughtfully analyze the potential changes in ADIT that will result from the transaction and DSU NO's ongoing operation of the business. I want to reemphasize that this model will be using hypothetical numbers and assumptions that are premature for accurate quantification at this time, but this model should provide a mechanism whereby these changes can be updated and refined as the closing of the Proposed Transaction approaches, and which can serve as a framework for specific discussion of these issues when DSU NO's initial rate application is filed. This model is being developed to dynamically estimate the changes in both the ENO ADIT that would exist immediately prior to closing but that will not transfer to DSU NO, which would have decreased over time, as well as the DSU NO ADIT that will be produced as a result of its ongoing operations, which will increase over time, in order to capture a more thorough view of these trends and amounts as they change annually.

While modeling is illustrative and based on assumptions at this time, and reemphasizing that the figures cannot be precise due to noted changing variables referenced herein, I have noted a number of trends and relationships that help to demonstrate the dynamic nature of these amounts:

1) Unsurprisingly, the largest revenue requirement effects are in the earliest years, and these effects decrease significantly over time. As I noted earlier, DSU NO has committed to make no changes in rates until its first rate application, which will not be effective for approximately two or more years after the close of the Proposed Transaction; accordingly, customers will not be affected at all by the largest potential revenue requirement effects of the changes in ADIT. The revenue requirement change caused by the net effect of changes in ADIT decreases by roughly one-third before new rates are expected to go in effect. Accordingly, DSU NO's commitment to hold rates steady until its first rate case eliminates one-third of this net rate effect, as DSU NO would be absorbing these impacts during this period;

2) DSU NO has creatively proposed to defer its transition plan costs to a regulatory asset for review and approval for recovery in its initial rate proceeding that would not be filed sooner than 15 months post-closing, with a final order not likely to issue until approximately two years or more post-closing. DSU NO is proposing a 25-year amortization period for recovery of the regulatory asset. DSU NO's proposed deferral and extended amortization period is a significant commitment that is expected to result in a significant amount of ADIT for DSU NO for the benefit of its customers;

3) In addition to the acquired assets and the transition plan costs generating ADIT, DSU NO's ongoing capital expenditure program will be another source of increasing ADIT for DSU NO as it operates the gas business after the Proposed Transaction.

All of these facts illustrate that the changes in ADIT are, by nature, dynamic, and should accordingly be viewed over time, and not as a point-in-time issue. DSU NO recognizes that the inability for ENO's ADIT to transfer to DSU NO is a legitimate concern, and DSU NO wants the Advisors to know that it has already made commitments through its proposals in the application (*e.g.*, adopting ENO rates at closing, deferring transition costs to a regulatory asset with a 25-year amortization period to commence following its initial rate proceeding, not seeking recovery of goodwill, etc.) that will mitigate ADIT impacts to customers and that DSU NO is committed to continue working with Advisors and Council to address this issue in a way that is fair and equitable to all parties.

Q26. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

JAY A. LEWIS, CPA, CGMA

PROFESSIONAL EXPERIENCE

University of Louisiana at Monroe

Instructor of Accounting

2016-present Monroe, Louisiana

- Responsibility for undergraduate education in introductory and intermediate financial accounting in this AACSB-accredited accounting program, as well as graduate education in cost accounting. Activities include updating curriculum to ensure coverage of CPA exam topics, and maintaining contacts with Big 4 accounting firms to increase access to career opportunities for students.

Entergy Services, Inc.

Vice President, Finance/Regulatory Strategy/Regulatory Policy

2010-2016 New Orleans, Louisiana

- Served in a succession of positions primarily responsible for the development of regulatory strategies and regulatory policy positions for Entergy's regulated utility companies. Extensive experience as an expert witness in numerous regulatory proceedings before state and federal regulatory authorities

Vice President & Chief Accounting Officer-Designate, Enexus

2008-2010 Ridgeland, Mississippi

- Responsible for the development of internal and external accounting and financial reporting systems for Enexus, a company proposed to be created by Entergy through a spin-off transaction. Worked extensively with external consultants and internal resources in the development of these systems.

Vice President & Chief Financial Officer, Utility Operations Group

2004-2008 New Orleans, Louisiana

- CFO of Entergy's six utility operating company subsidiaries. Primary responsibility for financial strategy and planning for these companies, as well as internal and external financial reporting, including establishment and maintenance of internal controls in accordance with Sarbanes-Oxley Act.

Director, Accounting Policy & Research

1999-2003 New Orleans, Louisiana

- Primary responsibility for establishment of accounting policies for this Fortune 500 company. Also supervised all external financial reporting. Role included involvement in interfaces with standard setters and regulators, including the FASB and the SEC, as well as participation in accounting standards activities of the national electric utility industry organization.

Legier & Materne

Director, Audit and Assurance Services

1994 – 1999 New Orleans, Louisiana

- Charged with primary responsibility for all audit and assurance services delivered by this regional CPA and consulting firm. Led effort to increase service quality and efficiency. Served as chairman of compensation committee and as liaison to international network of firms.

APPENDIX A

Deloitte & Touche

Senior Manager, Audit Services

1983 – 1994 Baton Rouge and New Orleans, LA

- Progressed from staff accountant to senior manager in charge of services provided to largest client in region. Served numerous other clients in various industries. Led effort to train personnel in new policies after merger of Deloitte Haskins & Sells and Touche Ross. Accredited by firm as specialist in utilities and employee benefit plans. Regular instructor at national seminars.

EDUCATION

2001 – 2002 **Tulane University** New Orleans, Louisiana

Master of Business Administration

Earned MBA with concentration in Finance through Tulane's Executive MBA program, while continuing to work full time. Attended international business seminars in South America and Europe, and participated in multinational teams to complete assigned projects. Graduated with honors.

1979 – 1983 **University of Louisiana at Monroe** Monroe, Louisiana

Bachelor of Business Administration – Accounting

Graduated Summa Cum Laude; selected Outstanding Student in the College of Business Administration; served two years as Senator in Student Government Association; selected Outstanding Senator; officer positions in various organizations; recipient of President's Scholarship providing full tuition, room and board.

ADDITIONAL PROFESSIONAL ACTIVITIES

Faculty Advisor, Beta Alpha Psi, the honor organization for financial information majors

Member, Ambulance Service Advisory Board of the Ouachita Council of Governments

Member, Board of Directors, Southern District of the Lutheran Church-Missouri Synod

Past chairman, Accounting Standards Committee of Edison Electric Institute

Member, Board of Trustees for the ULM Foundation

PROFESSIONAL MEMBERSHIPS & CERTIFICATIONS

American Institute of Certified Public Accountants

Society of Louisiana Certified Public Accountants

Licensed to practice public accounting in Louisiana and Mississippi

Chartered Global Management Accountant

INTERESTS AND ACTIVITIES

Reading; Theology; Politics; Financial markets; Fine wine.

Listing of Previous Testimony Filed by Jay A. Lewis

DATE	TYPE	JURISDICTION	DOCKET NO.
August 2004	Direct	PUCT	30123
March 2007	Rebuttal	APSC	06-101-U
April 2007	Sur-Surrebuttal	APSC	06-101-U
September 2007	Direct	PUCT	34800
February 2008	Rebuttal	APSC	06-152-U
March 2008	Sur-Surrebuttal	APSC	06-152-U
May 2008	Rebuttal	PUCT	34800
October 2008	Direct	MPSC	2008-AD-381
November 2010	Supplemental	FERC	EL10-55-001
May 2011	Supplemental Direct	APSC	10-011-U
August 2011	Rebuttal	APSC	10-011-U
August 2011	Sur-Surrebuttal	APSC	10-011-U
September 2011	Direct	PUCT	39741
November 2011	Direct	CNO	UD-11-01
November 2011	Rebuttal	APSC	11-069-U
December 2011	Sur-Surrebuttal	APSC	11-069-U
December 2011	Supplemental Direct	PUCT	39896
April 2012	Rebuttal	PUCT	39896
June 2012	Cross Answering	CNO	UD-11-01
August 2012	Rebuttal	CNO	UD-11-01
September 2012	Direct	APSC	12-069-U
September 2012	Direct	CNO	UD-12-01
September 2012	Direct	FERC	ITC Application
September 2012	Direct	LPSC	U-32538
October 2012	Direct	MPSC	2012-UA-358
January 2013	Direct	LPSC	U-32148
January 2013	Direct	CNO	UD-08-03
February 2013	Direct	PUCT	41223
February 2013	Direct	PUCT	41235
February 2013	Direct	LPSC	U-32707
February 2013	Direct	LPSC	U-32708
March 2013	Direct	APSC	13-028-U

DATE	TYPE	JURISDICTION	DOCKET NO.
March 2013	Supplemental	ENO	UD-12-01
April 2013	Direct	PUCT	41235
April 2013	Supplemental	PUCT	41235
May 2013	Rebuttal	PUCT	41223
May 2013	Rebuttal	APSC	12-069-U
May 2013	Rebuttal	LPSC	U-32538
June 2013	Rebuttal	CNO	UD-08-03
June 2013	Rebuttal	CNO	UD-12-01
June 2013	Sur-Surrebuttal	APSC	12-069-U
July 2013	Supplemental	APSC	12-069-U
July 2013	Rebuttal	LPSC	U-32675
August 2013	Rejoinder Testimony	CNO	UD-12-01
August 2013	Rebuttal	APSC	13-028-U
August 2013	Supplemental Rebuttal	APSC	12-069-U
September 2013	Sur-Surrebuttal	APSC	13-028-U
September 2013	Direct	PUCT	41850
September 2013	Direct	PUCT	41791
November 2013	Rebuttal	PUCT	41850
December 2013	Settlement	LPSC	U-32708
February 2014	Rebuttal	CNO	UD-13-01
April 2014	Rejoinder Testimony	CNO	UD-13-01
June 2014	Direct	MPSC	EC-123-0082-00
June 2014	Direct	MPSC	EC-123-0082-00
September 2014	Direct	LPSC	U-33244
October 2014	Direct	CNO	UD-14-02
November 2014	Direct	CNO	UD-14-03
January 2015	Supplemental	CNO	UD-14-01
January 2015	Direct	LPSC	UD-33510
January 2015	Direct	APSC	14-118-U
February 2015	Direct	CNO	UD-15-01
April 2015	Direct	APSC	15-015-U
April 2015	Rebuttal	CNO	UD-14-01
May 2015	Rebuttal	LPSC	U-33244
June 2015	Rebuttal	LPSC	U-33510

DATE	TYPE	JURISDICTION	DOCKET NO.
June 2015	Direct	PUCT	44704
June 2015	Direct	LPSC	U-33033
June 2015	Direct	LPSC	U-33645
July 2015	Rebuttal	APSC	14-118-U
August 2015	Sur-Surrebuttal	APSC	14-118-U
August 2015	Supplemental	CNO	UD-15-01
August 2015	Direct	LPSC	U-33770
September 2015	Supplemental Rebuttal	LPSC	U-33510
October 2015	Rebuttal	APSC	15-015-U
December 2015	Sur-Surrebuttal	APSC	15-015-U
January 2016	Rebuttal	LPSC	33633
March 2016	Rebuttal	LPSC	33770
September 2016	Direct	APSC	16-060-U
October 2016	Direct	CNO	UD-16-04
November 2016	Direct	LPSC	U-34320
November 2016	Direct	MPSC	2016-UA-261
June 2017	Rebuttal	APSC	16-060-U
January 2022	Answering	FERC	EL20-72-000
June 2022	Direct	LPFC	P22-003
July 2022	Sur-Rebuttal	FERC	EL20-72-000
December 2022	Direct	LPSC	U-36625
May 2023	Rebuttal	LPFC	P22-003
November 2023	Rebuttal	LPSC	U-36625

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

IN RE: APPLICATION FOR AUTHORITY TO OPERATE	)
AS LOCAL DISTRIBUTION COMPANY AND INCUR	)
INDEBTEDNESS AND JOINT APPLICATION FOR	) **DOCKET NO. UD-24-01**
APPROVAL OF TRANSFER AND ACQUISITION OF	)
LOCAL DISTRIBUTION COMPANY ASSETS AND	)
RELATED RELIEF	)

Response of: Advisors to the Council of the City of New Orleans ("Advisors")
To the Second Set of Data Requests
Of Requesting Party: Delta States Utilities NO, LLC

Question No.: DSU 2-6

Question:

Please fully explain and provide the calculation of the regulatory liability amount to account for the loss of ADIT as proposed in the Direct Testimony of Byron S. Watson at page 51, lines 8 through 14. Please provide all workpapers supporting such calculation.

Objection:

The Advisors object to this request as unduly burdensome as it requests that the Advisors perform new analysis.

Response:

2-6: Mr. Watson has estimated an initial ADIT amount not transferred from ENO to DSU NO as $58,141,440, which can be found in *UD-24-01 BSW Direct Workpapers Revenue_Bill Impact HSPM-CS* Tab *WP1 AJ05B.1_G Loss of ADIT*, row 99, column *Transaction ADIT Adjustment*.

The regulatory liability that the Council may use to mitigate the loss of ADIT due to the Gas Transaction could be approximately this amount, and offset by any ADIT that may accumulate between the close of the Gas Transaction and the measurement date of Period II of DSU NO's initial rate case. Mr. Watson has estimated this amount as the difference between the lost ADIT and the accumulated ADIT amount of $2,788,866 presented in Tab *WP2 ADIT Accumulation*. As such, the regulatory liability could be roughly $55,352,574.

However, this amount could change, including through the accumulation of ADIT in accounts where Mr. Watson presently is unable to estimate DSU NO's operations' effects on ADIT.

The actual amount of any regulatory liability agreed-to in this proceeding would be appropriately determined as part of DSU NO's initial rate case.

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	**)))))))))))))**	**DOCKET NO. UD-24-01**

Rebuttal Testimony of

BRIAN K. LITTLE

On Behalf of

DELTA STATES UTILITIES NO, LLC

Public-Redacted Version

Contains Highly Sensitive Protected Material Being Provided to Appropriate Reviewing Representatives Who Have Executed the Official Protective Order and Highly Commercially Sensitive Information Being Provided Only To Council Advisors Pursuant to the Council Official Protective Order

June 28, 2024

BEFORE THE

COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	)	DOCKET NO. UD-24-01

AFFIDAVIT OF BRIAN K. LITTLE

STATE OF FLORIDA

COUNTY OF WALTON

Brian K. Little, being first duly sworn, on his oath states:

1. My name is Brian Little. I am a self-employed, independent contractor, and affiliated with (but not directly employed by) the consulting firm Anticipate Energy Advisors LLC. My principal place of business is located at 150 Cabana Trail, Santa Rosa Beach, FL 32459.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in this proceeding before the Council of the City of New Orleans.

3. I hereby swear and affirm that my testimony is true and correct and that it shows the matters and things that it purports to show.

Brian K. Little

Subscribed and sworn to before me this 27 day of June, 2024.

Notary Public

NOTARY PUBLIC STATE OF FLORIDA

MATTHEW JAKE BARTON
Commission # HH 293039
Expires July 26, 2026

BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE. **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	)))))))))))))	**DOCKET NO. UD-24-01**

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REBUTTAL TESTIMONY OF BRIAN LITTLE

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Brian K. Little. My business address is 150 Cabana Trail, Santa Rosa Beach, Florida, 32459.

Q: HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A: Yes. I submitted Direct Testimony on behalf of Delta States Utilities NO, LL ("**DSU NO**") in support of DSU NO's acquisition of certain assets of Entergy New Orleans, LLC ("**ENO**") that are primarily used for its natural gas distribution company ("**ENO Gas Business**") operations and assumption of certain liabilities relating to such operations. The assets ("**Purchased Assets**") and the liabilities ("**Assumed Liabilities**") are defined in the Purchase and Sale Agreement ("**PSA**"); however, generally, the Purchased Assets include ENO assets that are primarily or exclusively used for its ENO Gas Business. I will generally refer to the acquisition of the Purchased Assets and the assumption of the Assumed Liabilities in accordance with the Transaction Agreements as the "**Proposed Transaction**" and the final closing of the Transaction pursuant to the Transaction Agreements as the "**Closing**."

The purpose of my direct testimony was to address certain aspects of DSU NO's acquisition of the Purchased Assets. Specifically in my direct testimony, I: (1) introduced and described the organizational structure of the ENO Gas Business pre-Closing and of DSU NO post-Closing of the Transaction; (2) provided an overview of the plan to create stand-alone and core focused local gas distribution companies - - DSU LA and DSU NO "**DSU Utilities**") - - respectively (the "**Transition Plan**"), such that upon the transfer of the Purchased Assets at Closing the DSU Utilities are fully and operationally independent of Entergy on day one post-Closing and a seamless transfer of operations is achieved ("**Day One Readiness**"), as well as discuss the costs and benefits of the Transition Plan; (3) described the post-Closing operations, structure and systems of the DSU Utilities, including allocation of shared services costs to DSU NO and DSU LA; (4) discussed the benefits of the new services to be shared by DSU NO and DSU LA; and (5) outline accounting entries for Transition Plan costs.

Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A: The purpose of my rebuttal testimony is to respond to witness testimony offered by the Advisors to the Council of the City of New Orleans ("**Council**") regarding the Joint Application filed by DSU NO and ENO. My testimony is divided into several parts. First, I summarize DSU NO's investment in and customer benefits from DSU NO's provision of natural gas service in the City of New Orleans through the stand-up of DSU NO and a newly formed shared services entity, Delta States Utilities Services, LLC ("**DSU Services**"); importantly, this includes the unique opportunity to develop and implement a greenfield "fit-for-purpose" and modern, cloud-based information technology ("**IT**") system platform. I also summarize the revenue requirements of the DSU NO operations post-closing, other accounting and reporting related matters, and the impact of Transition Plan costs.[1]

Q: HAVE YOU REVIEWED THE DIRECT TESTIMONY OF THE ADVISORS?

A: Yes, and I appreciate the Advisor's review of the Joint Application of DSU NO and ENO. Additionally, I believe there to be significant agreement between DSU NO and the Advisors on numerous issues and look forward to working through the remaining issues and proposed conditions.

Q: ARE THERE AREAS AND ISSUES RAISED BY THE ADVISORS WITH WHICH YOU DO NOT AGREE?

A: Yes. These areas encompass (1) the benefits associated with creating a greenfield "fit-for-purpose" and modern, cloud-based IT system platform and DSU NO's Transition Plan; (2) risks of cost overruns related to the technology investment, which is the biggest portion of the Transition Plan costs; (3) system improvement costs that ENO will need to undertake regardless of the Proposed Transaction; (4) the amount and recommended treatment of ENO retained assets recovered in rates between Closing and resetting of DSU NO rates, which would be netted against the Transition Plan costs in DSU NO's initial rate proceeding; and (5) accounting controls and reporting of Transition Plan and Transaction costs.

[1] Transition Plan Costs are provided in HSPM-Exhibit DED-1 to the Rebuttal Testimony of David E. Dismukes, Ph.D., and specifically tabs "Delta Transition Cost Summary" and "EntergyOnly ENO Transition Costs."

II. DSU NO INVESTMENT IN NEW ORLEANS NATURAL GAS SERVICE

Q: PLEASE EXPLAIN WHY A GREENFIELD AND MODERN, CLOUD-BASED IT SYSTEM PLATFORM IS NECESSARY FOR THE NEW "FIT-FOR-PURPOSE" DSU NO UTILITY AND DSU SERVICES.

A: As discussed in my Direct Testimony, Entergy Corporation ("**Entergy**") is a large publicly-traded utility holding company with existing utility operations and facilities in several states, and a long-established services company that provides corporate shared services to support the operation of those utility businesses. In Louisiana, many of those shared services support the ENO and Entergy Louisiana, LLC ("**ELL**") electric businesses. Additionally, the ENO and ELL gas and electric operations share 70 IT systems that were designed and configured based on the business requirements largely focused on the electric business given the magnitude of electric operations relative to natural gas operations. Consequently, only 14 of the IT systems will be a part of the Purchase Assets and the remaining 56 IT systems will be retained Entergy. The net book value of ENO Gas Business's allocated share of the assets as of December 31, 2023, inclusive of office space, improvements and equipment is $[redacted] million. The gross book value of these retained assets allocated to the ENO gas business is $[redacted] million.

DSU Utilities are making significant investments to stand up new "fit-for-purpose" and core-focused natural gas utilities (DSU NO and DSU LA) and a new shared services organization, DSU Services through which it will build out a greenfield modern, cloud-based IT system platform, as well as onboard and train new employees solely to ensure Day One Readiness at Closing. DSU Utilities have also identified approximately 100 positions that will be created in order to staff the new shared-services organization and efficiently operate the business going forward. This will result in approximately 100 new Louisiana-based jobs, primarily resulting from direct new hires to operate DSU Services, as well as jobs to support and provide services to DSU NO.

Q: WHAT PERCENT OF THE TOTAL ESTIMATED TRANSITION COST IS FOR THE GREENFIELD, MODERN, CLOUD-BASED IT SYSTEM?

A: Approximately 75% of DSU NO's estimated total Transition Plan costs are related to the greenfield modern, cloud-based IT system platform transition, including the related infrastructure build and security and project management activities. DSU NO's estimated share of these costs based on the historical share of total gas operation costs allocated to ENO is less than the gross book value of the retained assets allocated to ENO.

Q: HOW MUCH OF THE TOTAL ESTIMATED TRANSITION COSTS ARE RELATED TO DSU NO AND HOW DO THOSE COSTS COMPARE TO THE ORIGINAL COST OF ENO'S RETAINED ASSETS?

A: Approximately 55% of the estimated total Transition Plan costs are for DSU NO based on a hypothetical allocation analysis. The 55% was determined by analyzing ENO's historical share of total actual costs allocated to ENO and ELL.[2] DSU NO's share of the total estimated Transition Plan costs is less than the original cost of ENO's retained assets.

Q: HOW IS DSU MANAGING THE RISK OF TRANSITION PLAN COST OVERRUNS?

A: As previously mentioned, the largest portion (approximately 75%) of Transition Plan costs relates to the new greenfield modern, cloud-based IT system platform. DSU Services has entered

[2] See Hypothetical Alloc Analysis tab of HSPM-CS Exhibit DED-1 to the Rebuttal Testimony of DSU NO witness David E. Dismukes, Ph.D., for ENO/ELL historical allocations.

into several contracts with Accenture International Limited ("**Accenture**")[3] such that Accenture is DSU NO's (and its affiliates') implementation partner for the new greenfield modern, cloud-based IT system platform, structured to mitigate the risk of change for a substantial portion of Transition Plan costs. The Strategic Partner Agreement between the parties provides several expressly negotiated benefits of the Transaction, including that Accenture will develop a New Orleans based office to serve DSU NO and other clients in the New Orleans area, providing an additional source of new technology-based jobs for the New Orleans market. Additionally, Accenture has agreed to provide the services at the negotiated rate cards of Entergy, providing DSU NO the rate discount of a much higher volume client, which reduces the overall cost of the Transition Plan. Most importantly, the Statements of Work with Accenture for the largest portions of the Transition Plan are being performed pursuant to a fixed-fee contract.[4] This contracting structure provides substantial risk reduction to DSU NO of the largest portion of the Transition Plan costs, as noted by Mr. Prep below.

Advisors' witness, Mr. Prep states in his direct testimony on pages 21 and 22:

> A significant variance [in Transition Plan costs] could be due to the new IT systems as the largest Transition Cost, since large new IT systems are susceptible to run over budget and over timetable. Among the potential variance in labor cost estimates, approximately 100 new employees are expected to be hired in order to perform the shared services functions performed by Entergy employees who are not transferring at Closing. And as the initial timetable may be extended by regulatory or other project delays, the "Preliminary Estimate" would have to be adjusted accordingly.

Additionally, Advisor's witness, Mr. Watson states on pages 29 and 30 of his direct testimony:

[3] See BL-1, DSU NO Response to CNO 1-11, and HSPM-CS BL-2, HSPM-CS Attachments A (TMO Arrangement Letter), B (DSU-AIL Master Services Agreement) and C (DSU-AIL Strategic Partnership Agreement) to DSU NO Response to CNO 1-11.
[4] See HSPM-CS BL-3 (DSU-AIL Statement of Work), Schedule 7, at pages 40-42 of 50.

> DSU NO is not proposing a cap on the regulatory asset. Critical to operating a new "fit for purpose" gas utility is that ability to recover the actual costs of its operations deemed to be prudently incurred. As such, any costs that DSU NO may incur in excess of its HSPM preliminary estimate that I summarized above would be the responsibility of ratepayers under DSU NO's proposal.

Mr. Prep's and Mr. Watson's statements are understandable. However, DSU NO, through its affiliate DSU Services, has taken steps to protect against such risk through the execution of fixed-fee Statements of Work with Accenture. This fixed-fee approach for the major technology components will significantly mitigate the risk of cost overruns for the technology implementation which represents the largest portion of the total Transition Plan costs, which is also the portion which would otherwise be most likely to see overruns. The fixed fee structure ensures alignment between DSU NO and Accenture in completing the Transition Plan within the prescribed estimate to remove any additional impact to customers. Moreover, any "time and materials" portions of Accenture Statements of Work, currently representing a much smaller portion of the total Transition Plan costs, are designated as "time and materials" because these portions would be most likely to be scaled down as the Transition Plan proceeds. Further, the Transition Plan itself is being scoped and tracked in significant detail from a time and cost perspective to minimize the risk of cost or schedule overruns. The granularity of this effort is demonstrated by the project schedules provided in DSU NO Response to CNO-DSU2-19.[5] Further, DSU NO would recommend setting up a periodic reporting system with the Council post-Closing to demonstrate its performance around cost projections for the Transition Plan costs to be included in the regulatory asset. This process would be similar to the industry standard approach to capital project budgeting referred to as "Stage Gate" forecasting. Initial forecasts that include contingencies can

[5] See Exhibit BL-4, DSU NO Response to CNO 2-19, and HSPM Exhibit BL-5, HSPM Attachment B (DSU Work Plan) and HSPM Attachment C (DSU Integrated Schedule) to DSU NO Response to CNO 2-19.

be further refined as actual operational conditions occur. This will also better streamline the Council's review of the regulatory asset during the future rate case. DSU NO does not intend to seek pre-approval by the Council of the final value of the regulatory asset; rather DSU NO seeks approval of the need, structure and components of the regulatory asset to support appropriate utility operations and permit DSU NO the opportunity to recover prudently incurred costs approved by the Council in the future rate proceeding.[6]

With respect to the onboarding of the approximately 100 new employees, DSU NO's plan is based on coordinating the new hires in relation to receiving regulatory approvals with most of the hires occurring after receipt of regulatory approvals, which should enable DSU NO to mitigate the risk of increased costs associated with these approximate 100 new employees. DSU NO has conservatively estimated the employee costs by applying a higher than median assumption of salary for each of the new positions. The Transition Plan costs associated with these 100 new employees account for approximately 9% of the total estimated Transition Plan costs. Given almost 84% of the Transition Costs have cost mitigation plans in place and given the expected benefits to customers from those costs, DSU NO continues not to propose a cap on the regulatory asset.

Q: CAN YOU PLEASE EXPLAIN THE BENEFITS OF THE NEW GREENFIELD MODERN, CLOUD-BASED IT SYSTEM PLATFORM?

A: The transition to a new core-focused LDC and establishment of a New Orleans headquartered gas centric operating platform, in conjunction with the opportunity to engineer, and transition customers to, a fit-for-purpose technology ecosystem will provide significant benefits to natural gas customers in New Orleans and long-term benefits to both the local and state economies.

[6] See Exhibit BL-6, DSU NO's response to CNO-DSU 1-16(d).

Moreover, DSU NO has worked closely with its consultants, transition teams and Integration Partner, Accenture, toward a solution that leverages the customer and operational benefits associated with implementing a new greenfield technology ecosystem that is specifically designed to accommodate the current and future needs of DSU NO and its customers, without the limitations that are typical of starting with legacy software and systems established for different environments. A few key design development criteria are addressed below:

Off-the-Shelf Software: The use of off the shelf software will reduce the level of overall customization while allowing for plug-and-play modifications to the ecosystem, providing cost-effective adaptability as the needs of the utility change over time. Off-the shelf-software will enable DSU NO to configure its greenfield modern, cloud-based IT platform to handle many business requirements as opposed through code changes or the addition of new decentralized systems.

Consolidation: The "greenfield" implementation allows for the deliberate simultaneous curation of fit-for-purpose features that are used to achieve a system wide integration. This consolidation reduces the number of platforms and vendors within the ecosystem as each piece is achieving more functionality.

Integration: A selection criteria for the platforms and vendors is their ability to integrate with the other platforms and systems in the ecosystem. This integration allows for cross-ecosystem use of data from one platform to another, resulting in a single source of truth for master data that is shared across transactions and processes, thus eliminating transactional breakage, unnecessary reconciliations and complex integrations.

Scalability: While the ecosystem is right-sized for DSU NO as it is envisioned today, as a standalone transaction in which the DSU Utilities acquire the natural gas assets of ENO and ELL, the criteria above collectively provide for adaptability and scalability to efficiently meet the changing needs of the utility over time. Also, the right-sized and highly-scalable systems DSUNO will establish will be supportive of future growth and investment in Louisiana as opportunities arise to expand the DSU NO business. For example, the scalability benefit can be illustrated with respect to comparing the hypothetical allocation of total Transition Plan costs of the Entergy only transaction and the Entergy + CenterPoint transaction. The scalability of the Entergy + CenterPoint transaction as compared to the Entergy only transactions results in the total Transition Plan costs on a per DSU NO customer basis to decrease approximately 40%. The cloud-based IT system platform's ability to quickly scale capacity without rearchitecting or majorly augmenting hardware or software more efficiently supports variable growth and scale in such areas as customer volume and count, Supervisory Control and Data Acquisition ("**SCADA**") asset records and overall processing of records and information. Further, cloud-based systems are energy efficient, resulting in reduced energy consumption by 22% to 93% as compared to on-premises IT system platforms according to a recent Microsoft study[7]. A few of the additional expected benefits of this system are further outlined below and in Exhibit BL-7, which is a memorandum from Accenture, DSU NO's System Integration Partner (the "**Accenture Memo**").

Customer Service/Satisfaction: The modern system proposed by DSU NO for Louisiana and its gas customers will include improvements aimed at enhancing the overall utility customer experience. While cost savings associated with a more efficient and fit for-purpose IT system are expected and will become more quantifiable over time, the more immediate, non-financial improvements that will result from this modern implementation should be considered as well. Most notably, DSU NO will be core-focused on natural gas, and every element of its interaction with

[7] https://go.microsoft.com/fwlink/?linkid=2162433&clcid=0x409&culture=en-us&country=us

customers will be gas-centric – from a customer's interactions with customer service representatives, to easy-to-navigate web portal engagement, to bill interpretation, customers will have streamlined access to account information and service options. For example, whether a customer experiences a billing question or a gas leak, they can call a Louisiana-based customer service line that exclusively resolves gas customer issues, which provides an expedited resolution when seconds count. Further, the risk of cybersecurity threats over critical data, including customer data relating to both personal identifiable information as well as consumption patterns and payment records is reduced by cloud-based solutions' high level of standardization, enabling automation of frequent security updates with reduced risk of compromise due to misconfiguration.

Challenges with Finding Resources to Support Legacy Systems: Technology, software, applications and other features associated with information management technology change at an incredibly rapid pace. This is relevant to items we all use on an everyday basis, such as smartphones to enterprise management systems used by businesses. In order to keep pace with the ever and rapidly evolving changes in technology, the software systems and applications, the vendors that service and equip such systems, and the schools that train the professionals required to do the work are, by necessity, focusing their resources on supporting current technology and evolutions of such technology in the future and not on maintaining systems of the past. The unique opportunity to implement a greenfield cloud-based IT system platform allows for the availability of properly trained talent and professionals experienced with current technology and evolution of such technology.

Scalability, Reliability, Security and Resiliency of Modern Systems: As more fully described in the Accenture Memos and above under Customer Service/Satisfaction, scalability, adaptability, security and resiliency will be key benefits for Louisiana and its gas customers in the transition to a new, modern IT solution. A right-sized, fit-for-purpose, gas-dedicated and cloud-based solution addresses many of the challenges (and costs) traditional utilities can face in supporting legacy systems and older technologies. While the efforts to establish a new system will not be insignificant, the long-term benefits to customers will be well worth the upfront time and investment required. Adaptability and more efficient operations – including the ability to upgrade systems significantly faster, on an ongoing basis as needed, and at a lower cost than traditional legacy systems – are just a couple of the key benefits that will yield long-term improved cost structures and benefit gas customers in Louisiana. The DSU NO technology ecosystem will be decentralized and cloud-based resulting in the platform being more resilient. The cloud-based and decentralized IT system platform eliminates "single points of failure" and creates built-in redundancies and backups to address any reliability and resiliency issues related to operational disruptions due to such events as hurricanes, named storms and other extreme weather events, in a way that traditional, legacy on premise systems find challenging to match. These cloud-based systems offer inherent resiliency through redundancy and provide guaranteed uptime of 99%, exceeding the capabilities of on premises systems. Additionally, the risk of cybersecurity threats and access to critical data, including but not limited to utility infrastructure assets**,** Geographic Information System ("GIS") records, personal identifiable customer information and SCADA records is reduced through the high level of standardization, automation of frequent security updates and Cloud provider's quick mobilization of focused teams when threats arise.

Further, the above benefits are in addition to a few additional key benefits of the new technology as discussed in my Direct Testimony at pages 16-18:

- The new and modern systems will enable DSU to leverage newer technology to streamline existing business processes and create the foundation for enabling more efficient operations. For example, DSU expects to leverage new technology to implement a credit and collections program, based on industry best practices, with a goal of keeping customers in good standing. This new technology would enable a rigorous delinquent account review process to minimize instances where balances are beyond a customer's ability to pay, automated payment reminders, short-term payment arrangements and proactive communications and arrangements for high balance customers.

- DSU NO expects to leverage new technology to route incoming calls to customer service representatives dedicated to gas customer service calls and trained and experienced in handling matters by class of customer.
- The new and modern systems will further enable DSU NO to be more flexible and efficient in making necessary changes for updates in business processes as well as to address new regulatory requirements, such as changes from the Pipeline and Hazardous Materials Safety Administration or the Council.

Q: ARE THERE ANY ECONOMIC BENEFITS OF THE NEW GREENFIELD MODERN, CLOUD-BASED IT SYSTEM PLATFORM?

A: Yes. The proposed transaction will result in significant long-term investment and job creation in New Orleans. DSU NO and its affiliates have committed to establish a new utility headquarters in New Orleans, which is expected to include the creation of approximately 100 new jobs in and around New Orleans, in addition to preserving the existing jobs of the approximately 200 Entergy employees in and around New Orleans primarily engaged in its natural gas operations who will receive offers of employment from the DSU Utilities or DSU Services prior to closing of the Proposed Transaction. The benefits of this new headquarters and the new jobs created are quantifiable and substantial, given that the average annual base salary for the new positions is estimated to be approximately $79,000 per year. This estimate is conservative as it is based on a base salary, which is just a component of compensation and does not reflect other meaningful employee benefits, such as full health benefits and bonus potential. Including the effect of those additional benefits – including health benefits (medical/dental/vision coverage), retirement benefit plans and related contributions, paid leave, various life insurance and accident/disability insurance plan options, and education reimbursement. The ***fully burdened*** salaries for these employees is estimated to average approximately $110,000 annually (approximately $10 million aggregated total for 2026).[8] As discussed in the rebuttal testimony of Dr. David E. Dismukes, Ph.D., the Transition Plan capital investment will result in an estimated 2026 aggregated total of more than $7 million in new labor income, and contribute over $11 million in value added (also known as gross state product or "GSP"). fully burdened salaries, for the non-executive, newly hired employees in and around the New Orleans area, which then will extend to tax-related and other economic benefits for the City of New Orleans as well as the State of Louisiana. In addition, as Dr. Dismukes discusses, DSU NO's commitment to being headquartered in New Orleans produces a multi-faceted benefit as the $7 million in estimated annual base salaries (and approximately $10 million in fully burdened salaries) trickles through the local economy, supporting local businesses and service providers, and also adds to the corporate tax basis in New Orleans and the State of Louisiana. And, as a new member of the community, there is the opportunity for additional community involvement that would not exist but for the proposed transaction. DSU NO also is working with transition partners, including Accenture, to leverage its investment in the New Orleans community with further economic benefits. Specifically, Accenture is committing to its

[8] See Exhibit BL-8, DSU NO Response to CNO 1-14 at page 4 (public-redacted version).

own long-term investment in New Orleans by establishing a new office in New Orleans. As Accenture outlines in Exhibit BL-1, the proposed transaction will result in numerous short-term and long-term benefits to ENO gas customers that are not quantifiable at this time.

Q: CAN YOU PROVIDE BACKGROUND ON THE AGE OF ENTERGY'S CURRENT IT SYSTEMS?

A: As discussed in my Direct Testimony on page 18, Entergy provided a listing of IT systems along with the systems' respective current version during due diligence. BCP, its advisors, and subsequent due diligence of its implementation partner, Accenture, has allowed for review of the release dates and maintenance periods of some of the more critical, larger and complex systems to be retained by Entergy covering the critical functions of HR management, payroll, enterprise asset management, supply chain, billing, finance, accounting and field force scheduling. The release dates of these systems, which are all on-premise IT systems, ranged from 2005 to 2020. Below is a summary of the end-of-life maintenance support periods for each of these key systems necessary for providing services to customers and supporting employees.

- **ClickMobile and ClickSchedule** core system utilized for assigning, scheduling and tracking field work and crew assignments; and managing work truck assignments – support ended in 2023.[9]
- **Maximo Enterprise Asset Management and Supply Chain** – core system utilized for managing work management activities; managing fleet vehicles; contracting with suppliers; and purchasing materials – support ending September 2025.[10]

[9] https://diabsolut.com/why-clicksoftware-8-3-is-being-retired/
[10] https://www.ibm.com/support/pages/end-support-announcement-eos-maximo-761

- **SAP Customer Care and Services** (“**CSS**”) core system utilized for maintaining customer information, including meter and consumption data; billing customers for natural gas service; collecting and posting of payments to customer accounts; recording financial and general ledger transactions; and producing financial statements – support ending 2027.[11]
- **PeopleSoft** core system utilized for entering and tracking of employee timesheets; paying employees; and managing employee benefits - support ending 2035.[12]

Q: WHAT DO COMPANIES USUALLY DO WHEN ITS SYSTEMS ARE NO LONGER SUPPORTED AND NEARING END OF LIFE?

A: Under a System Development Life Cycle process, companies will generally replace or upgrade those systems no longer being supported and nearing their end of life, especially those considered critical to day-to-day operations such as those Entergy systems described above. DSU NO is not in a position to estimate the date of transition of the Entergy consolidated technology platform and the critical systems noted above that are approaching their termination of support, nor can DSU NO accurately forecast the ongoing upgrades and updates of these critical systems to maintain functionality until a platform overhaul occurs. It is typical of technology assets, particularly on premises systems, to require significantly more substantial update and improvement to maintain functionality as they continue to age. With some of these systems developed as early as 2005, and maintenance support already expired or expiring, it is likely these costs will continue to increase into the future to maintain equivalent functionality.

[11] https://community.sap.com/t5/enterprise-resource-planning-blogs-by-members/understanding-sap-versions/ba-p/13473175
[12] https://blogs.oracle.com/peoplesoft/post/peoplesoft-support-2035

Q: ARE CLOUD BASED AND ON PREMISES SYSTEMS UPDATED IN THE SAME WAY OR AT THE SAME FREQUENCY?

A: No, on-premises IT systems, such as the legacy systems, require significant planning and resources to implement periodic updates and any upgrades. There is typically significantly increased cost associated with performing updates to on-premises IT systems versus cloud-based IT systems, as well as increased planned downtime and risk of unplanned downtime. Conversely, updates to cloud-based IT systems are constantly occurring and performed remotely with reduced risk of downtime. Additionally, the costs of these updates are bundled with the service, so they are performed without the significant additional costs associated with on-premises IT systems.

Q: WHEN ENTERGY DOES PERFORM AN UPGRADE AT SOME POINT IN THE FUTURE, HOW WOULD IT DIFFER FROM THAT PROPOSED BY DSU NO?

A: However, Entergy is a different scale of company and provides multiple lines of utility service, therefore I expect their considerations would differ from DSU NO's in many respects. This transaction provides a unique opportunity to segregate the gas and electric systems permanently, which would allow each customer base to benefit from core focused technology platform implementation and upgrades into the future. Given the size differential between gas service versus electric service within Entergy, we expect our 100% gas focused approach to provide benefits to gas customers as those services would now be provided by modern IT system platforms.

Q: ARE OTHER UTILITIES INVESTING IN MODERN CLOUD-BASED IT SYSTEMS?

A: Yes, utilities across the country are conducting similar IT modernization projects, shifting from on-premise to cloud-based IT solutions. Cloud-based IT solutions offer several benefits to utility companies as summarized by Edison Electric Institute:

> *Cloud computing may be deployed through a variety of service and ownership models; and it can allow businesses to meet their IT needs in a more cost-effective manner and with less internal effort, leaving more resources to devote to core business activities. Cloud computing can also minimize certain financial and operational risks to enterprise companies, provide greater protection against cyber-attacks, and ensure better resilience during disasters. Cloud services are also substantially more energy efficient than on-premises systems and can play a central role in corporate strategies to reduce carbon emissions.*[13]

One example of a significant IT modernization project is Con Edison's Oracle E-Business Suite Supply Chain and Finance (EBS) and Human Capital Management (HCM) Cloud Migration. Con Edison notes various benefits, including aligning with the strategic direction of their technology providers to avoid the potential risk of facing delays in enhancements and security fixes as well as enabling process improvement and related cost avoidance due to increased efficiency. The migration will also eliminate the need for costly upgrades of on-premise applications and servers, which should happen every 2-3 years and 5-6 years, respectively.[14,15]

Another example relates to CPS Energy as it recently received approval from its board and the San Antonio City Council to replace its 20-year-old on-premise operating system (SAP ERP technology platform implemented in 2001) with Oracle's integrated utility cloud platform. CPS Energy points to the many benefits of a modern cloud solution, stating that Oracle's software will streamline and increase the efficiency of operations, improve analytics, provide more resilient and

[13] Edison Electric Institute, *Reaching for the Cloud: Solutions for Regulatory Parity for Cloud Services for Utilities.* https://info.aee.net/hubfs/Reaching%20for%20the%20Cloud.pdf
[14] Con Edison, Case No. 22-G-0065, IT Panel Direct Testimony, Exhibit_(IT-1), p. 82-85.
[15] New York Public Service Commission, Case No. 22-G-0065, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans.

reliable technology, allow for personalized experiences with customers, support community commitments for bill and rate design, and improve service restoration times. The solution will also allow the utility to better track, visualize, and analyze the performance of its assets and maximize the return on investment of capital projects.[16,17]

Q: DO THE ADVISORS INCLUDE IN THEIR DIRECT TESTIMONY THE NEED TO UPGRADE OR REPLACE SYSTEMS NO LONGER BEING SUPPORTED AND / OR NEARING END OF LIFE?

A: No, the Advisors have not considered this cost to ENO gas customers absent the Proposed Transaction. DSU NO believes the Advisors should take this into consideration along with the associated upgrade and / or replacement costs as the ENO gas business would be expected to incur these costs if not for the Transaction. Additionally, an added benefit of the transaction is that the retained assets of ENO would be reduced from the Transition Plan costs in the future rate case, whereas, future improvements of the Entergy technology platform would be in addition to the existing technology rate base absent the transaction.

Q: ARE THERE ANY OTHER QUANTIFIABLE BENEFITS OF THE GREENFIELD CLOUD-BASED MODERN IT SYSTEM PLATFORM?

A: Yes. As I previously discussed, the use of off-the-shelf software will reduce the level of overall customization, providing cost-effective adaptability as the needs of the utility change over time. Further, the greenfield modern, cloud-based IT system platform will provide DSU NO with scalability, reliability, resiliency and ease of integration over-time resulting in increased efficiency

[16] CPS Energy, *CPS Energy's Board of Trustee Approves Contract to Modernize the Utility's Software Systems*. https://newsroom.cpsenergy.com/cps-energys-board-of-trustees-approves-contract-to-modernize-the-utilitys-software-systems/

[17] CPS Energy, Board of Trustees Meeting, April 2024. https://www.cpsenergy.com/content/dam/corporate/en/Documents/Trustees/APRIL-22-2024-REGULAR-BOT-MEETING-MATERIAL-V1-(POST).pdf

and fewer significant upgrade and / or replacement projects every year or two. DSU NO and its affiliates considered these factors as cost and capital expenditure projections were developed during due diligence. Mr. Watson's Direct Testimony on page 36 states "I conclude that DSU NO's O&M and capital forecasts are substantially similar to those of ENO." Thus, absent the Proposed Transaction, the IT capital plan for the ENO gas business, which currently does not include upgrades to its IT system, would be higher once considering the need for upgrades and replacement of the critical systems nearing end of life and support as previously discussed.

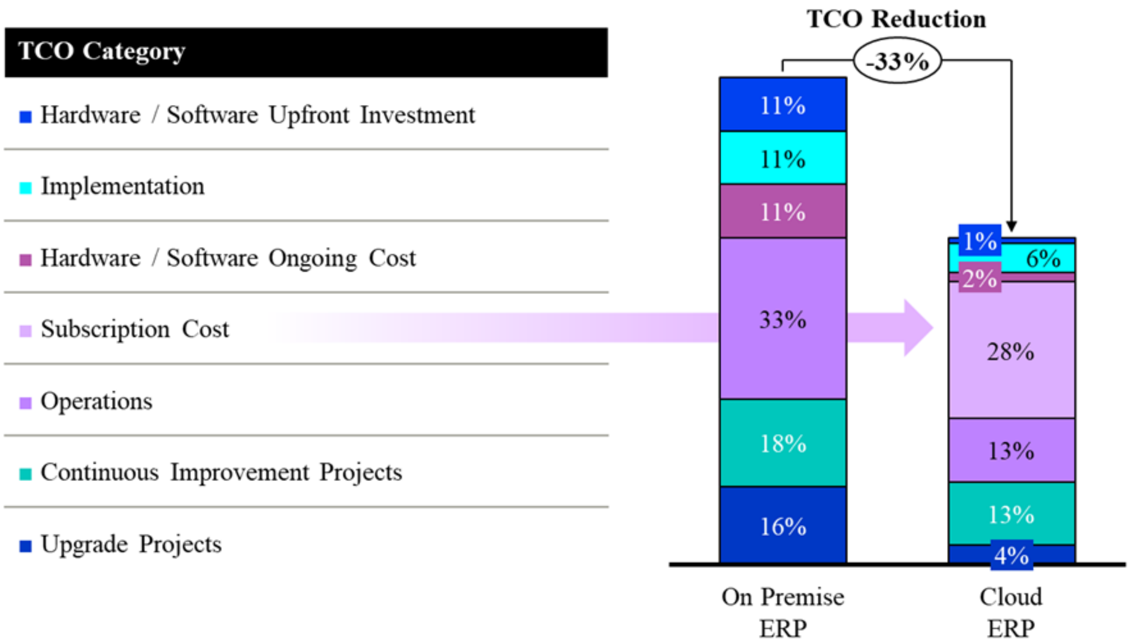
Further, with respect to IT O&M expenses,[18] DSU NO's forecasted O&M costs for IT for 2026 is estimated to be $[redacted] million and increasing to $[redacted] million in 2032 largely due to inflation. Whereas, compared to the actual IT costs allocated to the ENO Gas Business in 2022 and 2023,[19] the ENO Gas Business experienced an $1.0 million or 33% year-over-year increase in IT costs allocated and charged to it. DSU NO's O&M forecast reflects the cost efficiencies of the greenfield modern, cloud-based IT system platform. Thus, DSU NO's cost structure under the greenfield modern, cloud-based IT system platform is expected to be more efficient and result in more predictability in long-term operating costs of DSU NO.

Additionally, DSU NO has worked with its integration partner, Accenture to provide a 10-year Total Cost of Ownership (TCO) analysis of an example on-premises IT system platform consistent with Entergy's scope and scale as compared to DSU's cloud-based IT system platform. TCO is an estimate of an organization's overall expected spend to purchase, configure, install, use, monitor, maintain, optimize, and retire a product or service. Any TCO calculation will have three major buckets: initial cost and installation; ongoing operation and maintenance; and retiring the

[18] See Exhibit BL-9, DSU NO Response to CNO 1-8, and HSPM-CS Exhibit BL-10, HSPM-CS Attachment A to DSU NO Response to CNO 1-8 (DSU NO O&M and Capex forecasts).
[19] Exhibit BL-12, DSU NO Response to CNO 1-10, and HSPM Exhibit BL-13, Attachment B to DSU NO Response to CNO 1-10 (Utility Cost Allocations).

software after its useful life is over. A full-blown TCO analysis can be complicated, time consuming and based on a number of assumptions subject to change. Given Accenture's and DSU NO's limited detailed insight into the consolidated IT system platform of Entergy, the TCO analysis prepared by Accenture and included as Exhibit BL-11 is based on benchmark data sized to correspond to an enterprise of Entergy's scope and scale. The 10-year TCO analysis illustrates a 22% or $5.7 million lower TCO of the DSU cloud-based IT system platform as compared to the example on-premise IT system platform for Entergy. While the 22% lower TCO is less than the industry-wide Utility ERP Cloud TCO analysis of 33% referenced in the Accenture Memo (Exhibit BL-7) and as illustrated below, the TCO analysis still indicates significant quantifiable benefits of the modern cloud-based IT system to be implemented by DSU NO as compared to an on-premise IT system platform. Particularly considering the existing on-premises systems will have to be overhauled in the not so distant future, which has not been considered in the below.

On-premises versus Cloud TCO Impacts Estimated for Utility ERP[20]



Lastly, as discussed in the Rebuttal Testimony of Mr. David E. Dismukes, Ph.D. and included in Exhibit DED-5, a Cost Benefit Analysis ("**CBA**") of the transition costs was performed and a "benefit cost ratio" or "**BCR**" was calculated. Investments with a BCR at or greater than one can be said to be cost-effective and lead to benefits that are at least as large as, if not greater than costs. The CBA indicates the transition costs are cost effective based on the results of the following scenarios: (1) when the economic development benefits are considered for both ENO/ELL, the result is $16.5 million in net benefits or a 4.36 benefit-cost ratio; (2) when an ENO only allocation is applied, the analysis calculates $12.8 million in net benefits or a 3.6 benefit-cost ratio; and (3) if the Entergy and CERC transactions are considered together, the analysis calculates $33.1 million in net benefits or a 7.72 benefit-cost ratio.

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[20] See Exhibit BL-7, Accenture Memo; these findings are based on Accenture's own internal analyses and industry benchmarking studies; not specific to the DSU Services system.

III. REVENUE REQUIREMENTS OF DSU NO OPERATIONS POST-CLOSING

Q: DID THE ADVISORS DISCUSS DSU NO'S O&M FORECAST?

A: Yes, Mr. Watson acknowledged and discussed DSU NO's O&M forecast post Transaction Close on page 35, lines 2 through 13. Mr. Watson stated the following:

- "DSU stated that it will not develop such budgets at this time, but that it had developed a forecast for its first full year of operations."
- "DSU OM Forecast (ENO) indicates that the primary basis for this forecast is ENO's 2022 O&M expense."
- "However, broadly, DSU NO has forecasted the continuation of O&M expenses at the level experienced by ENO."

Q: DO YOU AGREE WITH MR. WATSON'S ASSESSMENT OF DSU NO'S FORECAST?

A: Yes, partially. I do agree DSU NO's forecast is largely consistent with ENO's O&M forecast. However, it is important to note, and as discussed in my direct testimony on page 21, lines 17 to 24, the DSU NO forecast while in part based on ENO's 2022 O&M expense was prepared as a bottoms-up projection of costs based on AEA and other advisors' executive leadership experience in the natural gas industry and with similar precedent transactions where gas utility assets were carved out of a larger utility. Operational and financial information and data provided by Entergy during due diligence coupled with such experience, as well as benchmark and market-based data, were utilized to determine the information technology systems, staffing levels and facilities necessary, as well as the associated costs for standing up a "fit-for-purpose" shared services organization specific to gas-only operations. Further, DSU NO provided a forecast for the first full year of operations (2026) and through 2029. Additionally, based on DSU NO's analysis of ENO's actual historical O&M costs for 2019 to 2023 from ENO's 2023 GFRP filing, total actual O&M annually increased on a compounded annual growth rate ("CAGR") of approximately 8.5% over that time period. When compared to ENO's historical O&M increases of 8.5% on a CAGR basis, DSU NO's forecast provides a meaningful potential benefit given its estimated forecast increases at only [redacted]% to account for inflation, which alone would result in an estimated 2026 forecasted revenue requirement savings of approximately $[redacted] million based on escalating ENO's actual 2023 O&M from the 2023 GFRP filing at [redacted]% (which is far less than the historical 8.5%) through 2026 as compared to DSU NO's 2026 estimated O&M forecast.[21]

Q: ARE THERE OTHER REVENUE REQUIREMENT IMPACTS EXPECTED IF THE COMBINED (ENTERGY + CENTERPOINT) TRANSACTIONS CLOSE?

A: Yes. the consolidated shared services company would provide greater core focused resources, and economies of scale. These economies of scale are estimated to provide savings of up to 10% for the shared services O&M.[22]

Q: DID THE ADVISORS DISCUSS DSU NO'S CAPITAL EXPENDITURES FORECAST?

A: Yes, Mr. Watson concluded on page 36, lines 3 to 4 of his Direct Testimony DSU NO's capital forecast was substantially similar to ENO's forecast.

Q: DO YOU HAVE ANY THOUGHTS ON MR. WATSON'S ASSESSMENT OF DSU NO'S CAPITAL EXPENDITURES FORECAST?

A: Yes, and I share Mr. Watson's perspective but would also like to address a few points related to DSU NO's forecast of capital expenditures associated with ENO's Gas Infrastructure Replacement Program ("**GIRP**") program. First, DSU NO is committed to continuing capital

[21] See HSPM-CS DSU NO Response to CNO 1-8, Attach A - - DSU OM Forecast (ENO)
[22] See DSU NO responses to CNO-DSU 3-8, CNO-DSU 3-11 and CNO-DSU 3-13.

expenditures under GIRP, including the Phase II 10-year extension (2023 to 2032). Second, the Advisors asked DSU NO, in CNO-DSU 3-22(d), to discuss and justify the substantial increase from ENO's GIRP to DSU NO's GIRP plan. Based on Mr. Watson's conclusion DSU NO's capital forecast is substantially similar to ENO's forecast, I've concluded Mr. Watson understood and agrees with DSU NO's response, as well as the use of a 2.3% inflation rate assumption was appropriate and reasonable regardless of the proposed transaction or owner. DSU NO responded as follows to CNO-DSU 3-22:

> As compared to ENO's capex forecast in the Confidential Information Presentation provided as HSPM DSU NO Response to CNO 1-23, Attach A - Project Delta - CIP (2023 03 16) vF 4874-0158-8391 v.2, DSU NO's total preliminary forecasted GIRP capex for the annual periods from 2026 through 2029 is higher by 3.5%. The difference is due to DSU NO applying a reasonable year-on-year annual inflation rate of 2.3% to ENO's GIRP capex forecast starting in 2026 relative to ENO's 2025 GIRP capex forecast that was held flat for the annual periods 2025, 2026 and 2027. ENO's forecasted total mileage of 39 miles under GIRP's phase 2 as noted in the Confidential Information Presentation and covering the period 2023E to 2032E is consistent with the total mileage forecasted by DSU NO.

Q: DO DSU NO AND ADVISORS AGREE CERTAIN OF ENO'S ASSETS WILL BE RETAINED AND NOT TRANSFERRED TO DSU NO AT TRANSACTION CLOSE?

A: Yes, DSU NO agrees with the Advisors ENO assets encompassing IT systems and applications; structures and improvements; tools, shop & garage equipment; communications equipment; land; and office furniture and equipment will not transfer to DSU NO at Transaction Close and will be retained by ENO.

Q: DO THE ADVISORS AGREE WITH DSU NO'S PROPOSAL TO NET ANY AMOUNTS IT RECOVERS IN RATES IT ADOPTS AT CLOSING RELATED TO THE

RETAINED ASSETS AGAINST THE REQUESTED REGULATORY ASSET FOR ITS SHARE OF TRANSITION COSTS?

A: As discussed in my Direct Testimony on page 26, lines 10 to 13, DSU NO is requesting to create a regulatory asset(s) to record its share of total transition costs so that it can seek to recover such costs, net of any amounts it recovers in ENO rates it adopts at Closing related to the Entergy retained assets, pursuant to its future general rate case filing, inclusive of a prudency review. The Advisors and DSU NO agree with the proposal to net any amounts recovered in ENO rates DSU NO adopts at closing; however, Mr. Watson recommends the amount to be netted only relate to the IT systems and applications and exclude the amounts related to the other retained assets.[23] DSU NO understands Mr. Watson's recommendation is based on the assumption that only the IT systems and applications retained by ENO will be replaced by DSU NO. However, DSU NO does not agree with Mr. Watson's assumption and conclusion because DSU NO will need to replace the other retained assets in order provide safe and reliable gas service to customers, resulting in DSU NO incurring costs to replace the other retained assets. For example, DSU NO has included additional facilities costs in its O&M forecast[24] to cover DSU NO's estimated share of corporate headquarters facilities costs. With the addition of these corporate HQ facilities costs in its O&M forecast along with facilities costs already included in its estimated total transition costs, DSU NO has built in costs for its share of the new corporate headquarters and its new operations center, which may be an owned and not leased facility. This information will be known at the time of the future rate case to be filed not sooner than 15 months post Transaction Close and be subject to the

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[23] See Table 3 on page 45 and discussion on lines 6 to 10 on page 43 of Mr. Watson's Direct Testimony.
[24] See DSU Other Adjustments tab of HSPM-CS DSU NO Response to CNO 1-8, Attach A - - DSU OM Forecast (ENO), which is provided in HSPM-CS Exhibit BL-10 to my rebuttal testimony.

Council's prudency review. Therefore, DSU NO continues to propose the entire amount of the retained assets be netted against the requested regulatory asset for total transition costs.

IV. OTHER ACCOUNTING MATTERS

Q: PLEASE SUMMARIZE THE OTHER ACCOUNTING-RELATED RECOMMENDATIONS MADE BY THE ADVISORS SPECIFIC TO DSU NO.

A: The Advisors make several recommendations related to accounting and reports:

a. DSU NO should keep its books of account according to FERC accounting guidance and present its per book accounting by FERC Account as part of rate action applications;[25]

b. DSU NO's audit should be in conformance with FERC accounting and its financial statements should be presented in a format supportive of regulatory ratemaking (e.g., the layout by FERC Account used by electric utilities in FERC Form 1).[26] These independently audited financial statements should also be presented to the Council at least annually.[27]

c. DSU NO shall provide for the Council's consideration and review the most current draft of the shared services agreement between DSU Services and DSU NO, including a detail of cost categories and allocations of shared services costs prior to any order approving the transaction.[28]

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[25] See Direct Testimony of Byron S. Watson at 50.
[26] See Direct Testimony of Byron S. Watson at 26.
[27] See Direct Testimony of Byron S. Watson at 50-51.
[28] Pages 13 and 25 of Victor M. Prep's Direct Testimony.

d. DSU NO shall submit monthly reports for the Council's consideration of DSU NO's detailed Transaction Costs and Transition Costs, if Transition costs are allowed by the Council to be recovered from ratepayers, including the internal control processes and recording to accounts to demonstrate the separation of Transaction Costs. Pending final Council approval of the transaction, if granted, such reports could be submitted quarterly.[29]

e. The Council should require that DSU NO perform an independent accounting audit of its accounting and internal controls processes post-closing to assure that costs are properly allocated to DSU NO and segregated into appropriate accounts to record Transition Costs, Transaction Costs, and other types of costs and expenditures.[30]

Q: DOES DSU NO AGREE TO KEEP ITS BOOKS OF ACCOUNT ACCORDING TO FERC ACCOUNTING GUIDANCE AND TO PRESENT ITS PER BOOK ACCOUNTING BY FERC ACCOUNT AS PART OF ITS RATE ACTION APPLICATIONS?

A: Yes. DSU NO intends to follow and comply not only with FERC 18 CFT Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act,[31] but also all FERC accounting orders and guidance relative to a gas utility. Additionally, DSU NO's chart of accounts will be designed and structured in accordance with the Uniform System of Accounts.

Q: DOES DSU NO AGREE THAT ITS AUDIT SHOULD BE IN CONFORMANCE WITH FERC ACCOUNTING AND ITS FINANCIAL STATEMENTS SHOULD BE

[29] See Direct Testimony of Victor M. Prep at 25.
[30] See Direct Testimony of Victor M. Prep at 26.
[31] See Exhibit BL-14, DSU NO response to CNO 1-6(d).

PRESENTED ANNUALLY IN A FORMAT SUPPORTIVE OF REGULATORY RATEMAKING?

A: Yes. In discovery, DSU NO committed to preparing third party audited consolidated financial statements in accordance with GAAP.[32] Mr. Watson noted that the proposed independent audit is not sufficient for the Council's ratemaking.[33] DSU NO believes its third party audited financial statements will be sufficient for and supportive of regulatory ratemaking given DSU NO's commitments to (1) comply with FERC 18 CFT Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act along with all FERC accounting orders and guidance relative to a gas utility, pursuant to FERC Form 2 (which is the layout of FERC accounts used by natural gas utilities) and (2) design and structure its chart of accounts in accordance with the Uniform System of Accounts. DSU NO recognizes that Mr. Watson specifically referenced, as an example, use of FERC Form 1. However, FERC Form 1 is specific to electric utilities.

Q: DOES DSU NO AGREE TO PROVIDE A DRAFT OF THE SHARED SERVICES AGREEMENT BETWEEN DSU SERVICES AND DSU NO PRIOR TO ANY ORDER APPROVING THE TRANSACTION?

A: As discussed in DSU NO's responses to DSU-CNO 1-10, 1-35 and 3-8, DSU NO has been working to develop an interim shared services agreement to be executed among Delta States Utilities Services, LLC, DSU NO and DSU LA that will include similar services and allocation methodologies of the costs of such services as exist today for the ELL and ENO gas utilities until a more refined and streamlined methodology is developed.[34] Further, such interim agreement

[32] See Exhibit BL-14, DSU NO response to CNO 1-6(c).
[33] See Direct Testimony of Byron Watson at 26.
[34] See Exhibit BL-12, DSU NO Response to CNO 1-10; Exhibit BL-15, DSU NO Response to CNO 1-35; and Exhibit BL-16, DSU NO Response to CNO-DSU 3-8.

would not impact customer rates absent a subsequent approval of the Council since DSU NO will be assuming ENO's rates in effect at Closing or supported by the most recent GFRP evaluation period. While DSU NO fully intends to maintain resulting shared services allocations consistent with the current allocation of shared services between ELL and ENO, with respect to their natural gas operations, as a gas-only utilities, DSU's allocation of service company costs would be less complex than those for integrated gas and electric utilities, like ELL and ENO. Given the complexities of the allocation methodology and the lack of impact on customer rates, DSU NO intends to continue to develop this agreement as it works to stand up the shared services company but proposes that it provide the agreement to the Advisors closer to Closing.

Q: DOES DSU NO AGREE TO REPORT TRANSACTION AND TRANSITION COSTS AS RECOMMENDED BY THE ADVISORS?

A: As discussed in DSU NO's response to CNO-DSU 5-1,[35] upon completion of the first full quarter after regulatory approvals of the transaction, DSU NO will commence filing quarterly reports of the Transition Plan costs. The Council would then review the prudency of Transition Plan costs when DSU NO files its first rate case not sooner than 15 months post Transaction Close.

Regarding transaction costs, DSU NO has committed to not requesting the recovery of Transaction Costs, as defined in DSU NO Response to CNO 1-8,[36] in this filing or in future filings, and thus they will have no impact on customers, through rates or otherwise. Further, a number of Transaction Costs are not readily allocated to DSU NO because they are part of multi-jurisdictional transactions. It would be administrative burdensome to continuously delegate these costs to DSU NO, particularly since DSU NO has committed to not recovering them and committed to reporting on Transition Plan cost. Therefore, the reporting of Transaction costs were not proposed to be

[35] See Exhibit BL-17, DSU NO Response to CNO-DSU 5-1.
[36] See Exhibit BL-9.

provided to the Council. However, while DSU NO believes reporting on Transition Costs should be sufficient to allow the Council to ensure ratepayers are only paying for prudently incurred Transition Plan costs, DSU NO is open to preparing an accounting of Transaction Costs to submit to the Council as part of its initial rate proceeding to accommodate the Advisors concerns.

Q: DOES DSU NO AGREE TO PERFORM AN INDEPENDENT ACCOUNTING AUDIT OF ITS ACCOUNTING AND INTERNAL CONTROLS PROCESSES POST-CLOSING TO ASSURE PROPER ALLOCATION AND SEGREGATION OF COSTS INTO APPROPRIATE ACCOUNTS TO RECORD TRANSITION COSTS, TRANSACTION COSTS, AND OTHER TYPES OF COSTS AND EXPENDITURES?

A: DSU NO appreciates the importance of having an effective system of internal controls over financial reporting. Internal controls over financial reporting are considered as part of a financial statement audit performed to provide assurance that financial statements are prepared in all material respects with GAAP. DSU NO has committed to an annual financial statement audit and therefore its internal controls over financial reporting including controls that would provide assurance for the proper accounting and allocation of transition and transaction costs to the appropriate financial statement accounts would be an overall part of the scope of this financial statement audit. This would be fairly standard practice regarding internal controls over financial reporting.

V. CONCLUSIONS AND RECOMMENDATIONS

Q: PLEASE SUMMARIZE YOUR CONCLUSIONS.

A: The Proposed Transaction enables DSU NO to implement new and modern systems, benefiting ENO Gas customers as previously discussed in my testimony, and with controls in place to minimize risks of cost overruns relating to such IT improvements. Thus, as discussed in the rebuttal testimony of Dr. David E. Dismukes, Ph.D., the Proposed Transaction is expected to result in net benefits from the new, modern IT system, as well as other significant economic benefits to the City of New Orleans and the State of Louisiana.

As I have discussed in my rebuttal testimony, these benefits include: DSU Utilities making significant investments to stand up new "fit-for-purpose" and core-focused natural gas utilities and a new shared services organization through which it will build out a greenfield modern, cloud-based IT system platform, as well as onboard and train new employees solely to ensure Day One Readiness at Closing for providing safe and reliable gas services to customers; creation of approximately 100 new positions to staff the new shared-services organization and efficiently operate the business going forward, which will result in approximately 100 new Louisiana-based jobs, resulting either from direct new hires to operate DSU Services as well as to support and provide services to DSU NO, the addition of full-time permanent positions in Louisiana from firms hired to support the business, or some combination thereof; benefits that will result from implementation of a "greenfield" modern IT system, such as scalability, adaptability, improved process for system upgrades and reduced Total Cost of Ownership from less frequent upgrades, increased efficiency, improved customer service and lower O&M costs, which would come at a cost (an avoided cost) comparable to what it will cost ENO to invest in upgrades and overhauls to its on-premise, older system to maintain functionality; millions of dollars in economic benefits to New Orleans and Louisiana from locating DSU's new corporate headquarters in New Orleans; among others.

Q: WHAT IS YOUR RECOMMENDATION TO THE COUNCIL?

A. Based on the net benefits (qualitative + quantitative) from DSU NO and its affiliates' investment in Transition Plan costs, and in particular costs relating to the modern, cloud-based IT system and hiring of 100 new employees, as well as the economic benefits to the City of New Orleans and state of Louisiana, I recommend that the Council find that the Proposed Transaction, inclusive of DSU NO and ENO's requested relief in the Joint Application, is in the public interest.

Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A: Yes, it does.

**BEFORE THE
NEW ORLEANS CITY COUNCIL**

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01**
	)	**MAY 17, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	)	

AAE-DSU 1-11: Please detail the experience and qualifications of the DSU team relating to managing and operating a gas distribution utility. Please relate this experience and these qualifications to the challenges of operating a gas distribution utility in the current business, regulatory, and climate environment.

Response:

THIS RESPONSE CONTAINS HIGHLY SENSITIVE PROTECTED MATERIAL THAT IS BEING PROVIDED ONLY TO APPROPRIATE REVIEWING REPRESENTATIVES WHO HAVE EXECUTED TO COUNCIL'S OFFICIAL PROTECTIVE ORDER.

DSU NO directs AAE to see the pre-filed Direct Testimony of DSU NO witness Brian Little and his Exhibit BL-1 thereto. In addition, DSU NO (and its affiliate DSU LA) has made the commitment to offer employment to approximately 200 existing Entergy employees who currently operate the gas distribution system today and will ensure institutional knowledge is retained at DSU NO to facilitate a seamless transition and Day One readiness. This includes the hiring of Mr. Anthony P. Arnould, Jr., who is currently the Director of Gas Distribution for Entergy Services, LLC. As discussed in Mr. Arnould's Direct Testimony in this proceeding, Mr. Arnould currently oversees all aspects of the safe, reliable delivery of natural gas service to natural gas customers of ENO and ELL. His specific responsibilities that provide him with significant and valuable experience in operating a natural gas utility include, but are not limited to, safety, compliance with applicable pipeline safety regulations, operations, customer service, construction, maintenance, engineering, planning, and gas real-time system monitoring and dispatch for the gas distribution system. Post-Closing, his continued management of these natural gas operations will provide continuity and help to facilitate seamless transition. Further, DSU NO anticipates the hiring of approximately 100 new employees for the new shared services company, and is currently in discussions with a number of utility experienced candidates to begin filling these roles.

Prepared by: Jeffrey Yuknis, Member DSU Board of Managers, Managing Director Bernhard Capital Partners, Member BCP Investment Committee

HSPM-CS EXHIBIT BL-2

(ACCENTURE CONTRACTS)

<u>REDACTED</u>

Contains Highly Commercially Sensitive Information Being Provided Only to Appropriate Reviewing Representatives of the Council Advisors Pursuant to the Council's Official Protective Order

HSPM-CS EXHIBIT BL-3

(ACCENTURE SOW)

REDACTED

Contains Highly Commercially Sensitive Information Being Provided Only to Appropriate Reviewing Representatives of the Council Advisors Pursuant to the Council's Official Protective Order

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE **IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.**	**))))))))))**	**DOCKET NO. UD-24-01** **March 20, 2024**

CNO 2-19 Please refer to the Direct Testimony of Brian K. Little, section IV, Transition Plan, starting at page 11.

a. Referring to page 11, line 23, please provide a copy of the transition plan team organizational structure document for each of DSU and Entergy.

b. Referring to page 13, line 18, please provide copies of all documents that constitute an initial transition plan.

c. Has a final transition plan document or documents been completed?

   i. If yes, please provide copies of all such documents.

   ii. If no, please

      1. indicate when, in terms of a calendar month and year, these documents will be completed;

      2. provide copies of all such documents when completed; and

      3. provide copies of all interim drafts of such documents.

d. Referring to page 16, line 8, which says, "DSU and Entergy are working collaboratively to fully build out the Transition Plan and staff the various Transition Plan delivery teams."

   i. Please describe in detail the status of this described collaboration.

e. Referring to page 16, line 9, which says, "DSU has engaged and is planning to engage additional third-party transition partners to staff the Transition Plan Team."

   i. Please identify each third-party partner that has been engaged and describe that partner's role.

   ii. Please provide an organizational description of the Transition Plan Team and describe each team member's role.

Response:

THIS RESPONSE CONTAINS HIGHLY SENSITIVE INFORMATION THAT IS BEING PROVIDED ONLY TO APPROPRIATE REVIEWING REPRESENTATIVES WHO HAVE EXECUTED THE PROTECTIVE ORDER FOR THIS PROCEEDING.

(a) Please see HSPM Attachment A to DSU NO's Response to this request for DSU NO's transition team organization structure.

(b) Please see attached work plan and integrated schedule being provided as HSPM Attachment B to this request (the "Work Plan") and HSPM Attachment C to this request (the "Integrated Schedule"), respectively.

(c) The Work Plan provided in HSPM Attachment B to this response is structurally complete. However, work process design is still in progress and will continue throughout summer. Thus, the Work Plan will continue to evolve, expand and become more detailed as we progress through the design/build process.

(d) DSU and Entergy continue to work collaboratively to support DSU's implementation plan for building out the new systems, processes and staffing requirements to ensure Day One Readiness following the closing of the transaction.

At the Transition Management Office (TMO) level (oversight of the program), DSU and Entergy leaders have been meeting on a weekly basis to address any overall transition matters and to ensure the overall process is progressing as planned in terms of expectations and timelines.

At the Program Management Office (PMO) level, DSU and its Transition Partner, Accenture International Limited (Accenture), have been focused on developing the "playbook" for implementation of the various workstreams. Key to the overall support of this process is that DSU and Entergy have been working collaboratively on a defined process for sharing of information between the two parties and are meeting on a weekly basis to assess any issues, and remedy any identified gaps, related to that process. A significant amount of scoping and planning work has been done within each of the key workstreams, and DSU and Accenture are focused now on ensuring the appropriate resources (subject matter experts, or SMEs) are in place and assigned to the appropriate workstreams for the next phase of implementation.

(e)

(i) DSU has signed a Master Services Agreement (MSA) and a related Strategic Partnership Agreement (SPA) with Accenture to provide planning and implementation services under a Statement of Work (SOW) that is currently in process. Please also see DSU NO's response to CNO 1-11 and the HSPM-CS attachment provided therewith.

In addition to Accenture, DSU continues to retain under contract the services of Anticipate Energy Advisors, LLC (AEA) and its affiliated consultants (identified previously in the Application filing and discovery responses) to provide advisory services throughout the planning and implementation processes.

The DSU Steering Committee will continue to engage resources as needed for planning and implementation processes and implementation of the Transition Plan.

ii. Please see DSU NO's response to 2-19(a).

Prepared by: Jeremy Turner, DSU Chief Transition Officer

HSPM EXHIBIT BL-5

(HSPM Attachments A & B to DSU NO Response to CNO 2-19)

REDACTED

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01**
	)	**May 3, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	

CNO 1-16: Please refer to the Direct Testimony of Jeffrey Yuknis, page 38, which states: "*Creation of a regulatory asset is a critical component of the Transaction to ensure that DSU NO has the opportunity in the future to recover its investment in standing up a stand-alone LDC,*" and provide the following:

a. Detailed projected cost estimate of the shared costs and other related LDC "set-up" costs, currently available;

b. If a complete set of such "set-up" costs is still being formulated, please indicate when a more completed set of costs will be available;

c. The budget for the proposed regulatory asset, including all supporting documents such as indicative prices for key components, estimates, or bids, and if not complete at this time, when the complete identification of the regulatory asset will be available;

d. Will DSU NO commit to a maximum amount for this regulatory asset above which DSU NO will not seek recovery through rates? If yes, state that dollar amount.

e. Please describe in detail when and how the regulatory asset will be recovered through rates.

f. Referring also to the Direct Testimony of Brian Little, page 28, which states: *"The Transition Plan strategy will also continue to seek out opportunities to reduce the forecasted costs and use incentives with implementation partners to stay within or lower than the projected, budgeted costs. DSU NO is requesting to create a regulatory asset(s) to record its share of these costs…*," provide all planning studies, opportunities explored with implementation partners, or consideration that was given to the recovery of Transaction LDC costs, other than through a regulatory asset.

Response:

(a)-(c)

Please see DSU NO First Supplemental Response to CNO 1-14(c) and HSPM-CS Attachment C provided as an attachment thereto for the DSU NO and DSU LA "set-up" costs responsive to this request, which provides a preliminary estimate of the transition costs associated with the implementation of the Transition Plan and stand-up of DSU LA and DSU NO (the "Preliminary Estimate"), including the implementation of a new modern cloud-based information technology ("IT") environment. The details of DSU LA and DSU NO's Transition Plan work are further discussed and defined in the Direct Testimony of Mr. Brian Little. And, the customer benefits and details of the Transition Plan are further discussed in the Direct Testimony of Mr. Jeff Yuknis and DSU NO Response to CNO 1-14(c) and First Supplemental Response to CNO 1-14(c).

(d)

DSU NO is not proposing a cap on the regulatory asset. Critical to operating a new "fit for purpose" gas utility is that ability to recover the actual costs of its operations deemed to be prudently incurred. Further, the transition costs to be deferred to a regulatory asset will result in a development and implementation of a modern, cloud-based IT platform that will create efficiencies for customers and allow for economies of scale and reduced customer impact with growth of the Delta Utilities natural gas operations, such as the proposed acquisition of CenterPoint Energy Resources Corp.'s Louisiana and Mississippi natural gas assets and the implementation of the organic customer growth strategy discussed in DSU NO Response to CNO-DSU 4-4.

Rather than operate under a system of "guarantees and caps" for the regulatory asset that may tend to stifle efficiency and discourage innovation of a new company, DSU NO would recommend setting up a periodic reporting system with the Council post-Closing to demonstrate its performance around cost projections for the Transition Plan, as discussed and defined in the Direct Testimony of Mr. Brian Little, to be included in the regulatory asset. This process would be similar to the industry standard approach to capital project budgeting referred to as "Stage Gate" forecasting. Initial forecasts that include contingencies can be further refined as actual operational conditions occur. This will also better streamline the Council's review of the regulatory asset during the future rate case. DSU NO does not intend to seek pre-approval by the Council of the final value of the regulatory asset; rather DSU NO seeks approval of the need, structure and components of the regulatory asset to support appropriate utility operations and permit DSU NO the opportunity to recover prudently incurred costs approved by the Council in the future rate proceeding.

(e)

As discussed in the Direct Testimony of Mr. Brian Little at pages 29-30, DSU NO will request recovery of the actual net regulatory asset costs in its future general rate case filing that will not be made sooner than 15 months post-Closing. In the interim, DSU NO proposes to adopt and utilize the rates, terms and conditions of the GFRP, GIRP, IM Program and any other applicable tariffs, rate schedules and riders of the ENO Gas Business in effect at the Closing or supported by the most recent evaluation period so that current customers will receive service under the same rates as they would have for gas services provided by ENO at Closing. Further, DSU NO proposes to amortize its regulatory asset cost balance during this interim period in an amount equivalent to Entergy's retained asset recovery inherent in the ENO Gas Business customer rates. This process will allow DSU NO to maintain constant customer rates while also reducing the regulatory asset balance to prevent customers from being charged twice – once for the rates continuing during the interim period which provide a recovery for depreciation of the assets that are being retained by Entergy (which will be part of the rates charged by DSU NO until Closing) and again for the cost of the regulatory assets of DSU NO to replace the Entergy retained assets (which will serve as the future basis for DSU NO's rates after the Council considers its future general rate application). Please see HSPM-CS Attachment C to CNO 1-14, for an illustration of this concept,

The regulatory asset would be subject to review as a part of DSU NO's future general rate case, which will provide the Council the opportunity to evaluate the prudency of expenses as well as determine for the remaining (net) regulatory asset balance the return component, depreciation expense and amortization period.

(f)

DSU NO will not seek to recover transaction costs through customer rates or as part of the regulatory asset. Rather, DSU NO intends to account for all transaction costs using the accounting protocols outlined in DSU NO's Response to 1-18 in order to segregate transaction costs that DSU NO will not seek to recover from Transition Plan costs, which DSU NO is requesting to defer to a regulatory asset. DSU NO has not utilized incentives to date but is aggressively managing project scope and utilizing Accenture's negotiated rates with Entergy to control Transition Plan costs.. Additionally, DSU NO is already working with the City of New Orleans, State of Louisiana and the business community on economic incentives related to local investment, new employees and new corporate headquarters, which could positively impact transition and other costs, which benefits would be passed through to customers through rates.

Prepared by: AEA and associated consultants

accenture

April 18, 2024

TO: Jeremy Turner

FROM: Accenture

RE: DU Services Technology Platform Benefits Memorandum

Dear Mr. Turner:

At your request, we have prepared, as System Integrator for the implementation of new information technology ("IT") platforms for the Delta Utilities ("DU") new shared services company ("DU Services"), a perspective regarding (i) how DU Services new, modern IT and customer interfaces will differ from existing on-premise IT and customer interfaces; and (ii) a description of each customer benefit related to the referenced modernization.

Accenture's 30 years of Utility Industry knowledge, relevant technology experience, and supplemented by research and analysis forms the basis for our perspectives outlined herein. In addition, Accenture has been supporting Entergy New Orleans, LLC ("ENO") and Entergy Louisiana, LLC ("ELL") ("Entergy") with divestiture of its natural gas local distribution companies ("LDCs") since March 2023 and has been supporting DU with acquisition-related activities with respect to the acquisition of the Entergy LDCs since November 2023. In this context, Accenture has developed an understanding of various technical and operational considerations also applicable to the acquisition of the natural gas assets of CenterPoint Energy Resource Corporation's natural gas assets in Louisiana and Mississippi ("Proposed Transaction").

In consideration of the full scope of technologies necessary to support the Proposed Transaction, DU is creating a "fit-for-purpose" operational system for a stand-alone gas distribution company. DU recognizes the significant opportunity to benefit customers with an updated, flexible suite of cloud-based software that will not only align with the following DU guiding principles, but also provide both cost and operational benefits to customers over the life of the system.

DSU Guiding Principles

- **Greenfield** – DU Services is a new shared services company being created to support new stand-alone LDCs, and as such has the unique opportunity to design and implement new operating technologies unencumbered with the challenges of legacy technologies and production system maintenance. This opportunity allows DU Services to implement a fit-for-purpose technology ecosystem that is designed specifically to accommodate the needs of the new DU LDCs and their customers, without the limitations that are typical of older legacy software and systems. Virtually all other utilities seeking modernization must upgrade while also operating, which adds complication and cost. DU is laser focused on establishing its "Greenfield" technical footprint. In Accenture's experience, we estimate this has the potential to be 10-20% more efficient than copying the legacy technology footprint.

- **Off-the-Shelf Software** – Technologies have been evolving across the industry for decades and while the off-the-shelf software vendor ecosystem is mature, it is evolving rapidly. Vendors consistently update their platforms to maintain relevance and enable innovation across the industry. DU LDC customers and communities will benefit from these platforms which have been used across industries and instances. While enabling the unique needs of the Louisiana operating environment, DU Services will minimize customizations to reduce standup and operating costs and lower likelihood for bespoke errors. This concept ensures adaptability into the future, as the plug and play platforms can be replaced or upgraded to accommodate the evolving needs of DU Services and the DU LDCs it will be supporting.

- **Consolidation** – Legacy platforms evolve over time to include new capabilities as they emerge in the marketplace. This leads to increased complexity in the systems themselves, maintenance of those systems, future enhancements of those systems, as well as the complexity of coordinating a larger set of vendors. An additional benefit to implementing a "Greenfield" technology ecosystem is the ability to deliberately consider fit-for-purpose, fully integrated tools which enable a broader set of functions; and in turn, allows the overall ecosystem to be comprised of few platforms from fewer vendors. This in turn is simpler to build, maintain, and operate.

- **Integration** – Data is used in unique ways across the enterprise for distinct functions. By having integrated, off-the-shelf systems, the usage and manipulation of data is natively established as part of the solutions. This can reduce stand-up and maintenance costs, as well as reduce duplicate data entry of the same data and information into disparate systems. Further, as future needs are identified, these platforms are typically extensible through predefined Application Programming Interfaces (APIs) and integration points which allow data exchanges to be simplified as needs continue to evolve in the future.

- **Scalability** –DU sees the potential that a strong, efficient, modern technology ecosystem could scale to support a larger utility. Thus, by making fit-for-purpose technology design choices today, DU Services will have the backbone and be better positioned for potential system expansion over the long-term. This will enable DU to efficiently add new customers in the future at a low incremental cost per customer and allow the costs to operate to be spread over a broader customer base.

Cloud-Based Software

Cloud has become the common construct for modern IT architecture. Four of the largest cloud providers in the nearly $700bn market[1] – Microsoft (Azure, part of Microsoft Cloud), Amazon (AWS), and Alphabet (Google Cloud), and Oracle (Oracle Cloud) – have seen remarkable adoption over the past decade indicative of industry's preference towards cloud. AWS, for example, has seen 30x revenue growth to $90bn since 2013[2], Google Cloud 8x to $33bn since 2017[3]; Microsoft Cloud's revenue sits at $111bn[4], and Oracle

[1] https://www.statista.com/outlook/tmo/public-cloud/worldwide

[2] https://www.statista.com/statistics/233725/development-of-amazon-web-services-revenue/

[3] https://www.statista.com/statistics/478176/google-public-cloud-revenue/

[4] https://www.microsoft.com/investor/reports/ar23/index.html

Cloud's at $35bn[5]. The utilities industry at large has seen slower cloud adoption, encumbered by the nuances of regulated economics and disparate systems. However, DU's desire to base its new IT platform on both Cloud-based and Cloud-hosted systems (here summarized as "cloud-based") is consistent with the customer and value-centric strategies of major utilities such as:

- **National Grid**'s 2023 Future Grid Plan highlights cloud technologies as a key mechanism by which to improve system reliability specifically noting the avoidance of expensive, specialized hardware, lower energy consumption and increased system uptime with unlimited computing resources[6].
- **Duke Energy**, in one example, is collaborating with AWS to develop cloud-based smart grid solutions which will enable the utility to improve system resiliency, increasingly integrate renewables, and prepare for electric vehicle ("EV") adoption[7].
- **Sempra's San Diego Gas & Electric** has adopted cloud technologies across the organization. Both in core system upgrades to enable improved customer service interactions and insights[8], as well as to remotely conduct studies identifying field assets in need to repair following natural disasters[9].

This broader theme of "utility migration to cloud" is often a positive topic of conversation among utilities industry groups like Electric Edison Institute ("EEI") and Electric Power Research Institute ("EPRI")[10]. Nearly 8 years ago in 2016, the National Association of Regulatory Utility Commissioners ("NARUC") authored *Resolution Encouraging State Utility Commissions to Consider Improving the Regulatory Treatment of Cloud Computing Arrangements* which documents benefits of cloud-based applications.

Cloud-based applications have demonstrated significant benefits within the utility industry. This memorandum describes similar benefits DU and its customers can realize through the deployment of a cloud-based systems solution over an on-premises systems solution. A selection of these benefits include:

1. Scalability and Adaptability
2. Resiliency
3. Security
4. Cost Efficiency
5. Customer Satisfaction
6. Economic Development

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[5] https://www.oracle.com/news/announcement/q4fy23-earnings-release-2023-06-12/

[6] https://www.nationalgridus.com/media/pdfs/our-company/massachusetts-grid-modernization/future-grid-full-plan-sept2023.pdf

[7] https://news.duke-energy.com/releases/duke-energy-collaborates-with-aws-to-develop-smart-grid-solutions-to-better-serve-customers-and-drive-its-clean-energy-transition

[8] https://www.sdge.com/sites/default/files/FINAL%2520Chapter%252015%2520-%2520Linder%2520Rebuttal%2520Testimony.pdf
https://www.sempra.com/newsroom/spotlight-articles/sempra-named-utility-year-sap

[9] https://www.aboutamazon.com/news/aws/how-machine-learning-and-drones-are-helping-prevent-wildfires

[10] EEI (and AEE): https://info.aee.net/hubfs/Reaching%20for%20the%20Cloud.pdf
EPRI: https://eprijournal.com/the-grid-is-moving-to-the-cloud/

Scalability and Adaptability: With evolving customer service expectations, intensifying weather patterns, persistent economic challenges, and aging infrastructure – safe and reliable energy continues to underpin our society. Given this criticality, DU must develop an IT infrastructure able to quickly respond to ever-changing market, climate, and system demands. When many legacy on-premises systems were selected and implemented, the market did not demand the rapid deployment of the highly adaptable, dynamic software systems we now see. Today, cloud-based solutions' ability to near-instantly scale capacity (importantly, without rearchitecting or majorly augmenting hardware or software[11]) ensures that variable needs supporting increased scale in:

- **Customer** volume as DU expands operations and support services.
- **Asset** volume as the system grows and is equipped with additional supervisory control and data acquisition ("SCADA") equipment.
- **Processing** requirements as the volume and complex nature of information increases.

Importantly, each of these above-mentioned scalar drivers are readily mitigated at a low incremental cost. This is critical as utilities face heightened expectations to quickly and efficiently develop actionable insights on assets, field operations, and customer needs, among many more across-enterprise automation and optimization opportunities. Cloud-based systems are designed with this in mind.

Further, as the needs of DU and the DU LDC customers, teammates and the larger market continues to evolve, cloud-based solutions also present a low-cost, flexible pathway to quickly meeting these ever-changing demands. One example of how cloud-based implementations save significant time (weeks to months) over on-premises projects is by eliminating activities associated with the procurement, physical setup and configuration of hardware. This increased speed will benefit both DSU and its customers through quicker adaptation to market and enterprise needs through the coming decades.

Even with this flexible suite of capabilities, cloud-based solutions are incredibly energy efficient; a Microsoft study recently estimated that moving from on-premises to cloud-based systems reduces energy consumption by 22% - 93%[12]. By making fit-for-purpose technology design choices today, DU Services will be better positioned for success in potential data and system expansion over the long-term.

Resiliency: Over the past 20 years, the Gulf Coast has navigated nearly 30 named hurricanes, and many more tropical storms and extreme weather events. Systems are further threatened by the increasing complexity of maintenance activities like modifying integrations or minor upgrades where even minor incompatibilities can bring systems down. These increasingly prevalent events disrupt customers' lives and local businesses in countless ways. As the DU LDCs are Gulf Coast LDCs, DU has prioritized resiliency and the importance of reliable gas service in customers' lives, especially in times of great need.

Cloud-based solutions are a critical element in maximizing utility system resiliency. With decentralized systems, unlike on-premises systems, there are no "single points of failure" where physical data centers, servers, or point-to-point telecommunications may be compromised. Databases and systems will be natively redundant for real-time failover and backup to minimize operational disruptions. Many cloud providers' service level agreements ("SLAs") are negotiated to guarantee 99%+ uptime or just under 9 hours a year of systems being offline, far exceeding what most on-premises systems are able to provide.

[11] As is required in on-premises systems which are sized at implementation to support a finite volume.

[12] https://go.microsoft.com/fwlink/?linkid=2162433&clcid=0x409&culture=en-us&country=us

The risk of disruption from technical complexities – such as the upgrades, incompatibilities, and integration failures of on-premises systems – is also reduced by cloud-based systems. These systems are managed by a smaller pool of vendors (compared to highly diverse on-premises ecosystems) with native integrations which reduce maintenance requirements and complexities of that maintenance. The risk of gas customers finding themselves in a situation where DU must first stabilize its technology before it can restore services is significantly reduced.

Security: As cybersecurity threats towards infrastructure and energy companies like DU continue to rise, the importance of dedicated teams and rigorous security protocols are magnified. Cloud-based solutions' high level of standardization enables automation of frequent security updates with reduced risk of compromise due to misconfiguration. Further, cloud providers' narrow operational focus elevates physical and cyber security to top priority of a highly skilled, dedicated organization. Cloud providers' economies of scale in cybersecurity operations enable quick mobilization of focused teams when threats arise; DU cannot cost-effectively replicate the quality, speed, and rigor of these providers' security outcomes in on-premises environments.

With increasingly common malicious attacks on utility assets[13], physical risk impacting IT infrastructure is also largely mitigated through cloud-based systems. The same benefits of decentralization described above in *Resiliency* ensure that if one data center or IT asset is compromised, the larger system will not be.

DU will better serve its customers by refining and optimizing natural gas operations while cloud providers ensure systems and critical data, including but not limited to:

- **Asset** data protecting utility infrastructure from an adversary gaining understanding and GIS records to target attacks which stop the flow to gas to customers,
- **Customer** data relating to both personal identifiable information as well as consumption patterns and payment records which puts customers privacy and identity at risk, and
- **SCADA** data and controls maintaining the physical security of DU assets, surrounding environments, and community members by operating the system safely, within its allowable parameters are secure as part of their core business operations.

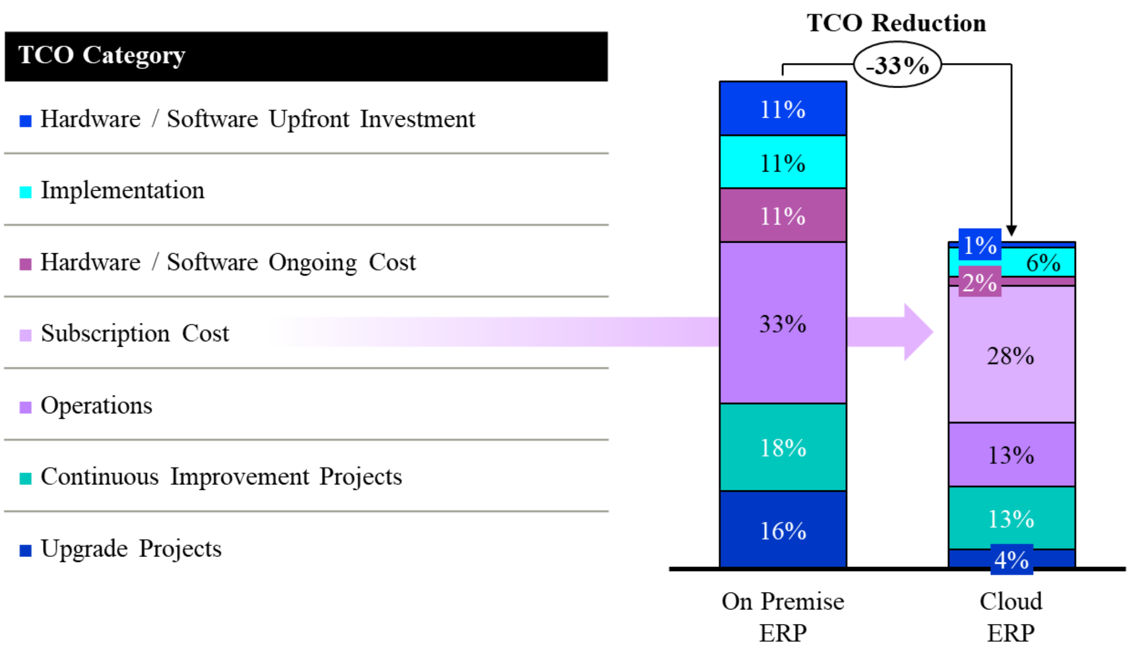
Cost Efficiency: Under DU's strategy of a more right-sized, fit-for-purpose, gas-dedicated solution, the challenges (and costs) of supporting broad, on-premises legacy systems and unrelated technologies (such as those implemented to support electrical operations) will not fall on the DU LDCs' Louisiana and Mississippi natural gas customers. More efficient operations from the unification and standardization of disparate IT systems and improved system maintenance are only a couple of the benefits that will yield improved cost structures in the long-term for DU gas customers.

DU Services has partnered with Accenture to conceptually consider the cost-savings benefits realized through a cloud-based system. Accenture's experience has found that the specific benefits can vary by software, purpose, and scale (among other characteristics). As a broadly illustrative view, representing a synthesis across dozens of cloud-based deployments from assorted industries, Accenture analysis estimates

[13] https://www.oe.netl.doe.gov/OE417_annual_summary.aspx

directional Total Cost of Ownership ("TCO") savings of 33% over seven years in a cloud-based ERP system versus on-premises. This conceptual savings potential is illustrated in the following chart:[14]

On-premises versus Cloud TCO Impacts Estimated for Utility ERP



[14] Based on Accenture's own internal analyses and industry benchmarking studies; not specific to the DU Services system.

Drivers in cost reduction for each of these categories are summarized as follows:[15]

- **Hardware / Software Upfront Investment** is reduced by >90% in two ways, (1) hardware costs are avoided through shared use of the cloud-providers' hardware and (2) software purchases become a subscription rather than upfront investment.
- **Implementation** costs are reduced by 45% as cloud-based systems' fit-to-standard approach reduces configuration effort.
- **Hardware / Software Ongoing Cost** is reduced >80% by transferring infrastructure, application, systems maintenance and operations activities, and associated costs, to the cloud provider through the subscription.
- **Subscription Cost** – the only new cost category in the cloud scenario – is introduced to compensate direct provider support and system ownership. This ownership structure empowers continuous system update and innovation.
- **Operations** costs are decreased by 60% through the reduced scope of effort (as cloud providers take on many responsibilities) as well as a higher degree of standardization.
- **Continuous Improvement Projects** and **Upgrade Projects** see cost reductions of a combined 50% as the burden of upgrades and significant configuration shifts to the provider.

To further underscore the cost savings under a cloud-based system as compared to an on-premises system, it is important to note that the above comparison comments on costs of comparably aged, modern systems. Thus, meaningful cost synergies at implementation and long-term may be realized by bringing this suite of software up-to-date in the cloud at DU Services start of operations. In addition, the above-described benefits of scalability and adaptability, resiliency, security, and cost efficiency focus on the direct impact of cloud-based systems. When considering the wider enterprise benefit of focusing teammates' effort on core business operations and enhanced flexibility and agility, total system uplift will be further multiplied.

Customer Satisfaction**:** In evaluating the DU LDCs acquisition of Entergy and CERC Louisiana and Mississippi gas businesses, understanding the potential impacts to customers is of the utmost importance. Under the more modernized system envisioned by DU Services for Louisiana and Mississippi and their gas customers, several improvements will be made available that should serve to enhance the overall customer experience. While the benefit of highest importance to the majority of customers will likely be the cost savings associated with a more efficient and fit-for-purpose IT system, it also is worthwhile considering the non-financial improvements as well. Most notable, every element of DU Services' interaction with customers will be gas-centric from Customer Service Representative interactions to web portal engagement, to bill interpretation; customers will have streamlined access to important dimensions of their gas service. The Customer Service Center will be located in Louisiana and will have a call-in line exclusive to DU LDC gas customers, providing expedited resolution when seconds count.

Economic Development: Lastly, it is important to address the broader economic development benefits over and above DU's cloud-based modern information technology system strategy. The DU LDCs acquisition of the Entergy and CERC gas businesses has driven economic activity since the day it was initially considered and pursued. Several full-time positions have already been created and filled as part of the DU organization, and efforts are underway to determine the steady-state staffing levels to be achieved; these

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[15] Accenture's commentary represents an application of the beneficial outcomes of cloud-technology being realized by other companies across the economy to DU because the cost, effort and time required to evaluate on-premises versus cloud solution approaches are too excessive to justify since the prudency and cost-effectiveness of this approach has been widely demonstrated.

corporate headquarters of DU are to be located in a new facility to be based in Louisiana. This facility will create jobs and provide economic stimulus.

Some technical roles required to build out the initial environments will be more temporary and will not be viable as sustained permanent hires. In these cases, DU, Entergy and CERC are taking great care to partner with consultants, such as Accenture. Accenture is being positioned to support Entergy and CERC divestiture efforts as well as DU Services' technology build out; in so doing, efficiencies are envisioned to streamline the transition. Further, Accenture is committing to its own long-term investment in Louisiana by establishing a new office in New Orleans and expects to grow its staff that will operate out of this office location. In addition to Accenture's new New Orleans-based staff, temporary consultants from companies like Accenture, who may not be based in Louisiana, will still spur economic activity at hotels and restaurants while they are supporting these transition activities.

DU Services is in the uncommon position to fully embrace the potential of modern technologies to maximize customer savings, customer satisfaction and promote economic development while continuing to provide safe, reliable and affordable natural gas service to customers. While many industries have pivoted to "cloud-first" ecosystems, M&A-built utilities are disadvantaged in this transition by the technical debt of disparate systems, each with their own maintenance and security structures. With the required replacement of systems being retained by Entergy and CERC, DU Services must build right-sized and fit-for-purpose solutions for this natural gas-only utility and it is prudent that these should be structured in the cloud.

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01** **May 25, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	

CNO 1-14: Please refer to Chapter 158 of the City Code, Sec. 158-42, which states: "*It is intended that such standard filing requirements shall be liberally construed to permit the council to perform a thorough analysis of all applications and shall be further liberally construed to promote the maximum public disclosure of all information relevant to any application governed by this article;*" Sec. 158-44, which states: "*All applications filed pursuant to this article shall provide the information necessary to permit a thorough analysis of the utility's application;*" and Sec. 158-45, which states: "*In addition to the information required by the standard filing requirements, the council has the authority to and may require in writing supplemental information necessary to fulfill and/or satisfy the purposes of this article.*" To assist the Council in performing a thorough analysis of benefits, please provide the following:

a. Referring to Paragraph 9, page 9, of the Joint Application which states: "*From an operational perspective, DSU NO will continue to provide safe, reliable natural gas service to customers and will benefit from the "fit-for-purpose" systems infrastructure and shared services organization developed during the implementation of the Transition Plan…,*" please provide analyses with workpapers which will enable a quantifiable evaluation of such benefits, including projected annual gas customers bill impacts.

b. Referring to the Direct Testimony of Jeffrey Yuknis, page 5, which states: "*DSU NO is fully committed to standing up new "fit-for-purpose" systems to replace retained assets…,*" please explain how the new "fit-for-purpose" systems provide a measured benefit to gas customers relative to the service and reliability of existing gas-related assets, and show how such benefits will exceed the additional costs to gas customers.

c. Referring to the Direct Testimony of Jeffrey Yuknis, page 38, which states: *"The Transaction requires standing up a new, "fit-for-purpose" LDC, which will provide both short-term and long-term benefits to affected customers, the local communities,* *and Louisiana's economy,"* please provide supporting workpapers demonstrate both the short-term and long-term benefits to (i) gas customers, (ii) New Orleans communities, and (iii) Louisiana's economy.

Response:

CONTAINS HIGHLY SENSITIVE COMMERCIAL INFORMATION THAT WILL BE PROVIDED ONLY TO ADVISORS PURSUANT TO COUNCIL'S OFFICIAL PROTECTIVE ORDER.

(a) Please see DSU NO's Response to CNO 1-14(c).

(b) Please see DSU NO's Response to CNO 1-14(c).

(c) DSU NO is not proposing to change ENO's tariff schedules or rates charged for its natural gas local distribution utility business; thus, there will not be any bill impacts associated with this filing, and any future bill impacts would be subject to review and approval of the Council in a separate future filing. Further, the only modifications to the existing ENO tariff schedules are related to non-substantive, editorial changes to reference DSU NO as the utility and/or to eliminate reference to electric utility operations (*i.e*., ENO Service Regulations). Thus, while DSU NO has provided public notice pursuant to Council regulations relating to changes in service due to approval of the Joint Application resulting in a change in service provider and out of an abundance of caution, DSU NO submits that there will not be a change in service. DSU is requesting to adopt the rate schedules, riders and service regulations of ENO in effect at closing, including ENO's current gas Formula Rate Plan through its current term, which funds ENO's Gas Infrastructure Replacement Program ("GIRP") and Integrity Maintenance ("IM") plan that DSU NO has also committed to continue. Further, as discussed in the Council's Resolution R-24-49 initiating this proceeding and in the Joint Application, the Council adopted Resolution R-06-88 that provides 18 factors for consideration specific to the evaluation of a transfer of utility assets. DSU NO does not interpret the cited provisions of the New Orleans City Code or Resolution R-06-88 as requiring quantifiable benefits for the proposed transaction to be in the public interest. Rather, Resolution R-06-88 requires an overall no harm standard of review with respect to whether the transaction is in the public interest, through an 18-factor analysis.

DSU NO further responds as follows:

<u>**Transaction Benefits:**</u>

DSU NO currently expects the following benefits from the proposed transaction:

The transition of the LDC to a new core-focused and New Orleans headquartered gas centric operating platform, in conjunction with the opportunity to engineer, and transition customers to, a fit-for-purpose technology ecosystem will provide significant benefits to natural gas customers in New Orleans and long-term benefits to both the local and state economies.

Moreover, DSU NO has worked closely with its consultants, transition teams and Integration Partner toward a solution that leverages the customer and operational benefits associated with implementing a new "greenfield" technology ecosystem, specifically designed to accommodate the current and future needs of DSU NO and its customers, without the limitations that are typical of starting with legacy software and systems established for different environments. A few key design development criteria are addressed below:

- Off-the-Shelf Software: The use of off the shelf software will reduce the level of overall customization while allowing for plug-and-play modifications to the ecosystem, providing cost-effective adaptability as the needs of the utility change over time.
- Consolidation: The "greenfield" implementation allows for the deliberate curation of fit-for-purpose features that are used to achieve a system wide integration. This consolidation reduces the number of platforms and vendors within the ecosystem as each piece is achieving more functionality.
- Integration: A selection criteria for the platforms and vendors is their ability to integrate with the other platforms and systems in the ecosystem. This integration allows for cross-ecosystem use of data from one platform to another.
- Scalability: While the ecosystem is right-sized for DSU NO as it is envisioned today, the criteria above collectively provide for adaptability and scalability to efficiently meet the changing needs of the utility over time.

A few of the expected benefits of this system are further outlined below and in Attachment A to this response, which is a memorandum from Accenture, DSU NO's System Integration Partner (the "Accenture Memo").

Customer Service/Satisfaction. The modernized system proposed by DSU NO for Louisiana and its gas customers will include improvements aimed at enhancing the overall utility customer experience. While cost savings associated with a more efficient and fit-for-purpose IT system are expected and will become more quantifiable over time, the more immediate, non-financial improvements that will result from this modernization effort should be considered as well. Most notably, DSU NO will be core-focused on natural gas, and every element of its interaction with customers will be gas-centric – from a customer's interactions with customer service representatives, to easy-to-navigate web portal engagement, to bill interpretation, customers will have streamlined access to account information and service options. For example, whether a customer experiences a billing question or a gas leak, they can call a Louisiana-based customer service line that exclusively resolves gas customer issues, which provides an expedited resolution when seconds count.

Economic Development. The proposed transaction will result in significant long-term investment and job creation in New Orleans. DSU NO has committed to establish a new utility headquarters in New Orleans, which is expected to include the creation of approximately 100 new jobs in and around New Orleans, in addition to preserving the existing jobs of the approximately 200 Entergy gas employees who will receive offers of employment from DSU prior to closing of the transaction. The benefits of this new headquarters and the new jobs created are quantifiable and substantial, given that the average annual base salary for the new positions is estimated to be approximately $79,000 per year. This estimate is conservative as it excludes any executive compensation and incentive compensation. Further, base salary is just a component of compensation and does not reflect other meaningful employee benefits, such as full health benefits and bonus potential. Including the effect of those additional benefits – including health benefits (medical/dental/vision coverage), retirement benefit plans and related contributions, paid leave, various life insurance and accident/disability insurance plan options, and education reimbursement – the fully burdened salaries for these employees is estimated to average approximately $110,000 annually. The addition of these new jobs will result in an estimated 2026 aggregated total of more than $7 million in salaries, and approximately $10 million in fully burdened salaries, for the non-executive, newly hired employees in and around the New Orleans area, which then will extend to tax-related and other economic benefits for the City of New Orleans as well as the State of Louisiana.

Please see HSPM-CS Attachment B to this response for preliminary data on estimated salaries of new employees (both non-executive and executive positions), which includes commercially sensitive information and is only being provided to the Advisors pursuant to the Council's Official Protective Order.

In addition, DSU NO's commitment to being headquartered in New Orleans produces a multi-faceted benefit as the $7 million in estimated annual base salaries (and approximately $10 million in fully burdened salaries) trickles through the local economy, supporting local businesses and service providers, and also adds to the corporate tax basis in New Orleans and the State of Louisiana. And, as a new member of the community, there is the opportunity for additional community involvement that would not exist but for the proposed transaction.

DSU NO also is working with transition partners, including Accenture, to leverage its investment in the New Orleans community with further economic benefits. Specifically, Accenture is committing to its own long-term investment in New Orleans by establishing a new office in New Orleans. Please see the Accenture Memo. As Accenture outlines in Attachment A, the proposed transaction will result in numerous short-term and long-term benefits to ENO gas customers that are not quantifiable at this time.

Scalability and Resiliency of Modern Systems. As more fully described in the Accenture Memo, scalability, adaptability and resiliency will be key benefits for Louisiana and its gas customers in the transition to a new, modernized IT solution. A right-sized, fit-for-purpose, gas-dedicated and cloud-based solution addresses many of the challenges (and costs) traditional utilities can face in supporting legacy systems and older technologies. While the efforts to establish a new system will not be insignificant, the long-term benefits to customers will be well worth the upfront time and investment required. Adaptability and more efficient operations – including the ability to upgrade systems significantly faster, on an ongoing basis as needed, and at a lower cost than traditional legacy systems – are just a couple of the key benefits that will yield long-term improved cost structures and benefit gas customers in Louisiana. Also, the right-sized and highly-scalable systems DSU NO will establish will be supportive of future growth and investment in Louisiana as opportunities arise to expand the DSU NO business.

The DSU NO technology ecosystem will be decentralized and cloud-based resulting in the platform being more resilient during storms and extreme weather events, or even in the case of cyber threats or unprovoked attacks on physical infrastructure. The new DSU platform will be a decentralized system and will have built-in redundancies and backups to address any issues related to operational disruptions, in a way that traditional, legacy on-premise systems find challenging to match.

For reference, a few key benefits of the new technology are discussed in the Direct Testimony of Mr. Brian Little at pages 16-18:

> The new and modernized systems will enable DSU to leverage newer technology to streamline existing business processes and create the foundation for enabling more efficient operations. For example, DSU expects to leverage new technology to implement a credit and collections program, based on industry best practices, with a goal of keeping customers in good standing. This new technology would enable a rigorous delinquent account review process to minimize instances where balances are beyond a customer's ability to pay, automated payment reminders, short-term payment arrangements and proactive communications and arrangements for high balance customers. Further, DSU NO expects to leverage new technology to route incoming calls to customer service representatives dedicated to gas customer service calls and trained and experienced in handling matters by class of customer. The new and modernized systems will further enable DSU NO to be more flexible and efficient in making necessary changes for updates in business processes as well as to address new regulatory requirements, such as changes from the Pipeline and Hazardous Materials Safety Administration or the Council.
>
> …
>
> Entergy provided current version information of the IT systems during due diligence. BCP and its advisors reviewed the release dates and maintenance periods of some of the more critical systems to be retained by Entergy covering the functions of HR management, payroll, enterprise asset management, supply chain, billing, finance, accounting and field force scheduling. The release dates of these systems ranged from 2005 to 2020. Further, the end-of-life maintenance support periods for these systems range from the end of 2023 to 2034. These are large, complex systems and that

may require an investment at some point in time to replace or upgrade. This Transaction enables DSU to implement new and modernized systems, benefiting customers as previously discussed in my testimony.

Please also see the Joint Application at pages 12-14, which contain the following non-exhaustive list of benefits:

a) DSU NO's commitment to stepping into the ENO Rates until a consecutive 12-month period is established to serve as a historical test year for a subsequent rate proceeding, which DSU NO commits to filing not sooner than fifteen (15) months after Closing;

b) DSU NO's commitment to also adhere to the terms of ENO's various programs, including the GIRP and IM Program that are funded through ENO's GFRP, which was established by Council Resolution R-19-457, and was most recently extended by Resolution R-23-491, until such time as revised by final order of the Council in a subsequent rate proceeding. This includes DSU NO's honoring commitments that ENO has made before the Council as to the material to be replaced through GIRP and the timeline for that replacement;

c) DSU NO's financial and technical ability to invest in and integrate additional assets and systems for the new LDC;

d) DSU NO's and its affiliate companies' commitment to offer employment to all of the active employees primarily engaged in the ENO Gas Business and those who return from leave with substantially similar or no less favorable compensation, benefits, and post-retirement benefits as they are currently receiving; and to honor the tenure of such employees as it relates to vacation time, retirement, pension, holidays, disability and leave policies;

e) DSU NO's and its affiliate companies' commitment to assuming the employee pension assets and liabilities associated with the ENO and ELL gas LDCs, including more than 160 retirees primarily involved in the ELL and ENO Gas Business;

f) DSU NO's and its affiliate companies' commitment to create approximately 100 additional local jobs in Louisiana to provide high-quality gas service to customers;

g) DSU NO's commitment to providing a local, proven, professional management team as the new owners and operators of the ENO Gas Business, combined with the support and experience of a qualified and local ownership management team in Bernhard Capital;

h) DSU NO's commitment not to seek recovery of Transaction costs or any acquisition premium associated with the Transaction;

i) DSU's commitment to maintain ownership level management of the gas business in Louisiana;

j) DSU NO’s commitment to be headquartered in New Orleans;

k) DSU NO’s ability to leverage the experience, management resources and support of Bernhard Capital, whose affiliate owns and manages an LPSC-regulated utility in Louisiana;

l) The opportunity for Entergy Corporation to free up available capital and generate a source of capital that otherwise may not be available to make beneficial and productive investments in its electric business, to the benefit of ENO’s electric customers; and

m) The opportunity for ENO to reduce its total debt, which would also serve to improve ENO’s credit, which is a benefit to shareholders and customers.

DSU NO continues to work with its consultants and Integration Partner, among others, on the proposed transaction, and will supplement this response to the extent additional information regarding features and benefits become available.

Prepared by: Jeffrey Yuknis, Member DSU Board of Managers, Managing Director Bernhard Partners, Member BCP Investment Committee

DSU NO First Supplemental Response to 1-14(c):

CONTAINS HIGHLY SENSITIVE COMMERCIAL INFORMATION THAT WILL BE PROVIDED ONLY TO ADVISORS PURSUANT TO COUNCIL’S OFFICIAL PROTECTIVE ORDER.

Please see DSU NO First Supplemental Response to CNO 1-14(c) and HSPM-CS Attachment C provided as an attachment thereto for the DSU NO and DSU LA “set-up” costs responsive to this request, which provides a preliminary estimate of the transition costs associated with the implementation of the Transition Plan and stand-up of DSU LA and DSU NO (the “Preliminary Estimate”), including the implementation of a new modern cloud-based information technology (“IT”) environment (DSU NO’s “Greenfield IT Footprint”), which is necessary to replace 56 IT systems and applications being retained by ENO and ELL because these IT systems and applications share functionality with electric operations and are being retained by Entergy ("Retained Assets"). HPSM-CS Attachment C to this supplemental response also provides an ***incremental*** future gas rates impact for DSU NO specific to the Proposed Transaction (inclusive of the Preliminary Estimate) as compared to ENO’s current gas rates resulting from the Council's final action on ENO's G-FRP for the 2022 evaluation period.

The Transition Plan includes the creation of a core-focused and fit-for-purpose gas utility platform that will be locally managed and largely operated by the same employees operating the systems today. In short, the Transition Plan includes transferring the assets from an integrated electric and gas utility platform, where the gas assets comprise a very small portion of the total business, to a gas focused platform where the entire enterprise is core focused on gas customers and the provision of safe and reliable gas service. The Transition Plan provides significant operational and technology benefits to the customers of the utility as well as substantial economic benefits to the State of Louisiana and the City of New Orleans. *See* Attachment D to DSU NO First Supplemental Response to CNO 1-14(c), as well as Attachment A and HSPM-CS Attachment B to DSU NO Response to CNO 1-14(c) that was previously provided, for additional details on the benefits to be realized by customer and the City of New Orleans from the Transition Plan's new utility platform and DSU NO's commitment to hire new employees. As discussed in Attachment D to this supplemental response, establishing its Greenfield Technology Footprint is estimated to have the potential to be 10-20 percent more efficient than copying the legacy ENO footprint. The cloud-based system to be implemented in DSU NO's Greenfield Technology Footprint is also expected to provide numerous other benefits to customers, such as energy efficiency, scalability and adaptability, resiliency, security, cost efficiency, customer satisfaction and economic development. Importantly, based on analysis of DSU NO's Integration Partner (Accenture) and industry benchmarking studies, cloud-based system deployments have resulted in Total Cost of Ownership savings of 33% over seven years compared to on-premise legacy systems. Moreover, Accenture has committed to its long-term investment in New Orleans by establishing a new office in New Orleans, where it expects to grow its staff, which is separate from and in addition to the new hires committed to by DSU NO as part of the Proposed Transaction.

These efficiency and Total Cost of Ownership benefits, along with a number of others, are expected but are more difficult to quantify in definite terms, and thus, have not been included in the incremental future rate impact attached hereto. For example, enhanced operational efficiency is expected as the Greenfield IT Footprint provides application consolidation and integration within the platform. This allows employees to perform their daily operations using fewer segregated applications as each of the individual functions are consolidated, streamlining data entry and day to day operations. This platform results in efficiency from an operational perspective as well as in future upgrades, as the cloud-based system can be updated and improved significantly with reduced down time and at a lower cost than traditional legacy systems. Legacy systems can be updated and modified over time, but technology infrastructure has transitioned and modernized to a cloud-based platform, and legacy systems released as early as 2005 will have increasing difficulty efficiently and cost-effectively competing with the benefits achieved through the modern technology, as further discussed in Attachment D to DSU NO First Supplemental Response to CNO 1-14(c). This transaction provides the unique and timely opportunity to take advantage of this transition for the benefit of the customers.

The Preliminary Estimate was prepared to estimate the total Transition Plan costs expected to collectively stand up DSU LA and DSU NO to take advantage of the efficiencies and economies of scale available through the combined closing of the ELL and ENO transactions, respectively. The Preliminary Estimate includes the estimated costs for the entire Transition Plan, with a large portion of those costs related to the Greenfield Technology Footprint to replace the Retained Assets. A primary benefit of the modernized and cloud-based IT environment is the adaptability and scalability of the platform allowing cost efficient growth of the platform at an incrementally reduced cost. As discussed further below, this benefit is immediately leveraged by the addition of customers associated with the proposed acquisition of the Louisiana and Mississippi local distribution companies of CenterPoint Energy Resources Corp. ("CERC"), which are the subject of a separate filing with the LPSC and the Mississippi Public Service Commission (the "CenterPoint Transactions").

The Preliminary Estimate continues to validate pursuant to subsequent detailed estimates and initial implementation to date, including the cost estimates for the largest line item, which is the IT transition. Although robust, the Transition Plan involves a significant technology and business infrastructure implementation over an extended period and the preliminary estimate will evolve as the project scope becomes more defined and implementation decisions are carried out. As proposed in DSU NO Response to CNO 1-18, the evolution of the Transition Plan estimate will be periodically provided to the NOCC on a recurring basis after regulatory approvals are achieved. The Preliminary Estimate is intended to comprise substantially all of the cost items to be included in the requested regulatory asset, where such costs will be tracked and accounted for until a subsequent rate case to be filed not less than 15 months post-Closing of the Proposed Transaction. All costs included in the regulatory asset will be subject to a final prudency review and determination of the Council of the City of New Orleans ("Council"), and will have no impact on customer rates until such final determination of the Council. Additionally, the Preliminary Estimate and regulatory asset are, and will remain, exclusive of "transaction costs," as defined below, which will not be subject to recovery in this or future filings:

> Transaction Costs: DSU NO will not, directly or indirectly, seek to recover one-time Transaction-related costs incurred by DSU or its affiliates, including: investment banking fees, internal labor and third-party costs incurred in performing transaction due diligence (including finance and tax consulting work during due diligence), legal fees related to the performance of due diligence and negotiating and closing the Purchase and Sale Agreement (PSA) and acquisition financing documents, transfer taxes, costs related to any shareholder/lender approvals of the transaction, and internal labor and third-party costs incurred in obtaining regulatory approval of the Transaction.[1]

An explanation of the Preliminary Estimate data is provided below, including a discussion of the estimated impact on DSU NO. Note that the impact of the Preliminary Estimate on DSU NO is conservative as it does not take into account future growth that would be expected to further reduce the cost impact on DSU NO.

- **Delta Transition Cost Summary** and **Delta Transition Cost Detail** – provides summary and detail transition cost information by year for the categories of IT transition, operational readiness, facilities, payroll, advisory, project management, regulatory, communications, accounting, miscellaneous and insurance.

- **Entergy Historical Allocations** – DSU is in the process of developing an appropriate, multi-factor shared services model and cost allocation methodology to best match the benefits for customers of a shared services operating structure with the costs necessary to provide service. Post-Closing, modifications to the existing allocation methodology will be provided to the Council as part of a future rate proceeding and

[1] *See also*, DSU NO Response to CNO 1-18.

will result in DSU Services executing shared services agreements with DSU NO and DSU LA that will govern the determination and allocation of shared services costs between the two utilities. This allocation would further apply to the CenterPoint Transaction utilities bringing cross platform operational efficiency and economy of scale benefits to the collective utilities.

Similarly, the Preliminary Estimate costs included in the regulatory asset will be subject to an allocation methodology proposed in the subsequent rate case. For purposes of demonstrating the allocation of the Preliminary Estimate costs across only DSU LA and DSU NO, an example allocation based on the historical allocations of Entergy has been included in the Preliminary Estimate. Please see Delta Total Set Up Costs tab in HSPM-CS Attachment C to this response for a demonstration of the allocation of the Transition Plan costs based on historical Entergy allocations for the standalone Entergy transaction. This analysis is for demonstration purposes only to illustrate DSU NO's share of the total transition costs in the interim of developing an appropriate, multi-factor cost allocation methodology, which will be proposed and reviewed by the Council in a subsequent rate case filing.

- **Delta Total Set Up Costs Tab:**

  DSU NO and DSU LA Total Preliminary Transition Costs – The total estimate cost of the Transition Plan and the allocation of such costs between DSU LA and DSU NO. These amounts are prior to taking into account the economies of scale attributed to the CenterPoint Transactions. The allocation of the Transition Plan costs utilizes the historical ENO/ELL allocations for demonstration purposes, support for which is also provided in HSPM-CS Attachment A to DSU NO First Supplemental Response to CNO 1-14(c), as well as previously provided as HSPM DSU NO Response to CNO 1-10, Attach B - Utility Cost Allocations w Summary Tab-01.30.2024. The Estimated Share ($) of Transition Costs (*see* Delta Total Set Up Costs Tab, HPSM-CS Attachment C) amount is offset by the reduction of the net book value of the assets retained by ENO that would remain in DSU NO's rate base until a final order of the Council in a future rate proceeding. Only the net amount is relevant to rate impacts associated with the Transition Plan. Thus, the actual DSU NO Transition Plan cost impact requires the allocated costs to be netted against ENO's net book value of the retained assets, which are already included in the rates to be assumed and adopted by DSU NO. ENO's net book value of the retained assets as of December 31, 2022 was $[redacted].

- **Hypothetical Entergy & CenterPoint Combined Transactions** – The total estimated cost of the Transition Plan taking into account the economies of scale attributed to the CenterPoint Transactions and allocation of such costs among the DSU NO, DSU LA and their three affiliated utilities acquiring CERC natural gas assets in Louisiana and Mississippi. The allocation of the Transition Plan costs for the combined transactions utilizes a hypothetical equally weighted four factor allocation methodology for demonstration purposes only in the interim of developing an appropriate, multi-factor cost allocation methodology, which will be proposed and reviewed by the Council in a subsequent rate case filing should both the Proposed Transaction and CenterPoint Transaction be approved by regulators. See also, DSU NO Response to CNO 3-8. Although the DSU NO and DSU LA transaction stands on its own, it is important to note that the estimated rate base impact on DSU NO's share of total Transition Plan costs is anticipated to experience a material decrease of up to 40% when compared to the estimated net cost impact without the CenterPoint transaction, partially due to the efficient scalability of the IT platform as well as economies of scale created pursuant to the combined transactions, the estimated benefits of which have been preliminarily allocated to DSU NO pursuant to a hypothetical allocation methodology. The Transition Plan costs of the combined transactions will not increase proportionally to the increased scale of the business, and the incremental savings will be allocated over a larger customer base, resulting in a smaller rate impact to customers of DSU NO. DSU NO estimates that should this transaction be approved, as proposed (including the acquisition of Entergy Louisiana, LLC natural gas assets, which is pending before the Louisiana Public Service Commission), along with the CenterPoint Transaction, the combined transaction should result in a significant reduction of the estimated net cost impact of the Transition Plan for DSU NO.

DSU NO has also developed a rate impact analysis using incremental future gas revenue requirements associated with the Proposed Transaction to ENO's current rates, which is also provided in HSPM-CS Attachment C to this supplemental response. HSPM-CS Attachment C relies on a series of assumptions to estimate incremental future gas revenue requirement impacts associated with the Proposed Transaction. These include: (1) the incremental increase in required financing costs associated with issuance of DSU NO debt; (2) recovery of proposed Transition Plan cost regulatory asset over a 25-year period; and (3) that assets retained by Entergy would have been recovered from ratepayers over a 23-year period. Notably, the rate impact analysis includes some is conservative in that it does not take into account (i) future growth of Delta Utilities that would further reduce cost impacts of the Transition Plan on DSU NO customers, (ii) any operations or maintenance efficiencies and reductions including operational efficiencies and benefits addressed herein and in Attachment D hereto, which are expected, or (iii) any potential future capital costs associated with the existing technology systems absent the Proposed Transaction. See also DSU NO Response to CNO 1-8(a)-(c) and (e), relating to expected O&M efficiencies and reductions, and CNO 4-4, relating to DSU's commitment to aggressively pursue growth.

As shown in HSPM-CS Attachment C to this supplemental response, DSU estimates the incremental rate impacts associated with the Transition Plan, and subject to approval in a future rate filing with the Council, would result in an average annual future total incremental rate impact increase of less than [redacted] on a combined (Entergy + CenterPoint) transaction basis and less than [redacted] for the Entergy only transaction through the entire forecast period ending YE 2032, far less than the average rate increase reported by investor-owned utilities in recent base rate proceedings. For instance, see Attachment E to DSU NO First Supplemental Response to

CNO 1-14(c), which presents a survey of recent rate increases for natural gas distribution utilities based on information from Regulatory Research Associates ("RRA"). Attachment E shows that DSU NO's Transition-related rate increase estimates are far lower than recent rate increase proposals offered by other regulated gas utilities which has averaged 9.12 percent.

Prepared by: AEA and associated consultants

<u>DSU NO Second Supplemental Response to CNO 1-14(c):</u>

THIS RESPONSE CONTAINS HIGHLY SENSTIVE PROTECTED MATERIAL BEING PROVIDED ONLY TO COUNCIL ADVISORS PURSUANT TO THE COUNCIL OFFICIAL PROTECTIVE ORDER.

Please see Attachment F for an economic impact analysis prepared by Dr. David Dismukes specifically for the combined acquisition of the ELL and ENO gas system assets by DSU NO and its affiliate Delta States Utilities LA, LLC ("DSU LA"), which demonstrates that these new corporate operations are expected to generate significant economic impacts primarily in New Orleans as summarized herein:

- The new corporate operational activities in New Orleans are anticipated to contribute 442 ongoing employment opportunities, resulting in $30 million in new annual labor income, almost $87 million in annual GSP, and $168 million in annual economic output, highlighting the substantial economic contributions from these business units. (Attachment F, page 5)

- Additionally, the transition capital investments needed for the combined ELL and ENO activities alone are projected to create 167 new employment opportunities, resulting in $10 million in new annual labor income, $43 million in annual economic output, and $17 million in annual gross state product (GSP). (Attachment F, page 19)

Total economic benefits increase even further if the acquisition of CenterPoint Energy Resources Corp.'s ("CERC") natural gas assets in Louisiana and Mississippi by affiliates of DSU NO and DSU LA is also considered. For example:

- The new corporate operational activities are anticipated to create 885 new employment opportunities, $60 million in new annual labor income, an additional $173 million in annual GSP, and $337 million in annual economic output. (Attachment F, page 5)

- The transition capital investment for the combined ELL/ENO and CERC activities is anticipated to lead to 335 new jobs, resulting in almost $20 million in new annual labor, around $87 in annual economic output, and $33 million in annual gross state product (GSP). (Attachment F, page 19)

The estimates above are conservative for the New Orleans area since they do not include additional potential benefits derived from the retained capital investments and operating activities of either the ELL/ENO acquisition, or the broader activities that include the CERC investments. These retained capital and operating activities will generate substantial economic benefits, but the attached report estimates those economic benefits at the State of Louisiana level and are not disaggregated down to the municipal or parish level. Workpapers supporting Dr. Dismukes economic analysis relating to the Entergy Transaction is being provided as HSPM-CS Attachment G to this response, which contains highly sensitive commercial information that is being provided only to the Council Advisors pursuant to the Council's Official Protective Order.

Prepared by: AEA and associated consultants

DSU NO Third Supplemental Response to CNO 1-14(c):

THIS RESPONSE CONTAINS HIGHLY SENSTIVE PROTECTED MATERIAL BEING PROVIDED ONLY TO COUNCIL ADVISORS PURSUANT TO THE COUNCIL OFFICIAL PROTECTIVE ORDER.

Please see HSPM-CS Attachment H being provided with this third supplemental response to CNO 1-14(c) for an additional workpaper supporting Dr. Dismukes' economic benefits analysis relating to the combined Entergy and CenterPoint transactions, which was provided in Attachment F to CNO's Second Supplemental Response. The information provided in the workpaper includes highly sensitive information that is commercially sensitive. A redacted version of the workpaper is being provided only to Council Advisors pursuant to the Official Protective Order due to confidentiality restrictions.

Prepared by: AEA and associated consultants

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	**)**	**DOCKET NO. UD-24-01** **February 20, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	**)**	

CNO 1-8: Please provide an annual O&M budget for DSU NO. Please subtotal by

a. O&M costs assumed from ENO (*e.g.*, former ENO employee-related costs).
b. O&M not assumed from ENO (*e.g.*, DSU NO G&A costs).
c. Meter reading costs.
d. Depreciation and amortization expense.
e. Any other substantial cost subcategories.

Response:

THIS RESPONSE CONTAINS HIGHLY SENSITIVE COMMERCIAL INFORMATION THAT WILL BE PROVIDED ONLY TO COUNCIL ADVISORS PURSUANT TO THE COUNCIL'S OFFICIAL PROTECTIVE ORDER.

(a)-(c) and (e)

DSU NO will not develop a proposed capital and O&M *budget* for its expected initial year of operations (2026), until closer to 2026. However, DSU NO has developed a preliminary internal O&M *forecast* for its expected first full year of operations (2026), which is further described below. HSPM-CS Attachment A to this response provides this preliminary O&M forecast for 2026 and also provides DSU NO's preliminary forecast of capital expenditures for CYs 2026-2029 (see tab labeled "DSU CapEx Forecast 2026-2029").

DSU NO anticipates its overall operations and maintenance expense to be similar to, if not lower than, ENO's 2022 and 2023 O&M expense, when adjusted for inflation/CPI. Further, projected annual increases in DSU NO's collective O&M costs are expected to be lower than what ENO experienced over the 2019-2023 time period (based on DSU NO's review of historical O&M data provided to DSU NO by ENO).

Meter reading costs are included in the aggregate operating costs forecast provided in HSPM-CS Attachment A.

(d)

Depreciation and amortization expenses projected for 2026–2029 are shown in the "DSU CapEx Forecast 2026-2029" tab of HSPM-CS Attachment A. The projected depreciation and amortization amounts include the forecast for annual depreciation expenses associated primarily with the capital spending programs, and these forecasted amounts are modeled based upon the 20-year MACRS (Modified Accelerated Cost Recovery System) schedule. In addition, the amounts shown include a preliminary estimate of goodwill amortization post-closing of the transaction.

There will be no impact on rates associated with the 2026-2029 depreciation and amortization forecast for ENO, until such time as a future rate case proceeding is filed and any new rates are approved by the Council.

Prepared by: AEA and associated consultants[2]

[2] As used in these data responses, AEA and associated consultants include: Peter Tumminello, Brian Little, Steven Cave, Brian MacLean, and David Weaver.

HSPM-CS EXHIBIT BL-10

(HSPM-CS Attachment A to DSU NO Response to CNO 1-8)

<u>REDACTED</u>

Contains Highly Commercially Sensitive Information Being Provided Only to Appropriate Reviewing Representatives of the Council Advisors Pursuant to the Council's Official Protective Order

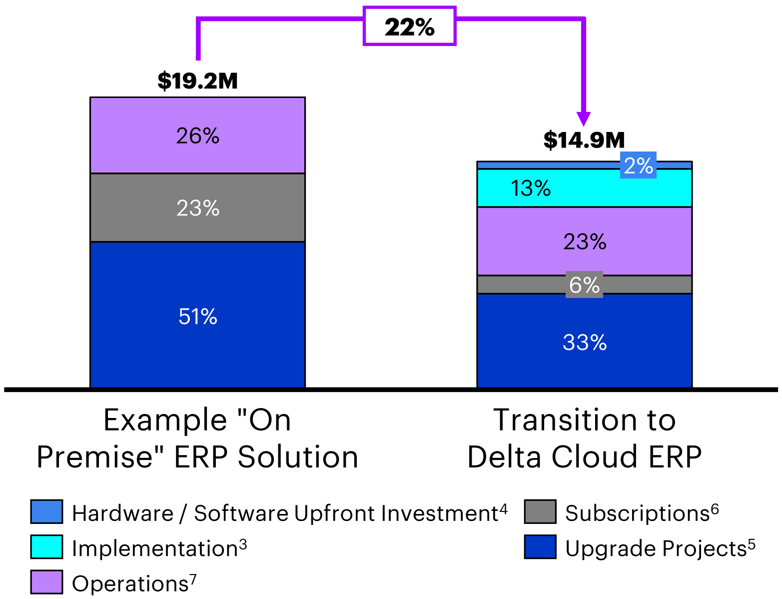
Benefits of Transitioning to a Cloud-Based ERP

6/26/24

Transitioning to a Cloud-Based ERP is Expected to Generate 22% TCO Savings over 10 years

Further validation would require coordinating with Entergy.

Estimated TCO Impacts for ENT Gas Customers



Values in $M	**Example Status Quo[1]**	**Delta Cloud ERP[2]**
Initial Costs		
Implementation[3]	$0.00	$2.50
Hardware / Software Upfront Investment[4]	$0.00	$0.47
Total Initial Costs	**$0.00**	**$2.97**
Annual Recurring		
Upgrade Projects[5]	$0.97	$0.63
Subscriptions[6]	$0.45	$0.12
Operations[7]	$0.50	$0.45
Annual Sub-Total	$1.92	$1.20
Total Recurring *(Annual Sub-Total x10)*	**$19.2**	**$12.0**
10-YR TCO	**$19.2**	**$14.9**

[1]Leveraging benchmark data, these estimates came from an 'outside-in' approach to develop a proxy to estimate prorated Entergy ERP costs specific to Entergy Gas Customers. No actual Entergy prorated costs have been provided or analyzed.
[2]Delta Cloud ERP estimates for Entergy Gas Customers.
[3]Includes the initial costs for Cloud ERP implementation.
[4]Includes the initial subscription to Oracle Cloud.
[5]Includes the costs of maintenance and enhancements/future upgrades. This is an average budget for annual updates.
[6]Includes the recurring costs of the SAP and Oracle software subscriptions/licenses.
[7]Includes the costs of running the ERP & related infrastructure, including people/hardware.

Transitioning the ERP to Delta's Cloud will also Generate Qualitative Benefits

As described in the DU Services Technology Platform Benefits Memorandum (4/18/2024)

Benefits of Transitioning to A Cloud-Based ERP	Metrics/Commentary
Scalability & Adaptability	**50%+ reduction** in time to market by shortening technology deployment[1]
Resilience	Guarantee **99%+ uptime** (<9 hrs/yr offline), far exceeding what on-prem can provide[2]
Cost Efficiency	Can achieve **33% savings**[2] and reduce required labor through super shared services
Customer Satisfaction	**Faster delivery** of value-added services
Social Impact and Economic Development	**Reduces energy consumption by 22% - 93%.**[2]

[1] https://www.oracle.com/customers/hni-case-study/
[2] Accenture Research
[3] https://go.microsoft.com/fwlink/?linkid=2162433&clcid=0x409&culture=en-us&country=us
[4] https://isg-one.com/articles/can-cloud-computing-reduce-carbon-emissions#:~:text=typical%20enterprise%20datacenter.%E2%80%9D-,How%20Does%20Using%20the%20Cloud%20Reduce%20Emissions%3F,in%20on%2Dpremises%20set%20ups.

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01** **February 20, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	

CNO 1-10: Please describe how DSU will allocate shared services between DSU NO and other affiliates of DSU.

a. Please identify each allocation factor type (*e.g.*, plant by function allocator, labor allocator).

Response:

THIS RESPONSE CONTAINS HIGHLY SENSITIVE INFORMATION BEING PROVIDED TO APPROPRIATE REVIEWING REPRESENTATIVES PURSUANT TO THE COUNCIL'S OFFICIAL PROTECTIVE ORDER.

DSU is in the process of developing an appropriate, multi-factor shared services model and cost allocation methodology to best match the benefits for customers of a shared services operating structure with the costs necessary to provide service. When completed, this work will result in DSU Services executing shared services agreements with DSU NO and DSU LA that will govern the determination and allocation of shared services costs between the two utilities.

DSU expects the shared service allocation methodology and corresponding agreements to generally follow and be applied consistently with the Council authorized gas-related allocation factors currently in effect and included and described in detail in ENO's shared services agreement with ESL (Amended and Restated Services Agreement for Administrative and General Support Services, between Entergy Services, LLC (ESL) and Entergy New Orleans, LLC (ENO), effective January 1, 2019), which is being provided as HSPM Attachment A to this response. Importantly, the shared services agreement to be executed between DSU Services and DSU NO will be tailored to the treatment of costs relevant to natural gas utilities and will be subject to the Council's review as part of DSU NO's rate case filing post-closing of the transaction.

Post-closing of the transaction, cost allocations from DSU Services to DSU NO are not expected to differ materially from recent historical annual allocations. Based on utility cost allocation data provided by Entergy to DSU on 01/19/2024, cost allocations to ENO were approximately $17.5 million in 2022 and $20 million in 2023, in each year representing approximately 55% of the total ENO and ELL Gas annual shared services costs. Please see HSPM Attachment B to this response for a copy of DSU NO's cost allocation spreadsheet, which is based on Entergy cost allocation data.

(a) As noted above, we would expect the allocation factor types to generally be consistent with the current ENO shared services agreement with ESL, but will need to modify the agreement to exclude certain allocation factor types that are specific to the electric business and not relevant to a standalone natural gas utility business (e.g., System Capacity (Non-Nuclear), Coal Consumption, Distribution Line Miles, Energy Sales, Substations, Transmission Line Miles, etc.).

DSU NO intends to supplement this response with additional detail when its work on the allocation methodology is completed.

Prepared by: AEA and associated consultants

HSPM EXHIBIT BL-13

(HSPM Attachments B to DSU NO Response to CNO 1-10)

REDACTED

Contains Highly Sensitive Protected Material Being Provided Only to Appropriate Reviewing Representatives Who Have Executed the Council's Official Protective Order

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01** **February 20, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	

CNO 1-6: Please describe in detail the accounting system and controls DSU NO will employ as a gas utility under Council regulation. Please include the following in the detailed description,

a. The software (*i.e.*, commercial product) DSU NO will employ for accounting functions, including GL, payroll, plant, and tax.

b. The internal controls DSU NO will employ (*e.g.*, DSU NO will comply with all SOX requirements even though it is not a publicly traded company).

c. The internal audit processes DSU NO will employ.

d. The external/independent audit DSU NO will perform – annually? Will DSU NO provide copies of the detailed audit report to the Council?

e. The system of accounts DSU NO will employ (*e.g.*, substantially the same as that used by ENO, based on the FERC USOA).

f. The means by which DSU NO will develop its depreciation rates for Council approval. Will DSU NO initially apply ENO's current depreciation rates?

Response:

(a) The Oracle Cloud Enterprise Resource Planning (ERP) solution, specifically the Oracle Financials module, will be used to employ accounting functions for DSU NO. Gartner®, the leading technology and market research firm, named Oracle (Fusion Cloud ERP) a Leader in the 2023 benchmarking analysis for Cloud ERP for Service-Centric Enterprises. Oracle Financials is a broad, complete solution delivering extensive support for global companies in a variety of industries, and continuous innovation in key technologies such as machine learning, intelligent automation and analytics, deployed in the cloud to achieve more, faster, with fewer resources. The core Record to Report process provides the ability to perform general accounting, including processing of journal entries, allocations, accounts payable (AP), accounts receivable (AR) and treasury reconciliations. The solution also allows DSU to perform Capital Projects and Fixed Assets Accounting as well as perform Period End Financial Closing. A Charts of Accounts template has been developed through successful implementations over the last 25 years and consists of 7 segments that satisfy a diverse set of business needs, in terms of capturing, tracking and analyzing the DSU NO's financial data.

The Oracle Utilities Work and Asset Cloud Service (WACS) solution provides comprehensive and centralized support of all fixed and linear assets (ex. pipes and valves) to optimize the entire asset lifecycle. WACS includes functionality to manage the receipt, installation, maintenance, tracking, and removal of assets. The assets typically exist within a structured hierarchy based on the relationship between the asset and its locations and organizations. WACS provides functions for asset inventory and procurement. Oracle Utilities Work and Asset Cloud Service provides standard work management functions (preventative, calendar-based, condition-based, and outage), work scheduling, and routing, and the consolidation of these work streams provides enhanced operational efficiency. The solution also supports the planning, scheduling, and execution of long cycle/short cycle work.

The cloud-based advantage and other benefits of this system are further discussed in DSU NO's response to CNO 1-14(c), and Attachment A thereto.

(b) DSU NO is fully committed to establishing and maintaining a robust internal controls process to govern the business post-closing of the transaction. As described in CNO 1-6(a), we are engaged in a process not only to implement the appropriate systems to ensure Day One Readiness of the operations, but also are focused during this transition process upon establishing and designing the key control processes related to operating effectiveness and controls over financial reporting. In doing so, we expect to design a compliance program that follows, in large part, the principles set forth in the Sarbanes-Oxley Act of 2002 (SOX). Similar to a SOX compliance program in a public company, DSU NO's effort will include the identification of significant risks to the business; the design of controls aimed to mitigate those risks; a plan for testing to confirm the effectiveness of control design and performance; and a process to confirm that an effective control environment is in place. DSU NO will supplement this response as soon as pertinent additional information is available.

(c) DSU NO is continuing its Transition Plan work (as discussed and defined in the Direct Testimony of Brian Little) to determine the appropriate processes for its internal audit function and activities, and the overall scope and timing of any external/independent audit(s) that will need to be performed post-transition period.

At a minimum, DSU NO will comply with the requirements associated with its financing and operation as a BCP portfolio company, which includes the generation of third party audited consolidated financial statements in accordance with GAAP to be accompanied by an opinion of DSU NO's third party auditors stating that such statements present fairly in all material respects DSU NO's financial position and the results of its operations within 120 days after the end of each fiscal year (or 150 days after the end of the first full fiscal year after closing).

(d) Please see DSU NO's Response to CNO 1-6(c).

(e) DSU NO's system of accounts will follow the FERC 18 CFR Part 201 – Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act (USOA), which is consistent with the system of accounts used for the business during its ownership by Entergy. These accounts will be used for all relevant regulatory purposes including annual Rate Stabilization Filings, future base rate case filings, and any annual reporting requirements that may arise as a result of this proceeding.

(f) Yes, the Council approved depreciation rates currently in effect would continue to apply post-closing. Any future change in depreciation rates would be subject to Council review and approval pursuant to a separate future filing not sooner than the filing discussed in CNO 1-22.

Prepared by: Jeremy Turner, DSU Chief Transition Officer

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01**
	)	**May 13, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	

CNO 1-35: Please refer to the Joint Application, page 19, which addresses Shared Services, and provide a copy of the separate services agreement executed with DSU Services and DSU NO, and identify those provisions which relate to ENO's shared service agreement applicable to the ENO gas utility.

Response:

DSU NO is still working to finalize the shared services agreement and will supplement this response upon its execution. See also DSU NO Response to CNO 1-10.

Prepared by: Jeffrey Yuknis, Member DSU Board of Managers, Managing Director Bernhard Capital Partners, Member BCP Investment Committee

DSU NO First Supplemental Response:

DSU NO has been working to develop an interim shared services agreement to be executed among Delta States Utilities Services, LLC, DSU NO and DSU LA that will include similar services and allocation methodologies of the costs of such services as exist today for the ELL and ENO gas utilities until a more refined and streamlined methodology is developed. Further, such interim agreement would not impact customer rates absent a subsequent approval of the Council since DSU NO will be assuming ENO's rates in effect at Closing or supported by the most recent G-FRP evaluation period. While DSU NO fully intends to maintain shared services consistent with the current allocation of shared services between ELL and ENO, with respect to their natural gas operations, as a gas-only utilities, DSU's allocation of service company costs would be less complex than those for integrated gas and electric utilities, like ELL and ENO. Given the complexities of the allocation methodology and the lack of impact on customer rates, DSU NO intends to continue to develop this agreement as it works to stand up the shared services company but proposes that it provide the agreement to the Advisors closer to Closing.

Prepared by: Jeffrey Yuknis, Member DSU Board of Managers, Managing Director Bernhard Capital Partners, Member BCP Investment Committee

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)))	**DOCKET NO. UD-24-01** **MAY 3, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	))))))))	

CNO-DSU 3-8 In the hypothetical where both the DSU NO sale, the DSU LA sale, and the CenterPoint Transaction are closed consistent with their respective applications before their relevant regulators, will there be a common management services company between the DSU NO/DSU LA utilities and the CenterPoint Transaction utilities (*e.g.*, DSU Services)?

1.

a. If yes, please supplement the response to CNO 1-10, HSPM Attachment B, to reflect the hypothetical (*i.e.*, describe how shared services will be allocated and identify each allocation factor type).

2.

b. If no, please explain why such a shared services company is not appropriate in this hypothetical N/A

Response:

The CenterPoint Transaction is a separate transaction, and while DSU NO's closing of both the Entergy and CenterPoint transactions is expected to provide enhanced benefits to gas customers of each utility, each transaction stands on its own; each transaction is expected to result in benefits to customers of the acquired natural gas assets should only one transaction close.

Yes, DSU is committed to establishing a shared services organization to leverage economies of scale and consolidation of services and resources that are more efficiently provided across the entire platform.

(a) Initially, the acquired ENO and ELL utilities will operate under interim shared services agreements with allocations substantially similar to their current respective allocation methodologies for shared services functions, as further discussed in DSU NO response to CNO 1-10 and demonstrated in HSPM Attachment B to CNO 1-10. Upon the closing of both the Entergy and CenterPoint transactions, and in its subsequent rate filing, DSU NO would propose a modified and simplified allocation methodology to achieve the benefits of the consolidation of common services. A hypothetical example of a simplified allocation methodology and the impact thereof attributed to the combined transaction is provided in DSU NO First Supplemental Response to CNO 1-14 and HSPM-CS Attachment C provided as an attachment thereto. Under the hypothetical of both transactions closing, there would be no impact to DSU NO until a final resolution in the subsequent rate case and any impact would include the benefits of spreading costs over a larger customer base, but also a proportional reduction in shared services costs attributed to synergy benefits of up to 10% discussed in DSU NO Response to CNO-DSU 3-13, and the scalability benefits associated with the Transition Plan, as demonstrated in DSU NO Response to 1-14 and HSPM-CS Attachment C to CNO 1-14.

Entergy and CenterPoint have different shared services methodologies, using different allocation factors, which requires a modified allocation methodology to meet the objectives stated herein. DSU NO expects shared services synergies by using a single company to provide common shared services to the five utilities. The consolidated shared services model is preferred in the utility industry as it typically provides cost savings due to synergies and economies of scale. For example, a consolidated service company leverages synergies by allowing the costs of services provided by Executives, and departments such as Information Technology, Legal, Tax, Finance, Accounting, Gas Supply, Supply Chain, Regulatory, Training, Corporate Communications, Marketing, Fleet Management, Facilities Management, etc. to be shared over a larger customer base. As noted in DSU NO response to CNO 1-10, DSU NO continues evaluating a way to simplify the existing shared services allocation of the Entergy utilities as well as the CenterPoint utilities, which revised allocation methodology will consistently and equitably allocate shared services among the Entergy and CenterPoint natural gas utilities without sacrificing the cost-causation among shared service activities to the appropriate utility. As discussed above and in DSU NO's response to CNO-DSU 3-13, the expected shared services savings will be passed through to the individual utility entities through cost allocations.

(b) N/A

Prepared by: AEA and associated consultants

BEFORE THE
NEW ORLEANS CITY COUNCIL

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE	)	**DOCKET NO. UD-24-01**
	)	**MAY 15, 2024**
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF.	)	

CNO-DSU 5-1: Please refer to CNO 1-18, which refers to the segregation of transaction costs from transition costs, and also requests when, how often, and in what accounting format the Council will receive the detail of the Transaction costs. The response indicated: "DSU will provide regular reporting of Financial Reports, to include project-level financial information, as well as actual-to-budget reporting, on a consistent basis as described above. Transition cost reporting will be provided to NOCC on a quarterly basis within 45 days of each period end."

a. Please describe the periodic reporting (e.g. monthly, quarterly, etc., and when such periodic reporting would commence) referenced in the statement: "DSU will provide regular reporting of Financial Reports…" and indicate the specific periodic reporting that refers to Transaction costs, and to Transition costs.

b. Please provide a detailed reporting of the Transaction costs as of March 31, 2024.

c. Please provide a current estimate of total Transaction costs which are projected through closing.

d. Please provide a detailed reporting of Transition costs as of March 31, 2024.

e. Please provide a current estimate of total Transition costs which are projected for DSU NO as a stand-up utility.

Response:

(a), (b) and (c)

Upon completion of the first full quarter after regulatory approvals of the transaction, DSU NO will commence filing quarterly reports of the Transition Costs. DSU NO has committed to not requesting the recovery of Transaction Costs, as defined in DSU NO Response to CNO 1-8, in this filing or in future filings, and thus they will have no impact on customers, through rates or otherwise, and therefore are not proposed to be provided.

(d)

THIS RESPONSE CONTAINS HIGHLY SENSITIVE PROTECTED MATIERAL THAT IS COMMERCIALLY SENSITIVE AND IS BEING PROVIDED ONLY TO COUNCIL ADVISORS PURSUANT TO THE COUNCIL'S OFFICIAL PROTECTIVE ORDER.

Please see attached HSPM-CS DSU NO Response to CNO-DSU 5-1, Attachment A - Transition Costs Through 3.31.24. The attachment provides Transition costs through March 31, 2024, for Delta States Utilities and excludes Transition costs related to the CenterPoint transaction.

(e)

Please see DSU NO First Supplemental Response to CNO 1-14(c) and HSPM-CS Attachment C provided as an attachment thereto for the DSU NO and DSU LA "set-up" costs, which provides a preliminary estimate of the transition costs associated with the implementation of the Transition Plan and stand-up of DSU LA and DSU NO (the "Preliminary Estimate"), including the implementation of a new modern cloud-based information technology ("IT") environment (DSU NO's "Greenfield IT Footprint"), which is necessary to replace 56 IT systems and applications being retained by ENO and ELL because these IT systems and applications share functionality with electric operations and are being retained by Entergy. There has been no change to the total Preliminary Estimate based on actual spend through March 31, 2024.

Prepared by: AEA and associated consultants

BEFORE THE
COUNCL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE.	)	
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS A LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	**DOCKET NO. UD-24-01**

Rebuttal Testimony of

DAVID E. DISMUKES, PH.D.

On the Behalf of

DELTA UTILITIES NO, LLC

PUBLIC-REDACTED VERSION

Contains Highly Sensitive Protected Material and Highly Commercially Sensitive Information Being Provided Only To Council Advisors Pursuant to the Council Official Protective Order

June 28, 2024

BEFORE THE
COUNCL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE.	)	
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS A LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	**DOCKET NO. UD-24-01**

<u>AFFIDAVIT OF DAVID E. DISMUKES, PH.D.</u>

STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

David E. Dismukes, being first duly sworn, on his oath states:

1. My name is David E. Dismukes. I am employed by the Acadian Consulting Group, LLC as a Consulting Economist and the Managing Partner. My principal place of business is located at 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana 70808.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in this proceeding before the Council of the City of New Orleans.

3. I hereby swear and affirm that my testimony is true and correct and that it shows the matters and things that it purports to show.

____
David E. Dismukes, Ph.D.

Subscribed and sworn to before me this ____ day of #####, 2024.

____
Notary Public

BEFORE THE
COUNCL OF THE CITY OF NEW ORLEANS

DELTA STATES UTILITIES NO, LLC AND ENTERGY NEW ORLEANS, LLC, EX PARTE.	)	
IN RE: APPLICATION FOR AUTHORITY TO OPERATE AS A LOCAL DISTRIBUTION COMPANY AND INCUR INDEBTEDNESS AND JOINT APPLICATION FOR APPROVAL OF TRANSFER AND ACQUISITION OF LOCAL DISTRIBUTION COMPANY ASSETS AND RELATED RELIEF	)	**DOCKET NO. UD-24-01**

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<u>REBUTTAL TESTIMONY OF DAVID E. DISMUKES, PH.D.</u>

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place, Suite 5-F, Baton Rouge, Louisiana, 70808.

Q. PLEASE STATE YOUR OCCUPATION AND CURRENT PLACE OF EMPLOYMENT?

A. I am a Consulting Economist and Managing Partner with the Acadian Consulting Group ("ACG"), a research and consulting firm that specializes in the analysis of regulatory, economic, financial, accounting, statistical, and public policy issues associated with regulated and energy industries. ACG is a Louisiana-registered business, formed in 1995, and located in Baton Rouge, Louisiana.

Q. DO YOU HOLD ANY ACADEMIC POSITIONS?

A. Yes. I am a professor emeritus at the Louisiana State University ("LSU"). I retired from my active academic position in January 2023 after close to three decades of service, and immediately prior to my retirement, I served as a full professor, executive director, and director of policy analysis at the LSU Center for Energy Studies and as a full tenured professor in the Department of Environmental Sciences and the director of the Coastal Marine Institute in the LSU College of the Coast and Environment. I also serve as a senior fellow at the Institute of Public Utilities at the Michigan State University, where I have taught energy regulatory staff and other utility stakeholders about principles, trends, and issues in the electric and natural gas industries. I am also a Distinguished Fellow and Senior Economist with the Institute for Energy Research in Washington, D.C.

Q. HAVE YOU SERVED IN ANY ADVISORY CAPACITIES?

A. Yes. Over the course of my career, I have served in numerous public policy advisory capacities including to the National Petroleum Counsel ("NPC"), the University Advisory Board of the Energy Council, the Interstate Oil and Gas Compact Commission ("IOGCC"), the National Association of Regulatory Utility Commissioners ("NARUC"), and the National Association of State Utility Consumer Advocates ("NASUCA").

Q. HAVE YOU PREPARED AN ATTACHMENT THAT SUMMARIZES YOUR PROFESSIONAL EXPERIENCE?

A. Yes. Attachment 1 to my direct testimony includes my academic vitae, including: (1) my educational background and employment history; (2) my publications and presentations; and (3) my pre-filed expert witness testimony, expert reports, expert legislative testimony, and affidavits in other jurisdictions and venues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been retained by Delta Utilities NO, LLC ("DSU NO") to offer a rebuttal opinion before the Council of the City of New Orleans ("NOCC" or "the Council") regarding direct testimonies filed by the Advisors to the Council (hereafter "Advisors") and the Alliance for Affordable Energy ("AEE" or the "Alliance") in this proceeding in which DSU NO is seeking authority to operate as a natural gas utility in the City of New Orleans and acquire the assets of Entergy New Orleans, LLC ("ENO") natural gas business, among other requested relief ("Proposed Transaction"). My rebuttal testimony will address the net benefits of the Proposed Transaction, including the incremental revenue requirement and bill impacts of the Proposed Transaction and the economic benefits that will likely arise from the Proposed Transaction. I also provide a cost-benefit analysis ("CBA") for DSU NO transition costs, and I respond to certain recommendations offered by the Alliance. My failure to address any specific issue raised by either the Advisors or the Alliance should not be interpreted as any form of agreement or acceptance.

Q. HAVE YOU PREPARED ANY EXHIBITS TO SUPPORT YOUR TESTIMONY?

A. Yes. I have prepared nine exhibits in support of my rebuttal testimony. My pre-filed rebuttal testimony and exhibits have been prepared by me or under my direct supervision.

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

A. My rebuttal testimony is organized as follows:

- Section I: Introduction
- Section II: Assessment of Net Benefits
- Section III: Revenue Requirement, Rate and Bill Impacts
- Section IV: Benefits of the Proposed Transaction
- Section V: Response to the Alliance for Affordable Energy

- Section VI: Conclusions and Recommendations

Q. PLEASE SUMMARIZE YOUR POSITION ON THE NET BENEFITS OF THE PROPOSED TRANSACTION.

A. One of the eighteen (18) factors in the Council's Resolution R-06-88 requires the Council to assess whether the transfer will provide net benefits to ratepayers. This assessment is particularly challenging as there is no clear definition or approach to quantifying "net benefit." However, it is important to clarify that net benefits cannot simply be defined as lower prices and the assessment requires a subjective balancing of quantifiable and non-quantifiable benefits.

In their assessment of the net benefits of the Proposed Transaction, the Advisors, thus far, have not considered cost impact appropriately and have failed to consider many quantifiable and non-quantifiable benefits. Additionally, the Advisors do not adequately weigh non-quantifiable benefits. I will address how Advisors have not considered cost impact appropriately in Section III. I will address Revenue Requirement, Rate and Bill Impact Analysis and address the benefits of the Proposed Transaction in Section IV.

Q. PLEASE SUMMARIZE THE DISAGREEMENTS YOU HAVE WITH THE REVENUE AND RATE IMPACT ANALYSIS CONDUCTED BY THE ADVISORS.

A. The Advisors' recommendation regarding the Proposed Transaction rests heavily on their estimate of the incremental revenue requirement that will have to be recovered from ratepayers in the future. I do not disagree with the use of an incremental revenue requirement analysis for purposes of evaluating the Proposed Transaction. However, I disagree with the Advisors' calculation of this incremental revenue requirement, and the resulting typical bill impacts, because their estimates are based upon a flawed set of assumptions and/or incremental impacts arising from the Proposed Transaction. These assumptions include:

(1) The use of an incomplete estimate of the loss of accumulated deferred income tax ("ADIT") net of accumulated new ADIT;

(2) A flawed basis for including a change in the cost of debt as transaction-specific;

(3) The use of an incorrect depreciation rate for new software that they recommend be booked to intangible plant (instead of recovered through a regulatory asset as proposed by DSU NO); and

(4) The use of an inaccurate value of retained ENO plant assets, thereby understating the financial credit that can be passed along to New Orleans residential natural gas customers.

In addition, the Advisors' analysis of bill impacts relies on (1) a customer class allocation factor that overstates residential customer revenue responsibilities, and (2) an average monthly residential usage level that does not reflect historic or anticipated normal residential usage patterns for New Orleans natural gas customers. While I address these issues as disagreements with the Advisors analysis of bill impacts, I would note that both DSU NO and the Advisors agree that a cost-of-service study is necessary in the initial rate case to be filed by DSU NO in order to establish equitable class allocations, which will appropriately address the customer class allocation factor referenced above. I would also submit that the average monthly residential usage level used to estimate bill impacts should also be updated, as I have done in my bill impact analysis.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE PROPOSED TRANSACTION'S REVENUE AND RATE IMPACTS.

A. The costs associated with the Proposed Transaction are both reasonable (relative to industry average trends), particularly considering the qualitative and quantitative benefits outlined in the Joint Application, Direct Testimonies, and companion Rebuttal

Testimonies of DSU NO, and offset by a considerable set of other economic benefits. From a cost perspective alone, I estimate that a total first year incremental revenue requirement impact of $5.8 million to DSU NO ratepayers as a result of the Proposed Transaction. This is far, far lower than the estimate offered by the Advisors. For a typical residential customer this translates into a monthly bill impact of only $1.64 per month, far lower than the impacts estimated by the Advisors.

Q. WILL THESE REVENUE AND RATE IMPACTS FALL FURTHER IF THE ACQUISITION OF THE CENTERPOINT ENERGY ASSETS IS CONSIDERED?

A. Yes. While it is DSU NO's position that the Proposed Transaction stands independently on its own merit, I estimate that these rate impacts could be considerably lower if the acquisition of CenterPoint Energy Resources, Corp. ("CERC") Louisiana and Mississippi natural gas assets are considered. This acquisition will spread the costs of setting up new utility services over more sales volumes, coupled with scale economics, and will drive down the overall cost of transitioning to core-focused local distribution companies ("LDCs") for DSU NO and its affiliate operating companies. I estimate that the expanded set of utility operations will reduce DSU NO's annual incremental revenue requirement to $[redacted] million resulting in a first-year incremental residential bill impact of only $[redacted] per month. Notably, this estimate does not include the expected shared services O&M savings of the combined transaction, which are estimated to be up to 10%.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING PROPOSED TRANSACTION'S ECONOMIC BENEFITS.

A. The total economic benefits that arise from the Proposed Transaction, on a stand-alone basis (i.e., without CERC) is anticipated to create or retain the following economic benefits:

- 3,537 job-years[1] in employment activities;
- $233 million in labor income;
- $576 million in GSP; and
- $1.1 billion in economic output.[2]

While these benefits are technically all in Louisiana, a very high proportion, including most all of the direct impacts, will arise specifically in the City of New Orleans given the future location of the DSU NO parent corporate headquarters.

Q. WILL THESE ECONOMIC BENEFITS EXPAND IF THE BROADER CERC ACQUISITION IS CONSIDERED?

A. Yes. The total economic benefits that arise from the DSU and CERC combination are anticipated to create the following economic benefits:

- 9,103 job-years in employment activities;
- $588 million in labor income;
- $1.3 billion in GSP; and
- $2.7 billion in economic output.[3]

Note that while, technically, these sizable economic benefits are anticipated to occur statewide in Louisiana, most of the "direct-only" economic benefits will arise entirely in the

[1] A job-year is an economic term of measurement that means "one job for one year."

[2] All benefits estimated on a cumulative four-year basis.

[3] All benefits estimated on a cumulative four-year basis.

City of New Orleans given the new corporate location. Thus, the City itself will see considerable, and lasting, economic benefits that arise from the combined operations (Entergy and CERC).

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING YOUR CBA RESULTS ON THE PROPOSED TRANSACTION'S TRANSITION COSTS.

A. I conclude that the IT transition costs are cost effective, and DSU NO should be allowed to defer for future recovery its share of such costs, subject to a prudency review in a future rate proceeding. I have used a conservative basis for my CBA, only examining two categories of potential benefits that could be expanded even further. Specifically, only the economic impact benefits attributed to the Transition Plan have been considered in this analysis, and the more significant corporate activity economic benefits have been excluded for this analysis. In total, my analysis shows positive net benefits to New Orleans natural gas customers from the Proposed Transaction's IT investments. The analysis calculates benefits that range from a high of $33.1 million in net benefits (7.72 benefit-cost ratio ("BCR")) to a low of $12.8 million in net benefits (BCR of 3.60).

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE ALLIANCE'S REBUTTAL PROPOSALS.

A. I recommend the Council reject the Alliance's recommendation to either force DSU NO to decapitalize its natural gas investment or municipalize the ENO system and decapitalize the system on its own. While climate change and the elimination of GHG emissions are important public policy topics, they are also independent and have no direct relevance on whether this Proposed Transaction is in the public interest. The Alliance's proposals go far outside the scope of this proceeding, contain no CBA or rate impact analysis, and have wide ranging economic, social, and political ramifications for a large number of other stakeholders in New Orleans and Louisiana, particularly the citizens thereof. The Alliance's municipalization recommendations also have wide-ranging consequences and yet are offered with zero evidence that the outcome would be in the public interest and adequately serve ratepayers and other stakeholders' interests. The municipalization proposal has no rate impact, no cost analysis, no CBA, nor any other type of meaningful backing and should be rejected outright.

Q. WHAT ARE YOUR OVERALL RECOMMENDATIONS TO THE CITY COUNCIL?

A I recommend the Council approve the acquisition of certain assets of ENO that are primarily used for its natural gas local distribution business ("ENO Gas Business") as requested by DSU NO and ENO in the joint application. The acquisition, and the companion commitments made by DSU NO in its direct and rebuttal testimonies, will collectively lead to rates that are fair, just, and reasonable, as well as service that is safe, reliable, and adequate. The Proposed Transaction will also result in an overall policy outcome that is in the public interest and lead to economic benefits that are substantially larger than any estimated incremental rate impacts that would result due to the transfer of ownership from ENO to DSU NO. The net benefits determination requires an analysis of the quantitative and qualitative impacts of the Proposed Transaction; collectively, these impacts clearly demonstrate a net benefit to the New Orleans customers. However, even conservatively analyzing a small portion of the quantifiable benefits associated with the Transition Plan technology investment, the result confirms a net benefit pursuant to the CBA I discuss herein. These benefits, coupled with many hard to numerically quantify benefits such as the deployment of state-of-the-art cloud-based technologies to facilitate customer service and reputation benefits offered to the City by serving as the corporate home to the third largest natural gas utility in the southeast, all support a finding that the Proposed Transaction is in the public interest.

II. ASSESSMENT OF NET BENEFITS

Q. PLEASE DESCRIBE THE SIGNIFICANCE OF NET BENEFITS TO THE REVIEW OF THE PROPOSED TRANSACTION.

A. The Council's Resolution R-06-88 sets forth eighteen (18) factors which the Council shall take into account in determining whether to approve the Proposed Transaction. One of the eighteen factors assessed is whether the transfer will provide net benefits to ratepayers:

> *Factor e. "Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit."*[4]

This factor is particularly challenging to assess as there is no clear definition or method for quantifying "net benefits." Importantly, as stated by Ms. Maurice-Anderson, net benefits cannot simply be defined as lower prices. For example, if reliability or quality of service is worsened as a result of lower prices, it may be perceived that lower prices did not provide net benefits. Similarly, improved service or other quantifiable or non-quantifiable benefits to customers can come with higher costs but still be perceived as net beneficial.

[4] Council Resolution R-06-88.

Net benefit is not limited to quantifiable dollar-for-dollar benefit. Rather, to determine if a decision is in the public interest, a balancing of various effects of a particular course of action measured subjectively over the long run is required.[5] This includes balancing consideration of factors that are potentially quantifiable on an estimated basis, such as likely changes to costs or revenues, as well as factors that are not quantifiable. It also requires recognition that some non-quantifiable benefits do come with quantifiable costs.

Q. ARE THE ADVISORS APPROPRIATELY ASSESSING THE NET BENEFITS OF THE TRANSACTION?

A. Thus far, the Advisors have not considered cost impact appropriately and have failed to consider and appropriately weigh many quantifiable and non-quantifiable benefits.

Although the Advisors claim to align with the need to balance quantifiable and non-quantifiable benefits, they do not adequately weigh the non-quantifiable benefits, which they agree should result from the Proposed Transaction.[6] As stated by Ms. Maurice-Anderson, "The Advisors recommend mitigation for potential quantifiable cost increases but do not adjust such mitigation for the potential non-quantifiable benefits that customers stand to receive. That is not consistent with the weighing and the balancing of all relevant effects that I described here earlier. That is ignoring non-quantifiable benefits."

[5] See Rebuttal Testimony of ENO Witness Alyssa Maurice-Anderson.

[6] Direct Testimony of Joseph W. Rogers at 20 (May 31, 2024).

Q. DOES THE PROPOSED TRANSACTION DEMONSTRATE NET BENEFITS WHEN APPROPRIATELY CONSIDERING QUANTIFIABLE AND NONQUANTIFIABLE BENEFITS?

A. Yes, when performing the appropriate analysis of whether the transaction is in the public interest and produces a net benefit based on the significant quantifiable and nonquantifiable benefits discussed in the Joint Application, direct testimonies of the Joint Applicants, discover, and the companion rebuttal testimonies of the Joint Applicants, the Proposed Transaction clearly provides meaningful and long lasting benefits to the New Orleans customers and the citizens of New Orleans generally. However, even analyzing only a small portion of the quantifiable benefits associated with the Transition Plan technology platform, the analysis still produces an overall benefit to the customers pursuant to the outcome of the CBA below.

Q. HOW WILL YOU ADDRESS YOUR DISAGREEMENT WITH THE ADVISORS' ASSESSMENT OF NET BENEFITS?

B. I expand on DSU NO's position that the Advisors failed to consider and appropriately weigh many quantifiable and non-quantifiable benefits in Section IV. Benefits of the Proposed Transaction. I provide a summary of the identified benefits of the Proposed Transaction, provide a detailed assessment of the economic benefits of the Proposed Transaction, and present a Transition Cost CBA.

First, I will address how the Advisors inappropriately considered the cost impact.

III. REVENUE REQUIREMENT, RATE AND BILL IMPACT ANALYSIS

A. Advisors' revenue requirement analysis

Q. PLEASE DISCUSS THE ADVISORS' REVENUE REQUIREMENT AND BILL IMPACT ANALYSIS.

A. The Advisors' recommendations regarding the regulatory approval of the Proposed Transaction rest heavily upon their estimates of the incremental revenue requirement (or cost) impact of the Proposed Transaction. The Advisors' analysis finds that the Proposed Transaction will result in an incremental revenue requirement increase of $16.5 million.[7] The Advisors identify six factors contributing to this increase in annual relatively large increases that includes: (1) the loss of ADIT balances; (2) the accumulation of new ADIT balances; (3) a newly proposed regulatory asset; (4) new incremental software investments that Advisors recommend should increase booked intangible plant instead of deferred to the regulatory asset; (5) current ENO intangible plant assets that will be retained by ENO post transaction; and (6) an increase in the weighted average cost of capital ("WACC") arising from DSU NO's higher cost of debt relative to the cost of debt that is currently on ENO's books.[8]

Q. DID THE ADVISORS TRANSLATE THIS INCREASED REVENUE REQUIREMENT INTO A TYPICAL BILL IMPACT?

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[7] Direct Testimony of Byron S. Watson at 45, Table 3; and 45:12-13.
[8] *Id.*

A Yes. The Advisors used a “typical residential bill” formula from ENO’s 2024 gas formula rate plan (“2024 GFRP”) filing to estimate a typical monthly bill increase of $12.33 as a result of the Proposed Transaction.[9]

Q. DO YOU AGREE WITH THE ADVISORS’ APPROACH TO EVALUATING THE IMPACTS OF THE PROPOSED TRANSACTION ON REVENUE REQUIREMENT AND RATES?

A. The Advisors’ approach to evaluating revenue requirement and rate impacts associated with the Proposed Transaction is very similar to the incremental revenue requirement analysis performed by DSU NO and provided in response to CNO-DSU NO 1-14 as HSPM-CS Attachment C, in that the Advisors try to isolate the cost of DSU NO’s Transition Plan and DSU NO’s cost of debt to calculate the revenue requirement and impact on rates over and above what would be expected if ENO continued to own and operate the natural gas assets. I agree with this incremental approach for evaluating the impact of the Proposed Transaction, as there are too many unknowns at this time to be able to perform a full revenue requirement analysis for calculating what rates would be under DSU NO ownership once DSU NO files its initial rate case with the Council, which I understand would not be sooner than 15 months post-Closing. An actual revenue requirement for the purpose of setting DSU NO rates should only be performed after DSU NO has established a historical test year, which the Advisors and DSU NO are in agreement on.

[9] *Id.* at 46:2-4.

Q. DO YOU AGREE WITH THE ADVISORS' INCREMENTAL REVENUE REQUIREMENT ESTIMATE?

A. No. I have a number of disagreements with the Advisors' incremental revenue requirement estimate that includes:

(1) The use of an incorrect estimate of the loss of ADIT net of accumulated new ADIT;

(2) A flawed basis for including a change in the cost of debt as transaction-specific;

(3) The use of an incorrect depreciation rate for new software that they recommend be booked to intangible plant (instead of recovered through a regulatory asset as proposed by DSU NO); and

(4) The use of an inaccurate value of retained ENO plant assets thereby understating the financial credit that can be passed along to New Orleans residential natural gas customers.

Q. DO YOU AGREE WITH THE ADVISORS' TYPICAL RESIDENTIAL BILL ESTIMATE?

A. No. The typical residential bill estimates provided by the Advisors suffer from two analytic errors. First, the Advisors' analysis relies on a customer class allocation factor that overstates residential customer revenue responsibilities; and second, the Advisors' analysis relies on an average monthly residential usage level that does not reflect historic or anticipated normal residential usage patterns for New Orleans natural gas customers. These two errors alone significantly increase the revenue requirement estimate by the Advisors for each item included in the Advisors incremental impact analysis.

Q. HAVE YOU ESTIMATED AN ALTERNATIVE INCREMENTAL REVENUE REQUIREMENT AND BILL IMPACT?

A. Yes. HSPM-CS Exhibit DED-1 provides an alternative revenue requirement estimate based on the Advisors analysis that is also reconciled to an independent analysis provided in HSPM-CS Exhibit DED-3. HSPM-CS Exhibit DED-1 also provides a more accurate typical residential bill impact analysis. In summary, I find that the incremental revenue requirement impact of the Proposed Transaction is estimated to be $6.4 million using the Advisors' approach. I also estimate a first-year incremental residential bill impact of only $1.89 per month.

Q. YOU NOTE THAT THIS IS A LIKELY INCREMENTAL REVENUE REQUIREMENT IMPACT. ARE THERE OTHER FACTORS THAT COULD POTENTIALLY INFLUENCE FUTURE COST AND BILL IMPACTS?

A. Yes. As the Advisors have recognized,[10] Delta Utilities has announced the acquisition of three natural gas utilities with service areas in Louisiana and Mississippi that are owned by CERC, a wholly-owned subsidiary of CenterPoint Energy, Inc. The inclusion of the CERC transaction will lead to scale economies that will be directly passed along to DSU NO ratepayers. I estimate that the expanded set of utility operations will reduce DSU NO's annual incremental revenue requirement to $[redacted] million resulting in a first-year incremental residential bill impact of $[redacted] per month using the Advisors' approach. As noted, this estimate does include the economies of scale within the shared services structure of the combined transaction, which is estimated to produce O&M shared services savings of up to 10%.

B. <u>ADIT impacts</u>

Q. PLEASE SUMMARIZE THE CONCEPT OF ADIT.

[10] *See*, Direct Testimony of Byron S. Watson at 29:3-5.

A. As explained more fully in the rebuttal testimony of DSU NO witness Mr. Jay Lewis, ADIT is a balance sheet entry to record the tax effect of the timing differences between book income and expenses recorded for accounting/regulatory purposes and accelerated tax depreciation exceeding book depreciation.[11] ADIT is a credit against rate base designed to recognize the cost-free source of capital created by the reduction of tax liability generated by accelerated tax depreciation. This credit is reduced as the utility recognizes the tax liability.

Q. PLEASE EXPLAIN THE ADVISORS' POSITION REGARDING THE ACCOUNTING TREATMENT OF ENO'S CURRENT ADIT BALANCES.

A. The Advisors estimate a $58.1 million ADIT balance will be recorded in ENO's year-end 2024 gas rate base and will not transfer to DSU NO, causing DSU NO's future rate base to increase relative to prior ENO levels.[12] The Advisors, however, estimate that this increase will be partially offset by $2.8 million in ADIT credit that will arise from the use of accelerated depreciation during the two-year period from year-end 2024 to DSU NO's initial rate case application.[13] In total, the Advisors estimate that DSU NO's rate base will be $55.4 million higher than what ENO's would have been absent the Proposed Transaction,[14] and that the increase in rate base will result in an approximate $[redacted] million increase in DSU NO's revenue requirement at ENO's current WACC.[15]

Q. DO YOU AGREE WITH THE ADVISORS' CALCULATION OF THE REVENUE REQUIREMENT IMPACT OF THE ADIT BALANCE REMOVAL?

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[11] *See*, 18 CFR § 1367.2820.
[12] Direct Testimony of Byron S. Watson at 33:13-15.
[13] Direct Testimony of Byron S. Watson at 33:15-17.
[14] Direct Testimony of Byron S. Watson at 33:17-18.
[15] Direct Testimony of Byron S. Watson at 45, Table 3.

A. No. As discussed in the rebuttal testimony of DSU NO witness Mr. Jay Lewis, it is not possible to accurately calculate the amount of ADIT that will be on DSU NO's books at the time of a change in DSU NO's rates approximately two or more years following closing, based upon a future rate proceeding to be filed by DSU NO not sooner than 15 months post-closing. Nor is it possible to estimate the amount of ADIT that will be on ENO's books at the time of closing of the Proposed Transaction. However, Mr. Lewis identifies several items that would offset any impact on customers from ADIT not transferring at closing that were not considered by Advisors. Thus, while we can't calculate at this time the actual ADIT impact, we can prepare an illustrative example that accounts for other sources of ADIT and uses reasonable assumptions. In doing this, it is evident that the trend in the ADIT supports the conclusion that the Advisors have overstated the impact of the ADIT balance removed, resulting in a revenue requirement impact that is likewise overstated.

Q. HAVE YOU RECALCULATED THE INCREMENTAL REVENUE REQUIREMENT IMPACT OF THIS ALTERNATIVE ADIT TREATMENT?

A. Yes. Based on illustrative ADIT numbers, which are importantly illustrative but based on reasonable assumptions, I have provided an alternative ADIT revenue requirement calculation, which is provided in HSPM-CS Exhibit DED-1 and shows an incremental revenue requirement impact approximately $[redacted] million lower than the Advisors' estimate of $[redacted] million. This difference in impact from ADIT is partially representative of the substantial and creative mitigation provided by DSU NO built into the transaction structure. For example, through its proposal to maintain rates until a final outcome in the future rate case, DSU NO is foregoing revenue requirement during the first two or more years to provide time for DSU NO to establish its own replacement ADIT, as further discussed in the Rebuttal Testimony of Jay Lewis. Also as discussed in the Rebuttal Testimony of Jay Lewis, DSU NO's proposal for the Transition Plan costs to be treated as a regulatory asset with an extended amortization period serves to enhance the production of ADIT during this extended period.

C. Increased debt costs

Q. PLEASE EXPLAIN THE CONCEPT OF WACC.

A. WACC is a measure of a company's financing costs and is generally made up primarily of two components: the company's return on common equity, and the company's cost of long-term debt.[16] These components are often weighted by a utility's actual, proposed, or hypothetical capital structure.

Q. WHAT FACTORS AFFECT A COMPANY'S LONG-TERM DEBT COST?

A. Generally, long-term debt is priced based on the value of a treasury note of comparable maturity (ie., 10-year debt would be priced off the 10-year treasury note) at the time the note is issued plus an agreed upon spread. The spread is typically the result of a lender's assessment of the risk of the company seeking to borrow money. That risk is assessed based on several factors, including for example the company's credit rating, overall business risk and perceived regulatory risk.

Q. PLEASE DISCUSS THE ADVISORS' DEBT FINANCING COST ASSUMPTIONS.

[16] Note that technically WACC also include other equity besides common equity, such as preferred stock, and all short-term debt instruments. In practice, these elements, even if applicable, are typically minor components of a company's financing structure.

A. The Advisors estimate that the DSU NO WACC will be [redacted] basis points (or [redacted] percentage points) greater than ENO's present 9.17 percent before-tax WACC, or [redacted] percent.[17] This is based on DSU's present commitment of $[redacted] million in long term debt at an interest rate of [redacted] percent.[18] The Advisors note that this is higher than ENO's present total average cost of debt of 4.75 percent.[19] The Advisors estimate that the increased cost of debt applied against the rate base value included in ENO's 2024 GFRP will result in an incremental annual revenue requirement for DSU NO relative to ENO of $[redacted] million.[20]

Q. DO YOU AGREE THAT IT IS APPROPRIATE TO ATTRIBUTE THE INCREMENTAL COST OF DEBT AS AN ELEMENT OF THE PROPOSED TRANSACTION?

A. No. While the Advisors are correct that DSU NO's current long-term debt rates are higher than the one averaged across all of ENO's current issuances, this higher cost of debt is simply a reflection of current market conditions and not a reflection of the relative financing positions, or financial risks, between DSU NO and ENO. In other words, DSU NO's higher cost of debt does not arise because it is riskier than ENO. Instead, this higher cost of debt is a function of the current relatively high interest rate market at the time of obtaining financing commitments. Importantly, at this time the 30-year treasury rate alone (which is the rate that the US government could borrow) exceeds the average cost of debt

[17] Direct Testimony of Byron S. Watson at 41:15-19.
[18] Direct Testimony of Byron S. Watson at 38:11-13.
[19] Direct Testimony of Byron S. Watson at 38:13-14.
[20] Direct Testimony of Byron S. Watson at 45, Table 3.

of ENO, and specifically has exceeded 5 percent in the past 12 months. Said another way, even the US government could not borrow today at ENO's historical average rate.

Q. IS DSU NO'S CURRENT DEBT RATE COMPETITIVE GIVEN CURRENT MARKET CONDITIONS?

A. Yes. Exhibit DED-2 shows the effective federal funds rate from January 2000 to May 2024. The federal funds rate represents the cost to banks borrowing money from the Federal Reserve and is used as a guidepost for all commercial lending rates. The effective federal funds rate since September 2023 has been 5.33 percent, the highest recorded value since January 2001. Any corporate entity entering into long-term debt obligations in the current market would see higher interest rates applied to these obligations.

Q. HOW DOES DSU NO'S CREDIT SPREAD COMPARE TO THE HISTORIC CREDIT SPREAD FOR NEW ORLEANS?

A. The spread included in DSU NO's cost of debt is less than the historical credit spread over treasuries for New Orleans, which is approximately 3.3 percent. As discussed in the rebuttal testimony of Mr. Jeffrey Yuknis, the competitive process used to obtain financing commitments for DSU NO resulted in achieving a lower spread for the benefit of gas customers.

Q. DO THE ADVISORS DISPUTE DSU NO'S GOOD CREDIT STANDING?

A. No. The Advisors note that "it is reasonable to conclude that DSU NO's financial condition will be maintained, or even improved given DSU NO's claim of an indicative

'BBB' credit rating."[21] While the Advisors note that DSU NO's future financial condition is premised on commitments by Bernhard Capital Partners, the Advisors also note that this circumstance is not too unsimilar to ENO's reliance on Entergy Corporation for financial support, and thus, again, does not reflect a deteriorated financial standing of DSU NO to ENO.[22]

Q. IS THERE REASON TO BELIEVE THAT ENO'S COST OF DEBT WOULD INCREASE WITHOUT THE EXECUTION OF THE PROPOSED TRANSACTION?

A. Yes. ENO has stated that three of its legacy long-term debt issuances will mature in the next few years and will likely need to be replaced with higher cost debt. Specifically, ENO current debt includes a $85 million long-term loan with a 6.25 percent coupon due June 2024, a $78 million mortgage bond with a 3.00 percent coupon due March 2025, and a $85 million mortgage bond at 4.00 percent coupon due June 2026. As quantified below, ENO is likely to have to seek additional debt financing over the next three to five years, during which period the debt market will likely remain elevated compared to the period in which its current financing was obtained.

Q. IS THERE REASON TO BELIEVE THAT ENO WOULD FACE SIMILAR DEBT COSTS IF IT WERE TO SEEK FINANCING IN THE CURRENT MARKET?

A. Yes. ENO has represented to parties that it would likely face interest rates of approximately [redacted] percent on new long-term debt instruments in the current market.[23] This is notably 99 basis points higher than DSU NO's present obligations. I estimate that,

[21] Direct Testimony of Byron S. Watson at 20:9-11.
[22] Direct Testimony of Byron S. Watson at 20:11-14.
[23] ENO HSPM Addendum Response to Data Request CNO 1-13; see also Exhibit AMA-2 to the Rebuttal Testimony of ENO witness Ms. Alyssa Maurice-Anderson.

if ENO were to refinance its current long-term mortgage bonds expiring in the next few years at an interest rate of [redacted] percent, this would increase ENO's average cost of debt to [redacted] percent.

Q. WHAT DOES ENO'S ESTIMATE OF INCREASED FINANCIAL COSTS MEAN RELATIVE TO DSU NO'S CURRENT FINANCIAL OBLIGATIONS?

A. ENO's representations demonstrate that the increased cost of debt attributed by the Advisors to the Proposed Transaction is merely a reflection of current market conditions faced by DSU NO relative to historic market conditions present when ENO entered into its long-term debt obligations. Given the current market conditions, it is safe to assume that, over time, ENO's average cost of debt would increase from its current levels as ENO seeks new long-term debt financing and its legacy notes expire. Likewise, it is also safe to assume that DSU NO's financing costs will decrease if market conditions improve in the future to the extent DSU NO issues new debt at these lower rates. Ultimately, there is no reason to believe that the relative financing costs of ENO (absent the Proposed Transaction) and DSU NO would not eventually converge post transaction, given the relatively similar financial strengths of the two entities. If anything, it is possible that future financing costs for DSU NO may be lower than ENO, as noted by the Advisors.[24]

Q. IS THERE ANY REASON TO REASON TO BELIEVE THAT DSU NO'S CURRENT DEBT OBLIGATION IS UNREASONABLE?

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[24] *See*, Direct Testimony of Byron S. Watson, at 20:12-14.

A. No. As attested to by ENO, ENO estimates that it would likely face interest rates of approximately [redacted] percent on new long-term debt instruments in the current market. This is more than 300 basis points over current 30-year treasury rates. In comparison to this, DSU NO's current obligation is priced at [redacted] percent, which is approximately [redacted] basis points over current federal funds rates. There is no reason to believe that DSU NO's current debt obligation is inconsistent with current market rates.

Q. HAVE YOU ADJUSTED THE ADVISORS' INCREMENTAL REVENUE REQUIREMENT FOR THESE DEBT MARKET CONDITIONS?

A. Yes, the Advisors' attribution of this higher debt cost to the transaction overstates the DSU NO incremental revenue requirement by as much as $[redacted] million.[25] While it is true that DSU NO's debt costs will initially be higher than what is currently on ENO's books, I do not believe this is appropriately attributable to the Proposed Transaction nor should it be viewed as an increased cost to ratepayers of the Proposed Transaction.

D. <u>Increased depreciation rate on intangible plant</u>

Q. PLEASE EXPLAIN HOW THE ADVISORS HAVE ESTIMATED THE IMPACT THAT TRANSITION COSTS WILL PLAY ON THE INCREMENTAL REVENUE REQUIREMENT.

A. The Advisors note that DSU NO's preliminary transition cost estimate is $[redacted] million, which, with interim carrying costs through DSU NO's initial rate case application's rate effective date, results in a proposed regulatory asset of $[redacted] million.[26] However, the Advisors note that $[redacted] million of these transition costs relate to information technology

[25] Direct Testimony of Byron S. Watson at 45, Table 3.

[26] Direct Testimony of Byron S. Watson at 28:8-10.

and facilities which may be accounted for as intangible plant rather than a regulatory asset.[27] Because of this, the Advisors estimate first year rate base impacts from the Proposed Transaction as requiring a $[redacted] million regulatory asset and $[redacted] million in incremental software intangible plant.[28] The Advisors also estimate a combined first year annual revenue requirement impact from the regulatory asset and financing of incremental software intangible plant of $[redacted] million.[29]

Q. IS THIS CONSISTENT WITH DSU NO'S PROPOSAL TO HANDLE TRANSITION COSTS IN THE CURRENT PROCEEDING?

A. No. DSU NO proposes to record all transition costs required to stand up its new local gas distribution company in a regulatory asset and to accrue carrying costs on the regulatory asset. This includes costs related to information technology and facilities. While the Advisors' proposal to record incremental investment in new information technology and facilities as intangible plant would place these assets into rate base before the filing of DSU NO's initial rate case, thus partially depreciating these assets before being included in rates, the Advisors' proposal would also result in some increases in the revenue requirement of the Proposed Transaction relative to the structure proposed by DSU NO.

Q. HOW DOES THE ADVISORS' PROPOSED RATEMAKING TREATMENT OF THESE TRANSITION COSTS RESULT IN SOME HIGHER REVENUE REQUIREMENT THAN DSU NO'S PROPOSED REGULATORY ASSET?

[27] Direct Testimony of Byron S. Watson at 28:10-13.
[28] Direct Testimony of Byron S. Watson at 45, Table 3.
[29] *Id.*

A. DSU NO proposes to amortize transition costs included in the proposed regulatory asset over 25 years. DSU NO proposes this extended amortization schedule to reduce any burden the Proposed Transaction and transition costs would place on ratepayers. The Advisors, however, assume a shorter 15-year depreciation schedule for the incremental investment booked to intangible plant. This results in higher first year revenue requirement impact attributable to depreciation expense than assumed by DSU NO.

Further, and as discussed in the Rebuttal Testimony of Mr. Lewis, the transaction strategy proposed by DSU NO of treating the transition costs as regulatory asset provides the benefit of increasing the production of ADIT, which further mitigates the impact of the transaction from a revenue requirement perspective.

Q. ARE THERE ADDITIONAL BENEFITS TO RATEPAYERS ASSOCIATED WITH THE EXTENDED DEPRECIATION SCHEDULE DSU NO PROPOSES FOR TRANSITION COSTS?

A. Yes, as explained in the Rebuttal Testimony of Jay Lewis, the extended depreciation schedule allows for DSU NO to take advantage of ADIT to the benefit of its customers. The Advisors' proposal would eliminate this benefit.

Q. HAVE YOU ESTIMATED THE DIFFERENCES IN FIRST YEAR REVENUE REQUIREMENT ASSOCIATED WITH RECORDING IT-RELATED TRANSITION COSTS AS INTANGIBLE PLANT AS OPPOSED TO A REGULATORY ASSET?

A. Yes. I estimate that the Advisors' proposal would increase the first-year revenue requirement associated with the proposed transaction by $0.5 million, when accounting for the impact of ADIT. This includes overstating depreciation expenses by up to $[redacted] million.

Q. HAVE YOU RECALCULATED THE IMPACT OF TRANSITION COSTS FROM THE PROPOSED TRANSACTION?

A. Yes. As shown by HSPM-CS Exhibit DED-1, I estimate that the first-year annual revenue requirement impact from depreciation expense associated with total transition costs (both intangible software investment and other costs to stand up a new local distribution company) to be $[redacted] million. This is $[redacted] million less than that estimated by the Advisors.

E. <u>Reduced value of retained intangible plant</u>

Q. WHAT ARE RETAINED ASSETS RESULTING FROM THE PROPOSED TRANSACTION?

A. ENO plans on retaining some assets that are currently shared by its gas and electric operations after the close of the Proposed Transaction. ENO gas ratepayers, however, are currently billed for the portion of the revenue requirement associated with the assets allocated to ENO's gas operations in their retail rates. Removal of the portion of the assets allocated to ENO's gas operations, therefore, will result in a credit and should, other things remaining equal, reduce DSU NO's future revenue requirement. ENO estimates $[redacted] million in net book value associated with these assets currently allocated to ENO's gas operations that it plans on retaining after the close of the Proposed Transaction.[30]

[30] *See*, Direct Testimony of Byron S. Watson at 42:6-7.

Q. DO THE ADVISORS AGREE THAT THE FULL REMAINING NET BOOK VALUE OF ENO RETAINED ASSETS REPRESENT SAVINGS FOR DSU NO RATEPAYERS?

A. No. The Advisors note that most assets retained by ENO must be replaced by DSU NO, and that only the $[redacted] million net book value associated with retained intangible plant should be viewed as a savings to DSU NO as compared to ENO's cost of service as DSU NO proposes to implement its own IT systems as part of its transition plan.[31]

Q. DO YOU AGREE WITH THE ADVISORS' CALCULATION OF THE VALUE OF ENO RETAINED ASSETS?

A. No. Mr. Little discusses DSU NO's concerns related to the Advisors calculation of the net book value of ENO retained assets. DSU NO estimates that DSU NO's rate base will be reduced by the full estimated retained assets.

Q. HAVE YOU CALCULATED THE INCREMENTAL REVENUE REQUIREMENT IMPACT (CREDIT) THAT WILL ARISE FROM THESE RETAINED ASSETS?

A. Yes. I have used the revised retained asset values provided by Mr. Little to estimate the incremental revenue requirement impact. As shown in HSPM-CS Exhibit DED-1, I estimate that the Advisors underestimated the first year revenue impact from reduced return on these retained assets by $[redacted] million, and the first year depreciation expense reduction by $[redacted] million.

F. <u>Additional ratepayer benefits from the CERC Transaction</u>

Q. DID THE ADVISORS ACCOUNT FOR THE BENEFITS OF THE CERC TRANSACTION IN ESTIMATING THEIR INCREMENTAL REVENUE REQUIREMENT?

[31] Direct Testimony of Byron S. Watson at 42:13 to 43:1.

A. No. The Advisors do not consider the benefits of the CERC transaction in their incremental revenue requirement analysis. This is understandable as the Proposed Transaction stands on its own merits and is in the public interest independent of the CERC transaction. However, I believe it important to keep in mind that estimated amounts of DSU NO's proposed regulatory asset is a preliminary estimate of transition costs *prior to* considerations of benefits of the announced acquisition of three gas utilities owned by CERC in Louisiana and Mississippi by DSU affiliates.

Q. WILL THE CERC TRANSACTION LEAD TO ADDITIONAL BENEFITS FOR NEW ORLEANS NATURAL GAS CUSTOMERS?

A. Yes. The broader transaction will allow for a certain degree of scale economies to be passed along to all the individual Delta Utilities operating companies for both operations and maintenance expenses and the transition costs. As further discussed in the rebuttal testimony of DSU NO witness Mr. Brian Little, the technology platform provides cost effective scalability that results in the ability to add new customer bases at an incrementally reduced cost per customer. Additionally, DSU NO estimates that the shared services costs could decrease by up to 10 percent through economy of scale benefits of the combined transaction.[32] I estimate that overall transition costs will be reduced for DSU NO by as much as 40 percent, from $[redacted] million to $[redacted] million.

Q. HOW DOES THIS CERC BENEFIT IMPACT THE INCREMENTAL REVENUE REQUIREMENT RELATED TO TRANSITION COSTS?

[32] See, DSU NO's Response CNO-DSU-3-13.

A. I estimate the incremental revenue requirement related to transition costs to be reduced by $[redacted] million, to a total incremental first year revenue requirement level of $[redacted] million. This represents an important benefit of the broader transaction and how that will be passed along to DSU NO ratepayers. This impact does not include any cost efficiencies or economies of scale achieved by the proposed combined transactions.

G. <u>Flawed typical residential bill estimate: incorrect class allocation factors</u>

Q WHAT CLASS ALLOCATION FACTOR DID THE ADVISORS USE TO DETERMINE TYPICAL RESIDENTIAL BILL IMPACTS?

A The Advisors utilize class allocation factors obtained from ENO's 2024 GFRP evaluation. This allocation factor allocates approximately 63.55 percent of estimated costs associated with the Proposed Transaction to the residential rate class.

Q. IS THE ALLOCATION FACTOR USED BY THE ADVISORS PROBLEMATIC?

A. Yes. The allocation factor used by the Advisors allocates a substantially greater portion of the estimated costs of the Proposed Transaction to residential ratepayers (approximately 63.5 percent of the cost)[33] compared to volume of natural gas consumed by residential ratepayers (approximately 34.9 percent of the volume)[34]. Furthermore, DSU NO has committed to performing a full cost of service study in its initial rate case that will be filed not sooner than 15 months after the close of the Proposed Transaction. Thus, DSU NO does not agree that the allocation used by ENO in its GFRP is appropriate

[33] UD-24-01 Byron Watson Workpapers Revenue_Impact HSPM-CS, Tab "Transaction RR Calc."

[34] ENO 2022 Volumes and Customers, EIA Form 176.

for allocating the allocation of transition costs, which would not affect customer rates until a final decision in the future rate case to be filed by DSU NO.

Q. DO THE ADVISORS IDENTIFY ANY NECESSARY COMMITMENTS RELATED TO THE ALLOCATION METHODOLOGY USED IN THEIR ANALYSIS?

A. Yes. In fact, the Advisors specifically note the need for a cost-of-service analysis to be performed to correct disproportionate cost allocations currently manifested in rates.[35] DSU NO agrees with the Advisors that a full cost of service analysis should be performed in the subsequent rate case to determine a more appropriate and equitable allocation of costs across the customer classes of the utility. As discussed in the rebuttal testimony of DSU NO witness Mr. Jeffrey Yuknis, DSU NO is agreeable to including its commitment to undertake such cost-of-service study as a condition of approval of the Proposed Transaction. As DSU NO and the Advisors agree that the existing allocation methodology would be adjusted in consideration of a new cost of service analysis for the utility prior to any adjustment to rates, it is therefore inappropriate to establish rate impacts based on the existing allocation methodology.

Q. IS THERE REASON TO BELIEVE THAT A REXAMINING OF ALLOCATION METHODOLOGIES MAY RESULT IN UPDATED RESIDENTIAL ALLOCATIONS?

A. Yes. I have examined the relative 2022 composition of residential revenues and volumes for 10 gas local distribution companies operating in the States of Alabama, Arkansas, Louisiana, Mississippi, and Texas. On average, residential customers cover 6.5 percent points more of the system revenues relative to residential composition of

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[35] Direct Testimony of Victor M. Prep at 8:14 – 9:17 (May 31, 2024).

overall volumes. However, in the case of ENO, residential customers comprised 46.9 percent of overall revenues, 12.0 percentage points greater than the 34.9 percent of total volumetric sales residential customers comprise on ENO's system.

Q HAVE YOU ESTIMATED AN ALTERNATIVE TYPICAL BILL ESTIMATE USING A MORE APPROPRIATE RESIDENTIAL ALLOCATION FACTOR?

A. Yes. Based on relative 2022 ENO volumetric sales reported on EIA Form 176, I have allocated 34.9 percent of costs associated with the Proposed Transaction to residential ratepayers. This, combined with the reduced incremental revenue requirement discussed earlier, reduces the residential bill impact of the Proposed Transaction to $[redacted] per month, significantly less than the monthly residential bill impact estimated by the Advisors.

H. Flawed typical residential bill estimate: incorrect average monthly usage

Q. DID THE ADVISORS USE A FLAWED LEVEL OF AVERAGE USAGE IN ESTIMATING THE TRANSACTION'S POTENTIAL BILL IMPACTS?

A. Yes. In addition to using an incorrect class allocation factor, the Advisors use an abnormally high average natural gas usage level to estimate typical residential bill impacts. The use of a high natural gas consumption level only serves to incorrectly overstate typical bill impacts. The Advisors assume a typical average residential customer uses 50 ccf/month per year from typical bill formulas included in ENO's 2024 GFRP Evaluation filing.[36] This is over 1.75 times higher than what has been reported by ENO

[36] Direct Testimony of Byron S. Watson at 46:2-4.

over the past five years. The more appropriate monthly average usage level for typical residential natural gas customer in New Orleans is 27 ccf/month.[37]

Q. HAVE YOU DEVELOPED AN ALTERNATIVE TYPICAL BILL IMPACT USING A MORE ACCURATE AVERAGE MONTHLY USAGE LEVEL?

A. Yes. I estimate a typical residential bill impact of $1.89 per month when viewing the Proposed Transaction in isolation. When viewed in conjunction with the announced CERC acquisition, this typical residential bill impact falls to $[redacted] per month.

I. Conclusions

Q. CAN YOU PLEASE SUMMARIZE THE ISSUES YOU HAVE FOUND WITH THE ADVISORS' ESTIMATE OF THE REVENUE REQUIREMENT AND BILL IMPACTS OF THE PROPOSED TRANSACTION?

A. The Advisors' recommendation regarding the Proposed Transaction rests heavily on their estimate of the incremental revenue requirement that will have to be recovered from ratepayers in the future. The Advisors' calculation of this incremental revenue requirement, and the resulting typical bill impacts, is flawed since these estimates are based upon a flawed set of assumptions and/or incremental impacts arising from the transaction. These flawed assumptions include:

- (1) The use of an incorrect estimate of the loss of ADIT net of accumulated new ADIT;
- (2) A flawed basis for including a change in the cost of debt as transaction-specific;
- (3) The use of an incorrect depreciation rate for new software that they recommend be booked to intangible plant (instead of recovered through a regulatory asset as proposed by DSU NO); and

[37] ENO 2022 Volumes and Customers, EIA Form 176

- (4) The use of an inaccurate value of retained ENO plant assets thereby understating the financial credit that can be passed along to New Orleans residential natural gas customers.

In addition, the Advisors' analysis of bill impacts relies on a customer class allocation factor that likely overstates residential customer revenue responsibilities; and (2) relies on an average monthly residential usage level that do not reflect historic or anticipated normal residential usage patterns for New Orleans natural gas customers.

Q WILL THE PROPOSED TRANSACTION RESULT IN ANY INCREASED COSTS?

A Yes. However, those costs are both reasonable (relative to industry average trends) and offset by a considerable set of qualitative and quantitative benefits and other economic benefits I mentioned earlier in my testimony and discussed in more detail further below and in the rebuttal testimony of DSU NO witness Mr. Jeffrey Yuknis.[38] As shown in page 1 of HSPM-CS Exhibit DED-3, from a cost perspective alone, I estimate a total first year incremental revenue requirement impact of $5.8 million to DSU NO ratepayers as a result of the Proposed Transaction.[39] This is far, far lower than the estimate offered by the Advisors.

Q. WHAT DOES THIS MEAN ON A TOTAL RESIDENTIAL TYPICAL BILL BASIS?

A. I estimate that the total incremental costs associated with the transaction will result in an increase in a typical residential monthly bill of only $1.64 per month, far lower than the impacts estimated by the Advisors. This is a 5.5 percent increase in rates.

[38] See Exhibit JY-4, Section B, to the Rebuttal Testimony of Jeffrey Yuknis.

[39] Note that HSPM-CS Exhibit DED-3 examines ongoing revenue requirement impacts and is not intended to reconcile fully with results presented in HSP-CS Exhibit DED-1.

Q. WHAT ARE THE TOTAL RESIDENTIAL TYPICAL BILL IMPACT OF A TRANSACTION INCLUSIVE OF THE ANTICIPATED ACQUISITION OF CERC?

A. I estimate that the anticipated acquisition of CERC will lower this anticipated increase in a typical residential monthly bill to only $[redacted] per month, which would be a [redacted] percent increase in rates.

Q HOW DO THE RESIDENTIAL RATES RESULTING FROM THE TRANSACTION COMPARE TO OTHER SOUTHEASTERN NATURAL GAS UTILITIES?

A. They compare very favorably. Pages 2 through 4 of HSPM-CS Exhibit DED-3 provides estimated rate impacts through 2032 and compares resulting average rates for natural gas to other regional natural gas local distribution companies.[40] I estimate that the transaction will increase residential rates from $[redacted] per Dth (2027) to $[redacted] per Dth (2032). These rates are still favorable to other southeastern LDCs and, in fact, will still be some [redacted] percent lower than a southeastern utility peer average.

Q. COULD THESE RATE IMPACTS BE EVEN SMALLER IF THE CERC TRANSACTION ARE CONSIDERED?

A. Yes. As shown on pages 5 through 7 of HSPM Exhibit DED-3, I estimate that these rate impacts could be considerably lower if the CERC transaction is considered. As I noted earlier, the ability to spread transition and operation costs over more sales volumes, coupled with scale economics, will drive down overall transition for each of the future Delta Utilities operating companies. I estimate that on a combined company basis

[40] Due to minor differences in analytical approaches, estimated rate impacts of the Proposed Transaction presented in HSPM Exhibit DED-3 are not intended to reconcile completely with corrected bill impacts presented in HSPM Exhibit DED-1.

(DSU NO, DSU LA, plus CERC) New Orleans residential gas customers will see rates that will go from $[redacted] per Dth (2027) to $[redacted] per Dth (2032). Again, this new set of residential rates compares even more favorably with other southeastern LDCs at some [redacted] percent lower than the southeastern utility peer average.

IV. BENEFITS OF THE PROPOSED TRANSACTION

A. <u>Summary of Net Benefits</u>

Q. CAN YOU PLEASE SUMMARIZE THE BENEFITS OF THE TRANSACTION?

A. Mr. Yuknis's rebuttal testimony provides a detailed summary of the primary benefits of the Proposed Transaction.[41] It also includes a consolidated list of the commitments made by DSU NO to ensure the benefits are delivered to gas and electric ratepayers and a consolidated list of mitigations put in place to minimize impacts to ratepayers.[42]

A high level summary of the primary benefits of the Proposed Transaction include:

- Establish a fit-for-purpose natural gas LDC and shared services company;
- Implement a greenfield, modernized cloud-based information technology ("IT") system;
- Deliver significant economic benefits to the City of New Orleans and State of Louisiana;
- Create opportunities for a lower projected O&M growth rate;
- Free up capital at ENO; and
- Allow the Gas Business to access capital markets at a lower risk premium.

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[41] See Exhibit JY-4, Section B, to the Rebuttal Testimony of Jeffrey Yuknis.

[42] See Exhibit JY-2 to the Rebuttal Testimony of Jeffrey Yuknis.

There are substantial benefits to the transaction – both quantifiable and non-quantifiable – that provide clear evidence that the transaction provides a net benefit. Even if an improper net benefit analysis is performed taking into account only a few quantifiable benefits and eliminating all benefits that cannot be numerically quantified, the result still achieves a net benefit result for the Transition Plan technology implementation, as further discussed below. Considering the abundance of other stated benefits that are not included in the below analysis results in substantial net benefits for the New Orleans customers and citizens. Details on the approach to and results of the CBA are in sub-section IV.C. Transition Cost CBA.

Q. HAS DSU NO OFFERED BENEFITS TO CUSTOMERS THAT ARE NOT PROVIDED BY PURCHASING ENTITIES IN OTHER SIMILAR TRANSACTIONS?

A. Yes, based on my involvement in other proceedings, DSU NO has provided a number of terms that are not typical of all similar transactions, and may not be available if ENO had selected a competing purchaser. To name a few:

- No recovery of acquisition premium (goodwill).
- No recovery of transaction costs.
- No rate adjustments requested in application.
- Holding rates steady for an extended period.
- Guaranteeing employment to all gas employees of ENO and ELL with substantially similar pay and benefits.
- Continuing pension obligations for existing pension employees.
- Locating a corporate headquarters within the service territory.

- Adding approximately 100 new high paying jobs to the New Orleans service area.
- Committing to community involvement including charitable causes and workforce development.

B. <u>Economic benefits of the proposed transaction</u>

Q. WILL THE PROPOSED TRANSACTION LEAD TO POSITIVE ECONOMIC BENEFITS FOR LOUISIANA AND THE GREATER NEW ORLEANS AREA.

A. Yes. The Proposed Transaction will lead to considerable economic benefits for the local New Orleans economy and Louisiana. I conducted a study quantifying these economic benefits, which were compiled into a report that was provided to the Advisors as Attachment F to CNO Data Request 1-14. I have provided the same version of this economic benefit analysis in Exhibit DED-4 of my rebuttal testimony. The analysis was conducted examining DSU NO and its affiliate company Delta States Utilities LA, LLC ("DSU LA") (collectively "DSU") acquisition of the ENO Gas Business and the assets primarily used to operate the Entergy Louisiana, LLC ("ELL") gas business ("ELL Gas Business," collectively "Entergy") in isolation (*i.e.*, "'Entergy only") and on a combined basis (i.e., "Entergy + CERC").

Q. WHAT METHODS DID YOU USE TO ESTIMATE THESE ECONOMIC BENEFITS?

A. I utilized the IMPLAN economic impact model to estimate the economic benefits for Louisiana, including those specific to the City of New Orleans. The IMPLAN model was originally developed by U.S. Forestry Service for use in developing its five-year resource management plans; hence the name "IMPLAN" or "impact analysis for planning." Over the years, the IMPLAN modeling framework was privatized, with MIG, Inc. (formerly "Minnesota IMPLAN Group, Inc.") serving as the corporation responsible for the production, maintenance, and improvement of the modeling framework and data. The model itself is based upon "input-output accounting that describes commodity flows from producers to intermediate and final consumers.[43] IMPLAN has data on 546 sectors and constructs Social Accounting Matrices ("SAMs") to describe "all commodity flows, not only purchases and production of sales and commodities, but also transfer payments to and from institutions."

Q. CAN YOU EXPLAIN WHY IMPLAN REPRESENTS A METHODOLOGICALLY SOUND FRAMEWORK FOR MODELING ECONOMIC BENEFITS?

A. Yes. The IMPLAN model is well-respected and commonly used in modeling the economic benefits of energy-related projects. For example, IMPLAN has been used to estimate the employment and gross state product impacts of renewable portfolio standards in states including Arizona, Wisconsin, Nebraska, Colorado, Texas, and Washington.[44] In fact, the Clean Energy States Alliance cites IMPLAN as an appropriate model for evaluating the benefits and costs of an RPS.[45] The Edward J. Bloustein School of Planning and Public Policy at Rutgers University also cites IMPLAN as a model that can be used to estimate economic impacts of energy infrastructure investments.[46]

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[43] Lindall, Scott A., and Douglas C. Olson. "The IMPLAN input-output system." Stillwater MN (1996).

[44] Ernest Orlando Lawrence Berkeley National Laboratory. Weighing the Costs and Benefits of State Renewables Portfolio Standards: A Comparative Analysis of State-Level Policy Impact Projections. May 2007. Table 3 on page 24.

[45] Clean Energy States Alliance. Evaluating the Benefits and Costs of a Renewable Portfolio Standard. A Guide for State RPS Programs. May 2012, p.15.

[46] Edward J. Bloustein School of Planning and Public Policy, Rutgers University. Economic Impacts of Energy Infrastructure Investment. October 2010.

IMPLAN has also been utilized by the U.S. Department of the Interior's Bureau of Ocean Energy Management ("BOEM") in estimating economic impacts of holding lease sales in the Gulf of Mexico[47] as well as the MAG-PLAN Alaska model.[48] I personally have worked with IMPLAN in estimating economic benefits of similar energy investments for decades. IMPLAN has also been used to model a number of non-energy based natural resource impacts by federal agencies such as the U.S. Department of Transportation ("USDOT") and the U.S. Department of Agriculture ("USDA").[49] I have also seen economic impact models, such as IMPLAN, used in regulatory filings across the country including those before the Public Service Commission of the District of Columbia ("DC-PSC"), the New Jersey Board of Public Utilities ("BPU"), and the Louisiana Public Service Commission ("LPSC").

Q. CAN YOU DESCRIBE THE DIFFERING TYPES OF ECONOMIC BENEFITS THAT ARE ESTIMATED BY THE IMPLAN MODEL?

A Yes. IMPLAN estimates three types of benefits that are broken down into direct, indirect, and induced impacts. Direct economic benefits are those that arise from DSU's own direct expenditures and/or investments such as investing in IT equipment, replacing distribution mains and service lines, or through various other operations and maintenance ("O&M") activities. Indirect economic benefits are those that arise from industries/businesses that support DSU's direct expenditures, such as those Louisiana

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[47] U.S. Department of the Interior: Mineral Management Service Gulf of Mexico OCS Region. Gulf of Mexico OCS Oil and Gas Lease Sales: 2003-2007. Final Environmental Impact Statement. Volume I: Chapters 1-10.

[48] U.S. Department of the Interior: Bureau of Ocean Energy Management. MAG-PLAN Alaska Update. May 2012.

[49] U.S. Department of Transportation. Analyzing the Economic Impact of Transportation Projects Using RIMS II, IMPLAN, and REMI. 2000.

companies that manufacture, store, and deliver pipes, contract engineering and design work that may be performed by outside vendors, electrical support and contract services, environmental consulting support, equipment rentals, among other activities. Induced economic benefits arise from the expenditures made by the labor employed in both direct and indirect activities and are mostly comprised of typical retail service activities such as purchasing meals, transportation expenditures, entertainment expenditures, among other activities. The "total" economic benefit is the sum of the direct, indirect, and induced economic benefits. The "multiplier" economic benefits are the sum of the indirect and induced benefits since these "leverage" or "multiply" direct DSU expenditures and investments.

Q. DID YOU DECOMPOSE THE DSU EXPENDITURES INTO ANY CATEGORIES?

A. Yes. My economic benefits study recognizes that DSU will engage in two broad sets of economic activities that will lead to local and statewide economic impacts. The first set of economic activities are what I refer to as DSU's "transition" activities and are those directly related to the stand-up and "transition" to a new natural gas utility for the former ELL and ENO natural gas LDCs. The second are the economic benefits that arise from what I refer to as DSU's "retained" activities. These include common natural gas functions that will be performed by DSU NO and DSU LA on a forward going basis such as replacing aged pipelines, modernization activities, dispatching work crews for maintenance activities, among others. For each of these activities (transition and retained) I estimate two types of functions consisting of (1) capital investments and (2) operational expenditures (such as operation and maintenance ("O&M") expenses). So, there are two broad sets of economic benefits arising from transition investment and transition operations and an additional two sets of broad economic benefits arising from retained investment functions and retained operations. It is also important to note that I have estimated all of these economic benefits on both a DSU only basis (Entergy transaction) and combined company basis (Entergy + CERC transactions). Lastly, my analysis is based only on Louisiana-specific economic expenditures and investments and does not include any expenditures or investments made out-of-state, often referred to as economic "leakages."

Q. PLEASE SUMMARIZE THE ECONOMIC BENEFITS ARISING FROM DSU'S TRANSITION ACTIVITIES FOR THE STANDALONE ENTERGY TRANSACTION.

A. As noted earlier, there are economic benefits that arise from both DSU's transition capital investments and its operational activities. DSU's transition capital investments are estimated to lead to 112 job-years of new employment, generate almost $7 million in new labor income, contribute over $11 million in value added (also known as gross state product or "GSP"), and $29 million in additional economic output. On an operational basis, DSU's annual expenditures are estimated to lead to 442 job-years of new employment opportunities, $30 million in new annual labor income, almost $87 million in value added or GSP, and $168 million in additional economic output. A summary of these transition-related economic benefits is provided on page 18 through 19 of Exhibit DED-4.

Q. PLEASE SUMMARIZE THE ECONOMIC BENEFITS ARISING FROM DSU'S RETAINED ACTIVITIES FOR THE STANDALONE ENTERGY TRANSACTION.

A. The economic benefits arising from DSU's retained investment activities include 1,168 job-years of employment opportunities, almost $71 million in labor income, $104 million in GSP contributions, and $223 million in economic output. Retained-related operational economic benefits are estimated to include up to 487 job-years of employment opportunities, $36 million in labor income, $116 million in GSP contributions, and $212 million in economic output.[50] A summary of these benefits is provided in page 25 through 26 of Exhibit DED-4.

Q. PLEASE SUMMARIZE – ON A DSU STAND ALONE BASIS – THE TOTAL ECONOMIC BENEFITS THAT WILL ARISE FROM THE PROPOSED TRANSACTION.

A. The total economic benefits that arise from the DSU only scenario (i.e., without CERC), that are based on both the transition and retained activities, can be derived by summing the total transition and operational benefits discussed earlier. A summary of these benefits is provided in Table 1 below. On a total DSU basis, the transaction is anticipated to create the following economic benefits: 3,537 job-years in employment activities; $233 million in labor income; $576 million in GSP; and $1.1 billion in economic output.[51] While these benefits are technically all in Louisiana, a very high proportion, including most all of the direct impacts, will arise specifically in the City of New Orleans, as the location of the corporate headquarters.

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[50] Both capital and operational benefits are cumulative over a four-year period.

[51] All benefits estimated on a cumulative four-year basis.

	DSU Total Economic Impacts from Entergy Transaction					
	Total (2024)	Total ($NPV)	2026	2027	2028	2029
Output ($ million)						
Direct	$ 706	$ 559	$ 186	$ 171	$ 173	$ 175
Indirect	282	223	77	67	68	69
Induced	150	119	40	36	37	37
Total	**$ 1,138**	**$ 901**	**$ 304**	**$ 275**	**$ 278**	**$ 281**
Employment (jobs-years)						
Direct	1,214	-	322	292	298	302
Indirect	1,439	-	402	342	346	349
Induced	884	-	238	212	216	218
Total	**3,537**	**-**	**963**	**846**	**860**	**869**
Labor Income ($ million)						
Direct	$ 100	$ 79	$ 27	$ 24	$ 25	$ 25
Indirect	89	71	24	21	22	22
Induced	44	35	12	11	11	11
Total	**$ 233**	**$ 185**	**$ 63**	**$ 56**	**$ 57**	**$ 57**
Value Added (GSP)						
Direct	$ 351	$ 277	$ 90	$ 86	$ 87	$ 88
Indirect	141	112	38	34	34	34
Induced	85	67	23	20	21	21
Total	**$ 576**	**$ 456**	**$ 151**	**$ 140**	**$ 142**	**$ 143**

Table 1. DSU Total Economic Impacts from Entergy Transaction.

Q EXPLAIN HOW THE ESTIMATED ECONOMIC BENEFITS OF DSU'S TRANSITION ACTIVITIES WILL EXPAND IF THE CERC INVESTMENT/EXPANSION IS CONSIDERED.

A. On a combined company basis (Entergy + CERC transactions), the transition capital investments are anticipated to expand to 335 job-years of employment opportunities (versus earlier DSU only employment estimate of 112 job-years). The combined operations' transition investments will also expand labor income to $20 million (versus earlier DSU only estimate of $7 million), GSP to $33 million (versus earlier DSU only estimate of $11 million), and economic output to $87 million (versus earlier DSU only estimate of $29 million). On an operational basis, the combined operations are estimated to expand employment opportunities to 885 job-years (versus DSU only estimate of 442 job-years), $60 million in new labor income (versus DSU only estimate of $30 million), an additional $173 million in GSP (versus DSU only estimate of $87 million), and $337 million in economic output (versus DSU only estimate of $168 million). A summary of these expanded economic benefits is provided in pages 18 through 19 of Exhibit DED-4.

Q. WHAT ABOUT THE RETAINED ECONOMIC BENEFITS THAT COULD ARISE FROM THE COMBINATION OF THE DSU AND CERC OPERATIONS?

A. Like earlier, the economic benefits that arise from the retained operations will expand if the combined company basis (Entergy + CERC transactions) are considered. The retained capital investments of the combined companies from the Entergy + CERC transactions are anticipated to expand to 4,259 job-years of employment opportunities (versus earlier DSU only employment estimate of 1,168 job years). The combined companies' retained investments will also expand labor income to $258 million (versus earlier DSU only estimate of $71 million), GSP to $377 million (versus earlier DSU only estimate of $104 million), and economic output to $811 million (versus earlier DSU only estimate of $223 million). On an operational basis, the combined companies' retained activities are estimated to expand employment opportunities to 970 job-years (versus DSU only estimate of 487 job-years), $71 million in new labor income (versus DSU only estimate of $36 million), an additional $230 million in GSP (versus stand-alone estimate of $116 million), and $423 million in economic output (versus a stand-alone estimate of $212 million).[52] A summary of these expanded economic benefits is provided in pages 28 through 29 of Exhibit DED-4.

[52] All benefits estimated on a cumulative four-year basis.

Q. PLEASE SUMMARIZE – ON A COMBINED COMPANY BASIS (ENTERGY + CERC TRANSACTIONS) – THE TOTAL ECONOMIC BENEFITS THAT WILL ARISE FROM THE PROPOSED TRANSACTION.

A. The total economic benefits that arise from the Entergy + CERC combined transactions are anticipated to create the following economic benefits: 9,103 job-years in employment activities; $588 million in labor income; $1.3 billion in GSP; and $2.7 billion in economic output.[53] Note that while, technically, these sizable economic benefits are anticipated to occur statewide, most of the "direct-only" economic benefits will arise entirely in the City of New Orleans given the new corporate locations. Thus, the City itself will see considerable economic benefits that arise from the operations in the combined companies scenario (Entergy + CERC transactions). A summary of these estimated economic benefits, and their decomposition into direct, indirect, and induced effects, can be found on page 36 of Exhibit DED-4.

Q. SHOULD THE COUNCIL RECOGNIZE THESE BENEFITS IN EVALUATING THE PROPOSED TRANSACTION?

A. Yes. In total, these are considerable direct economic benefits that will both expand upon and maintain ENO's economic footprint in the City of New Orleans. The Proposed Transaction will lead to a new multi-state natural gas utility valued at approximately $500 million (Entergy only transaction) and $1.7 billion (Entergy + CERC transactions) that is headquartered in New Orleans with approximately 300 employees (Entergy only transaction) and 900 employees (Entergy + CERC transactions) serving approximately

[53] All benefits estimated on a cumulative four-year basis.

200,000 customers (Entergy only transaction) and 600,000 customers (Entergy + CERC transactions). Having a large, Louisiana-owned and operated natural gas company, that has the continued opportunity to grow and expand, represents a considerable economic development opportunity for the state. For decades, Louisianians have seen far too many energy-related corporate and regional offices move out of the state simply to locate on the other side of the Sabine River. This is an important opportunity to bring some of these jobs and economic development back home to Louisiana and specifically to New Orleans. Moreover, the new corporate headquarters of DSU will not replace the existing Entergy headquarters, which will still be maintained in the City. The City Council should keep this consideration in mind in evaluating the overall public interest considerations of this Proposed Transaction, as attracting new corporate headquarters provide significant sought-after economic activities to a local community.

C. <u>Transition Cost CBA</u>

Q. CAN YOU PLEASE DISCUSS THE ADVISORS' CONCERNS REGARDING THE DSU NO TRANSITION COSTS?

A. DSU NO has proposed to defer transition costs to a regulatory asset that would accrue carrying costs; the transition costs would be reviewed for prudency in the future rate proceeding to be filed by DSU NO not sooner than 15 months post-closing; and in the rate proceeding, the Council would authorize recovery of prudently incurred transition costs, which DSU NO has modeled to be recovered over a 25-year amortization period with carrying costs at a hypothetical weighted average cost of capital that is based on DSU NO cost of debt and ENO's authorized return on equity and capital structure. The Advisors state that information technology ("IT") system and application costs make up a substantial portion of the transition costs.[54] The Advisors recommend that DSU NO not seek to recover transition costs from customers, or if recovery is sought that DSU NO book IT and facilities cost as intangible plant at closing with a 15-year amortization period that commences immediately at closing (although depreciation expense would not be recovered for approximately two years until rates are reset), and only defer the remaining transition costs to a regulatory asset that would accrue carrying costs.[55] Advisors go on to note that these deferred costs would be subject to a prudency review in a general rate case proceeding and that DSU NO has not provided a quantified CBA supporting these costs.[56]

Q. PLEASE DESCRIBE THESE IT/TRANSITION COSTS.

A. DSU NO has the opportunity to implement a modern, cloud-based and greenfield IT platforms to replace physical, on-premises systems used by ENO developed as early as 2005. This includes the development of an entirely new customer care platform (to include, e.g. customer information system, call center operations, billing platform), enterprise resource planning systems (“ERP”), geographic information systems (“GIS”), supervisory control and data acquisition (“SCADA”), network infrastructure and security and other systems. The new IT infrastructure will be cloud-based, which will allow for meaningful cost synergies as well as ease of future scalability and adaptability as the needs of the utility change over time. The proposed cloud-based system will also provide additional security over physically-based (on-premises) systems, as well as reliability and resiliency during severe weather events such as hurricanes and other tropical weather

[54] Direct Testimony of Victor M. Prep at 20:1-9.
[55] Direct Testimony of Byron S. Watson at 28:7-14 and 52:7-13 and FN 87.
[56] Direct Testimony of Victor M. Prep, p. 21:1-3.

events. The operational efficiencies and benefits of the cloud-based IT system is discussed in detail in the rebuttal testimony of DSU NO witness Mr. Brian Little.

Q. WILL THE PROPOSED NEW IT SYSTEM ALSO PROVIDE BENEFITS SPECIFIC TO LOUISIANA?

A. Yes. There are a number of benefits that will arise from these new IT costs that can be generally described. First, these investments will increase billing accuracy and lead to internal administrative efficiencies for DSU NO relative to a fixed, physical server-based system that often needs considerable and costly upgrades and maintenance over extended periods of time. Second, a cloud-based system will enhance system reliability for DSU NO, something important for a service territory that is often exposed to extreme tropical activity and their corresponding electricity outages. Third, the new customer information platforms will enhance the customer experience and enhance DSU NO's ability to respond to customer inquiries and needs in a faster, more expedited, and more documentable fashion. Fourth, these new technology-based assets represent a major capital investment that will be made by DSU NO and will lead to employment opportunities and other economic benefits (new economic output, jobs, wages, tax revenues, etc.) that I discussed in a prior section of my testimony.

Q. HAS DSU NO PROVIDED THE ADVISORS WITH A SUMMARY OF THESE BENEFITS?

A. Yes. DSU NO provided a memo prepared by its IT vendor, Accenture, that summarizes these benefits and provides additional detail in Response to CNO 2-1 and

Attachment D to CNO 1-14 (hereafter "Accenture Memo").[57] In summary, Accenture found that DSU NO's new technical footprint:

- Has the potential to be 10-20 percent more efficient than copying the legacy technology footprint;
- Will improve scalability and adaptability with the ability to near-instantly scale capacity without rearchitecting or majorly augmenting hardware or software;
- Will improve resiliency during major weather events such as hurricanes where the newly decentralized system avoids "single points of failure" that cause systems to go offline;
- Will improve security through a more standardized configuration and automation of frequent security updates;
- Will improve cost efficiency through the unification and standardization of disparate IT systems and improved system maintenance;
- Will improve customer satisfaction with streamlined access to important dimensions of gas service and local call-in lines exclusive to gas customers; and
- Will increase economic development by creating several full-time jobs with a new facility located in New Orleans providing additional economic stimulus.

Q. HAVE YOU PREPARED A CBA TO ADDRESS THE ADVISORS' CONCERNS?

A. Yes. Exhibit DED-5 provides a summary of my IT/transition cost CBA. The table in the exhibit clearly identifies system costs, system benefits, and what is referred to as a "benefit cost ratio" or "BCR." Investments with a BCR at or greater than one can be said to be cost-effective and lead to benefits that are at least as large as, if not greater than costs.

Q. PLEASE DISCUSS HOW YOU QUANTIFIED THE DSU NO IT COSTS.

[57] A copy of the Accenture Memo is attached as Exhibit BL-7 to the rebuttal testimony of DSU NO witness Mr. Brian Little.

A. I have used the same capitalized IT costs that were discussed earlier in my rate impact analysis and were included in the proposed DSU NO regulatory asset. These IT/transition costs are also summarized in greater detail in the direct and rebuttal testimony of Mr. Little.[58] For the purpose of my CBA, I have assumed total IT/transition investment costs of $[redacted] million. These investments are capitalized over a 25-year period. I assume an authorized rate of return for the pre-rate case period consistent with that currently allowed for ENO. In the post rate case period (assumed to be 2028 onwards), I have used the cost of capital to reflect DSU NO's anticipated higher interest rate (long term debt) costs. Overall, the numbers I use here are consistent with the ones included in my incremental revenue requirement/rate impact analysis provided in HSPM-CS Exhibit DED-3.

Q. PLEASE DISCUSS HOW YOU QUANTIFIED THE DSU NO IT BENEFITS.

A. I have developed a set of benefits based on my research, professional experience, and the findings of the Accenture Memo. Generally, there are six types of benefits that will likely arise from the DSU NO transition investments that include (1) efficiency benefits; (2) scalability/adaptability benefits; (3) reliability/resiliency benefits; (4) security benefits; (5) customer satisfaction benefits; and (6) transition plan economic impact benefits. I have used the findings in the Accenture memo, in part, to quantify the efficiency benefits likely to arise from DSU NO IT/transition investments. I have supplemented these findings with my own outside research that has been summarized in Exhibit DED-6. This research summarizes the benefits offered to or utilized by regulators in evaluating

[58] The Transition Plan costs are provided in HSPM-CS Exhibit BL-18 to the rebuttal testimony of DSU NO witness Mr. Brian Little.

modernization or other enhanced infrastructure proposals offered by electric and natural gas utilities around the country over the past 14 years. Some utilities have provided estimates of the efficiency benefits that will arise from the investments, others focus strictly on the reliability/resiliency benefits; however, a common finding in my research is that many utilities and their regulators have primarily focused on the qualitative benefits and have not specifically quantified any efficiency or reliability benefits from the investment proposals.

Q. PLEASE DEFINE THE SPECIFIC BENEFITS YOU CALCULATED FOR THE DSU NO TRANSITION COST INVESTMENTS.

A. Two distinct benefits were calculated as part of the CBA analysis. First, an efficiency benefit of $[redacted] million was calculated by applying an efficiency savings rate to relevant O&M costs. The savings rate was based on estimates reported in the Accenture Memo as well as a cumulation of other study results each measuring the efficiency savings related to the implementation of modern, cloud-based platforms.

Second, the economic development benefit discussed earlier was included to measure the benefits of the DSU NO Louisiana energy investment specifically related to the Transition Plan. Given that DSU NO's Transition Plan investments will primarily benefit the New Orleans metro area, it may be reasonable to allocate the full Transition Plan investment benefits equal to $[redacted] million to the ENO jurisdiction. More conservative approaches could be taken by allocating only a portion of the economic development benefits by using an ENO allocation which results in a $[redacted] million benefit. Additionally, if the Entergy and CERC acquisitions are considered, the full Transition Plan investment benefits would be $[redacted] million.

Q WHAT ARE THE RESULTS OF YOUR TRANSITION COST CBA?

A. When the Entergy transaction economic development benefits attributed to the Transition Plan are applied, the analysis calculates $16.5 million in net benefits or a 4.36 benefit-cost ratio. If an ENO only allocation is applied, the analysis calculates $12.8 million in net benefits or a 3.60 benefit-cost ratio. If the CERC and Entergy transactions are considered together, the analysis calculates $33.1 million in net benefits or a 7.72 benefit-cost ratio.

Q. ARE THERE OTHER ECONOMIC BENEFIT IMPACTS THAT ARE NOT BEING APPLIED IN YOUR CBA?

A Yes, this analysis only contemplated the economic impact attributed to the Transition Plan implementation. If the more substantial corporate economic impact is incorporated; (i) the value added for the Entergy only transaction would increase from $11.2 million to $97.7 million, and (ii) the value added for the Entergy + CERC transaction would increase from $33.4 million to $206.4 million. This is further support for my position that the attached CBA is conservative and supports the benefits of the Transition Plan.

Q. ARE THESE QUANTITATIVE ESTIMATES ALONE THE ONLY – OR MOST IMPORTANT METRIC TO USE IN ASSESSING THE REGULATORY MERITS OF TECHNOLOGY-RELATED INVESTMENTS?

A. No. While CBAs and other quantitative analyses, like rate impacts, are important they are not the only benefits that are often considered in evaluating technology investment effectiveness. This is because many benefits associated with technology investments are difficult to quantify. For instance, my CBA analysis only considers two important benefits from DSU NO's IT investments: (1) those associated with efficiency gains and (2) the local economic impacts. There are a host of other benefits, that I noted earlier, that are difficult to quantify that have not been included in my CBA (since I could not derive quantitative estimates of the benefits) such as system scalability, adaptability, resiliency, security, and customer satisfaction.

Q. HAVE OTHER REGULATORY COMMISSIONS RECOGNIZED THESE DIFFICULT TO QUANTIFY BENEFITS?

A. Yes. Many other regulatory commissions have recognized these difficult to quantify benefits, particularly as they related to IT investments. Exhibit DED-6 includes a survey of state regulatory filings and studies that I used to estimate my 16.6 percent efficiency benefit for quantifying the DSU NO CBA. However, this exhibit, while listing publicly available efficiency savings, also lists a large number of utility filings that were made before regulators, seeking cost recovery of IT, cloud-based investments that do not have quantitative benefits. These requests were made without a CBA and approved by regulators based upon a qualitative appreciation of the benefits these IT investments can provide to ratepayers. My survey, which does not include all U.S. utility IT filings, finds that six out of seven did not report a CBA, nor provide specific comprehensive quantitative benefits, but yet five were approved by their respective state regulators while one is still awaiting a decision.

Q. AS AN EXAMPLE, CAN YOU PLEASE DISCUSS THE 2018 NORTHERN INDIANA PUBLIC SERVICE COMPANY ("NIPSCO") REQUEST?

A. Yes. In 2018, NIPSCO filed a case before the Indiana Utility Regulatory Commission proposing, in part, an investment in a new cloud-based Procure-to-Pay system that would allow for the replacement of older technology systems related to sourcing, procuring, and paying for goods and services. To support their request, NIPSCO listed several qualitative benefits to the new system which included automated and standardized business processes, new functionalities, centralized data, enhanced security, increased reliability, and more flexibility. However, none of these benefits were part of a CBA or any other broad-based quantitative analysis. The Indiana Utility Regulatory Commission approved the IT investment which included capitalizing implementation services, internal labor, and other fees necessary to bring the new cloud-based solution into service, while amortizing costs over the contract term.[59]

Q. DO YOU CONCLUDE FROM THIS ANALYSIS THAT THE IT TRANSITION INVESTMENTS ARE IN THE PUBLIC INTEREST AND WILL YIELD POSITIVE NET BENEFITS?

A. Yes. I conclude that the transition costs are cost effective, and DSU NO should be allowed to defer for future recovery its share of such costs from customers, subject to a prudency review in a future rate proceeding. I have used a conservative basis for this estimate, only examining two categories of potential benefits that could be expanded even further. In total, even when excluding all non-quantifiable benefits and conservatively limiting to a portion of the quantifiable benefits, my analysis shows positive net benefits to New Orleans natural gas customers from the Proposed Transaction's IT investments.

[59] Cause No. 45159, Indiana Utility Regulatory Commission Order, December 2, 2019, at 23-24.

V. RESPONSE TO THE ALLIANCE FOR AFFORDABLE ENERGY

Q. PLEASE EXPLAIN THE ALLIANCE'S OPPOSITION TO THE PROPOSED TRANSACTION.

A. The Alliance claims the Proposed Transaction does not pass the Council's 18 public interest factors that must be met for approval of mergers or asset transfers defined in Resolution R-06-88.[60] While the Alliance offers a number of arguments against the Proposed Transaction, a central theme surrounds their incorrect assertions that the Council's 18 factors somehow requires requests of this nature to include a proposal to address climate change in addition to having specific greenhouse gas ("GHG") emissions reduction targets.[61] Furthermore, the Alliance recommends that the Council's decision in this case should be coupled with, or conditioned on, a complete ban on future natural gas utility service to residential and small general service customers in New Orleans by 2035.[62]

Q. DO YOU BELIEVE ISSUES RELATED TO THE FUTURE OF GAS ARE APPROPRIATE FOR CONSIDERATION IN THIS PARTICULAR PROCEEDING?

A. No. Climate change and the elimination of GHG emissions are important public policy topics but are independent and have no direct relevance on whether this Proposed Transaction is in the public interest. The Alliance's proposals go far outside the scope of this proceeding and have wide ranging economic, social, and political ramifications for a large number of other stakeholders in New Orleans and Louisiana.

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[60] Direct Testimony of Karl R. Rábago, p. 6.
[61] Direct Testimony of Karl R. Rábago, p. 15-16.
[62] Direct Testimony of Karl R. Rábago, p. 6-7.

Q. HAVE ANY OTHER NATURAL GAS UTILITY REGULATORS ADOPTED AN ACCELERATED ELECTRIFICATION PROPOSAL THAT WOULD SEE MANDATED END-USE CONVERSIONS BY 2035?

A. No. Exhibit DED-7 surveys a number of states that are currently investigating the future role of natural gas. Most of these investigations have arisen as a result of state policies adopting or setting net zero carbon emissions goals by some date certain. While there are a growing number of states establishing these new investigative proceedings, most are early in the process, and none have set hard dates for electrification that are anything comparable to the extreme proposal offered by the Alliance. The exhibit reflects a broader trend in which states seek to ensure continued access to natural gas despite growing moves towards electrification and climate action plans. Furthermore, most of these proceedings are set up on a stand-alone basis: they are not part of a base rate case nor any other regulatory matter like a merger or acquisition review. Lastly, most of these proceedings have had substantial set-up and notification periods, rightfully, to encourage broad participation from a wide range of stakeholder groups such retail and commercial businesses, industry, utilities, low-income groups, efficiency and environmental interests, housing and construction industries, labor unions, ratepayer advocacy groups, state executive agencies, federal executive agencies and military bases, universities and research institutes, and senior citizens groups. Compare this to the current proceeding where a very large number of these types of groups, with the exception of the Alliance and one utility (ENO), are not represented or actively participating.

Q. CAN YOU PROVIDE A FEW EXAMPLES OF THESE "DECAPITALIZATION" PROPOSALS?

A. Yes. In 2019, a similar demand for a natural gas decapitalization plan for Consolidated Edison (New York) was made by Pace Energy on the basis that it was needed to meet the state's greenhouse gas goals.[63] New York's Department of Public Service Staff argued this would be premature and go against its statutory obligations to provide safe and reliable gas service,[64] a position the New York Commission would ultimately agree with by approving the joint proposal inclusive of capital investments in gas service.[65]

Q. PLEASE DISCUSS THE "NATURAL GAS BAN" PROPOSALS IN MARYLAND.

A. Last year (2023), the Chesapeake Climate Action Network recommended, during the course of a base rate case, to phase out or "decapitalize" the Maryland operations of Washington Gas & Light ("WGL").[66] The Maryland Commission, in their review of this request, noted that the issue was "out-of-scope in the context of WGL's historic-test year base rate case."[67]

Q. ARE THERE ANY PARALLELS BETWEEN THE NEW YORK AND MARYLAND DECAPITALIZATION PROPOSALS AND THE ONE OFFERED BY THE ALLIANCE?

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[63] State of New York Public Service Commission, Case 19-G-0066, Direct Testimony of Karl R. Rábago, p. 41, lines 10-20.

[64] State of New York Public Service Commission, Case 19-G-0066, New York State Department of Public Service Staff Statement in Reply to Opposition, p. 9.

[65] State of New York Public Service Commission, Case 19-G-0066, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan, Issued January 16, 2020.

[66] Maryland Public Service Commission, Case No. 9704, Direct Testimony and Exhibits of Karl R. Rábago, p. 3, lines 6-11.

[67] Maryland Public Service Commission, Case No. 9704, Order on Application to Increase Rates and Charges for Natural Gas Services, Issued December 14, 2023, p. 133.

A. Yes. Both New York and Maryland regulators recognized that (a) dealing with such proposals were beyond the scope of other more traditional regulatory proceedings like a base rate case and (b) that such proposals had important implications for a wide range of stakeholder interests and needed to be reviewed on a stand-alone, independent basis. The Alliance's proposal in this proceeding, if accepted, would have the Council make wide ranging and sweeping changes in the New Orleans energy landscape without affording proper due process for other stakeholders. The Council should reject such a proposal.

Q. IS THE ALLIANCE'S PROPOSAL TO BAN NATURAL GAS IN NEW ORLEANS WELL-FOUNDED?

A. No. The proposal, on its face, is not well-founded since it is not supported with any empirical analysis regarding impacts. The proposal does not include a CBA nor any type of rate impact analysis, nor proposal to mitigate what are likely significant rate impacts from the stranded costs likely to arise from such a rapid removal of a key industry in the New Orleans economy (i.e., removing "the" natural gas utility). The Alliance's recommendation also fails to estimate any electric industry costs and benefits that may arise from the transition of current natural gas loads to electricity, nor does the proposal provide a detail plan defining the role that ENO would have to play in this rapid electrification process. Equally important is that the Alliance's recommendation fails to consider the significant economic development impacts this would have for not only New Orleans, but Louisiana, overall. There are considerable studies that have shown electrification increases end-user energy costs, particularly for retail and commercial customers. Fuel switching also has important implications for housing, particularly multi-family housing. These electrification proposals could unintentionally reduce housing availability and/or drive-up rents to levels that are already exceptionally high. Lastly, the Alliance has not considered the economically regressive nature of such decapitalization proposals.

Q. WHAT COSTS WOULD NEW ORLEANS NATURAL GAS CUSTOMERS FACE IF THE ALLIANCE'S PROPOSAL WERE ADOPTED?

A. At minimum, current New Orleans natural gas customers would face a relatively rapid set of electrification costs that would include (a) the costs of converting appliance uses from natural gas to electricity; (b) increased electricity costs relative to natural gas for comparable energy end uses (i.e., space and water heating); (c) electricity distribution rate increases that will inevitably arise in order to modernize and upgrade the electricity grid to handle the new levels and types of electricity end-uses; and (d) potential stranded natural gas distribution costs.

Q. HAVE YOU EXAMINED THE COSTS THAT COULD ARISE FROM RESIDENTIAL ELECTRIFICATION?

A. Yes. One study recently noted that retrofitting a typical, existing natural gas residence costs between $17,400 and $31,700.[68] Given that ENO currently has over 100,000 residential customers[69], the total cost to retrofit these homes, in total, could range from as low as $1.7 billion to as high as $3.17 billion. These costs are for the conversion of residential structures and do not include those associated with converting commercial

[68] Rosen Consulting Group, New York Building Electrification and Decarbonization Costs, 2022, p. 1.
[69] Energy Information Administration, Form EIA-176, 2022.

uses common in New Orleans such as restaurants, hotels, hospitals/clinics, and small-scale manufacturing (such as technology and food products).

Q. IS IT LIKELY THAT ELECTRIFICATION WOULD CREATE ANY NET ENERGY SAVINGS TO PAY FOR THESE UPFRONT CONVERSION COSTS?

A. No. Exhibit-DED-8 comparing the marginal costs of gas and electric service shows electricity to be significantly more expensive. The average annual cost per household under gas service is $176 for space heating and $102 for water heating. In contrast, the equivalent residential costs with electricity would be $899 for space heating and $522 for water heating. For commercial buildings, the average annual cost under gas service is $4,483 for space heating, $1,257 for water heating, and $2,095 for appliances and other equipment. In contrast, the equivalent commercial costs with electricity would be $19,325 for space heating, $5,418 for water heating, and $9,030 for appliances and other equipment. Under the Alliance's proposal, not only would customers pay a substantial upfront cost to eliminate gas service, but residential customers would also pay more than double the amount of money every year for the same level of service, and commercial customers would pay over triple. These additional costs to commercial customers would ultimately be recovered from the citizens of New Orleans through increased prices of goods and services.

Q. IF NEW ORLEANS PURSUED ELECTRIFICATION, WHAT WOULD THE LIKELY SOURCE OF THE ELECTRICITY BE?

A. Electricity in the region is overwhelmingly provided through the combustion of natural gas. As of the end of 2022, over 70 percent of Entergy's current portfolio of generation assets is currently comprised of natural gas generation sources across its five operating entities on a nameplate capacity basis.

Q. DOES NATURAL GAS PROVIDE ECONOMIC BENEFITS TO CUSTOMERS WHEN COMPARED TO ELECTRICITY?

A. Yes. Natural gas generally is more efficient than electricity due to electricity delivery having comparably high line losses when compared to any losses associated with the delivery of natural gas to end use customers. This efficiency in delivery also translates into increased economic efficiency of natural gas relative to electricity. I estimate that the average New Orleans residential customer will save $723 per year using natural gas for space heating relative to electric-resistance heating. Likewise, I estimate that the average New Orleans residential customer will save $420 per year using natural gas for water heating relative to an electric water heater.

Q HOW COULD THE ALLIANCE'S PROPOSAL IMPACT NEW ORLEANS' EXISTING NATURAL GAS CUSTOMERS AND ITS LOCAL ECONOMY?

A. Exhibit DED-9 also provides an estimate of the annual cost to residential and commercial customers from an increase in their end use energy costs by switching from natural gas to electricity. The analysis is illustrative and not comprehensive but offers the Council a high-level feel for the considerable rate and economic impact and risk that arises from the Alliance's proposal. Overall, I estimate that total annual energy costs could rise by $118.1 million for all current ENO residential natural gas ratepayers and $144.5 million for all commercial natural gas customers. These negative impacts could ripple throughout the New Orleans economy leading to:

- A reduction of annual economic output by as much as $545.4 million.

- A reduction of annual gross state product (GSP or "value added") by as much as $326.9 million.
- A reduction in annual employment opportunities by as much as 9,528 job-years.

Q. DID THE ALLIANCE EXAMINE THE IMPACT OF ITS PROPOSED DECARBONIZATION POLICY ON LOW INCOME CUSTOMERS IN NEW ORLEANS?

A. No. The Alliance failed to consider how its proposed decarbonization policy affects the ability of low-income households to afford their monthly energy bill. Banning natural gas is likely highly regressive since New Orleans already has one of the highest poverty rates in the United States, with 22.9 percent of the population living under the poverty line, compared to the national average of 12.5 percent.[70] Moreover, New Orleans is the second-highest energy-burdened city in the United States.[71] Low-income customers suffer from disproportionate outages, and their houses are more likely to be located in areas at higher risk for flooding.[72] The Alliance, however, has made no provisions in its electrification plan to deal with these unique socio-economic characteristics but instead, offers the City Council a national advocacy-based strategy solution, likely crafted from more affluent states like California and Massachusetts, that simply does not work, or will not work in the fashion proposed, in New Orleans and likely anywhere else in Louisiana. In short, the Alliance's proposal would result in noticeably higher energy costs for citizens living in New Orleans.

Q. DO YOU AGREE WITH THE ALLIANCE'S POSITION ON STRANDED COSTS?

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[70] https://datausa.io/profile/geo/new-orleans-la/
[71] Alliance for Affordable Energy, Power Outages in NOLA: The Problem, Implications, Solutions, and Moving Forward, 2019, p. 5.
[72] Alliance for Affordable Energy, Power Outages in NOLA: The Problem, Implications, Solutions, and Moving Forward, 2019, p. 5.

A. No. The Alliance cites the Sewerage & Water Board of New Orleans ("S&WB") as an example of an existing natural gas load that is transitioning to grid-provided electricity from ENO.[73] The Alliance suggests that the loss of this one customer could very rapidly lead to a virtual "death spiral" of load losses for DSU NO customers leading to a large disconnect between revenue collections and fixed cost recovery (i.e., stranded costs).[74]

Q. IS THE ALLIANCE'S SPECULATION ABOUT AN EMINENT "DEATH SPIRAL" SCENARIO RELEVANT?

A. No, since this scenario is not unique to, nor driven by the Proposed Transaction before the City Council. The energy transition that is supposedly motivating this manufactured outcome by the Alliance will exist whether or not DSU NO, or any other company, acquires or does not acquire the ENO Gas Business. Put another way, customer end-use fuel switching is not an issue here: the issue is whether or not the transaction is in the public interest; it is not about whether an individual customer fuel choice decision, made well prior to the announcement of this transaction and for a myriad of reasons that are not only not relevant to this proceeding but also are not founded from a goal of decarbonization,[75] could occur again in the future.

Q. HOW DOES THE ALLIANCE'S DEATH SPIRAL CONCERN SQUARE WITH ITS ELECTRIFICATION/DECAPITALIZATION PROPOSAL?

A. The two discussions ring hollow and are entirely contradictory of one another. On the one hand, the Alliance is concerned about stranded costs resulting from a run of

[73] Direct Testimony of Karl R. Rábago, p. 20-21.
[74] Direct Testimony of Karl R. Rábago, p. 20-21.
[75] It is well known that the S&WB "electrification" is due to a need to replace outdated turbines now prone to failure.

"S&WB's electrification decisions", while on the other hand, they propose ending natural gas service for customers that make up 77 percent of the ENO's base rate revenue.[76] So, the Alliance's own recommendations, if approved as offered, would likely lead to a considerably higher level of stranded costs relative to anything that may arise from a loss of load due to energy transition driven fuel switching. Further, the Alliance fails to consider that the S&WB will continue to be reliant on the DSU NO gas system and require full access to the DSU NO distribution system for natural gas supply when the electric grid is unable to perform. Natural gas remains the best source of reliability and redundancy, even when a customer chooses to electrify.

Q. HAS THE ALLIANCE CONSIDERED THE IMPORTANT ROLE THAT NATURAL GAS PLAYS IN ENERGY RESILIENCY IN LOUISIANA?

A. No. Resiliency refers to the ability of an energy system to adapt, withstand, and recover from disruption that can be caused by multiple factors including natural disasters. New Orleans is a city vulnerable to extreme weather events. In 2021, Hurricane Ida had a devastating impact, with the average electric customer in Louisiana experiencing 100 hours of outages in 2021 alone, more than 12 times the national average according to the EIA.[77] These energy outages and disruptions often force residents to rely on backup generators. For instance, after Hurricane Katrina in 2005, many residents invested in natural gas generators to meet their emergency electricity needs.[78] Power outages are a costly inconvenience involving extreme temperature, lost access to medical equipment,

[76] Entergy New Orleans, Formula Rate Plan Filing, Gas, Rider Schedule GFRP-6, Attachment A, p. 1.
[77] https://www.axios.com/local/new-orleans/2023/08/29/power-outages-disparities-generators
[78] https://www.reuters.com/world/us/louisianans-scramble-find-fuel-generators-after-ida-2021-09-04/

and financial burdens.[79] In addition to residential use, natural gas powers many critical infrastructure needs when power is otherwise unavailable, including schools, hospitals, emergency operations centers, etc. However, the Alliance's proposed ban on natural gas would expose the City's customers to considerable interruptions in service, some potentially lasting for lengthy time periods, if natural gas-based behind-the-meter ("BTM") generation were taken away as a resiliency option.

Q. IN THE FACE OF EXTREME WEATHER EVENTS, SUCH AS HURRICANES, IS NATURAL GAS OR ELECTRICITY MORE RESILIENT?

A. Typically, natural gas is more resilient during the extreme weather conditions that New Orleans frequently experiences. According to an MIT report, natural gas has many advantages:

> The natural gas network has few single points of failure that can lead to a system-wide propagating failure. There are a large number of wells, storage is relatively widespread, the transmission system can continue to operate at high pressure even with the failure of half of the compressors, and the distribution network can run unattended and without power. This is in contrast to the electricity grid, which has, by comparison, few generating points, requires oversight to balance load and demand on a tight timescale, and has a transmission and distribution network that is vulnerable to single point, cascading failures.[80]

Natural gas distribution systems possess attributes that make them inherently resilient compared to electrical systems. Natural gas pipelines are usually underground, making the system more protected amidst extreme weather events in comparison to electrical systems. Resiliency is also based on fuel diversity. New Orleans can benefit from having both electricity and natural gas available to its residents. By proposing to eliminate natural

[79] https://www.axios.com/local/new-orleans/2023/08/29/power-outages-disparities-generators
[80] Lincoln Laboratory Massachusetts Institute of Technology, Interdependence of the Electricity Generation System and the National Gas System and Implications for Energy Security, 2013, p. 6.

gas, vulnerable populations in New Orleans may be forced to experience more outages from a less resilient energy system.

Q. IS THE ALLIANCE'S ELECTRIFICATION PLAN CONSISTENT WITH LOUISIANA STATUTES?

A. No. From a public policy perspective, it is my opinion that the Alliance's proposal is nothing more than a collateral attack on state energy policy and statutes. In 2020, Governor John Bel Edwards, who established by Executive Order the first in the south net zero GHG emissions target, also signed into law what was then Senate Bill 492, often referred to as a "ban on bans" for natural gas service in Louisiana. This state law clearly states that no local or parish governmental entity can "ban" a utility from offering any type of service, including a natural gas utility providing natural gas service.[81] Yet that is exactly what the Alliance proposes the City Council do in this proceeding: to effectively establish a policy and process that will completely ban and eliminate a utility in Louisiana from providing natural gas service to residential and small commercial customers. The Council should reject the Alliance's proposal as nothing more than an attack on a clearly defined, bipartisan state policy.[82]

Q. ARE THERE ANY OTHER UNIQUE CONSIDERATIONS THAT THE ALLIANCE HAS NOT INCLUDED IN ITS ELECTRIFICATION PROPOSAL.

A. Yes. New Orleans is one of the most historic cities in the country. The city encompasses an abundance of historic architecture and an iconic housing stock

[81] Louisiana Revised Statute, R.S. 40:1730.21.1.
[82] This bill was approved in the Louisiana House of Representatives by a vote of 96 to 0, with 100 percent of the opposition party in the House approving the measure. Likewise, the bill was approved by a vote of 34 to 0 in the Louisiana Senate with over 100 percent of the opposition party approving the measure.

constructed over a period spanning nearly three hundred years. There are more than twenty National Register historic districts, nineteen local historic districts, and a multitude of both local and national landmark buildings.[1] Historic buildings, such as those prevalent in the French Quarter (Vieux Carré), Faubourg Marigny, Tremé Historic District, Warehouse District, Central Business District ("CBD"), and Uptown, alone, play an outsized role in the cultural and economic life of the community. Moreover, the preservation and regulation of New Orleans' historic buildings, both residential and commercial, is deemed critical in enhancing the quality of neighborhoods and fortifying the city's socioeconomic base through stimulating tourism, improving property value, and growing homeownership rates.[2] While increasing end-use efficiencies and converting to electric end uses is likely technically achievable for many historic buildings, major overhauls would take more time, require more permitting review, and be significantly more expensive. This is especially true when examining commercial restaurants, an important element of New Orleans culture, where chefs typically favor natural gas for a variety of reasons.

Q. ARE NEW ORLEANS-SPECIFIC PROPERTY REGULATIONS AND PERMITTING PROCESSES CONSIDERED IN THE ALLIANCE'S ELECTRIFICATION PROPOSAL?

A. No. The Alliance's proposal fails to examine the unique, costly, and potentially limiting regulatory landscape and permitting processes associated with modifying historic

[1] City Of New Orleans, Historic District Landmarks Commission (HDLC), Building Types and Architectural Styles, January 2019, p. 03-1.
[2] City Of New Orleans, Historic District Landmarks Commission (HDLC), Preserving Historic Landmarks & Districts. December 2023. https://nola.gov/next/hdlc/home/

buildings, something that could exclude low to moderate income residents from electrifying their homes. In New Orleans, local districts are overseen and regulated by three appointed commissions: The New Orleans Historic District Landmarks Commission, the Central Business District Historic District Landmarks Commission, and the Vieux Carré Commission. These commissions approve demolition, renovation, and construction across various neighborhoods in the city (rules and level of regulation differ by neighborhood).[3] Given vigorous regulation on both residential and commercial building repairs, alterations, and construction, not only would property owners incur costs of replacing appliances and subsequent retrofitting required for electrification, but they would be tasked with receiving approvals and obtaining necessary permits (both commission- and city-based permits).[4] Further, it is questionable whether any of these permitting agencies have the administrative resources needed to process what would be a very large number of requests over a relatively short period of time.

Q. CAN YOU BRIEFLY DESCRIBE WHAT THESE COMMISSIONS DO AND HOW THAT IS RELEVANT TO THE ALLIANCE'S DECAPITALIZATION PROPOSAL?

A. Yes. All three of the city's Historic District Commissions have jurisdiction over all proposed exterior changes/property modifications as well as building design elements that would be critical in transitioning to electrification for end user customers. This includes installation of platforms and mounted equipment for HVAC compressors, generators, and hot water heaters.[5] Construction costs coupled with permitting fees to

[3] Preservation Resource Center of New Orleans, Help for Homeowners: Historic Districts and Neighborhoods. https://prcno.org/help-for-homeowners/historic-districts-neighborhoods/
[4] City of New Orleans Vieux Carré Commission, Guidelines Introduction, August 2015, p. 1.
[5] City of New Orleans Vieux Carré Commission, Guidelines Introduction, August 2015, p. 5.

ensure both city and commission compliance would be a substantial burden on New Orleans residents, especially given that non-compliance results in adverse consequences for property owners (violation fees, property liens). An additional hurdle building owners would face transitioning to electrification includes the need for a city-licensed contractor to apply for and obtain a mechanical permit "to ensure public safety through compliance with the International Construction Code (ICC) as adopted by the City of New Orleans as well as all other related state and parish regulations."[83] A mechanical permit would be required for customers replacing/removing a mechanical or gas-fired apparatus or equipment necessary in transitioning to electrification, such as HVAC systems, gas furnaces or heaters, and gas lines. Fees are based on several factors related to complexity of the work to be completed including, but not limited to the type of equipment being installed, number of connections, and how many pieces of each type of equipment would be installed.[6] Multi-family property owners would be at an especially high disadvantage given these constraints.

Q. AS A GENERAL MATTER, ARE RESIDENTIAL AND COMMERCIAL GHG EMISSIONS FROM NATURAL GAS USE A MAJOR ISSUE FOR LOUISIANA OR THE NEW ORLEANS AREA IN GENERAL?

A. No. Louisiana's 2021 *Greenhouse Gas Inventory*, prepared as part of Governor John Bel Edwards' multi-year climate policy initiatives, reported 2018 base year GHG emissions of around 217 million metric tonnes ("Mt").[84] Of that amount, 141 Mt (65

[83] Mechanical Permit, City of New Orleans.

[6] City of New Orleans Department of Safety & Permits, Mechanical Building Permits, November 2011.

[84] *David E. Dismukes. (2021) Louisiana 2021 Greenhouse Gas Inventory*. On Behalf of the Governor's Office of Coastal Activities (Baton Rouge: LSU Center for Energy Studies): 18.

percent) are attributable to industrial emissions[85] throughout Louisiana with a large share concentrated in the greater New Orleans area.[86] Residential and commercial GHG emissions, comprised mostly of natural gas end uses, were only 5.17 Mt of that total, or 2.4 percent for the entire state, much less and what is likely a considerably smaller number for the New Orleans area alone.

Q. WHAT DO THESE GHG EMISSIONS LEVELS TELL YOU ABOUT THE ALLIANCE'S PROPOSAL?

A. First, the proposal, even if accepted at face value, will have almost no impact on overall Louisiana GHG emissions. The real culprit for GHG emissions in Louisiana does not arise from residential and commercial natural gas consumption. In fact, unlike other places around the U.S., power generation emissions from electric utilities like Entergy are not the primary contributor to Louisiana's GHG emissions challenge.[87] The real problem is industrial emissions, and the Alliance's proposal to completely phase-out DSU NO's natural gas investment by 2035 will have zero impact on these industrial emissions (or the state's GHG emissions total). Second, the Alliance's proposal is fraught with a high degree of economic risk that carries with it little to no improvement in New Orleans or Louisiana GHG emissions levels. The Alliance's recommendation would ask the Council to take a huge socio-economic gamble with no corresponding GHG emissions benefit. In fact, nowhere in the Alliance's proposal have they quantified the GHG emissions

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[85] Ibid.

[86] GNO, Inc. reports the "Greater New Orleans" region consisting of 10 parishes that include Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. James, St. John the Baptist, St. Tammany, Tangipahoa, and Washington parishes.

[87] At 34 Mt, these emissions only account for 16 percent of the 2018 baseline GHG inventory total and are expected to naturally decline, not increase over time through continued adoption of renewables, energy efficiency, thermal efficiency, and other technological gains.

reductions that would arise from their proposal. And, as I noted earlier, the Alliance has provided no CBA nor explored the very important economic and resiliency issues that will arise from its proposal. The Council should reject this proposal, and, to the extent there are concerns about the role of natural gas in the City's future, have a separate, all-inclusive proceeding to investigate this topic.

Q. PLEASE DISCUSS THE ALLIANCE'S ALTERNATIVE MUNICIPALIZATION PROPOSAL.

A. The Alliance offers an alternative recommendation that would have the Council conduct a municipal takeover of the ENO gas distribution business.[88] Along with the municipal takeover, the Alliance also recommends the Council develop a plan for the municipal government to execute the gas ban by hiring an outside firm.[89]

Q. DO YOU SUPPORT THE ALLIANCE'S MUNICIPALIZATION PROPOSAL?

A. No. Once again, the Alliance makes another recommendation with wide-ranging consequences and provided zero evidence that the outcome is in the public interest and would adequately serve ratepayers and other stakeholders' interests. The proposal has no rate impact, no cost analysis, no CBA, nor any other type of meaningful backing. Municipalization is a very complicated topic in the utility business and has been since the onset of the industry in the 19th century.

Q. CAN YOU EXPLAIN SOME OF THE CONSIDERATIONS THAT ARISE IN THE MUNICIPALIZATION PROCESS?

[88] Direct Testimony of Karl R. Rábago, p. 7.
[89] Direct Testimony of Karl R. Rábago, p. 7.

A. Municipalization is a lengthy and costly process that would require more costs to be borne by the city's taxpayers to purchase the utility's existing assets and maintain facilities to meet public standards without the support of private investors. There is a reason that between 2000 and 2019, over 60 communities considered municipalization, but only nine ended up municipalized, with two communities subsequently returning to the investor-owned utility.[90] The costs and time necessary to complete the effort greatly exceeded original estimates while the process often took years to play out.

Q. HAVE YOU REVIEWED ANY MUNICIPALIZATION EFFORTS?

A. Yes. After a City Council vote in 2010, the City of Boulder and Xcel Energy operated without a franchise agreement while the city explored the creation of a city-run electric utility. Boulder struggled for nearly a decade to create a municipal utility in an effort to eliminate carbon emissions from its electric system. In 2020, the City of Boulder finally ditched their effort to create a municipal utility and approved a ballot measure to grant incumbent power utility Xcel Energy a 20-year franchise agreement. The first feasibility study conducted in 2005 estimated costs totaling $140 million which by 2018 had more than doubled to over $300 million (not including stranded costs).[91] The Alliance's proposal risks exposing New Orleans to the same type of expensive, protracted, and ineffective process suffered by the city of Boulder.

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[90] Concentric Energy Advisors, ACSEP: Electric Utility Privatization; An Analysis of Why Municipalization Efforts Fail, 2019.

[91] Concentric Energy Advisors, ACSEP: Electric Utility Privatization; An Analysis of Why Municipalization Efforts Fail, 2019.

VI. CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE THE DISAGREEMENTS YOU HAVE WITH THE REVENUE AND RATE IMPACT ANALYSIS CONDUCTED BY THE ADVISORS.

A. The Advisors' recommendation regarding the Proposed Transaction rests heavily on their estimate of the incremental revenue requirement that will have to be recovered from ratepayers in the future. The Advisors' calculation of this incremental revenue requirement, and the resulting typical bill impacts, is flawed since these estimates are based upon a flawed set of assumptions and/or incremental impacts arising from the transaction. These flawed assumptions include:

(1) The use of an incorrect estimate of the loss of ADIT net of accumulated new ADIT;

(2) A flawed basis for including a change in the cost of debt as transaction-specific;

(3) The use of an incorrect depreciation rate for new software that they recommend be booked to intangible plant (instead of recovered through a regulatory asset as proposed by DSU NO); and

(4) The use of an inaccurate value of retained ENO plant assets thereby understanding the financial credit that can be passed along to New Orleans residential natural gas customers.

In addition, the Advisors' analysis of bill impacts relies (1) on a customer class allocation factor that likely overstates residential customer revenue responsibilities; and (2) on an average monthly residential usage level that does not reflect historic or anticipated normal residential usage patterns for New Orleans natural gas customers.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE TRANSACTION'S REVENUE AND RATE IMPACTS.

A. The costs associated with the Proposed Transaction are both reasonable (relative to industry average trends) and offset by a considerable set of other economic benefits.

From a cost perspective alone, I estimate that the total first year incremental revenue requirement impact of $5.8 million to DSU NO ratepayers as a result of the Proposed Transaction. This is far, far lower than the estimate offered by the Advisors. For a typical residential customer this translates into a monthly bill impact of only $1.64 per month, far lower than the impacts estimated by the Advisors.

Q. WILL THESE REVENUE AND RATE IMPACTS FALL FURTHER IF THE ACQUISITION OF THE CENTERPOINT ENERGY ASSETS IS CONSIDERED?

A. Yes. While it is DSU NO's position that the Proposed Transaction stands independently on its own merit, it is still important to acknowledge that estimated rate impacts from Proposed Transaction could be considerably lower if the acquisition of CERC's Louisiana and Mississippi natural gas assets are considered. The combined Entergy + CERC transactions will spread the transition costs of setting up new utility services over more sales volumes, coupled with scale economics, and will drive down overall transition for each of the future Delta Utilities operating companies. I estimate that the expanded set of utility operations will reduce DSU NO's annual incremental revenue requirement to $[redacted] million resulting in a first-year incremental residential bill impact of $[redacted] per month.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING PROPOSED TRANSACTION'S ECONOMIC BENEFITS.

A. The total economic benefits that arise from the Proposed Transaction, on a DSU only basis (i.e., without CERC), is anticipated to create the following economic benefits: 3,537 job-years in employment activities; $233 million in labor income; $576 million in

GSP; and $1.1 billion in economic output.[92] While these benefits are technically all in Louisiana, a very high proportion, including most all of the direct impacts, will arise specifically in the City of New Orleans given the future location of the DSU NO parent corporate headquarters.

Q. WILL THESE ECONOMIC BENEFITS EXPAND IF THE BROADER CERC ACQUISITION IS CONSIDERED?

A. Yes. The total economic benefits that arise from the Entergy + CERC combined transactions are anticipated to create the following economic benefits: 9,103 job-years in employment activities; $588 million in labor income; $1.3 billion in GSP; and $2.7 billion in economic output.[93] Note that while, technically, these sizable economic benefits are anticipated to occur statewide, most of the "direct-only" economic benefits will arise entirely in the City of New Orleans given the new corporate locations. Thus, the City itself will see considerable economic benefits that arise from the combined operations (Entergy + CERC transactions).

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING YOUR CBA RESULTS ON THE PROPOSED TRANSACTION'S TRANSITION COSTS.

A. The CBA concludes that the IT transition costs are cost effective, and DSU NO should be allowed to defer for future recovery its share of such costs from customers, subject to a prudency review in the future rate proceeding. I have used a conservative basis for by CBA, by incorporating only economic impacts related to the Transition Plan costs and not the broader Proposed Transaction and only examining two categories of

[92] All benefits estimated on a cumulative four-year basis.

[93] All benefits estimated on a cumulative four-year basis.

potential benefits that could be expanded even further. In total, my analysis shows positive net benefits to New Orleans natural gas customers from the Proposed Transaction's IT investments. For the Entergy standalone transaction, the analysis calculates benefits of approximately $16.5 million in net benefits (4.36 BCR) for ENO and ELL, and approximately $12.8 million in net benefits (BCR of 3.60), when considering only the ENO allocation. Because the corporate headquarters is in New Orleans, the Transition Plan costs will have a greater impact on that market and, thus, the combined ENO only estimate is overly conservative. If the Entergy and CERC transactions are both considered, the analysis produces benefits of $33.1 million in net benefits (BCR of 7.72c). Further, this analysis only considers a portion of the quantifiable benefits and excludes the numerous non numerically quantifiable benefits presented by DSU NO and further discussed in in Mr. Yuknis' Exhibit JY-4.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING THE ALLIANCE'S REBUTTAL PROPOSALS.

A. I recommend the Council reject the Alliance's recommendation to either force DSU NO to decapitalize its natural gas investment or municipalize the ENO system and decapitalize the system on its own. While climate change and the elimination of GHG emissions are important public policy topics, they are also independent and have no direct relevance on whether this Proposed Transaction is in the public interest. The Alliance's proposals go far outside the scope of this proceeding, contain no CBA or rate impact analysis, and have wide ranging economic, social, and political ramifications for a large number of other stakeholders in New Orleans and Louisiana.

The Alliance's municipalization recommendations also have wide-ranging consequences and yet are offered with zero evidence that the outcome would be in the public interest and adequately serve ratepayers and other stakeholders' interests. The municipalization proposal has no rate impact, not cost analysis, no CBA, nor any other type of meaningful backing and should be rejected outright.

Q. WHAT ARE YOUR OVERALL RECOMMENDATIONS TO THE CITY COUNCIL?

A I recommend the Council approve the acquisition of ENO Gas Business as requested by DSU NO in the joint application filed in this proceeding. The Proposed Transaction, and the companion commitments made by DSU NO in its direct and rebuttal testimonies, will collectively lead to rates that are fair, just, and reasonable, including with DSU NO's proposal for recovery of transition costs, as well as service that is safe, reliable, and adequate. The Proposed Transaction will also result in an overall policy outcome that is in the public interest and lead to economic benefits that are substantially larger than any resulting incremental rate impacts that have arisen by the transfer of ownership to DSU NO. These benefits, coupled with many hard to quantify benefits such as the deployment of state-of-the-art cloud-based technologies to facilitate customer service and reputation benefits offered to the City by serving as the corporate home to the third largest natural gas utility in the southeast, all support a finding that the Proposed Transaction is in the public interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.