

August 5, 2024

BY E-MAIL

Clerk of Council
Council of the City of New Orleans
City Hall, Room IE09
1300 Perdido Street
New Orleans, LA 70112

*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; NOCC Docket UD-24-01*

Dear Clerk:

Please find attached the public versions of the Surrebuttal Testimony of Joseph W. Rogers, Victor M. Prep and Byron S. Watson on behalf of the Advisors to the Council of the City of New Orleans in the above referenced matter which we are requesting to be filed into the record along with this letter. The Advisors submit this filing electronically and will submit the original and requisite copies as you direct.

Sincerely,



Jay Beatmann

JAB:dpm

Attachments

cc: Official Service List for UD-24-01

**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)**

**SURREBUTTAL TESTIMONY
OF
JOSEPH W. ROGERS, P.E.
ON BEHALF OF
THE ADVISORS TO THE
COUNCIL OF THE CITY OF NEW ORLEANS**

AUGUST 5, 2024

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PREPARED SURREBUTTAL TESTIMONY

OF

JOSEPH W. ROGERS, P.E.

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 **A.** My name is Joseph W. Rogers. My business address is 6041 S. Syracuse Way, Suite 105,
4 Greenwood Village, Colorado. I am a registered Professional Engineer in the States of
5 Colorado and Louisiana, and I am an Executive Consultant and the President of the firm,
6 Legend Consulting Group Limited (“Legend”).

7 **Q. ARE YOU THE SAME JOSEPH W. ROGERS THAT SPONSORED DIRECT**
8 **TESTIMONY IN THIS PROCEEDING?**

9 **A.** Yes, on May 31, 2024, I sponsored Direct Testimony on behalf of the Advisors to the
10 Council of the City of New Orleans (“Council”).

11 **Q. PLEASE IDENTIFY THE APPLICATION THAT CAUSED THIS DOCKET TO**
12 **BE INITIATED.**

13 **A.** On December 11, 2023, Delta States Utilities NO, LLC (“DSU NO”) and ENO
14 (collectively “Joint Applicants”) submitted their Joint Application of Delta States Utilities
15 NO, LLC (“DSU NO”) and Entergy New Orleans, LLC (“ENO”) requesting Authority for
16 DSU NO to Operate as Local Distribution Company and Incur Indebtedness and Approval

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1 for ENO to Transfer and DSU NO to Acquire Local Distribution Company Assets and
2 Related Relief ("Joint Application"). On February 1, 2024, the Council adopted Resolution
3 No. R-24-49 which established the instant docket to evaluate and consider the Joint
4 Application. I refer to the relief sought in the Joint Application as the "Gas Transaction."

5 II. PURPOSE OF TESTIMONY

6 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
7 **PROCEEDING?**

8 **A.** The purpose of my Surrebuttal Testimony is to respond to rebuttal and new testimony
9 offered by ENO witnesses Alyssa Maruice-Anderson, and by DSU NO witnesses David E.
10 Dismukes, and Jeffrey Yuknis. Additionally, out of an abundance of caution, I address
11 what the Alliance for Affordable Energy ("AAE") witness Karl R. Rábago refers to as a
12 "fatal error" in the Advisors Direct Testimony. I note that where I do not address a portion
13 of the testimony of a witness on behalf of the Joint Applicants or Intervenors, that is not
14 intended to indicate agreement or assent to that witness's testimony.

15 III. APPLICABILITY OF COUNCIL STANDARDS OF APPROVAL

16 **Q. IN YOUR DIRECT TESTIMONY WHAT DID YOU RECOMMEND REGARDING**
17 **COUNCIL RESOLUTION R-06-88?**

18 **A.** I concluded that Council Resolution R-06-88 ("Restructuring Resolution") applies to the
19 facts and circumstances of the Joint Application. I recommended that the Council fully
20 consider the eighteen factors listed in the Restructuring Resolution because they relate

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1 directly to the relief the Joint Application seeks and encompass the issues necessary to
2 evaluate whether the Gas Transaction should be approved by the Council.

3 **Q. DO YOU AGREE WITH ENO'S INTERPRETATION OF THE**
4 **RESTRUCTURING RESOLUTION AS DISCUSSED ENO WITNESS MAURICE-**
5 **ANDERSON'S REBUTTAL TESTIMONY?**

6 **A.** No. I disagree with ENO witness Maurice-Anderson's characterization of the appropriate
7 application of the Restructuring Resolution. ENO witness Maurice-Anderson argues that
8 i) the Restructuring Resolution does not expressly contemplate conditions being imposed
9 on the selling entity, ENO, or its electric rates,¹ and ii) that the Council can only impose
10 conditions on DSU NO as the purchasing entity.² However, there are several flaws in ENO
11 witness Maurice-Anderson's position. ENO witness Maurice-Anderson cites Ordering
12 Paragraph 3 of the Restructuring Resolution as support for ENO's claim that conditions
13 can only be imposed on DSU NO. This provision establishes that the burden of proving
14 that the requirements of the Restructuring Resolution have been met lies with the entity
15 seeking acquisition or control of a public utility. Nothing in Ordering Paragraph 3, or
16 anywhere else in the Restructuring Resolution, limits the Council's ability to impose
17 conditions on any party to the transaction, especially since ENO will remain a regulated
18 utility within the Council's regulatory jurisdiction even if the Gas Transaction is approved.

¹ Rebuttal Testimony of Alyssa Maruice-Anderson at 5 (5-7).

² *Id.* at 5 (12-13).

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1 ENO witness Maurice-Anderson also overlooks important provisions of the Restructuring
2 Resolution that clearly anticipate one or more conditions that may be imposed, including
3 conditions on either party, to prevent adverse consequences that may result from the
4 transaction. Specifically, Ordering Paragraph 2 of the Restructuring Resolution directly
5 addresses the Council’s analysis and authority to attach conditions to a proposed
6 transaction. It states that “In determining whether to approve any such transfer of
7 ownership or control the Council shall take into account the following factors...(l.) whether
8 conditions are necessary to prevent adverse consequences which may result from the
9 transfer... and (r.) whether there are any conditions which should be attached to the
10 proposed acquisition.”³ In my opinion attaching conditions to the transfer of ownership
11 means attaching conditions on either party to the transfer of ownership. Nothing in the
12 Restructuring Resolution prevents or otherwise limits the Council from attaching any
13 reasonable conditions to the transaction, including but not limited to, those that may require
14 the action or inaction of either DSU NO, ENO or both.

15 The Council did not distinguish between adverse consequences created by one party as
16 opposed to another when it discussed the imposition of conditions designed to prevent
17 adverse consequences of a transaction anticipated by the Restructuring Resolution. It
18 would not be logical for a Council-regulated utility to be allowed to transfer its assets to

³ Council Resolution R-06-88, Ordering paragraph 2

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1 another entity but be insulated from adhering to conditions identified by the Council that
2 could prevent adverse consequences that would result from the transfer.

3 **Q. FACTOR “A” OF THE EIGHTEEN FACTORS IN THE RESTRUCTURING**
4 **RESOLUTION CONSIDERS WHETHER THE TRANSFER IS IN THE PUBLIC**
5 **INTEREST. DO YOU AGREE WITH ENO WITNESS MAURICE-ANDERSON’S**
6 **DEFINITION OF THE “PUBLIC INTEREST” PRINCIPLE?**

7 **A.** I generally agree with ENO witness Maurice-Anderson’s broad definition that the “public
8 interest” is that which best serves everyone.⁴ The Council’s consideration of whether to
9 approve the transaction in this case, however, is guided by a discreetly prescribed set of
10 eighteen evaluation factors set forth in the Council’s Restructuring Resolution. I also
11 pointed out, in my Direct Testimony, that the public interest is one of the eighteen factors
12 that the Council shall consider in determining whether to approve the transfer of ownership
13 or control.⁵

14 ENO witness Maurice-Anderson discusses the concept of “net benefits” and states that the
15 public interest is often defined in terms of “net benefits,” and that such a test or standard
16 merely substitutes one expression for another.⁶ ENO witness Maurice-Anderson further
17 claims that “objective measurement of how a decision affects the public interest is

⁴ Rebuttal Testimony of Alyssa Maurice-Anderson at 6 (5).

⁵ Direct Testimony of Joseph W. Rogers at 20 (11-13).

⁶ Rebuttal Testimony of Alyssa Maurice-Anderson at 6 (15-17).

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1 problematic at best”⁷ and cites court cases that discuss the general application of the
2 “balancing-of-interests standard” when regulated bodies make decisions. While I generally
3 do not take issue with the general legal and regulatory principles cited in this portion of
4 ENO Witness Maurice-Anderson’s testimony as applied in those cases, in this instance, the
5 Council, itself, has laid out its own detailed framework for considering the proposed
6 transaction in the Restructuring Resolution. The Council clearly delineated very specific
7 factors which it shall consider in its evaluation of an asset transfer by a utility operating
8 under the Council’s regulatory authority, such as the one currently proposed by DSU NO
9 and ENO. The balancing that the Council should undertake in this docket is one that
10 thoughtfully weighs each of the eighteen enumerated factors and renders a well-reasoned
11 and comprehensive decision.

IV. NON-QUANTIFIABLE BENEFITS**Q. REGARDING YOUR REVIEW OF THE EIGHTEEN FACTORS OF THE
RESTRUCTURING RESOLUTION WHAT DID YOU RECOMMEND IN YOUR
DIRECT TESTIMONY?**

A. I recommended that the Council consider approval of the Gas Transaction if the ratepayer
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. Further I recommended that the

⁷ *Id.* at 7 (15-16).

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1 Council consider the recommendations and proposed conditions of approval presented in
2 my testimony and the testimonies of Advisor witness Byron S. Watson and Advisor witness
3 Victor M. Prep.

4 As to Conditions of approval, I indicated that DSU NO and its affiliate companies have
5 made a significant number of commitments to the Council regarding the Gas Transaction.
6 The Council's evaluation and potential approval of the Gas Transaction, the Council's
7 ability to effectively and efficiently regulate DSU NO, and the successful provision of gas
8 service in New Orleans each depend on DSU NO and its affiliate companies following
9 through on their commitments. I recommended that the Council attach as conditions to
10 approval of the Gas Transaction each of the commitments I have identified in my Exhibit
11 No. ___ (JWR-4).

12 **Q. DO YOU AGREE WITH ENO WITNESS MAURICE-ANDERSON'S ASSERTION**
13 **THAT THE ADVISORS IGNORED THE NON-QUANTIFIABLE BENEFITS OF**
14 **THE TRANSACTION?**

15 **A.** No. In fact, and specifically with respect to ENO, I pointed out that the two primary long-
16 term benefits are i) ENO's potential use of the proceeds from the Gas Transaction to retire
17 or pay-off debt as it matures and/or avoid future debt issuances that would have been
18 required absent proceeds from the Gas Transaction, and ii) the Gas Transaction may
19 improve ENO's credit rating and allow access to lower cost debt when future debt
20 issuances are required. I further indicated that each of these long-term benefits would

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1 directly benefit ratepayers, however, neither of these potential long-term benefits can be
2 quantified at this time.⁸

3 The Joint Applicants in their Direct Testimony had the opportunity to make their best case
4 for the Council to approve the Gas Transaction. They failed to quantify any benefit of the
5 Gas Transaction. I provided a summarized list of the benefits the Joint Applicants asserted
6 in their Direct Testimony, and I noted that many of these benefits are non-quantifiable and
7 difficult to weigh against costs that are quantifiable, while others appear to be maintaining
8 the status quo under a different owner. In my direct testimony, I considered and even
9 discussed the benefits of the Gas Transaction in my discussion of each of the eighteen
10 factors of the Restructuring Resolution. For ENO witness Maurice-Anderson to suggest
11 that the Advisors ignored non-quantifiable benefits is simply wrong.⁹

12 **Q. BOTH ENO WITNESS MAURICE-ANDERSON, AND DSU NO WITNESS**
13 **DISMUKES ACCUSE THE ADVISORS OF FAILING TO GIVE ADEQUATE**
14 **WEIGHT TO NON-QUANTIFIABLE BENEFITS.¹⁰ DO YOU AGREE?**

15 **A.** No. The Advisors have estimated ratepayer harm (negative benefit) that results directly
16 from the Gas Transaction. While these are estimates at this time, the ratepayer harm that
17 the Advisors have identified will be certain and calculable at the time of the initial rate case

⁸ Direct Testimony of Joseph W. Rogers at 25 (7-13).

⁹ Rebuttal Testimony of Alyssa Maurice-Anderson at 8 (15).

¹⁰ Rebuttal Testimony of Alyssa Maurice-Anderson at 8 (8-11), Rebuttal Testimony of David E. Dismukes at 11 (10-12).

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1 filed by DSU NO. When faced with calculable near-term harm to ratepayers, I believe it is
2 appropriate to weigh that harm significantly more than non-quantifiable benefits that may
3 occur in the future, are more uncertain in nature, and may or may not materialize. Likewise,
4 benefits to the state and local economies carry less weight in my mind as they do not
5 directly benefit the ratepayer through rates.

6 ENO implies that the Advisors should somehow assign an arbitrary dollar value to these
7 non-quantifiable benefits in order to properly offset the harmful, quantifiable effects of the
8 transaction on ENO's ratepayers.¹¹ I disagree. Such an exercise would result in an
9 unsupported analysis and an unreasonably flawed result. A non-quantifiable benefit is just
10 that, non-quantifiable, and therefore the value and significance of those benefits, to the
11 extent that they remain non-quantifiable, should be weighed with these uncertain attributes
12 in mind – not as an adjustment to mitigation of ratepayer harm.

13 Lastly, with respect to weighing costs and benefits, the role of the Advisors, Joint
14 Applicants, and Intervenors is not to substitute the Council's decision-making authority
15 with their own, rather the role of the Parties is to provide the Council with facts and expert
16 opinion and create a record upon which the Council can make its decision. Ultimately, it
17 will be the Council's decision on what weight to give non-quantifiable benefits, as well as
18 each of the eighteen factors.

¹¹ Rebuttal Testimony of Alyssa Maruice-Anderson at 8 (11-20).

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1 **V. RESTRUCTURING RESOLUTION EIGHTEEN FACTOR REVIEW**

2 **Q. WHAT DID DSU NO WITNESS YUKNIS PROVIDE IN HIS REBUTTAL**
3 **TESTIMONY WITH RESPECT TO THE EIGHTEEN FACTORS OF THE**
4 **RESTRUCTURING RESOLUTION?**

5 **A.** DSU NO witness Yuknis provides a table which lists the eighteen factors from the
6 Restructuring Resolution and then, for each of the factors he notes whether DSU NO agrees
7 with the Advisors (9 of the factors), partially agrees with the Advisors (7 of the factors), or
8 disagrees with the Advisors (2 of the factors). DSU NO witness Yuknis then goes on to
9 discuss each of the factors where DSU NO is either in partial agreement with the Advisors
10 or in disagreement with the Advisors.

11 **Q. WITH RESPECT TO THE NINE FACTORS WHERE DSU NO DOES NOT**
12 **AGREE WITH THE ADVISORS, DOES ANY OF THE INFORMATION**
13 **PROVIDED IN DSU NO WITNESS YUKNIS REBUTTAL TESTIMONY'S**
14 **DISCUSSION ON THE FACTORS CHANGE YOUR OPINION THAT YOU**
15 **PROVIDED IN YOUR DIRECT TESTIMONY WITH RESPECT TO EACH OF**
16 **THOSE FACTORS?**

17 **A.** No, however I will step through each of those nine factors to explain, in part, why my
18 opinion has not changed.

19 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
20 **TESTIMONY DISCUSSION ON FACTOR "A"?**

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1 **A.** Yes. Factor “a” pertains to whether the Gas Transition is in the public interest. DSU NO
2 witness Yuknis mischaracterizes my direct testimony and suggests that the Advisors were
3 waiting on more information prior to making a public interest determination.¹² In my direct
4 testimony, I indicated that the Gas Transaction imposes quantifiable harm on both future
5 DSU NO gas customers and ENO electric customers. I recommended, as part of the
6 Council’s public interest determination, that the Council consider eliminating or
7 mitigating, to the Council’s satisfaction, the identified harm, either through conditions
8 attached to any approval, or through other measures of mitigation that may be proposed in
9 further testimony in this docket. Further, I clearly indicated that the public interest
10 determination is one that will be made by the Council after the record in this proceeding is
11 complete.

12 DSU NO witness Yuknis points to creative solutions in the Joint Application that
13 significantly mitigate impacts to customers.¹³ Any mitigation that was in the Joint
14 Application was already included my assessment of this factor. Accordingly, the customer
15 harm that I recommend be mitigated has not changed. DSU NO witness Yuknis makes
16 reference to the cost-benefit analysis of the transition plan and states as fact that the Gas
17 Transaction is still expected to result in net benefits to customers.¹⁴ I recognize that DSU
18 NO has, since the filing of its direct testimony, attempted to quantify benefits to ratepayers,

¹² Rebuttal Testimony of Jeffery Yuknis at 37.

¹³ *Id.*

¹⁴ Rebuttal Testimony of Jeffery Yuknis at 39.

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1 but these new benefits that were presented in Exhibit DED-5, the Cost Benefit Analysis of
2 the Information Technology and Transition Plan, are not as certain or as calculable as the
3 harm the Advisors have identified. However, in Section VII of my surrebuttal testimony, I
4 provide a framework by which the Council could recognize these benefits in future rate
5 actions as a reduction in ratepayer harm and a corresponding reduction in the mitigation
6 necessary to protect the ratepayer.

7 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
8 **TESTIMONY DISCUSSION ON FACTOR "B"?**

9 **A.** Yes. Factor "b" pertains to whether DSU NO is ready, willing, and able to provide safe,
10 reliable, and adequate service to Orleans Parish ratepayers. DSU NO witness Yuknis points
11 to the Transition Plan that is anticipated to provide what DSU NO refers to as Day One
12 Readiness and suggests that should mitigate my concerns.¹⁵ However, I was fully aware of
13 the Transition Plan when I developed my Direct Testimony. Further, simply having a plan
14 in place does not mean that DSU NO is ready, willing, and able to provide safe, reliable,
15 and adequate service to Orleans Parish ratepayers. My initial assessment that DSU NO is
16 not yet ready, nor able to provide those services has not changed.

¹⁵ *Id.*

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1 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
2 **TESTIMONY DISCUSSION ON FACTOR "G"?**

3 **A.** Yes. Factor "g" pertains to whether the gas transaction will maintain or improve the quality
4 of management of the resulting public utility or common carrier doing business in New
5 Orleans. In response to my concern that the Council knew little about the management
6 structure and personnel which would be in place for DSU NO below the DSU Board and
7 above the operational management employees, DSU NO witness Yuknis provided
8 additional information about the experience of the individuals on their management team
9 as Exhibit JY-6. My opinion remains that if the appropriate management structure and
10 personnel are installed, I believe the quality of management of DSU NO will be comparable
11 to that of ENO. This new information on the experience of the management team firms up
12 that opinion.

13 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
14 **TESTIMONY DISCUSSION ON FACTOR "j"?**

15 **A.** Yes. Factor "j" pertains to whether the Gas Transaction will be beneficial on an overall
16 basis to City and local economies and to the communities in the area served by the public
17 utility or common carrier. DSU NO witness Yuknis suggests that since DSU NO has agreed
18 to memorialize, as conditions of approval, the commitments that I identified in my Direct
19 Testimony, that should somehow mitigate the Advisors concerns related to ratepayer

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1 impact.¹⁶ To be clear, the Advisors' concerns regarding ratepayer harm are not mitigated
2 by DSU NO's agreement to memorialize as conditions of approval the commitments made
3 by DSU NO in both the Joint Application and in responses to discovery.

4 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
5 **TESTIMONY DISCUSSION ON FACTORS "l" and "r"?**

6 **A.** Yes. Factors "l" and "r" both pertain to conditions of approval. In DSU NO witness Yuknis'
7 discussion on these factors, it states that "DSU NO agrees to memorialize all commitments
8 made in the Joint Application; however, DSU NO cannot agree to several additional
9 conditions recommended as proposed but is confident the additional analysis provided in
10 the DSU NO Rebuttal Testimony and further discussion with Advisors will result in
11 agreeable alternative solutions to the remaining items."¹⁷ I discuss the conditions of
12 approval in Section VI of my surrebuttal testimony. Further, in Section VII of my
13 surrebuttal testimony, I provide the framework of an alternative solution that recognizes
14 the potential ratepayer benefits of the additional analyses provided in the DSU NO Rebuttal
15 Testimony.

16 **Q. DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS' REBUTTAL**
17 **TESTIMONY DISCUSSION ON FACTOR "n"?**

¹⁶ Rebuttal Testimony of Jeffery Yuknis at 43.

¹⁷ Id. at 44

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1 **A.** Yes. Factor “n” pertains to whether DSU NO will have the financial ability to operate,
2 maintain, and upgrade the quality of its physical system. DSU NO has agreed to
3 memorialize as a condition of approval that Bernhard Capital Partners (“Bernhard Capital”)
4 is committed to providing sufficient capital to safely and reliably maintain and operate the
5 DSU NO system post-closing, to accommodate all operational and capital needs of the
6 utility, and to support responsible growth of the utility into the future. In my direct
7 testimony I indicated that if Bernhard Capital fulfills this commitment, it is reasonable to
8 conclude that DSU NO will have the financial ability to operate, maintain, and upgrade the
9 quality of its physical system. My opinion remains unchanged.

10 **Q.** **DO YOU HAVE ANY COMMENT ON DSU NO WITNESS YUKNIS’ REBUTTAL**
11 **TESTIMONY DISCUSSION ON FACTOR “e”?**

12 **A.** Yes. Factor “e” pertains to whether the Gas Transaction will provide net benefits to
13 ratepayers in both the short term and the long term and provide a ratemaking method that
14 will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short
15 and long term benefits. DSU NO witness Yuknis’ discussion of this factor points to the
16 revised revenue requirements analysis presented in Exhibit DED-1. Advisor witness Byron
17 S. Watson addresses this analysis in his surrebuttal testimony. However, I note that both
18 the Advisors’ estimate and DSU NO’s estimate of the revenue requirements impact of the
19 Gas Transaction are just that – estimates. The amount of any ratepayer harm that may result
20 from the Gas Transaction will be more accurately quantifiable at the time of the initial rate
21 case. As the initial rate case will occur after the Council’s decision on whether to approve

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1 the Gas Transaction, what should be required as a condition of approval of the Gas
2 Transaction is an agreement to mitigate the ratepayer harm associated with the Gas
3 Transaction and an agreement on how that harm would be calculated at the time of the
4 initial rate case. This condition could provide a path for the Council to approve the Gas
5 Transaction, while protecting the ratepayer from harm that results from the Gas
6 Transaction. In Section VII of my surrebuttal testimony, I provide the framework of a way
7 to recognize the potential ratepayer benefits of the additional analyses provided in ENO's
8 and DSU NO's Rebuttal Testimony, including provisions for the condition I discussed
9 immediately above.

10 VI. CONDITIONS OF APPROVAL**11 Q. WITH RESPECT TO CONDITIONS OF APPROVAL, WHAT DID YOU
12 RECOMMEND IN YOUR DIRECT TESTIMONY?**

13 A. In the Joint Application, DSU NO and its affiliate companies make a significant number
14 of commitments to the Council regarding the Gas Transaction. In Exhibit No. ____ (JWR-
15 4), I identified and included a table of significant commitments in the Joint Application, as
16 well as significant commitments made in response to discovery. I recommended that the
17 Council attach as conditions to approval of the Gas Transaction each of the commitments
18 I have identified in Exhibit No. ____ (JWR-4). Further, I recommended that the Council
19 consider the proposed conditions of approval presented in the Direct Testimonies of
20 Advisor witness Byron S. Watson and Advisor witness Victor M. Prep.

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1 **Q. DID DSU NO AGREE TO MEMORIALIZING THE COMMITMENTS YOU**
2 **IDENTIFIED IN EXHIBIT NO. ____ (JWR-4) AS CONDITIONS OF APPROVAL?**

3 **A.** Yes. Section A of Exhibit JY-2 attached to the Rebuttal Testimony of Jeffrey Yuknis
4 contains each of the twenty-four commitments I identified in Exhibit No. ____ (JWR-4).
5 DSU NO witness Jeffrey Yuknis indicated that DSU NO agrees to memorialize as
6 conditions for approval the commitments in Section A of Exhibit JY-2.¹⁸ I note that Section
7 A of Exhibit JY-2 contains three additional commitments which I address later in my
8 testimony.

9 **Q. PLEASE SUMMARIZE THE CONDITIONS OF APPROVAL RECOMMENDED**
10 **BY ADVISOR WITNESS PREP IN HIS DIRECT TESTIMONY?**

11 **A.** In the Direct Testimony of Advisor witness Prep, he recommended the following
12 conditions of approval.

13 1) The Council should memorialize DSU NO's commitment to file a fully allocated
14 cost of service study, and inform DSU NO that its general rate case should include
15 the following: i) all customer classes served, including NJ customers; ii) a cost of
16 service component of adjusted relative customer class rates of return, upon which
17 adjustments to customer class revenue requirements would be based; iii) revised
18 rates and rate schedules based on the fully allocated cost of service study; and iv) a

¹⁸ Rebuttal Testimony of Jeffery Yuknis at 47.

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1 revised Purchase Gas Adjustment tariff and NJ customer contracts that are based
2 on the fully allocated cost of service study.

3 2) The Council should memorialize DSU NO’s commitment that it will not execute
4 any new NJ contracts without express Council approval.

5 3) The Council should include as a condition that the agreement and rate to deliver
6 gas to NOPS shall be reviewed based on an updated cost of service analysis and a
7 current review of gas transportation rates and contracts offered by intrastate gas
8 distribution companies.

9 **Q. DID DSU NO AGREE TO THE CONDITIONS OF APPROVAL RECOMMENDED**
10 **BY ADVISOR WITNESS PREP IN HIS DIRECT TESTIMONY?**

11 **A.** Yes. However, DSU NO witness Yuknis raises a concern about the definition of the word
12 “based” and states that DSU NO would instead be agreeable to a condition that requires
13 DSU NO to include rates, rate schedules and contracts “in consideration of” a fully
14 allocated cost of service study with the result of any allocation being subject to review and
15 approval by the Council.¹⁹ With respect to the use of “based” verses “in consideration of”
16 the Advisors consider “based” to be the appropriate term with a recognition that “based”
17 does not require the setting of rates exactly in line with the fully allocated cost of service
18 study.

¹⁹ Rebuttal Testimony of Jeffery Yuknis at 22-23, Section A of Exhibit JY-2.

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1 **Q. PLEASE SUMMARIZE THE CONDITIONS OF APPROVAL RECOMMENDED**
2 **BY ADVISOR WITNESS WATSON IN HIS DIRECT TESTIMONY?**

3 **A.** In the Direct Testimony of Advisor witness Watson, he recommended the following
4 conditions of approval.

5 1) As the cash sale nature of the Gas Transaction will result in a significant increase in
6 DSU NO's rate base and a related ratepayer harm due to the loss of a net-credit ADIT
7 balance, he recommends the Council consider requiring DSU NO to eliminate or
8 substantially mitigate this ratepayer harm.

9 2) That DSU NO agree to not seek recovery of the proposed regulatory asset or to
10 substantially mitigate to the Council's satisfaction the ratepayer impacts of the
11 proposed regulatory asset.

12 3) ENO be directed to not seek recovery of its transaction costs and be required to
13 demonstrate how such costs have been excluded from its rate action filings, such as
14 ENO's annual FRP Evaluation filings.

15 4) the Council direct ENO to create a contra-asset of approximately \$18.8 million to offset
16 the gas plant retained by electric customers and use the remaining approximate \$ [REDACTED]
17 million of the \$ [REDACTED] million per book gain to create a regulatory liability whose
18 amortization will offset the ENO gas O&M retained by ENO's electric customers. This
19 remaining approximate \$ [REDACTED] million, when amortized over four years, approximately
20 offsets this annual retained O&M amount.

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1 **Q. DID DSU NO AND ENO AGREE TO THE CONDITIONS OF APPROVAL**
2 **RECOMMENDED BY ADVISOR WITNESS WATSON IN HIS DIRECT**
3 **TESTIMONY?**

4 **A.** No. However, with respect to the loss of a net-credit ADIT, DSU NO agrees that the impact
5 of the loss of a net-credit ADIT balance is a legitimate concern and agrees to work with
6 the Advisors to address in the future rate proceeding in a way that is fair and equitable to
7 all parties. Further, DSU NO is also open to discussing sharing with customers a portion
8 of goodwill tax benefits to further mitigate the net revenue requirement impacts of ENO
9 ADIT not transferring at closing.²⁰

10 DSU NO did not indicate a willingness to not seek recovery of the proposed regulatory
11 asset and suggests that the impact of that regulatory asset was already mitigated to an extent
12 through treatments proposed in the Joint Application.²¹

13 As I discussed earlier, ENO claims that Council Resolution R-06-88 does not expressly
14 contemplate conditions being imposed on the selling entity, ENO, or its electric rates and
15 that the Council's evaluation of need for imposing conditions should be limited to DSU.²²

16 **VII. NEWLY QUANTIFIED POTENTIAL BENEFITS**

²⁰ Exhibit JY2, Section B.

²¹ Rebuttal Testimony of Jeffery Yuknis at 26-27.

²² Rebuttal Testimony of Alyssa Maurice-Anderson at 5 (5-13).

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1 **Q. IN THE REBUTTAL TESTIMONY OF THE JOINT APPLICANTS DSU NO AND**
2 **ENO WITNESSES PROVIDE NEW ANALYSES THAT ATTEMPT TO**
3 **QUANTIFY BENEFITS THAT THEY FAILED TO FILE WITH THEIR DIRECT**
4 **TESTIMONY. CAN YOU BRIEFLY DESCRIBE THOSE NEW ANALYSES?**

5 **A.** In Exhibit DED-4, DSU NO witness Dismukes provides a presentation entitled “The
6 economic benefits of Delta Utilities’ Louisiana energy investment” which summarizes the
7 results of a study conducted to estimate the potential economic benefits for Louisiana and
8 the Greater New Orleans Area. Based on this analysis, DSU NO witness Dismukes testifies
9 that “On a total DSU basis, the transaction is anticipated to create the following economic
10 benefits: 3,537 job-years in employment activities; \$233 million in labor income; \$576
11 million in GSP; and \$1.1 billion in economic output”, estimated on a cumulative four-year
12 basis.²³ I note that DSU NO witness Dismukes’ use of the phrase “total DSU basis” refers
13 to a scenario where the Council approves the Joint Application and the Louisiana Public
14 Service Commission (“LPSC”) approves the transfer of the Entergy Louisiana, LLC
15 (“ELL”) Gas Business to DSU NO’s affiliate company.

16 In Exhibit DED-5, DSU NO witness Dismukes provides a cost-benefit analysis of the
17 information technology portion of the transition plan which, in part, incorporates a portion
18 of benefits identified in DED-4 and includes an additional benefit related to the operational
19 efficiencies of the proposed cloud-based IT system. A review of Exhibit DED-5 reveals

²³ Rebuttal Testimony of David E. Dismukes at 43 (10-13).

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1 that DSU estimates that the operational efficiencies of the proposed cloud-based IT system
2 will result in an annual benefit to ratepayers of averaging [REDACTED] annually
3 over the period 2028 to 2052.

4 In Exhibit AMA-4, ENO witness Maurice-Anderson puts forth a hypothetical analysis of
5 ratepayer savings due to ENO's avoided cost of issuing new long-term debt. ENO witness
6 Maurice-Anderson testifies that if ENO were to retain \$150 million of the cash proceeds
7 from the Gas Transaction to fund capital investments rather than obtaining new debt capital
8 from the market, the expected annual recurring savings is estimated to be roughly \$2.8
9 million.²⁴ With respect to this benefit, ENO witness Maurice-Anderson testifies that ENO
10 is unable to predict these benefits with certainty and that the exact amount of benefits is
11 not known.²⁵ Amplifying this uncertainty is that the amount of cash proceeds to be retained
12 by ENO has not been determined.²⁶

13 **Q. SHOULD THE COUNCIL WEIGH THESE BENEFITS EQUALLY WHEN**
14 **EVALUATING THE GAS TRANSACTION?**

15 **A.** No, for at least two reasons: i) some of the benefits, if they materialize, would be related
16 directly to the ratepayer and their associated utility revenue requirements, while other
17 benefits would be related to the state and local areas and economies and, ii) some of these

²⁴ Rebuttal Testimony of Alyssa Maurice-Anderson at 9-10.

²⁵ *Id.*

²⁶ *Id.* at 9 (18-19).

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1 benefits may be relatively known and calculable at some point in the future, while others
2 will remain uncertain by their nature.

3 **Q. CAN YOU ELABORATE ON YOUR FIRST REASON THAT THE COUNCIL**
4 **SHOULD NOT WEIGH ALL BENEFITS EQUALLY?**

5 **A.** It is clear that these two separate types of benefits are to be considered distinctly from each
6 other in factors “e” and “j” of the Restructuring Resolution. Factor “e” asks whether the
7 transfer will provide net benefits to ratepayers in both the short term and the long term and
8 provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers
9 will receive the forecasted short and long term benefit. Factor “j” asks whether the transfer
10 will be beneficial on an overall basis to City and local economies and to the communities
11 in the area served by the public utility or common carrier.

12 Factor “e” specifically refers to “net benefits to ratepayers” and a “ratemaking method” to
13 ensure that ratepayers will receive the benefit. Thus, while the Council should consider
14 both types of benefits when determining whether to approve the Gas Transaction, only
15 those ratepayer benefits that flow through to the ratepayer through rates are considered in
16 the calculation of net benefits in factor “e”.

17 **Q. WHY IS THIS DISTINCTION IN THESE TWO TYPES OF BENEFITS**
18 **SIGNIFICANT?**

19 **A.** The Restructuring Resolution lists the eighteen factors that the Council shall take into
20 account but is silent on the amount of weight the Council should give each of the eighteen

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1 factors. The distinction is significant in that the Council may weigh differently the benefits
2 that directly impact ratepayers as compared to benefits that are projected for the City of
3 New Orleans or the State of Louisiana. For example, while DSU NO witness Dismukes
4 estimates that the Gas transaction will result in \$576 million in gross state product (GSP or
5 “value added”) benefits to state and local economies, it would not be appropriate for the
6 Council to conclude that the ratepayer could bear anywhere near that level of harm in rates
7 in exchange for benefits to state and local economies that may result from the gas
8 transaction. While the state and local benefits should be considered in the Council’s
9 decision, they should not be considered as a direct offset to the more certain direct ratepayer
10 harm that would occur in rates.

11 **Q. CAN YOU ELABORATE ON YOUR SECOND REASON THAT THE COUNCIL**
12 **SHOULD NOT WEIGH ALL BENEFITS EQUALLY?**

13 **A.** The Advisors have estimated ratepayer harm (negative benefits) that results directly from
14 the Gas Transaction. While these are estimates at this time, the ratepayer harm that the
15 Advisors have identified will be certain and calculable at the time of the initial rate case.
16 Estimates of potential benefits due to efficiencies from a cloud-based information
17 technology (“IT”) system²⁷ and estimates of ratepayer savings due to ENO avoided cost of
18 issuing new long-term debt²⁸ are types of benefits that are more uncertain in nature and

²⁷ Rebuttal Testimony of David E. Dismukes at 36, Exhibit DED-5 O&M Benefits Tab.

²⁸ Rebuttal Testimony of Alyssa Maurice-Anderson at 10, Exhibit AMA-2.

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1 may or may not materialize. Accordingly, the Council should likely ascribe more weight
2 to items that are known and calculable and less weight to those benefits that are more
3 uncertain.

4 **Q. DO THESE NEWLY QUANTIFIED POTENTIAL BENEFITS CHANGE YOUR**
5 **RECOMMENDATION THAT THE RATEPAYER HARM BE MITIGATED FOR**
6 **POTENTIAL DSU NO GAS RATEPAYERS AND ENO ELECTRIC**
7 **RATEPAYERS?**

8 **A.** No. However, I believe that two of the newly quantified benefits: i) the benefits that may
9 result due to efficiencies from a cloud-based IT system and, ii) the ratepayer savings due
10 to ENO'S avoided cost of issuing new long-term debt should be recognized and could be
11 used as an offset to mitigation. That said, neither of these benefits can be calculated with
12 any certainty at this time.

13 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO RECOGNIZING**
14 **THE BENEFITS THAT MAY RESULT DUE TO EFFICIENCIES FROM A**
15 **CLOUD-BASED IT SYSTEM AND THE RATEPAYER SAVINGS DUE TO ENO'S**
16 **AVOIDED COST OF LONG-TERM DEBT?**

17 **A.** I propose the following framework for mitigating ratepayer harm while recognizing these
18 uncertain potential benefits.

19 1. As a condition of approval, DSU NO would be required to mitigate the
20 ratepayer harm associated with the increase in DSU NO's revenue requirements

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1 as compared to ENO's gas revenue requirements. In the Advisors' Direct
2 Testimony, we estimated this harm to be an annual revenue requirement
3 increase of \$16.5 million. The actual amount of this harm would be calculated
4 at the time of the initial rate case and be based upon the framework identified
5 in the Surrebuttal Testimony of Byron S. Watson.²⁹ The mitigation required
6 would be equal to the calculated harm.

7 2. As a condition of approval, ENO would be required to mitigate the ratepayer
8 harm associated with the transfer of significant assets and O&M presently
9 recovered in gas rates onto ENO's electric cost of service, net of any NOLC
10 related benefit. ENO's initial estimate of this electric ratepayer harm is an
11 annual revenue requirement of [REDACTED]. ENO's initial estimate of the
12 NOLC related offset is [REDACTED] total over two years.³⁰ The actual amount
13 of this harm would be calculated at the time of the first electric rate action whose
14 cost of service is reflective of the closing of the Gas Transaction and be based
15 upon the framework identified in the Surrebuttal Testimony of Byron S.
16 Watson.³¹ The mitigation required would be equal to the calculated harm.

17 3. In each rate action after the initial rate case, DSU NO would provide an analysis
18 of the actual reductions in O&M due solely to efficiencies from a cloud-based
19 IT system. To the extent that DSU NO can demonstrate that reductions in O&M

²⁹ Surrebuttal Testimony of Byron S. Watson, Section XV.

³⁰ Rebuttal Testimony of Alyssa Maurice-Anderson at 13 (Revised).

³¹ Surrebuttal Testimony of Byron S. Watson, Section XV.

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1 due solely to efficiencies from a cloud-based IT system have reduced such
2 O&M costs as compared to ENO's costs in the final GFRP evaluation as
3 adjusted for inflation, DSU NO will be allowed to reduce the mitigation
4 calculated and provided at the time of the initial rate action by an amount equal
5 to those reductions in O&M until such time as the mitigation becomes no longer
6 necessary. Under no circumstance will this calculation result in a credit to DSU
7 NO's cost of service.

- 8 4. In each electric rate action following the rate action where mitigation was
9 determined for ENO electric ratepayers, ENO would provide a demonstration
10 of ratepayer savings due solely to ENO's avoided cost of long-term debt. To
11 the extent that ENO can demonstrate savings due solely to ENO's avoided cost
12 of long-term debt, ENO will be allowed to reduce the mitigation calculated and
13 provided at the time of the first electric rate action whose cost of service is
14 reflective of the closing of the Gas Transaction by an amount equal to those
15 reductions in ENO's avoided cost of long-term debt, and with each rate action
16 until such time as the mitigation becomes no longer necessary. Under no
17 circumstance will this calculation result in a credit to ENO's cost of service.

VIII. ADDITIONAL MATTERS

19 **Q. IN YOUR DIRECT TESTIMONY YOU IDENTIFY OTHER TRANSACTIONS**
20 **THAT MIGHT IMPACT NEW ORLEANS GAS CUSTOMERS, CAN YOU**
21 **SUMMARIZE YOUR DIRECT TESTIMONY ON THIS MATTER?**

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1 **A.** Yes. While approval of the Gas Transaction is solely before the Council, there are certain
2 other related transactions currently before the LPSC, and Mississippi Public Service
3 Commission (“MPSC”) that might ultimately impact New Orleans gas customers if the
4 Gas Transaction is approved. DSU NO witness Yuknis testifies that in conjunction with
5 the Joint Application, its affiliates are also filing an application with the LPSC for approval
6 of the transfer of the Entergy Louisiana, LLC (“ELL”) Gas Business to DSU NO’s affiliate
7 company, Delta States Utilities LA, LLC (“DSU LA”).³² Further, witness Yuknis testifies
8 that there will be a newly formed DSU services company, Delta States Utilities Services,
9 LLC (“DSU Services”), to provide shared services to both DSU NO and DSU LA.³³ I
10 understand that these shared services are intended to replace the services currently provided
11 to ENO and ELL by Entergy Services, LLC (“ESL”). To perform these shared services,
12 the Transition Plan anticipates investments in new services, systems, and facilities prior to
13 closing (“Transition Costs”). The majority of the costs currently anticipated to effect the
14 Transition Plan are related to new information technology (“IT”) systems that would be
15 utilized by DSU Services and allocated to both DSU NO and DSU LA. Accordingly, if the
16 LPSC were to deny transfer of the ELL Gas Business to DSU LA and the Gas Transaction
17 was allowed by the Council to proceed, the cost to gas customers could increase due to a
18 larger allocation of both Transition Costs and ongoing service costs from DSU Services.
19 DSU NO is requesting that it be allowed to track and record the Transition Costs as a

³² Direct Testimony of Jeffrey Yuknis at 21.

³³ Direct Testimony of Jeffrey Yuknis at 27.

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1 regulatory asset. DSU NO has indicated that it will request recovery of the regulatory asset
2 costs pursuant to the filing in a future general rate case.

3 While not included in the Joint Application, I note that Bernhard Capital Partners
4 (“Bernhard Capital”) has announced that its portfolio company, Delta Utilities, has entered
5 into an agreement with CenterPoint Energy, Inc. (“CenterPoint” or “CERC”) to acquire its
6 natural gas distribution operations in both Louisiana and Mississippi (“CERC
7 Transaction”).³⁴ These transactions, if approved, would likely reduce the Transition Costs
8 and ongoing service costs allocated to DSU NO compared to current estimates without the
9 CERC Transaction.

10 **Q. IN A FOOTNOTE IN YOUR DIRECT TESTIMONY YOU INDICATED THAT IF**
11 **THE LPSC WERE TO DENY THE TRANSFER OF THE ELL GAS BUSINESS TO**
12 **DSU LA, THAT IT WAS UNCLEAR, AT THAT TIME, WHETHER THE JOINT**
13 **APPLICANTS WOULD ENDEAVOR TO PROCEED WITH THE GAS**
14 **TRANSACTION.³⁵ HAS DSU NO CLARIFIED THAT UNCERTAINTY?**

15 **A.** Yes. DSU NO witness Yuknis clarifies that that the Joint Applicants would not proceed
16 with the Proposed Transaction without the approval of the LPSC of the proposed
17 transaction between ELL and DSU LA relating to DSU LA’s acquisition of ELL’s natural

³⁴ See *Bernhard Capital-Backed Delta Utilities to Acquire CenterPoint Energy’s Louisiana and Mississippi Natural Gas Distribution Operations* (<https://www.bernhardcapital.com/bernhard-capital-backed-delta-utilities-to-acquire-centerpoint-energys-louisiana-and-mississippi-natural-gas-distribution-operations/>).

³⁵ Direct Testimony of Joseph W. Rogers at 7 footnote 4.

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1 gas assets.³⁶ This mitigates my concern that the cost to potential DSU NO gas customers
2 could increase due to a larger allocation of both Transition Costs and ongoing service costs
3 from DSU Services if the LPSC were to deny transfer of the ELL Gas Business to DSU
4 LA and the Gas Transaction was allowed by the Council to proceed. However, it raises a
5 concern that the Gas Transaction does not really stand on its own before the Council, but
6 rather is contingent upon the LPSC's approval relating to DSU LA's acquisition of ELL's
7 natural gas assets.

8 Q. HAS DSU NO PUT FORTH NEW TESTIMONY ON THE CERC TRANSACTION?

9 **A.** Yes. DSU NO witness Yuknis testifies that:

10 "The CERC transaction, when combined with the Proposed Transaction,
11 will bring significantly more benefits to the City of New Orleans and State
12 of Louisiana: it will spread transition costs among more customers through
13 increased economies of scale; it will add an additional 500 experienced gas
14 operations employees, including approximately 350 Louisiana based
15 employees, to the "Delta Utilities" team through commitments to offer
16 employment to CERC's existing employees primarily involved in gas
17 operations; it will result in approximately 100 additional new hires; it will
18 create additional economies of scale in the operation of the natural gas
19 service in five service areas (ENO, ELL, CERC Arla, CERC Entex and

³⁶ Rebuttal Testimony of Jeffrey Yuknis at 18.

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1 CERC MS); and it will result in a significantly larger (\$1.7 billion)
2 corporate headquarters being located in New Orleans, which is expected to
3 bring significant economic benefits to New Orleans and Louisiana...”³⁷

4 **Q. WITH RESPECT TO YOUR NEW UNDERSTANDING OF THE DSU LA**
5 **TRANSACTION AND CERC TRANSACTION, DO YOU HAVE ANY NEW**
6 **RECOMMENDATIONS FOR THE COUNCIL?**

7 **A.** Yes. Just as DSU NO has made the Gas Transaction contingent upon the approval by the
8 LPSC of the DSU LA transaction, presumably due to economies of scale, I recommend
9 that the Council consider conditioning its approval of the Gas Transaction contingent on
10 the approval of the DSU LA, and CERC transactions such that the Council can achieve the
11 advantages of further economies of scale for the ratepayers of the City of New Orleans.
12 These transactions, if all are approved, would likely reduce the Transition Costs and
13 ongoing O&M service costs allocated to DSU NO and, correspondingly, the cost to
14 potential DSU NO customers as a result of the Gas Transaction.

15 **Q. DID THE ALLIANCE FOR AFFORDABLE ENERGY FILE REBUTTAL**
16 **TESTIMONY?**

17 **A.** Yes. However, I do not understand why they filed rebuttal testimony. According to the
18 procedural schedule in Resolution R-24-49, rebuttal testimony was limited to only the Joint

³⁷ Rebuttal Testimony of Jeffery Yuknis at 3.

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1 Applicants. On June 28, 2024, AAE filed the Rebuttal Testimony of Karl R. Rábago. While
2 I do not believe this untimely and unwarranted rebuttal testimony is properly part of the
3 record in this proceeding, I choose to respond to AAE’s accusation that the Advisors
4 completely fail to address the critical issues relating to climate change raised by the
5 application for the proposed transaction.

6 **Q. DOES AAE WITNESS RÁBAGO INDICATE WHICH POLICIES REGARDING**
7 **CLIMATE CHANGE AND CLIMATE CHANGE-RELATED IMPACTS AAE**
8 **BELIEVES ARE PARTICULARLY RELEVANT TO THIS PROCEEDING?**

9 **A.** Yes. AAE witness Rábago indicates that the following policies are particularly relevant to
10 this proceeding:

- 11 1. Resolution No. R-22-11 directing the City of New Orleans and Sewerage and Water
12 Board of New Orleans to procure 100% renewable power to meet each
13 organization's energy needs;
- 14 2. Resolution, R-21-182 which adopts a renewable clean portfolio standard for any
15 utility providing electric service to customers in the City of New Orleans and
16 regulated by the Council;
- 17 3. Orleans Mayor LaToya Cantrell “Net Zero by 2050” plan for the City; and
- 18 4. The Louisiana Climate Action Plan, developed by the Louisiana Climate Initiatives
19 Task Force.

20 **Q. WILL THESE POLICIES THAT AAE WITNESS RÁBAGO IDENTIFIED EXIST**
21 **INDEPENDENT OF THE GAS TRANSACTION?**

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1 **A.** Yes. The Gas Transaction will not nullify or change the existence or force of these policies.
2 The Gas Transaction does not limit or change the ability of the entities responsible for each
3 of these policies from revising these policies at any time. Further, the Gas Transaction does
4 not limit or change the ability of the entities responsible for each of these policies from
5 introducing new policies related to climate change and change-related impacts.

6 **Q.** **WOULD THE GAS TRANSACTION CHANGE THE COUNCIL'S**
7 **JURISDICTIONAL REGULATORY AUTHORITY?**

8 **A.** No. The jurisdiction of the Council is derived from the Louisiana Constitution and its Home
9 Rule Charter, and the Gas Transaction will not affect such governing law. DSU NO would
10 operate under the same franchise that the ENO Gas Business now operates, and the
11 Council's jurisdiction, regulatory, and audit powers will not be affected by the Gas
12 Transaction. If the Gas Transaction is approved, DSU NO will be required to abide by all
13 existing or new policies that are adopted by the Council, to the extent those policies pertain
14 to the Council's regulation of the gas utilities under its jurisdiction.

15 **Q.** **DOES THE ABSENCE OF A DISCUSSION IN THE ADVISORS DIRECT**
16 **TESTIMONIES REGARDING CRITICAL ISSUES RELATING TO CLIMATE**
17 **CHANGE RENDER THE ADVISORS' RECOMMENDATIONS INVALID?**

18 **A.** No. As I have discussed immediately above, the policies are independent of the Gas
19 Transaction, and the Gas Transaction will not alter or change any of the identified policies
20 which AAE witness Rábago has identified as relevant. Further the Council's jurisdiction,
21 regulatory and audit powers, will not be affected by the Gas Transaction. As such, no

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1 discussion on climate change or climate change-related impacts was necessary for the

2 Advisors to provide their recommendations in this proceeding.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes.

**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)**

**SURREBUTTAL TESTIMONY
OF
VICTOR M. PREP
ON BEHALF OF
THE ADVISORS TO THE
COUNCIL OF THE CITY OF NEW ORLEANS**

AUGUST 5, 2024

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PREPARED SURREBUTTAL TESTIMONY

OF

VICTOR M PREP

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 **A.** My name is Victor M. Prep. My business address is 6041 S. Syracuse Way, Suite 105,
4 Greenwood Village, Colorado. I am a registered Professional Engineer in the States of
5 Colorado, Pennsylvania and Louisiana, and I am an Executive Consultant with the firm,
6 Legend Consulting Group Limited (“Legend”), which serves as the Technical Advisors to
7 the Council of the City of New Orleans (“Council”).

8 **Q. ARE YOU THE SAME VICTOR M. PREP THAT SPONSORED DIRECT**
9 **TESTIMONY IN THIS PROCEEDING?**

10 **A.** Yes, on May 31, 2024 I sponsored Direct Testimony on behalf of the Advisors to the
11 Council of the City of New Orleans (“Council”).

12 **Q. WHAT HAS CAUSED YOU TO SPONSOR SURREBUTTAL TESTIMONY IN**
13 **THIS PROCEEDING?**

14 **A.** On December 11, 2023, ENO and Delta States Utilities NO, LLC (“DSU NO”) submitted
15 their *Joint Application of Delta States Utilities NO, LLC and Entergy New Orleans, LLC*
16 *Authorizing Delta States Utilities NO, LLC to Operate as a Jurisdictional Natural Gas*
17 *Local Distribution Company* (“Joint Application”), seeking, among other relief, approval

1 for DSU NO to assume ownership and operation of ENO's gas utility. Pursuant to the
2 procedural schedule established in Council Resolution No. R-24-49, on June 28, 2024,
3 witnesses on behalf of Entergy New Orleans, LLC ("ENO") and on behalf of Delta States
4 Utilities NO, LLC ("DSU NO") filed Rebuttal Testimony.¹ My Surrebuttal Testimony is
5 in response to DSU NO and ENO witnesses.

6 **II. PURPOSE OF TESTIMONY AND SUMMARY**

7 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
8 **PROCEEDING?**

9 **A.** The purpose of my Surrebuttal Testimony is to respond to new testimony offered by DSU
10 NO witnesses Mr. David E. Dismukes and Mr. Brian K. Little. I discuss those portions of
11 the Rebuttal Testimony of DSU NO Witnesses Dismukes and Little which included the
12 estimation of economic development benefits, net benefits of the Proposed Transaction,
13 including the economic benefits and transition costs related to the Proposed Transaction,
14 and a cost-benefit analysis ("CBA") for DSU NO IT-related transition costs. I also restate
15 the recommendations made in my Direct Testimony, and address any Rebuttal Testimony
16 comments and critiques related to those recommendations. I note that where I do not
17 address a portion of the testimony of a witness on behalf of the Joint Applicants, that is not
18 intended to indicate agreement or assent to that witness's testimony.

1 A witness on behalf of the Alliance for Affordable Energy also sponsored Rebuttal Testimony, however
my Surrebuttal Testimony does not respond to his testimony.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY MAJOR CONCLUSIONS AND**
2 **RECOMMENDATIONS.**

3 **A.** In my testimony, I present the following conclusions:

- 4 1. DSU NO's economic development benefits that were derived from economic
5 impact modeling using a variety of economic data sources to estimate state and
6 local direct, indirect, and induced impacts could be considered, but only with some
7 weighting rather than as factual results, and supported as much as possible by some
8 benchmarking studies conducted in New Orleans;
- 9 2. DSU NO's estimation of IT-related operational benefits should be based on recent
10 New Orleans-specific data, rather than more general industry surveys; and
- 11 3. The IT-related CBA presented by Witness Dismukes should not be perceived to
12 represent a complete cost benefit analysis or the total net benefits of the DSU NO
13 Proposed Transaction.
- 14 4. The IT-related CBA includes an error and some assumptions which require more
15 support in developing the IT-related net costs.
- 16 5. The majority of my recommendations made in Direct Testimony received positive
17 response in rebuttal, with the exception of the recovery of Transaction Costs and
18 Transition Costs incurred by ENO.

19 Based on my review, I recommend the following:

- 20 1. The Council could consider economic development benefits from an overall
21 perspective of the Proposed Transaction, the consideration based on the economic

1 modeling results related only to direct impacts to New Orleans and ratepayers in
2 particular; those specific economic estimates should be benchmarked with recent actual
3 data as much as possible.

- 4 2. The estimation of IT-related operational benefits should be based on a comparative
5 evaluation of ENO's IT system and its operational impact on operating expenses versus
6 similar results from a cloud-based IT platform supporting a comparable sized utility.
- 7 3. Even without a complete cost benefit analysis or total net benefits of the DSU NO
8 Proposed Transaction, the Council could make a "net value" determination that may be
9 consistent with the intent of the 18 factors in Resolution R-06-88.
- 10 4. The IT-related CBA should be recalculated with more supportable assumptions and
11 corrected IT costs, which may present results of DSU NO benefits closer to costs.
- 12 5. The Proposed Transaction, if approved, should include a condition of approval
13 requiring a DSU NO accounting of Transaction Costs, submitted to the Council as part
14 of its initial rate proceeding.
- 15 6. Electric ratepayers should not have an additional burden from the Proposed
16 Transaction, including impacts from ENO's proposed recovery of Transaction Costs
17 and Transition Costs; as an offset, ENO should provide tangible net benefits to electric
18 ratepayers or an appropriate mitigation.

19 **III. ECONOMIC DEVELOPMENT BENEFITS**

20 **Q. PLEASE SUMMARIZE YOUR REVIEW OF THE ECONOMIC**
21 **DEVELOPMENT BENEFITS INCLUDED IN THE REBUTTAL TESTIMONY**
22 **OF WITNESS DAVID E. DISMUKES.**

1 **A.** The economic development benefits were derived from direct, indirect, and induced
2 economic impacts estimated using IMPLAN economic impact models and inputs, which
3 use a variety of economic data sources to generate average output, employment, and
4 productivity for a given region.² Since IMPLAN has served as planning software, and no
5 previous studies related to New Orleans were offered in Rebuttal Testimony that
6 benchmarked IMPLAN models’ projected results versus actual results achieved in New
7 Orleans, the Advisors issued discovery to further evaluate DSU NO’S application of
8 IMPLAN modeling to estimate economic development benefits.³ IMPLAN model
9 development requires judgement, as in assigning expenditures to the appropriate model
10 sector,⁴ so a working copy of the IMPLAN models as applied by DSU NO was requested,
11 with all inputs, calculations and references. DSU NO responded that “Acadian
12 Consulting Group is unable to provide the IMPLAN model as it is commercial software
13 that cannot be copied.”⁵

14 **Q. PRIOR TO AN EVALUATION OF THE WORKING COPY OF THE IMPLAN**
15 **MODEL AS APPLIED BY DSU NO, CAN YOU COMMENT ON HOW WITNESS**
16 **DISMUKES DESCRIBED THE ECONOMIC BENEFITS STUDY.**

2 The IMPLAN model is based upon input-output accounting that describes commodity flows, often referred to as using “multipliers” to estimate economic impacts. ENO has used IMPLAN models in Council Dockets UD-17-05 and UD-18-06 as supporting material, rather than as a main component of benefits.

3 See CNO-DSU 7-4.

4 IMPLAN has data on 546 sectors and constructs Social Accounting Matrices to describe all commodity flows. Dismukes Rebuttal Testimony, p. 39.

5 See response to CNO-DSU 7-4. DSU-NO did provide hard-coded IMPLAN output in response to CNO-DSU 7-3.

1 **A.** Yes. DSU’s IMPLAN model identified two broad sets of economic activities that
2 projected local and statewide economic impacts: “transition” activities directly related to
3 DSU NO and DSU LA; and “retained” activities related to common natural gas functions,
4 such as replacing aged pipelines and dispatching maintenance work crews.⁶ For each of
5 these two activities, capital investments and operational (“O&M”) expenditures were
6 estimated. Based on these two sets of projected capital investments and O&M
7 expenditures, DSU NO’s IMPLAN modeling process estimated two broad sets of
8 corresponding economic benefits under transition activities and retained activities. For
9 each of these broad sets of economic benefits, the modeling further estimated the impacts
10 as direct, indirect, and induced, with each impact categorized as output, value added,
11 labor income, and employment.

12 To clarify the extent of the total IMPLAN model estimated economic impact, direct and
13 indirect, that can be related specifically to New Orleans ratepayers, and also to clarify the
14 extent that the retained activities provide an incremental benefit⁷ related to the proposed
15 gas transaction, the Advisors requested a working copy of DSU’s IMPLAN model in
16 discovery.⁸ A subset of these estimated economic development benefits, the transition

6 Dismukes Rebuttal Testimony, pp 41-43. These common natural gas functions are necessary to maintain safe and reliable natural gas service, and are included in ENO’s expenditures and gas cost of service.

7 The incremental benefits of retained activities should be separately identified to isolate the costs that would be expected if ENO continued to own and operate the natural gas assets. Witness David E Dismukes stated: “I do not disagree with the use of an incremental revenue requirement analysis for purposes of evaluating the Proposed Transaction.” p.4. And “I agree with this incremental approach for evaluating the impact of the Proposed Transaction...” p.14.

8 See CNO-DSU 7-4.

1 capital investment impacts under the value added category, subtotaled as direct, indirect
2 and induced impacts, was included in the Exhibit DED-5 Cost Benefit Analysis of IT
3 Transition Plan.

4 **IV. COST BENEFIT ANALYSIS IT-RELATED TRANSITION COSTS - EXHIBIT**
5 **DED-5**

6 **Q. WHAT CONSIDERATION SHOULD THE COUNCIL GIVE TO NET BENEFITS**
7 **RELATED TO THIS PROPOSED TRANSACTION?**

8 **A.** While net benefits are referenced in only one of the 18 factors that the Council shall take
9 into account pursuant to Resolution R-06-88, in my opinion the Resolution requires the
10 Council to consider all benefits or costs that can reasonably be estimated, including
11 claims of non-quantifiable benefits that may have a direct or induced impact on
12 ratepayers. To be given consideration by the Council, net benefits must be supported by
13 costs and benefits that can reasonably be estimated, including difficult-to-quantify
14 benefits. In response to the Advisors' concerns related to a cost-benefit analysis ("CBA")
15 related to transition costs, Witness Dismukes prepared Exhibit DED-5, which estimates
16 net benefits from a CBA of IT/transition costs, including estimated benefits from IT-
17 related O&M efficiencies and economic development. Although Witness Dismukes
18 states that Exhibit DED-5 "clearly identifies" system costs and system benefits,⁹ and is
19 labeled as "Exhibit DED-5: Cost Benefit Analysis of IT and Transition Plan," this CBA

9 Rebuttal Testimony of David E. Dismukes, p.50. The assumption is that the term "system" refers to IT-related.

1 was not referred to as a comprehensive CBA of the Proposed Transaction. Exhibit DED-
2 5 does not include all of the costs and benefits listed by DSU NO witnesses, and as such,
3 does not identify net benefits for the complete Proposed Transaction. IT-related costs
4 and benefits are estimated in Exhibit DED-5.

5 **Q. HOW WERE THE IT-RELATED BENEFITS ESTIMATED IN EXHIBIT DED-5?**

6 **A.** Exhibit DED-5 benefits are estimated as IT-related O&M efficiencies and as DSU NO's
7 IT-related portion of the value-added category of direct, indirect and induced economic
8 impacts from transition plan capital investments. This value-added category of capital-
9 related economic impacts appears to be a subset of the incremental economic benefits
10 from transition activities estimated from the IMPLAN model process. An incremental
11 economic impact from the IMPLAN modeling of retained activities was not included in
12 the Exhibit DED-5 benefits.

13 **Q. DO YOU HAVE SOME CONCERNS WITH HOW DIFFICULT-TO-QUANTIFY**
14 **BENEFITS COULD BE REASONABLY ESTIMATED RELATED TO THE IT**
15 **TRANSITION COSTS.**

16 **A.** Yes. Noting the magnitude and importance of this Proposed Transaction, all estimated
17 benefits should be based on recent New Orleans-specific data, rather than more general
18 industry surveys and reference material. Estimated economic benefits include state-wide
19 data and require considerable judgement to develop, factors which must be weighed in
20 applying the estimated results. And since DSU NO uses a methodology which expresses
21 difficult-to-quantify efficiency benefits in terms of a percent savings related to the gas

1 utility's operation and maintenance expense accounts, that methodology should also be
2 supported by additional analyses related to how those estimated savings are expected to
3 be achieved within each gas utility expense account.

4 **Q. WHAT SPECIFIC CONCERNS DO YOU HAVE WITH RESPECT TO WITNESS**
5 **DISMUKES' ESTIMATED IT-RELATED TRANSITION O&M SAVINGS**
6 **BENEFITS IN EXHIBIT DED-5?**

7 **A.** In his Exhibit DED-5, O&M savings are estimated by applying an O&M savings rate,
8 expressed as a percent, to the expenses in various administrative and general O&M
9 accounts. The O&M savings rate was estimated from a savings rate survey, assuming an
10 average percent cost savings from industry references related to an IT cloud based
11 technical footprint; that estimated savings rate was then applied uniformly to each
12 selected O&M account.¹⁰ The CBA O&M efficiency benefit was derived from
13 computing the present value of this estimated reduction to these administrative and
14 general expenses taken over 28 years. There was no mention of how the reduction in
15 labor associated with 28 years of reduced administrative and general expenses correlates
16 with DSU's claimed direct economic benefits from employment.¹¹ As a follow-up to
17 these concerns, the Advisors issued discovery requesting (i) copies of all analyses and

10 The selected administrative and general expense accounts were Sales, Outside Services, General Advertising, and Maintenance of General Plant.

11 The Exhibit DED-5 worksheet "Economic Development" summarizes results for the direct economic impact, transition capital investments, in terms of employment job-years. Exhibit DED-5 did not correlate the estimates of economic benefit due to employment with the labor related to reduced O&M expenses.

1 comparative evaluations specific to a quantitative comparison of ENO IT-related O&M
2 versus DSU NO IT-related O&M, excluding any industry survey data, to confirm a
3 savings rate more related to this Proposed Transaction, and (ii) a detailed explanation of
4 why that estimated savings rate should apply uniformly and directly to expense accounts
5 related to Sales, Outside Services, General Advertising, and Maintenance of General
6 Plant.¹² The response to the requested detailed explanation was essentially a general
7 expectation in each expense account for improved operations.

8 **Q. PLEASE SUMMARIZE YOUR REVIEW OF THE ESTIMATED COSTS THAT**
9 **ARE INCLUDED IN THE CBA OF EXHIBIT DED-5.**

10 **A.** The IT-related costs in Exhibit DED-5 were included in the preliminary estimate of DSU
11 NO transition costs. The Advisors issued discovery requesting the most current
12 statement of Transition Costs by year, including any current projections of Transition
13 Costs beyond December 31, 2025.¹³ Discovery responses related to IT contracts for the
14 replacement of IT systems,¹⁴ included a Master Services Agreement and several
15 separately signed Statements of Work (“SOW”) which represent separate IT contracts,
16 several of which indicated estimated fees and expenses for IT services performed on a

12 See response to CNO-DSU 7-8. “The savings rate applies to the entire FERC account totals listed on the “O&M Benefits” worksheet, not simply IT-related expenses. Therefore, there is no analysis or comparative Evaluation limited to IT-related expenses for ENO and DSU NO.”

13 See CNO-DSU 7-7. DSU NO responded that there is no new forecast of transition costs, and that no transition costs are planned beyond December 31, 2025.

14 See response to CNO 1-11.

1 time and materials basis.¹⁵ Witness Little agreed with the Advisors’ concerns that the
2 technology implementation represents the largest portion of the total Transition Plan
3 costs, and is also the portion which would otherwise be most likely to see overruns.¹⁶ But
4 he also stated that the time and materials portions of Accenture SOWs currently represent
5 “a much smaller portion of the total Transition Plan costs,” which appears inconsistent
6 with the SOWs the Advisors examined in response to discovery.¹⁷ Contract terms varied
7 for the individual workstreams, but some pricing assumptions referenced additional
8 overage charges while others indicated that any deviation from the project assumptions
9 may cause changes to the project schedule, fees and expenses. Considering that the time
10 and materials structured SOWs did not have a cost cap,¹⁸ and that additional SOWs are
11 clearly provided for in the IT Master Services Agreement for change orders typical with
12 IT system implementation,¹⁹ the Advisors requested the most current statement of

15 Infrastructure build, program management, end to end management, and GIS are current SOW workstreams that are priced at time and materials and estimated at approximately 40% of cumulative fees. The pricing structure assumes out-of-pocket expenses and cost of living adjustments, but does not include license fees.

16 Rebuttal Testimony of Witness Brian K. Little, p.7.

17 As indicated previously, the Advisors’ examination of the SOWs provided in response to CNO 1-11 indicated that current SOW workstreams that are priced at time and materials are estimated at approximately 40% of cumulative fees.

18 In his Rebuttal Testimony, Witness Little argued against a cost cap on transition 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.” p.8. The derivation of the 84% of transition costs having mitigation is unclear.

19 In a related observation, the Advisors noted that the total estimated fees and expenses across the IT SOW workstreams represents approximately 90% of the IT costs that DSU estimated as part of the Preliminary Transition Costs.

1 Transition Costs by year.²⁰ Although Witness Little stated that “the Transition Plan itself
2 is being scoped and tracked in significant detail,” no current statements of Transition
3 Costs were received, but only a brief response that costs were “generally tracking” and
4 “immaterial temporary shifts in timing and amounts” were experienced.²¹

5 **Q. WHAT OTHER ISSUES DID YOU IDENTIFY RELATED TO THE ESTIMATED**
6 **COSTS IN EXHIBIT DED-5?**

7 **A.** Two other potential issues were identified with the IT-related costs and were included in
8 additional discovery. The ADIT credit was based on a starting (pre-transaction) balance
9 taken from the ENO 2024 GFRP, but which differs slightly from the Advisors, due to a
10 difference in treatment of Account 190 NOL balances.²² The Exhibit DED-5 estimated
11 costs also assumed a full credit related to ENO’s total retained assets, rather than
12 applying a partial credit corresponding to the IT-related portion of transition costs,
13 consistent with the defined IT-related CBA. If a separate CBA were conducted that was
14 related to total transition costs, and conceding that DSU NO may likely need to replace
15 all of ENO’s retained assets, DSU-NO has not clearly defined the amounts which are

20 An updated report of transition costs, including periodic updates, should not be a burden for DSU-NO. In his Rebuttal Testimony, Witness Little stated: “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-DSU 2-19.” p.7.

21 See response to CNO-DSU 7-7.

22 See CNO-DSU 7-9.

1 incremental and related to ENO's retained assets, to support applying the full retained
2 asset credit to transition costs.²³

3 **Q. WHAT OTHER CONSIDERATION DID DSU-NO WITNESS LITTLE MENTION**
4 **RELATED TO THE ESTIMATED CREDIT FOR ENO'S IT-RELATED**
5 **RETAINED ASSETS?**

6 **A.** Witness Little stated that the ENO gas business would be expected to incur IT systems
7 associated upgrade and/or replacement costs if not for the Transaction, and that these
8 future improvements of the Entergy technology platform would be in addition to the
9 existing technology rate base absent the transaction.²⁴ While these IT future
10 improvements would increase the retained assets credit to DSU NO transition costs, ENO
11 stated in discovery that its technology systems are currently sufficient, that ENO
12 continues to explore IT upgrades and replacements, that the process of transitioning their
13 on-premises systems to cloud based systems is a significant undertaking for any utility,
14 particularly a utility of comparable scale to Entergy, and that an optimal time to transition
15 various systems is not yet known.²⁵ Based on this ENO response, there is no merit to
16 considering any increase to the retained assets credit to DSU transition costs.

17 **V. CONCLUSIONS AND RECOMMENDATIONS REGARDING ECONOMIC**
18 **DEVELOPMENT BENEFITS AND COST BENEFIT ANALYSIS.**

23 See CNO-DSU 7-10.

24 Rebuttal Testimony of Witness Brian K. Little, p.19.

25 See response to CNO-ENO 8-1.

1 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS CONCERNING ECONOMIC**
2 **DEVELOPMENT BENEFITS AND THE COST BENEFIT ANALYSIS AS**
3 **PRESENTED IN DSU NO WITNESSES' REBUTTAL TESTIMONY.**

4 **A.** The previous sections of my Surrebuttal Testimony are a response to new testimony
5 concerning these issues offered by DSU NO Witnesses Dismukes and Little, and my
6 conclusions are based on a review of that new testimony. Pursuant to Council Resolution
7 R-06-88, I conclude that all benefits or costs that can reasonably be estimated could be
8 considered in the Council's evaluation of the Proposed Transaction (emphasis added).
9 Assigning a weighting when determining the reasonableness of the estimates of net
10 benefits, with an emphasis on ratepayers, is prudent and should be an important part of
11 the evaluation, particularly for difficult-to-quantify or non-quantifiable benefits.²⁶
12 Estimates of costs and benefits that cannot be benchmarked or correlated with reported
13 data could be given some weighting during evaluation, but should not be accepted as
14 factual data. Related to giving some weighting to the estimates of Proposed Transaction
15 costs and benefits, I refer specifically to Witness Jeffrey Yuknis, statement, p.20 : "*While*
16 *the quantifiable and nonquantifiable aspects of the transaction demonstrate a net benefit*
17 *on their own, the CBA provides further support that, even using a conservative analysis*
18 *and only considering numerically quantifiable benefits, the CBA demonstrates a net*
19 *benefit to customers.*" DSU NO's "demonstration" of net benefit was based on estimates,

26 Witness Dismukes describes the Council's assessment of whether the transfer will provide net benefits to ratepayers as "particularly challenging." Dismukes Rebuttal, p.4. Also describing the deployment of DSU's state-of-the-art cloud-based technologies as "hard to numerically quantify benefits." Dismukes Rebuttal, p.8.

1 not factual data, and should be given some weighting. The CBA provides “further
2 support” only as a subset of transition costs, and should not be perceived to represent net
3 benefits of the entire Proposed Transition; and, as discussed previously, the CBA
4 “demonstration” is based on certain assumptions and non-factual estimates which should
5 be weighted.

6 **Q. WHAT ARE YOUR RECOMMENDATIONS RELATED TO THE ECONOMIC**
7 **DEVELOPMENT BENEFITS AND IT-RELATED CBA IN DSU NO’S**
8 **REBUTTAL TESTIMONY?**

9 **A.** Based on my review of the Rebuttal Testimonies of Dismukes and Little related to these
10 issues, my recommendations are as follows:

- 11 1. The economic development benefits that were derived from economic impact modeling,
12 although not factual data, could be given some consideration, but with some weighting
13 applied, to focus on those estimated benefits that can be identified and supported as direct
14 impacts (rather than indirect or induced), specific to New Orleans and its ratepayers.
- 15 2. The estimated IT-related operational benefits should be based on recent New Orleans-
16 specific data, such as a comparative evaluation of ENO’s IT system and its operational
17 impact on administrative and general expenses versus the similar results from a cloud-
18 based IT platform supporting a comparable sized utility.
- 19 3. DSU NO’s IT-related CBA does not represent a complete cost benefit analysis or the
20 total net benefits of the Proposed Transaction; but based on the facts and reasonable
21 estimates of direct impacts related to New Orleans presented in the instant docket, the

1 Council could make a “net value” determination that may be consistent with the intent of
2 the 18 factors in Resolution R-06-88.

- 3 4. DSU NO’S IT-related CBA includes some assumptions which require more support and
4 also includes errors in developing the IT-related net costs; a recalculated CBA with more
5 supportable assumptions and corrected IT costs may present more reasonable results of
6 DSU NO benefits closer to costs.

7 **VI. DIRECT TESTIMONY RECOMMENDATIONS AND RELATED REBUTTAL**
8 **TESTIMONY**

9 **Q. HOW WERE YOUR RECOMMENDATIONS PRESENTED IN YOUR DIRECT**
10 **TESTIMONY?**

- 11 **A.** My Direct Testimony presented several recommendations for the Council to consider in
12 its evaluation of the Proposed Transaction, including several related to conditions of sale
13 and reporting. DSU NO Rebuttal Testimony included comments related to most of the
14 recommendations.

15 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING A FULLY**
16 **ALLOCATED COST OF SERVICE STUDY, AND SUMMARIZE DSU NO’S**
17 **RELATED COMMENTS IN REBUTTAL.**

- 18 **A.** “The Council should memorialize DSU NO’s commitment to file a fully allocated cost of
19 service study, and inform DSU NO that its general rate case should include the following:
20 (i) all customer classes served, including NJ customers; (ii) a cost of service component

1 of adjusted relative customer class rates of return, upon which adjustments to customer
2 class revenue requirements would be based; (iii) revised rates and rate schedules based on
3 the fully allocated cost of service study; and (iv) a revised Purchase Gas Adjustment tariff
4 and NJ customer contracts that are based on the fully allocated cost of service study.”

5 DSU NO has committed to providing a complete cost of service study with its initial rate
6 action, including the cost of serving the existing large commercial gas contracts (“NJ
7 Contracts”).²⁷ DSU NO agrees that rates and rate schedules should be based on cost of
8 service principles, adding that interpreting the term “based on...” could be a matter of
9 semantics.²⁸ “*DSU NO would instead be agreeable to a condition that requires DSU NO*
10 *to include rates, rate schedules and contracts ‘in consideration of’ a fully allocated cost*
11 *of service study with the result of any allocation being subject to review and approval by*
12 *the Council.*”²⁹

13 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING RENEWAL**
14 **OF NJ CONTRACTS, AND SUMMARIZE DSU NO’S RELATED COMMENTS**
15 **IN REBUTTAL.**

16 **A.** “The Council should memorialize DSU NO’s commitment that it will not execute any
17 new NJ contracts without express Council approval.” DSU NO’s response to this
18 recommendation was clear and succinct: “*Further, as Mr. Prep states in his testimony,*

27 Rebuttal Testimony of Jeffrey Yuknis, p.21.

28 *Id.* at 22.

29 *Id.* at 23.

1 *DSU NO has committed to not executing any new NJ Contracts without express Council*
2 *approval.*”³⁰

3 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING THE**
4 **AGREEMENT AND RATE TO DELIVER GAS TO THE NEW ORLEANS**
5 **POWER STATION (“NOPS”), AND SUMMARIZE DSU NO’S RELATED**
6 **COMMENTS IN REBUTTAL.**

7 **A.** “The Council should include as a condition that the agreement and rate to deliver gas to
8 NOPS shall be reviewed based on an updated cost of service analysis and a current
9 review of gas transportation rates and contracts offered by intrastate gas distribution
10 companies.” DSU NO’s response to this recommendation was positive: “*Further, DSU*
11 *NO has committed to providing a complete cost of service study with its initial rate*
12 *action, including... the cost of delivering gas to the New Orleans Power Station*
13 *(“NOPS”).*”³¹

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING DSU**
15 **NO’S REPORTING OF TRANSACTION COSTS AND TRANSITION COSTS,**
16 **AND SUMMARIZE DSU NO’S RELATED COMMENTS IN REBUTTAL.**

17 **A.** I recommended that DSU NO provide monthly reports to the Council of detailed
18 Transaction Costs and Transition Costs, and that DSU NO include the internal control

30 *Id.* at 22.

31 *Id.* at 21.

1 processes and recording to accounts with the reports to demonstrate the separation of
2 Transaction Costs. I also recommended that pending final Council approval of the
3 transaction, if granted, such reports could be submitted quarterly. I noted that no specific
4 commitment was made by DSU NO regarding the frequency of reporting Transaction
5 Costs, and that DSU NO stated that it would periodically provide a Transition Plan
6 estimate, but only after regulatory approvals are achieved.³² Concerning the initiating
7 and frequency of reporting, DSU NO has essentially maintained its position with respect
8 to Transition Costs, stating: “*Pending final Council approval of the Proposed*
9 *Transaction, if granted, such reports could be submitted quarterly.*”³³ DSU NO gave two
10 reasons for not proposing to report Transaction Costs to the Council: (i) DSU NO has
11 committed not to request recovery of Transaction Costs in this filing or in future filings;
12 and (ii) a number of the Transaction Costs are not readily allocated to DSU NO because
13 they are part of a multi-jurisdictional transaction, making the process burdensome.³⁴
14 However, DSU NO is open to preparing an accounting of Transaction Costs to submit to
15 the Council as part of its initial rate proceeding. I recommend that the Proposed
16 Transaction, if approved, include a condition of approval requiring a detailed DSU NO
17 accounting of Transaction Costs, submitted to the Council as part of its initial rate
18 proceeding.

32 See DSU NO responses to CNO 1-14 and CNO 1-16.

33 *Id.* Pp. 31-32. Also stating: “As discussed in DSU NO’s response to CNO-DSU 5-1, 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.” p.33.

34 *Id.* at 34.

1 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING AN**
2 **INDEPENDENT ACCOUNTING AUDIT OF DSU’S ACCOUNTING AND**
3 **INTERNAL CONTROLS PROCESSES, AND SUMMARIZE DSU NO’S**
4 **RELATED COMMENTS IN REBUTTAL.**

5 **A.** “Post-closing, there should be an independent accounting audit of DSU’s accounting and
6 internal controls processes to assure that costs are properly allocated to DSU NO and
7 segregated into the appropriate accounts to record Transition Costs, Transaction Costs,
8 and other types of costs and expenditures.” DSU NO provided a positive response
9 stating: “*DSU NO has committed to an annual financial statement audit and therefore its*
10 *internal controls over financial reporting including controls that would provide*
11 *assurance for the proper accounting and allocation of transition and transaction costs to*
12 *the appropriate financial statement accounts would be an overall part of the scope of this*
13 *financial statement audit.*”³⁵

14 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING THE**
15 **SHARED SERVICES AGREEMENT BETWEEN DSU SERVICES AND DSU NO,**
16 **AND SUMMARIZE DSU NO’S RELATED COMMENTS IN REBUTTAL.**

17 **A.** “The most current draft of the shared services agreement between DSU Services and
18 DSU NO, including a detail of cost categories and allocations of shared services costs.
19 DSU NO witness Little related comments were positive, stating: “...DSU NO intends to

35 Witness Brian K. Little Rebuttal Testimony, p. 31.

1 continue to develop this agreement as it works to stand up the shared services company
2 but proposes that it provide the agreement to the Advisors closer to Closing.”³⁶

3 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING THE**
4 **REPORTING OF ENO’S TRANSACTION COSTS AND TRANSITION**
5 **(COOPERATION) COSTS, AND SUMMARIZE ENO’S RELATED COMMENTS**
6 **IN REBUTTAL.**

7 **A.** I recommended monthly reporting of ENO’s detailed Transaction Costs and Transition
8 Costs.³⁷ ENO Witness Anthony P. Arnould, Jr. stated: “ENO is agreeable to working
9 with the Council and the Advisors to provide information on a routine basis regarding its
10 Transaction Costs and Cooperation Costs...”³⁸

11 **Q. PLEASE RESTATE YOUR RECOMMENDATION CONCERNING THE**
12 **RECOVERY OF ENO’S TRANSACTION COSTS AND TRANSITION**
13 **(COOPERATION) COSTS, AND SUMMARIZE ENO’S RELATED COMMENTS**
14 **IN REBUTTAL.**

15 **A.** I recommended that the Transaction Costs and Transition Costs incurred by ENO should
16 not be recovered from electric ratepayers, and ENO should inform the Council of its
17 treatment regarding those costs. ENO opposes that recommendation, stating: “... the fact

36 *Id.* at 30.

37 ENO’s Transition Costs arise from a Cooperation Agreement with DSU NO, and ENO uses the reference term “Cooperation Costs.”

38 Rebuttal Testimony of Anthony P. Arnould, Jr., p.10.

1 that the Gas Transaction may result in additional costs is not a basis for prohibiting
2 recovery of ENO's transaction and cooperation costs."³⁹ Witness Alyssa Maurice-
3 Anderson added that ENO would take a loss on the Proposed Transaction related to not
4 being able to recover its Transaction Costs and Transition Costs, and this is an
5 "unreasonable result."⁴⁰ Advisor witness Byron S. Watson also recommends (i) that the
6 Council not allow ENO's recovery of Transaction Costs,⁴¹ since there are no net
7 quantifiable electric ratepayer benefits related to the Proposed Transaction and such cost
8 recovery would constitute ratepayer harm, and (ii) should the Council allow ENO
9 recovery of its transaction costs, electric ratepayer harm caused by the Proposed
10 Transaction should be mitigated.

11 **Q DO YOU HAVE ANY FURTHER COMMENTS CONCERNING YOUR**
12 **RECOMMENDATION AND ENO'S RELATED REBUTTAL TESTIMONY?**

13 **A.** ENO's electric ratepayers should not have an additional burden from the Proposed
14 Transaction related to ENO's proposed recovery of Transaction Costs and Transition
15 Costs. That is not "an unreasonable result."⁴² ENO proposes that the Council allow
16 ENO to offset its transaction and cooperation costs against the sale proceeds,⁴³
17 contending if all gains from sales proceeds were used to offset customer rates, then

39 Rebuttal Testimony of Alyssa Maurice-Anderson, p. 17-18.

40 *Id.* at 19.

41 Surrebuttal Testimony of Byron S. Watson, pp. 40-42. Also, Direct Testimony of Byron S. Watson, p. 54.

42 *Id.* at 19.

43 Rebuttal Testimony of Alyssa Maurice-Anderson, p. 17.

1 utilities will be discouraged from selling assets.⁴⁴ Rather, the principle regulatory issue
2 here, and the Advisors concern, is that electric ratepayer harm resulting from the
3 Proposed Transaction be mitigated to the Council's satisfaction. ENO can provide for
4 Council consideration supportable, tangible benefits to electric ratepayers, or other
5 appropriate mitigation related to the Proposed Transaction to offset the recovery of
6 Transaction Costs and Transition Costs at a minimum, or result in a net benefit from the
7 Proposed Transaction.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.

44 *Id.* at 21.

**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)**

**SURREBUTTAL TESTIMONY
OF
BYRON S. WATSON
ON BEHALF OF
THE ADVISORS TO THE
COUNCIL OF THE CITY OF NEW ORLEANS**

August 5, 2024

PUBLIC REDACTED VERSION

PUBLIC REDACTED VERSION**TABLE OF CONTENTS**

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PUBLIC REDACTED VERSION

PREPARED SURREBUTTAL TESTIMONY

OF

BYRON S. WATSON, CFA

I. INTRODUCTION

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

A. My name is Byron S. Watson. My business address is 6041 S. Syracuse Way, Suite 105, Greenwood Village, Colorado, and I am a Senior Consultant at the firm Legend Consulting Group Limited.

Q. ARE YOU THE SAME BYRON S. WATSON THAT SPONSORED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, on May 31, 2024, I sponsored Direct Testimony and two other exhibits on behalf of the Advisors to the Council of the City of New Orleans (“Advisors”).

Q. WHAT HAS CAUSED YOU TO SPONSOR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. On December 11, 2023, ENO and Delta States Utilities NO, LLC (“DSU NO”) submitted their *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 Distribution Company* (“Joint Application”), seeking, among other relief, approval for DSU NO to assume ownership and operation of ENO’s gas utility. Pursuant to the procedural schedule established in Council Resolution No. R-24-49, on June 28, 2024,

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1 witnesses on behalf of Entergy New Orleans, LLC (“ENO”) and on behalf of Delta States
2 Utilities NO, LLC (“DSU NO”) filed Rebuttal Testimony.¹ My Surrebuttal Testimony is
3 in response to these witnesses.

4 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY AND HOW**
5 **IS IT ORGANIZED?**

6 **A.** The purpose of my Surrebuttal Testimony is to respond to rebuttal and new testimony
7 offered by ENO witness Ms. Alyssa Maruice-Anderson and by DSU NO witnesses Mr.
8 David E. Dismukes, Mr. Jay A. Lewis, Mr. Brian K. Little, and Mr. Jeffrey Yuknis. I note
9 that where I do not address a portion of the testimony of a witness on behalf of the Joint
10 Applicants, or even the entirety of a Joint Applicant witness’s rebuttal testimony, that is
11 not intended to indicate agreement or assent to that witness’s testimony.

12 **Q. HOW IS YOUR SURREBUTTAL TESTIMONY ORGANIZED?**

13 **A.** I have organized my testimony by my recommendations to the Council in my Direct
14 Testimony and by related issue. I note both general agreements and disagreements by the
15 Joint Applicants’ witnesses. In some cases, multiple witnesses on behalf of the Joint
16 Applicants address the same issue. Additionally, certain witnesses on behalf of the Joint
17 Applicants have offered new testimony that is not responsive to any direct testimony in
18 this proceeding. Where this testimony relates to topics I have addressed in this proceeding,

¹ A witness on behalf of the Alliance for Affordable Energy also sponsored what he characterized as rebuttal testimony, however my Surrebuttal Testimony does not respond to his testimony.

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1 I also respond to this new testimony. This responsive testimony is near the end of this
2 testimony in Sections XII and XIII.

3 **II. DSU NO'S PER BOOK ACCOUNTING**

4 **A. *Advisor Recommendations***

5 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
6 **REGARDING DSU NO'S PER BOOK ACCOUNTING**

7 **A.** In my Direct Testimony, I recommend that, as a condition of approval of the Gas
8 Transaction, the Council require DSU NO to,

- 9 1. keep its books of account according to FERC accounting guidance;
10 2. present its per book accounting by FERC Account (or as does ENO, by FERC Account
11 plus a sub-account identifier) as part of its rate action applications, such as the initial
12 rate case application;
13 3. present independently audited financial results to the Council at least annually; and
14 4. base its rate action filings before the Council on audited financial data.²

15 **Q. ARE THE WITNESSES ON BEHALF OF DSU NO GENERALLY IN**
16 **AGREEMENT WITH YOUR RECOMMENDATIONS REGARDING PER BOOK**
17 **ACCOUNTING?**

18 **A.** Yes. I believe that DSU NO understands that these recommendations are consistent with
19 customary utility practices. I note and discuss certain differences below.

² See Watson Direct at 50:14-51:1.

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1 **B.** *Intangible Plant*

2 **Q.** **PLEASE DESCRIBE YOUR DIRECT TESTIMONY REGARDING DSU NO'S**
3 **ACCOUNTING FOR INTANGIBLE PLANT.**

4 **A.** In my Direct Testimony, I noted that, to the extent some of DSU NO's transition costs are
5 properly accounted for as intangible plant, they should commence depreciation once they
6 are closed to plant in service, regardless of when DSU NO might file its initial rate case
7 application.³

8 **Q.** **IN WHAT ACCOUNTS DOES ENO RECORD INTANGIBLE PLANT SUCH AS**
9 **SOFTWARE?**

10 **A.** Intangible plant is generally recorded in FERC Account 303. ENO states, “[i]nternally and
11 externally developed software assets and the related IT licenses are recorded in Account
12 303.”⁴

13 **Q.** **WHAT DEPRECIABLE LIFE DOES ENO EMPLOY FOR SOFTWARE?**

14 **A.** As I note elsewhere in this testimony, ENO employs either a 3, 5, 10, or 15 year book
15 depreciation schedule for IT-related investments, and their tax depreciation is a three-year
16 period.⁵

³ See Watson Direct, FN 87 at 52.

⁴ ENO's response to CNO 8-2.a. See also *TC-UD2401-00CNO008-N002-001_HSPM.*, which presents investments by ENO Account.

⁵ ENO's response to CNO 8-2.b and e.

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1 **Q. DOES DSU NO REQUEST A DIFFERENT DEPRECIATION PERIOD THAN**
2 **THAT PRESENTLY USED BY ENO?**

3 **A.** Mr. Little suggests so: “If so ordered by the Council, DSU NO could use, for example, the
4 25-year amortization period proposed by DSU NO for the regulatory asset in its
5 incremental revenue requirement model, which reduces the revenue requirement for these
6 costs, even if they were classified as Intangible Plant.”⁶ Mr. Dismukes also proposes to
7 amortize a regulatory asset, which he believes includes investments in IT, such as software,
8 over a 25-year period.⁷ This is a new proposal by DSU NO. The Joint Application does not
9 mention a 25-year amortization period. Rather, the Joint Application says, “[t]he period
10 over which to amortize the other remaining regulatory asset balances and impacts on rate
11 setting would also be established as a part of the general rate case using a full historical
12 test year as previously described.”⁸ Certain workpapers provided through discovery utilize
13 a 25-year amortization period, but they were not sponsored by any witness, nor were they
14 represented as a proposed ratemaking treatment by DSU NO.

15 **Q. CAN DSU NO CHOOSE A DIFFERENT DEPRECIABLE LIFE FOR SOFTWARE**
16 **THAN THE ONE ENO PRESENTLY EMPLOYS?**

17 **A.** No. DSU NO has committed to adopt ENO’s depreciation rates until the Council may
18 consider new prospective depreciation rates as part of the initial rate case.

⁶ Little Rebuttal at 15.

⁷ See Dismukes Rebuttal at 26:1-2.

⁸ Little Direct at 30:9-11.

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1 **Q. CAN DSU NO CHOOSE TO DEFER COMMENCING DEPRECIATION ON**
2 **INTANGIBLE PLANT SUCH AS SOFTWARE?**

3 **A.** I do not think so. Mr. Dismukes testifies that recording IT-related investments as intangible
4 plant is not consistent with DSU NO's proposal to handle transition costs: "DSU NO
5 proposes to record all transition costs required to stand up its new local gas distribution
6 company in a regulatory asset and to accrue carrying costs on the regulatory asset."⁹
7 However, DSU NO has committed to following FERC accounting guidance, which
8 requires it to close such investments to plant in service and begin depreciation when the
9 investment becomes useful. DSU NO may not choose to treat such investments as a
10 regulatory asset. I note that this in-service date is independent of when the Gas Transaction
11 closes. Indeed, for DSU NO to achieve "day one" readiness, DSU NO will have to have a
12 functioning IT system well before the close date. As such, depreciation will commence
13 before the close date. I note that, according to customary ratemaking principles, DSU NO
14 will not defer the depreciation expense for the period starting with the close to plant in
15 service through new rates being set as part of the initial rate case. The Council has the
16 authority to allow DSU NO to defer depreciation expense for later recovery, but doing so
17 would require the Council's explicit authorization and would increase the dollar amount of
18 ratepayer harm related to the Gas Transaction.

⁹ Dismukes Rebuttal at 25:9-11.

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1 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING DSU**
2 **NO'S NEW PROPOSAL TO AMORTIZE CAPITALIZED TRANSITION COSTS**
3 **AND DEPRECIATE IT INVESTMENTS EACH OVER 25 YEARS?**

4 **A.** Consistent with my recommendation that the Council order mitigation of the ratepayer
5 impact of transition costs, including intangible plant, the amortization period of any
6 regulatory asset the Council may establish may be set as part of the initial rate case,
7 consistent with Mr. Little's original proposal. Regarding any transition costs (*e.g.* IT
8 investments) that are closed to plant in service, I do not recommend that the Council allow
9 DSU NO to deviate from FERC accounting guidance, which means that DSU NO should
10 commence depreciation of these investments when they are closed to plant in service.

11 **C. AFUDC**

12 **Q. WHAT WAS YOUR DESCRIPTION OF THE PROPER CALCULATION OF**
13 **ENO'S AFUDC RATE IN YOUR DIRECT TESTIMONY?**

14 **A.** In my direct testimony, I stated that ENO should properly calculate its Allowance for Funds
15 Used During Construction ("AFUDC") based on an equity ratio which is the lesser of 50%
16 or ENO's actual equity ratio,¹⁰ even though ENO's equity ratio for FRP purposes is 55%.¹¹

17 **Q. WHAT IS MS. MAURICE-ANDERSON'S RESPONSE TO YOUR TESTIMONY?**

¹⁰ See Council Resolution No. R-19-457, Ordering Paragraph 2 at 184 ("ENO's WACC shall be based on an equity ratio equal to the lesser of ENO's actual equity ratio or 50% and shall be used for all rate ratemaking purposes.").

¹¹ See Council Resolution No. R-23-491 at 5.

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1 **A.** Ms. Maurice-Anderson argues that Council Resolution No. R-19-478 “does not limit the
2 equity ratio to be used in ENO’s AFUDC calculation. Nor did the resolutions approving
3 subsequent settlement of 2018 Rate Case issues.”¹² She goes on to cite certain FERC plant
4 instructions supportive of an actual equity ratio as well as a discussion of the context of
5 Advisor testimony related to the appropriate equity ratio for Weighted Average Cost of
6 Capital (“WACC”) calculations, such as the AFUDC rate.

7 **Q. DO YOU AGREE WITH MS. MAURICE-ANDERSON’S REBUTTAL**
8 **REGARDING AFUDC RATES?**

9 **A.** I agree that ENO’s AFUDC rate presently should be calculated based on ENO’s actual
10 equity ratio, and by extension DSU NO’s AFUDC, due to DSU NO’s proposal to generally
11 adopt ENO’s ratemaking. The Council may consider this issue as part of DSU NO’s “initial
12 rate case”¹³ as it did in Docket No. UD-18-07 for ENO. However, I do not agree with Ms.
13 Maurice-Anderson’s argument in support of this conclusion.

14 **Q. WHY DO YOU DISAGREE WITH MS. MAURICE-ANDERSON’S ARGUMENT**
15 **WHILE AGREEING WITH HER MAIN CONCLUSION?**

16 **A.** Council Resolution No. R-19-457 states, “ENO's WACC shall be based on an equity ratio
17 equal to the lesser of ENO's actual equity ratio or 50% and shall be used for all rate

¹² Maurice-Anderson Rebuttal, Q34 at 21-22.

¹³ See Joint Application, Paragraph 13.a at 12 (“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”). I note that DSU NO is expected to have a significant incentive to file the initial rate case application as soon as the proposed 15-month period is complete.

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1 ratemaking purposes.”¹⁴ This language is unambiguous, and I disagree that the testimony
2 leading up to it is relevant when the Council’s direction is unambiguous. I note that ENO
3 sued the Council regarding portions of Resolution No. R-19-457,¹⁵ and that suit was settled
4 in full¹⁶ with this ordering paragraph allowed to remain intact. To the extent that ENO
5 considered this unambiguous ordering paragraph to not be reasonably based on the record
6 in Docket No. UD-18-07, which is my interpretation of Ms. Maurice-Anderson’s testimony
7 here, ENO probably should have raised the issue in its lawsuit or the ensuing settlement
8 process.

9 As of the adoption of Resolution No. R-19-457, ENO’s AFUDC rate was required to be
10 calculated using the lesser of ENO’s actual equity ratio or 50%. However, the Council
11 deleted this provision in a subsequent resolution: “BE IT FURTHER RESOLVED BY
12 THE COUNCIL OF THE CITY OF THE NEW ORLEANS, That Resolution R-19-457 be
13 amended to delete ordering paragraph 2 on page 184 [the paragraph I cite above] and
14 replace it as follows: 2. For the term of the three-year Electric and Gas FRPs (test years
15 2020, 2021 and 2022), ENO is authorized to utilize a hypothetical capital structure of 51
16 % equity and 49% long-term debt in determining its Benchmark Return on Rate Base.”
17 This new language eliminates the requirement to cap equity at 50% for all ratemaking
18 purposes, and replaces it with a fixed equity ratio solely for determining ENO’s

¹⁴ Council Resolution No. R-19-457, Ordering Paragraph 2 at 184.

¹⁵ See Verified Petition for Appeal and Judicial Review of, and for Stay of or Injunctive Relief from Resolution R-19-457 of the Council of the City of New Orleans, CDC No. 2019-12656. See also Maurice-Anderson Rebuttal, Q41 at 24 *et. seq.*

¹⁶ See Ex. AMA-7.

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1 “Benchmark Return on Rate Base,” which is a term specific to ENO’s FRP Riders.¹⁷ The
2 2023 FRP extension continues to clearly state that the fixed 55% equity ratio is specific
3 “for FRP purposes”.¹⁸ As such, based on the plain and unambiguous language of Council
4 Resolutions, while a 50% equity cap was ordered by the Council for all ratemaking
5 purposes, that language is no longer operative and ENO must use its actual equity ratio for
6 all ratemaking purposes apart from FRP evaluations.

7 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING**
8 **AFUDC AND DSU NO’S PER BOOK ACCOUNTING?**

9 **A.** As DSU NO has committed to adopting Council-approved rates, and by extension
10 ratemaking, upon any close of the Gas Transaction,¹⁹ I recommend that the Council advise
11 DSU NO to use its actual equity ratio to calculate a new AFUDC rate each year until the
12 Council may address the matter as part of DSU NO’s initial rate case. Another component
13 of DSU NO’s AFUDC rate is the debt cost rate. As I have testified in my Direct Testimony,
14 I have concerns regarding DSU NO’s debt cost rate. However, until the Council may
15 evaluate whether DSU NO’s debt cost rate is reliable for ratemaking purposes, DSU NO
16 should apply the [REDACTED] rate it has identified. Another component of the AFUDC
17 rate is the Return on Equity (“ROE”). The Council has not set an allowed-ROE for DSU

¹⁷ See Rider EFRP-6, Section II.B.2, II.C.1.c. and Attachment D. Rider GFRP-6 contains comparable language. ENO’s current Riders EFRP-7 and GFRP-7 use the same terminology.

¹⁸ See Council Resolution No. R-23-491 at 5, (“ENO's common equity ratio for FRP purposes shall be increased from 51 % to 55% and the long-term debt ratio is decreased from 49% to 45%.”).

¹⁹ Throughout this testimony, any reference to the close of the Gas Transaction should not be interpreted to assume the Council will approve the Gas Transaction and that the Gas Transaction will close, but rather a convenient reference to the scenario where these events occur.

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1 NO. Until the Council sets a new allowed-ROE for DSU NO as part of the initial rate case,
2 DSU NO should use ENO's current ROE of 9.35% when calculating an AFUDC rate.

3 No other gas ratemaking matter involving a WACC calculation comes to mind relative to
4 DSU NO for the period from the close of the Gas Transaction through the initial rate case.

5 **Q. WHAT DO YOU OBSERVE REGARDING YOUR REVIEW OF EQUITY RATIOS**
6 **IN CALCULATING ENO'S WACC?**

7 **A.** I observe that ENO should use its actual equity ratio when calculating a WACC for all
8 purposes except for FRP evaluations, where it currently must use a 55% equity ratio.²⁰

9 However, ENO's electric operations do involve certain non-FRP WACC rates (*e.g.*, Rider
10 SSCO, Rider SSCOII, and the regulatory liability currently amortizing in Rider PPCR)
11 where ENO should use its actual equity ratio.

12 **III. LOSS OF ADIT DUE TO THE GAS TRANSACTION**

13 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
14 **REGARDING THE LOSS OF ADIT AS A RESULT OF THE GAS**
15 **TRANSACTION.**

16 **A.** In my Direct Testimony, I recommended that "the Council consider requiring DSU NO to
17 eliminate or substantially mitigate this ratepayer harm. This mitigation could be in the form
18 of a regulatory liability in DSU NO's rate base whose amortization expense and related

²⁰ *Id.*

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1 ADIT are not in DSU NO's cost of service. The regulatory liability would amortize over
2 the average life of ENO's ADIT had the Gas Transaction not occurred."²¹

3 **Q. DOES MR. DISMUKES DISAGREE WITH YOUR ESTIMATE OF THE EFFECTS**
4 **ON ADIT RELATED TO THE GAS TRANSACTION?**

5 **A.** Yes. Mr. Dismukes primarily notes that it is not possible to accurately calculate the amount
6 of ADIT that will be on DSU NO's books as of the initial rate case.²² He goes on to estimate
7 an alternate lesser ratepayer harm amount related to ADIT.²³

8 **Q. DID THE JOINT APPLICATION PROVIDE AN ESTIMATE OF THE EFFECTS**
9 **ON ADIT RELATED TO THE GAS TRANSACTION?**

10 **A.** No. the Joint Application and the testimonies sponsored therein did not discuss ADIT in
11 any way.

12 **Q. DID THE ADVISORS REQUEST THAT DSU NO ESTIMATE THE TAX**
13 **EFFECTS OF THE TRANSACTION?**

14 **A.** Yes, the Advisors asked DSU NO to "provide an estimate of DSU NO's rate base
15 immediately upon the close of the transaction and provide detail, by ENO Account, taking
16 into consideration all tax effects of the transaction (e.g., a step-up on tax basis)."²⁴ DSU
17 objected and encouraged the Council to conduct its own analysis.²⁵ The request for the
18 effect of a step-up on tax basis means the same thing as the loss of ADIT. DSU objected:

²¹ Watson Direct at 51:10-14 (Citations omitted).

²² See Dismukes Rebuttal at 18.

²³ *Id.*

²⁴ DR CNO 2-21.b.

²⁵ DR CNO 2-21.b.

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1 “. . . on the grounds that [the DR] seeks information regarding a hypothetical
2 scenario that is inconsistent with DSU NO’s Direct testimony, calls for
3 speculation, and requests an analysis that does not exist and work product
4 to be created by DSU NO that is not part of this application and which DSU
5 NO is under no obligation to perform.”²⁶

6 DSU NO did not provide the requested analysis. Indeed, it is DSU NO’s position that the
7 consideration of the effects of ADIT relative to the Gas Transaction is inconsistent with its
8 direct testimony. Only now does DSU NO seek to offer its new analysis of the effects of
9 ADIT as part of its rebuttal testimony.

10 **Q. IS THE EFFECT ON ADIT CONTRARY TO THE EVALUATION OF THE GAS**
11 **TRANSACTION AS PRESENTED BY DSU NO’S DIRECT TESTIMONY IN THE**
12 **JOINT APPLICATION?**

13 **A.** No. ADIT is a key component of the Council’s ratemaking process, and ADIT cannot
14 reasonably be considered contrary to any testimony that proposes a sale such as the Joint
15 Application’s proposed sale of ENO’s gas assets.

16 **Q. DO YOU AGREE THAT ADIT CANNOT BE FORECASTED ACCURATELY?**

17 **A.** No. DSU NO’s ADIT as of Period II of the initial rate case cannot be estimated with
18 precision because many categories of ADIT might change between the close of the Gas
19 Transaction and the measurement date of the initial rate case. However, this obvious fact
20 does not mean that the Council is unable to consider ratepayer impact from this known and

²⁶ *Id.*

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1 substantial factor. My estimate of the impact of the loss of ADIT due to the Gas Transaction
2 is based on the most current actual ratemaking information before the Council and is a
3 reasonable basis for Council evaluation of the need for harm mitigation.

4 **Q. WHAT ARE THE KEY ASSUMPTIONS OF MR. DISMUKES'S ALTERNATE**
5 **ADIT ANALYSIS?**

6 **A.** Mr. Dismukes makes two key assumptions when estimating the effect of ADIT relative to
7 the Gas Transaction,²⁷ each of which reduces the amount of ratepayer harm compared to
8 my analysis:

9 1. Mr. Dismukes assumes that ENO's ADIT that did not transfer to DSU NO would
10 decline by five percent per year and therefore be of less value as of the initial rate case.

11 2. Mr. Dismukes assumes a 25-year book depreciation rate on IT investments.

12 **Q. DO YOU AGREE WITH MR. DISMUKES'S ASSUMPTIONS HERE?**

13 **A.** No. There is no reason to rely on any of these assumptions in the Council's evaluation. I
14 understand that DSU NO must accept protected ADIT, which will increase DSU NO's rate
15 base somewhat. There is no basis for assuming that ENO's ADIT balances would decrease
16 through 2028, especially at a five percent rate. DSU NO has already committed to adopting
17 ENO's existing depreciation schedule, which does not provide for a 25-year depreciation
18 schedule for IT-related investments.

²⁷ See Exhibit DED-1, *HSPM-CS Exhibit DED-1 Corrected RR and Bill Impact Analysis_FINAL*, Tab *ADIT Summary*.

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1 **Q. IS A 25-YEAR DEPRECIATION PERIOD FOR INVESTMENTS IN IT LIKELY**
2 **REASONABLE?**

3 **A.** No. I am not aware of any book depreciation schedule for IT-related investments having a
4 25-year life, as the useful economic life of such investments is, based on my general
5 understanding, significantly less. For example, in ENO’s AMI application (Council Docket
6 No. UD-16-04), ENO proposed, and the Council approved a 15-year useful life and
7 depreciation schedule for AMI-related investments, including IT and software investments
8 in addition to new meters). Mr. Lewis (the same Mr. Lewis acting as a witness for DSU
9 NO in this instant proceeding), on behalf of ENO testified,

10 “Q9. WHY HAS THE COMPANY ASSUMED A 15-YEAR USEFUL
11 LIFE IN DETERMINING THE BENEFIT TO CUSTOMERS
12 ASSOCIATED WITH THE AMI DEPLOYMENT?

13 A. The Company anticipates a 15-year useful life for a number of reasons.
14 First, it is a reasonable assumption because the 15-year useful life falls
15 within the range presented by other utilities in recent deployments. For
16 example, the Louisiana Public Service Commission approved the 15-year
17 useful life proposed by Cleco Power, LLC. In addition, the Arkansas Public
18 Service Commission approved a 15-year useful life in Oklahoma Gas &
19 Electric’s AMI proceeding. Second, the 15-year useful life that the
20 Company is proposing takes into consideration the effects of technological
21 obsolescence. Specifically, as explained by Company witness Griffith, the
22 advanced meters include a NIC for communicating with the centralized

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1 systems such as the MDMS. Given that this technology continues to evolve,
2 it is reasonable to assume that the Company's business needs and customer
3 expectations 15 years from now may demand a different communications
4 network and/or more processing capability on the meter."²⁸

5 ENO's AMI deployment involved extensive investments in software and other IT systems.
6 Mr. Lewis, in his AMI testimony, cited technological obsolescence, business needs, and
7 customer expectations in supporting his recommendation of a 15-year useful life.

8 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING ANY**
9 **REQUEST BY DSU NO FOR A 25-YEAR DEPRECIATION SCHEDULE FOR ITS**
10 **IT-RELATED INVESTMENTS?**

11 **A.** I interpret Mr. Dismukes's new testimony requesting a 25-year amortization period for
12 capitalized transition costs to include a 25-year depreciable life for such costs that are
13 properly recorded as plant in service (as opposed to deferred O&M). As (i), there is no
14 evidence that a 25-year period reflects these investments' economic life, (ii) a witness on
15 behalf of DSU NO has, on behalf of ENO, argued for a 15-year depreciation schedule for
16 analogous investments, (iii) the longest ENO depreciation schedule for IT investments is
17 15 years, and (iv), DSU NO has committed to adopting ENO's accounting and depreciation
18 schedules until the initial rate case, I recommend that the Council require DSU NO to adopt
19 a depreciation schedule no longer than 15 years for its IT investments. I note that this

²⁸ Council Docket No. UD-16-04, Direct Testimony of Mr. Jay A. Lewis, Q9 at 6:2-17 (Citations Omitted.)

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1 recommendation does not supersede other Advisor recommendations regarding the
2 mitigation of ratepayer harm due to the Gas Transaction.

3 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING MR.**
4 **DISMUKES’S ANALYSIS RELATED TO ADIT?**

5 **A.** Mr. Dismukes has employed analyses suggesting a somewhat lower ratepayer harm from
6 the loss of ADIT due to the Gas Transaction than I have estimated. I disagree with certain
7 of his assumptions, and nothing he has presented has caused me to alter my estimate of
8 ratepayer harm in this area. However, as this is a matter that can be better quantified as part
9 of the initial rate case, I recommend that the Council, as a condition of any approval of the
10 Gas Transaction, note that the loss of ADIT is expected to result in substantial ratepayer
11 harm and order that this harm be evaluated as part of the initial rate case and taken into
12 account when establishing the amount of harm mitigation that it finds satisfactory at that
13 time.

14 **Q. DOES MR. LEWIS DISCUSS ADIT IN HIS REBUTTAL TESTIMONY?**

15 **A.** Yes, Mr. Lewis discusses, in general terms, my Direct Testimony regarding ADIT and
16 specifically my estimate of the effect of ADIT on DSU NO’s cost of service in the initial
17 rate case.²⁹ His fundamental conclusion regarding ADIT is that it is premature to quantify
18 the ratemaking effects of ADIT.³⁰

19 **Q. ARE YOUR ESTIMATES OF THE EFFECT OF ADIT DETERMINATIVE FOR**
20 **RATEMAKING PURPOSES?**

²⁹ See Lewis Rebuttal, Section III at 11 *et. seq.*

³⁰ *Id.*, Q17 at 11.

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1 **A.** No. Based on reliable ratemaking data as of December 31, 2024, I made what I believe is
2 an indicative estimate of the amount of ADIT that will not transfer to DSU NO at the close
3 of the Gas Transaction: a \$58.1 million debit (increase) to rate base. However, my
4 recommendation to the Council was not tied to this estimated amount.³¹

5 **Q. DO YOU AGREE WITH MR. LEWIS THAT ADDITIONAL ADIT MAY BE**
6 **RECORDED BY DSU NO RELATIVE TO THE GAS TRANSACTION?**

7 **A.** Partly, yes. Mr. Lewis testifies that transition plan costs, including IT systems costs, may
8 cause DSU NO to record credit ADIT balances.³² He is correct; a regulatory asset related
9 to deferred O&M generally results in a credit ADIT balance equal to the deferred amount
10 multiplied by the combined federal-state income tax rate, and plant in service accumulates
11 credit ADIT when tax depreciation is accelerated compared to book depreciation.
12 However, Mr. Lewis does not discuss that the transition costs represent new overall costs
13 to ratepayers that I recommend the Council require DSU NO to mitigate. As such, any
14 credit ADIT related to these expenses and investments is a partial offset to the amount DSU
15 NO should be required to mitigate.

16 **Q. DID YOUR ANALYSIS TAKE INTO ACCOUNT THE ADIT RELATED TO THE**
17 **TRANSITION COSTS?**

18 **A.** Yes, however through discovery I now understand that my estimate calculated a zero ADIT
19 balance related to intangible plant where a credit balance is more likely. Regarding a
20 regulatory asset based on deferred O&M expenses, my workpapers and calculations did

³¹ See Watson Direct at 51:6-14.

³² See Lewis Rebuttal, Q19 at 13.

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1 reflect a proper credit ADIT balance of [REDACTED] offsetting a [REDACTED]
2 [REDACTED] regulatory asset.³³

3 Regarding ADIT related to intangible plant, I assumed that tax and book depreciation
4 periods would be the same: 15-years on [REDACTED] in plant;³⁴ therefore, I
5 calculated zero ADIT relative to this investment. However, subsequent discovery indicates
6 that ENO's depreciation for such investments, which DSU NO has committed to adopting,
7 may be for a period of 3, 5, 10, or 15 years and are amortized over their useful life, and
8 their tax depreciation is a three-year period.³⁵

9 **Q. WILL DSU NO ACCUMULATE ADIT RELATIVE TO INVESTMENTS IN IT-**
10 **RELATED INTANGIBLE PLANT AS OF PERIOD II OF THE INITIAL RATE**
11 **CASE?**

12 **A.** Yes, based on discovery responses received after I filed my Direct Testimony. Assuming
13 DSU NO will adopt ENO's three-year tax depreciation schedule for its IT-related
14 investments in intangible plant, credit ADIT is expected to accumulate although the exact
15 amount is not calculable with precision based on the information ENO has provided.

16 **Q. BASED ON INFORMATION PROVIDED BY ENO, WHAT IS THE MAXIMUM**
17 **AMOUNT OF ADIT THAT DSU NO MAY ACCUMULATE RELATED TO**
18 **INVESTMENTS IN IT-RELATED INTANGIBLE PLANT?**

³³ See the Excel workbook provided to the Parties, *UD-24-01 BSW Direct Workpapers Revenue_Bill Impact HSPM-CS*, Tab *WP3 O&M Reg Asset*, the column labeled "ADIT."

³⁴ See the Excel workbook provided to the Parties, *UD-24-01 BSW Direct Workpapers Revenue_Bill Impact HSPM-CS*, Tab *WP4 Intang Plnt*.

³⁵ ENO's response to CNO 8-2, parts b and e.

PUBLIC REDACTED VERSION

1 Taking the scenario that would cause the greatest accumulation of credit ADIT relative to
2 investments in intangible plant (*i.e.*, a 15-year book depreciation and a 3-year tax
3 depreciation), I estimate that [REDACTED] in investments, depreciated over two
4 years (an estimated timeframe from the close of the Gas Transaction through Period II of
5 the initial rate case), causes the accumulation of [REDACTED] in credit ADIT.
6 At a [REDACTED] before-tax WACC, this credit equates to a [REDACTED]
7 credit (*i.e.*, reduction) to DSU NO's revenue requirement.

8 **Q. WHAT ARE YOUR OBSERVATIONS REGARDING THE MODEL THAT DSU**
9 **NO IS DEVELOPING TO ANALYZE CHANGES IN ADIT THAT WILL RESULT**
10 **FROM THE GAS TRANSACTION?**

11 **A.** Although no such model has been introduced into evidence, Mr. Lewis testifies that DSU
12 NO is developing a model to analyze changes in ADIT resulting from the Gas
13 Transaction.³⁶ To the extent that DSU NO attempts to introduce any such model in its final
14 round of testimony in the instant proceeding, I note that there would be no opportunity for
15 Parties to scrutinize the model for the Council's consideration.

16 However, should DSU NO introduce this model as part of the initial rate case, it could be
17 a useful tool for determining the actual amount of ratepayer harm from the loss of ADIT
18 due to the Gas Transaction, subject to its review and validation by parties to that
19 proceeding.

³⁶ See Lewis Rebuttal, Q25 at 20.

PUBLIC REDACTED VERSION

1 **IV. DSU NO'S WACC**

2 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
3 **REGARDING THE EFFECT OF DSU NO'S HIGHER WACC AS COMPARED TO**
4 **THAT OF ENO.**

5 **A.** In my Direct Testimony, I stated that, "I recommend that the Council consider advising
6 DSU NO that its ROE, total debt cost rate, and equity ratio may be set while taking into
7 account relevant metrics from comparable utilities having roughly a "BBB" credit rating
8 (e.g., "BBB" plus or minus one ratings notch) and not based on any actual DSU NO data.
9 It is my understanding that the Council already has this authority, but I believe it is
10 reasonable to nonetheless advise DSU NO."³⁷

11 **Q. DID A DSU NO WITNESS REBUT YOUR RECOMMENDATION REGARDING**
12 **DSU NO'S ALLOWED ROE?**

13 **A.** No. In my opinion, this recommendation only affirms accepted Council ratemaking
14 practices in this area.

15 **Q. WHAT IS DSU NO'S STATED COST OF LONG-TERM DEBT?**

³⁷ Watson Direct at 52:1-6.

PUBLIC REDACTED VERSION

1 **A.** As I discussed in my Direct Testimony, DSU NO has stated that its long-term cost of debt
2 is [REDACTED]³⁸ This debt is based on a single private debt placement brokered by Jefferies
3 LLC, and it has a tenor of 10-years.³⁹

4 **Q. WHAT IS ENO'S COST OF LONG-TERM DEBT?**

5 **A.** ENO's present cost of long-term debt is 4.85%.⁴⁰ The below figure presents ENO's
6 calculation of this cost rate.

³⁸ See DSU NO's response to CNO 1-39.

³⁹ See Exhibit JY-3, *Summary of Financing*, June 24, 2024.

⁴⁰ See ENO's April 30, 2024 informational filing to the Council regarding the May 2024 issuance of First Mortgage Bonds at 187.

PUBLIC REDACTED VERSION

1

Figure 1: ENO's 2024 Cost of Debt

Description	Issue Date	Maturity Date	Principal Outstanding	Unamortized		Net Proceeds	Cost Rate	Annualized Interest	Months Remaining	Annualized Amortization - Prem		Net Annual Cost	Effective Cost Rate
				Prem., Disc., Exp. & Loss	Exp. & Loss					Disc. Exp. & Loss	Amort. & Loss		
4.19% SERIES	Nov-21	Nov-31	90,000,000	(540,408)	89,459,592	4.19%	3,771,000	107	60,834	3,831,834	4.28%		
5.00% SERIES	Nov-12	Dec-52	30,000,000	(855,660)	29,144,340	5.00%	1,500,000	359	28,601	1,528,601	5.24%		
5.50% SERIES	Mar-16	Apr-66	110,000,000	(3,052,298)	106,947,702	5.50%	6,050,000	519	70,573	6,120,573	5.72%		
4.00% SERIES	May-16	Jun-26	85,000,000	(284,021)	84,715,979	4.00%	3,400,000	41	83,128	3,483,128	4.11%		
4.51% SERIES	Sep-18	Sep-33	60,000,000	(487,468)	59,512,532	4.51%	2,706,000	129	45,357	2,751,357	4.62%		
4.00% SERIES	May-16	Jun-26	85,000,000	(200,893)	84,799,107	4.00%	3,400,000	29	83,128	3,483,128	4.11%		
3.75% SERIES	Mar-20	Mar-40	62,000,000	(444,446)	61,555,554	3.75%	2,325,000	207	25,831	2,350,831	3.82%		
3.00% SERIES	Mar-20	Mar-25	78,000,000	(234,216)	77,765,784	3.00%	2,340,000	26	106,194	2,446,194	3.15%		
4.51% SERIES	Nov-21	Nov-36	70,000,000	(507,606)	69,492,394	4.51%	3,157,000	167	36,562	3,193,562	4.60%		
6.25% SERIES	May-24	Jun-29	35,000,000	(140,000)	34,860,000	6.25%	2,187,500	60	28,000	2,215,500	6.36%		
6.41% SERIES	May-24	Jun-31	65,000,000	(260,000)	64,740,000	6.41%	4,166,500	84	37,143	4,203,643	6.49%		
6.54% SERIES	May-24	Jun-34	50,000,000	(200,000)	49,800,000	6.54%	3,270,000	120	20,000	3,290,000	6.61%		
Annual Rating Agency Fee Suspense				(81,896)	(81,896)		0		15,868	15,868	N/A		
Credit Facility Charges		21-Jun-24		(48,098)	(48,098)		0	18	34,032	34,032	N/A		
Amortization of Loss on Reacquired Debt			0	(50,103)	(50,103)		0				N/A		
8.00%		01-Sep-24		(164,366)	(164,366)		0	80	49,300	98,620	N/A		
7.55%		01-Sep-29		(328,665)	(328,665)		0	41	125,446	49,300	N/A		
5.65%		01-Jun-26		(428,607)	(428,607)		0	5	18,986	125,446	N/A		
3.00%		31-May-23		(18,986)	(18,986)		0	41	81,266	18,986	N/A		
5.60%		01-Jun-26		(277,660)	(277,660)		0	41	81,266	81,266	N/A		
TOTAL LONG-TERM BOND DEBT			820,000,000	(8,605,397)	811,394,603		N/A	36,273,000	1,048,867	39,321,867	4.85%		

Bond retired or to be retired
2024 New Issuance

2

PUBLIC REDACTED VERSION

1 As the above Figure 1 shows, ENO's long-term debt is a portfolio of obligations with tenors
2 (*i.e.*, time at issuance until final scheduled debt service payment) ranging from five to 50
3 years. I calculate that the dollar-weighted tenor of ENO's present long-term debt portfolio
4 is 17.8 years.

5 Of note, the final of the three debt issuances highlighted in green, having an effective cost
6 rate of 6.61% is a recent, May 2024 issuance, therefore reflecting current market
7 conditions.⁴¹ This issuance has a ten-year tenor, the same as DSU NO's debt. Yet, ENO's
8 debt cost rate is substantially less than that of DSU NO's debt (6.61% versus [REDACTED]
9 [REDACTED], or [REDACTED] less).

10 **Q. WHAT IS MR. DISMUKES'S COMMENT REGARDING DSU NO'S COST OF**
11 **DEBT BEING HIGHER THAN THAT OF ENO?**

12 **A.** Mr. Dismukes argues that DSU NO's current long-term debt rate is higher than ENO's
13 overall debt cost rate simply because of differing market conditions at the time of ENO's

⁴¹ See ENO's HSPM response to CNO 7-1.b [REDACTED]

PUBLIC REDACTED VERSION

1 issuance and not because DSU NO is riskier than ENO.⁴² Mr. Dismukes goes on to note
2 that ENO has benchmarked the cost of potential future debt issuances at an [REDACTED] rate.⁴³

3 **Q. IS MR. DISMUKES'S VIEW SUPPORTED BY EVIDENCE?**

4 **A.** Likely after Mr. Dismukes prepared his Rebuttal Testimony, ENO disclosed that it had
5 issued \$50 million in long-term debt having a 10-year tenor at a rate substantially less than
6 the rate of DSU NO's 10-year tenor private placement debt's [REDACTED] rate. As
7 such, Mr. Dismukes's argument that DSU NO's higher cost of debt rate is the simple result
8 of changing market conditions is not supported by ENO's recent issuance of long-term
9 debt. This is particularly salient because ENO's long-term debt rating is speculative,⁴⁴ and
10 DSU NO claims it enjoys an indicative investment-grade rating.⁴⁵

11 **Q. IS ENO'S BENCHMARK COST OF FUTURE DEBT ISSUANCES RELIABLE**
12 **FOR COMPARISON TO THAT OF DSU NO?**

13 **A.** No. ENO's benchmark rate of [REDACTED] is speculative at best as it is based on a 30-year
14 treasury benchmark (as opposed to DSU NO's 10-year tenor), an unsupported spread above

⁴² See Dismukes Rebuttal at 20.

⁴³ See *Id* at 22-23. See also ENO's response to CNO 7-1.

⁴⁴ See Ex. AMA-3 at 1, which presents a S&P Global Rating of BB and Ex. AMA-4 at 1, which presents a Moody's Investor Service rating of Ba1.

⁴⁵ See DSU NO's response to CNO 1-24.c ("DSU-NO currently has an indicative credit rating of BBB from S&P and will target maintaining an investment grade rating.").

PUBLIC REDACTED VERSION

1 this benchmark, and an inscrutable further buffer spread based on “rate volatility.”⁴⁶ In my
2 view, this value is unreliable and is not probative in any way.

3 **V. DSU NO’S PROPOSED REGULATORY ASSET**

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
5 **REGARDING DSU NO’S PROPOSED REGULATORY ASSET.**

6 **A.** In my Direct testimony, I stated that, “[a]s DSU NO’s proposed regulatory asset, which
7 may be partly in the form of intangible plant, constitutes a significant ratepayer harm if
8 DSU NO is allowed recovery, I recommend that, as a condition of approval of the Gas
9 Transaction, DSU NO agree to not seek recovery of the proposed regulatory asset or to
10 substantially mitigate to the Council’s satisfaction the ratepayer impacts of the proposed
11 regulatory asset.”⁴⁷ I note that I address the portion of DSU NO’s transition that should be
12 recorded as plant in service (*i.e.*, intangible plant) is discussed in both my Direct Testimony
13 and this testimony.

14 **Q. PLEASE DESCRIBE YOUR DIRECT TESTIMONY REGARDING ASSETS AND**
15 **EXPENSES RETAINED BY ENO.**

16 **A.** In my Direct Testimony, I discussed that certain ENO assets are shared between its gas and
17 electric utilities. Likewise, certain O&M expenses are common between gas and electric.
18 ENO stated that \$18.8 million in Net Book Value will not be transferred to DSU NO as

⁴⁶ See ENO’s response to CNO 7-2, *TC-UD2401-00CNO007-N001_HSPM*.

⁴⁷ Watson Direct at 52:9-13.

PUBLIC REDACTED VERSION

1 part of the Gas Transaction.⁴⁸ ENO further states that \$7.3 million in O&M costs common
2 to electric and gas will be retained by ENO.⁴⁹

3 **Q. HOW DID YOU REFLECT THESE RETAINED ASSETS AND EXPENSES IN**
4 **YOUR ANALYSIS OF RATEPAYER HARM?**

5 **A.** My estimate of the incremental revenue requirement effect was based on ENO's 2024
6 GFRP Evaluation Filing's cost of service, plus or minus the incremental effects of certain
7 factors:

- 8 1. The loss of credit ADIT and reaccumulating ADIT through Period II of the initial rate
9 case;
- 10 2. The creation of a regulatory asset and recording of intangible plant related to DSU
11 NO's transition costs;
- 12 3. The change to WACC due to DSU NO's debt cost rate; and
- 13 4. The reduction to rate base from assets not transferred to DSU NO that are already
14 reflected in the intangible plant recorded by DSU NO.

15 In general, apart from the effects I list above, I assume that DSU NO will continue ENO's
16 cost of service.

17 **Q. DOES MR. LITTLE AGREE WITH YOUR ANALYSIS'S PREMISE?**

⁴⁸ See Watson Direct at 44 *et. seq.* See also ENO's response to CNO 1-13.

⁴⁹ *Id.*

PUBLIC REDACTED VERSION

1 **A.** No. Mr. Little argues that I should have netted more than the intangible plant (*i.e.*, item
2 four from the above response), saying,

3 “DSU NO understands Mr. Watson’s recommendation is based on the
4 assumption that only the IT systems and applications retained by ENO will
5 be replaced by DSU NO. However, DSUNO does not agree with Mr.
6 Watson’s assumption and conclusion because DSU NO will need to replace
7 the other retained assets in order provide safe and reliable gas service to
8 customers, resulting in DSU NO incurring costs to replace the other retained
9 assets. For example, DSU NO has included additional facilities costs in its
10 O&M forecast to cover DSU NO’s estimated share of corporate
11 headquarters facilities costs. With the addition of these corporate HQ
12 facilities costs in its O&M forecast along with facilities costs already
13 included in its estimated total transition costs, DSU NO has built in costs
14 for its share of the new corporate headquarters and its new operations center,
15 which may be an owned and not leased facility.”⁵⁰

16 Of note, I do not consider my analysis to be a recommendation but rather a tool for the
17 Council to consider the Gas Transaction. I understand Mr. Little’s testimony here as
18 arguing that my analysis should have netted other investments and O&M from my
19 incremental revenue requirement analysis.

⁵⁰ Little Rebuttal at 26:9-19 (Citations omitted).

PUBLIC REDACTED VERSION

1 **Q. DO YOU AGREE WITH MR. LITTLE'S CRITICISM HERE?**

2 **A.** No. Had my analysis been based on DSU NO's forecasted O&M, rather than ENO's 2024
3 FRP cost of service, his criticism would be appropriate. However, my analysis both does
4 not increase DSU NO's O&M by, for example the additional facilities costs that Mr. Little
5 references, nor does it remove ENO's facilities costs present in its FRP cost of service
6 (presumably a combination of rate base and O&M elements). Only to the extent that DSU
7 NO's means of procuring required facilities costs is less expensive than ENO's costs, which
8 are shared between electric and gas, would an adjustment be appropriate in my analysis. I
9 am at present unconvinced of any operational efficiencies in net total that will affect DSU
10 NO's cost of service in the initial rate case.

11 **Q. DO YOU HAVE ANY ADDITIONAL OBSERVATIONS REGARDING**
12 **RETAINED ASSETS?**

13 **A.** Yes. In the initial rate case, DSU NO's actual cost of service can be determined according
14 to the Council's standards for ratemaking. If DSU NO has accomplished material net
15 operational efficiencies, then the Council can take that into account when considering the
16 satisfactory amount of ratepayer harm mitigation it may order.

17 **VI. GOODWILL**

18 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY REGARDING**
19 **GOODWILL.**

PUBLIC REDACTED VERSION

1 **A.** In my Direct Testimony, I testified that goodwill is the amount by which the purchase price
2 exceeds the net book value of transferred assets and liabilities. I estimated the amount of
3 goodwill DSU NO might record at \$29.8 million based on a purchase price of \$285.5
4 million and a net plant in service of \$255.7 million.⁵¹ I further noted that DSU NO stated
5 that it would not seek recovery of any goodwill,⁵² which I interpret to mean no recovery of
6 the balance or recovery of a return on the balance (*i.e.*, exclusion of goodwill from all
7 ratemaking treatment). DSU NO's commitment should be ongoing; in the event that DSU
8 NO may write-off its goodwill balance, perhaps through an impairment charge, ratepayers
9 should not then provide DSU NO recovery of this charge. I note that DSU NO has no stated
10 plan or expectation of any such charge.

11 **Q. PLEASE DESCRIBE THE TAX BENEFIT DSU NO EXPECTS REGARDING**
12 **GOODWILL.**

13 **A.** DSU NO states that it will not amortize its goodwill balance for accounting purposes.⁵³ As
14 such, a permanent tax benefit will occur with the tax amortization of goodwill over DSU
15 NO's stated 15-year period. The benefit to DSU NO is the annual amortization deduction
16 multiplied by DSU NO's income tax rate (26.9% combined federal-state).

17 **Q. WOULD CUSTOMARY RATEMAKING PRINCIPLES PROVIDE FOR THE**
18 **SHARING OF BENEFITS RELATED TO GOODWILL WITH RATEPAYERS?**

⁵¹ See Watson Direct at 12:18-13:3.

⁵² See DSU NO's response to CNO 2-23.

⁵³ See DSU NO's response to CNO 6-7.c.

PUBLIC REDACTED VERSION

1 **A.** No. As DSU NO has proposed to not recover goodwill from ratepayers, the ratemaking
2 matching principle would not normally provide for ratepayers to enjoy the related tax
3 benefits.

4 **Q. DOES DSU NO PROPOSE TO SHARE SOME OF THE TAX BENEFIT RELATED**
5 **TO GOODWILL WITH RATEPAYERS?**

6 **A.** Yes. Mr. Lewis states as such, saying, “. . . DSU NO’s commitment not to seek recovery
7 of the goodwill, combined with the amortization of that goodwill for tax purposes, will
8 result in tax deductions related to goodwill, and my understanding is that DSU NO is open
9 to discussing sharing with customers a portion of this tax benefit to further mitigate the net
10 revenue requirement impacts of ENO ADIT not transferring at closing, as set forth in the
11 rebuttal testimony of DSU NO witness Mr. Jeffrey Yuknis.”⁵⁴

12 In response to discovery, DSU NO declined to quantify what portion of this tax benefit it
13 was willing to share with ratepayers.⁵⁵

14 **Q. HAS DSU NO ESTIMATED THE AMOUNT OF TAX BENEFIT RELATED TO**
15 **GOODWILL?**

16 **A.** Partly, in response to discovery,⁵⁶ DSU NO estimates that goodwill will total [REDACTED]
17 [REDACTED] with a tax benefit of [REDACTED] per year over a 15-year straight-
18 line tax amortization. This [REDACTED] million is the difference between a [REDACTED]

⁵⁴ Lewis Rebuttal at 16.

⁵⁵ See DSU NO’s response to CNO 6-7.d.

⁵⁶ DSU NO’s response to CNO 3-21, *HSPM-CS 3-21 Attachment A*.

PUBLIC REDACTED VERSION

1 [REDACTED] purchase price and a [REDACTED] rate base. DSU NO did not
2 estimate the tax benefit, but employing DSU NO's goodwill estimate and a combined tax
3 rate of 26.9% results in a tax benefit of [REDACTED] over 15 years, or [REDACTED]
4 [REDACTED] per year. I note that DSU NO did not reflect any portion of this tax benefit
5 in its revision to my estimate of ratepayer harm.⁵⁷

6 **Q. DO YOU AGREE WITH DSU NO'S ESTIMATE OF GOODWILL?**

7 **A.** Not entirely. DSU NO compares the purchase price with a rate base value. As I discussed
8 in my Direct Testimony, the ADIT component of rate base will not transfer to DSU NO,
9 so DSU NO's net book value is the proper value from which to estimate goodwill. I accept
10 DSU NO's estimate of the adjusted purchase price, [REDACTED], which
11 combined with my estimate of net book value, \$255.7 million, results in a goodwill
12 estimate of [REDACTED]. Multiplying this estimated value by a combined tax
13 rate of 26.9% results in a [REDACTED] tax benefit over 15 years, or [REDACTED]
14 [REDACTED] per year.

15 **Q. WHAT DO YOU CONCLUDE FROM DSU NO'S PROPOSAL TO DISCUSS**
16 **SHARING THE TAX BENEFIT RELATED TO GOOD WILL?**

17 **A.** DSU is not obligated to share this tax benefit so long as it does not recover costs related to
18 goodwill. As such, I interpret Mr. Lewis's testimony as related to some form of settlement
19 negotiation; I note that no such negotiations have occurred to date. The Advisors have

⁵⁷ See Exhibit DED-1, *HSPM-CS Exhibit DED-1 Corrected RR and Bill Impact Analysis_FINAL*.

PUBLIC REDACTED VERSION

1 recommended, and continue to recommend, that DSU NO be required to mitigate to the
2 Council's satisfaction ratepayer harm caused by the Gas Transaction. I conclude that any
3 sharing of tax benefits related to goodwill may be a valuable mitigation tool, but that it
4 does not represent the dollar amount of mitigation that may be required.

5 **VII. REGULATORY LAG**

6 **Q. DOES MR. LEWIS DISCUSS THE EFFECT OF REGULATORY LAG RELATIVE**
7 **TO THE GAS TRANSACTION?**

8 **A.** Yes, although he does not use the term. Mr. Lewis notes that I estimated certain annual
9 revenue requirement increases relative to ENO's revenue requirement that will occur as a
10 result of the Gas Transaction, specifically those related to ADIT.⁵⁸ Because DSU NO
11 proposes to not seek new rates for 15-months following the close of the Gas Transaction,
12 certain increases to its cost of service compared to that of ENO will not be recovered in
13 rates until new rates are set as part of the initial rate case. In the scenario where ENO's
14 final GFRP Evaluation Filing is in 2025, its gas rates will be proformed to reflect those
15 costs as of December 31, 2025. These may be the rates DSU NO will assume for possibly
16 two years until new rates are set in the initial rate case.

17 **Q. DO YOU AGREE THAT THIS REGULATORY LAG CONSTITUTES A BENEFIT**
18 **TO RATEPAYERS?**

⁵⁸ See Lewis Rebuttal Q23 at 17-19.

PUBLIC REDACTED VERSION

1 **A.** In certain aspects, yes. Aspects of the cost to provide gas utility services to New Orleans
2 that increase independent of the Gas Transaction (*e.g.*, ongoing capital investment in excess
3 of depreciation expense, growth in O&M related to inflation) that are not reflected in rates
4 until the initial rate case constitute a ratepayer benefit compared to regular annual GFRP
5 evaluations under ENO.

6 **Q. DO AGREE WITH MR. LEWIS’S QUANTIFICATION OF REGULATORY LAG?**

7 **A.** No. Mr. Lewis argues,

8 “DSU NO will absorb any revenue requirement increases that would have
9 occurred to accommodate the elimination of ADIT at closing; thus, the rates
10 will still reflect the beneficial effects of the ADIT for which DSU NO did
11 not receive the related tax payment reductions. This is a significant
12 commitment; Mr. Watson’s testimony estimates the annual revenue
13 increase related to ADIT to be \$ [REDACTED] million. . . Mr. Watson’s estimates
14 would indicate that the value of this commitment exceeds \$ [REDACTED] million. . .”⁵⁹

15 Mr. Lewis’s quantification here is misplaced because the Gas Transaction is the sole cause
16 of these costs and are the source of the ratepayer harm that the Advisors recommend be
17 mitigated.

18 New costs caused by the Gas Transaction (*e.g.*, depreciation on new IT-related plant in
19 service, revenue requirement increases caused by the loss of ADIT balances), while they
20 represent costs DSU NO will not recover, are not needed apart from the Gas Transaction.

⁵⁹ Lewis Rebuttal at 17-18.

PUBLIC REDACTED VERSION

1 As such, any regulatory lag absorbed by DSU NO related to these new costs does not
2 constitute a ratepayer benefit. Put differently, any regulatory lag absorbed by DSU NO
3 merely offsets a ratepayer harm, so ratepayers experience no net benefit.

4 Further, there is no regulatory lag related to DSU NO's proposed regulatory asset related
5 to deferred O&M, as amortization would not start until the initial rate case. Indeed, DSU
6 NO proposes to accrue carrying costs at its WACC until amortization begins, which
7 increases the ratepayers' ultimate burden should this deferral be allowed recovery by the
8 Council.⁶⁰

9 **VIII. GAS TYPICAL BILL IMPACT**

10 **Q. PLEASE SUMMARIZE YOUR ESTIMATED TYPICAL BILL IMPACT AS**
11 **PRESENTED IN YOUR DIRECT TESTIMONY.**

12 **A.** In my Direct Testimony, I estimated that a \$16.5 million increase to gas revenue
13 requirement results in a typical residential gas bill (50 ccf/mo.) impact of 12.33.⁶¹ Mr.
14 Dismukes did not agree with this calculation because (1), I relied on a customer class
15 allocation that he thinks overstates residential customer revenue responsibilities, and (2),
16 the use of a 50 ccf/mo. typical bill volume does not reflect actual usage patterns.⁶²

17 **Q. DO YOU AGREE WITH MR. DISMUKES'S CRITICISM HERE?**

⁶⁰ See *Id* at 18. I disagree that the deferral of the costs of the transition plan to a regulatory asset constitutes any ratepayer benefit.

⁶¹ See Watson Direct at 46:3-4.

⁶² See Dismukes Rebuttal at 15-16.

PUBLIC REDACTED VERSION

1 **A.** No. Mr. Dismukes, in my opinion, is deflecting from accepted measures by which typical
2 bill impacts are presented to the Council in an apparent effort to minimize the perception
3 of the substantial ratepayer harm that will occur due to the Gas Transaction.

4 **Q. DO YOU AGREE WITH MR. DISMUKES'S RESIDENTIAL ALLOCATOR?**

5 **A.** No. The Council's approved residential allocator is 63.5%.⁶³ This allocation factor was
6 ordered by the Council based on testimonies on multiple factors regarding functionalized
7 plant and O&M. Mr. Dismukes replaces this allocator with 34.9% based entirely on
8 volume.⁶⁴ The Council has not in the past allocated fixed (*i.e.*, base) revenues on volume,
9 and I am not aware of any reason why the Council might do so in the initial rate case.

10 **Q. DO YOU AGREE WITH MR. DISMUKES'S TYPICAL BILL VOLUME FIGURE?**

11 **A.** No. The Council has employed a 50 ccf/mo. typical residential bill volume value for each
12 of the past four FRP evaluations. Mr. Dismukes replaces this accepted metric with 27
13 ccf/mo.⁶⁵ While average residential gas consumption is less than 50 ccf/mo., this metric is
14 a useful benchmark because winter residential gas consumption is significantly higher than
15 in summer, making the 50 ccf/mo. metric indicative of real-world ratepayer impacts. In
16 any event, Mr. Dismukes's use of 27 ccf/mo. will not change any actual bill and only serves
17 to hide the Gas Transaction's impact on ratepayers.

18 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING MR.**
19 **DISMUKES'S TYPICAL BILL ESTIMATE?**

⁶³ See ENO's 2024 GFRP Evaluation Filing, *ENO GFRP Attachment A_WP*, Line 1.

⁶⁴ See *HSPM-CS Exhibit DED-1 Corrected RR and Bill Impact Analysis_FINAL*, Tab Exhibit *DED-1*, p2-3, Factor No. 2. While this exhibit is marked HSPM-CS these data to calculate this factor are public.

⁶⁵ See Dismukes Rebuttal at 30:17.

PUBLIC REDACTED VERSION

1 **A.** Because Mr. Dismukes has employed an unreasonable residential gas allocator and a
2 misleading typical residential monthly volume value, his typical bill impact estimate is
3 grossly understated and unreliable. I recommend that the Council give this estimate no
4 weight.

5 **IX. POST RETIREMENT BENEFITS**

6 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
7 **REGARDING POST RETIREMENT BENEFITS.**

8 **A.** In my Direct Testimony, I stated, “I recommend that the Council attach no further
9 conditions to its approval of the Gas Transaction beyond the Joint Applicants’
10 representations. I recommend that the Council advise DSU NO that it is expected to
11 propose a ratemaking treatment comparable to that ENO has proposed in recent FRP
12 Evaluation filings for both pension and OPEB. As post-retirement plans and their
13 ratemaking treatment are complex, I recommend that the Council conduct a thorough
14 review as part of DSU NO’s initial rate case.”⁶⁶

15 **Q. IN YOUR OPINION DID ANY OF THE JOINT APPLICANTS’ WITNESSES**
16 **SUBSTANTIALLY DISAGREE WITH YOUR RECOMMENDATION?**

17 **A.** No. As such, I offer no modification to my recommendation here. Mr. Yuknis states, “DSU
18 NO is open to discussing with the Advisors the details of what is contemplated by their
19 recommendation for a thorough review in the DSU NO’s initial rate action.”⁶⁷ I agree with

⁶⁶ Watson Direct at 53:3-8.

⁶⁷ Yuknis Rebuttal at 24.

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1 the proposition that a discussion of the details of Council ratemaking related to
2 postretirement benefits is a reasonable approach.

3 **X. CWIP**

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
5 **REGARDING CWIP.**

6 **A.** In my Direct Testimony, I stated, “I recommend that the Council not treat CWIP as of the
7 close of the Gas Transaction as a component of any non-recoverable acquisition premium,
8 consistent with DSU NO’s request in the Joint Application.”

9 **Q. IN YOUR OPINION DID ANY OF THE JOINT APPLICANTS’ WITNESSES**
10 **SUBSTANTIALLY DISAGREE WITH YOUR RECOMMENDATION?**

11 **A.** No. As such, I offer no modification to my recommendation here.

12 **XI. ENO’S BOOK GAIN ON SALE**

13 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING ENO’S**
14 **BOOK GAIN ON THE SALE OF ITS GAS ASSETS.**

15 **A.** In my Direct testimony, I recommend that, “[t]o mitigate this electric ratepayer harm and
16 to utilize ENO’s gain on the sale of its gas net plant, I recommend that, as a condition of
17 approval of the Gas Transaction, the Council direct ENO to create a contra-asset of
18 approximately \$18.8 million to offset the gas plant retained by electric customers, and use
19 the remaining approximate \$ [REDACTED] million of the \$ [REDACTED] million per book gain to create a
20 regulatory liability to whose amortization will offset the ENO gas O&M retained by ENO’s

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1 electric customers. This remaining approximate \$ [REDACTED] million, when amortized over four
 2 years, approximately offsets this annual retained O&M amount.”⁶⁸

3 **Q. HAS ENO UPDATED ITS SALES AND BOOK GAIN ESTIMATE SINCE YOU**
 4 **FILED YOUR DIRECT TESTIMONY?**

5 **A.** Yes. Ms. Maurice Anderson testifies that ENO’s current estimate of the book gain from
 6 the Gas Transaction is \$17 million, presenting the following table.⁶⁹

Adjusted Purchase Price	[REDACTED]
Less Net Book Value of Assets Sold	[REDACTED]
Less Transaction and Cooperation Costs ⁷⁰	[REDACTED]
Estimated Book Gain	[REDACTED]

7 I note that Ms. Maurice-Anderson’s estimate assumes recovery of the transaction costs that
 8 I recommend the Council not allow recovery of as a condition of approval of the Gas
 9 Transaction. Per my recommendation to the Council, ENO’s estimate of the book gain
 10 becomes [REDACTED], which is somewhat less than the estimate I offered in my Direct
 11 Testimony. Based on this new information, my prior estimate of [REDACTED] should be
 12 updated to [REDACTED].

13 **Q. MS. MAURICE-ANDERSON USES THE ADJUSTED PURCHASE PRICE WHEN**
 14 **CALCULATING ENO’S BOOK GAIN FROM THE GAS TRANSACTION. DO**
 15 **YOU AGREE WITH THIS ADJUSTMENT?**

⁶⁸ Watson Direct at 54:12-55:2.

⁶⁹ See Maurice-Anderson Rebuttal Q27 at 19.

⁷⁰ In my Direct Testimony and in this testimony, I refer to these costs as “transaction costs” when referring to this estimated [REDACTED] cost category.

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1 **A.** Yes, but with a caveat. Ms. Maurice-Anderson does not identify the particular adjustments
2 that raise the purchase price from the \$285.5 million Base Purchase Price amount⁷¹ to [REDACTED]
3 [REDACTED], but this adjustment amount likely reflects in part a current asset transferred to DSU
4 NO and recovered from ratepayers (*e.g.*, gas inventory, accounts receivable). It is essential
5 that ENO's per book cost of assets transferred also contain amounts related to these
6 adjustments. Otherwise, any adjustment increase to the sales price will be offset by a
7 similar adjustment to the book cost of assets sold, and there will be no change to ENO's
8 book gain from my estimate.

9 **Q. MS. MAURICE-ANDERSON ARGUES FOR AN EQUITABLE SHARING OF THE**
10 **BOOK GAIN ON THE GAS TRANSACTION. IS THAT A REASONABLE**
11 **APPROACH?**

12 **A.** No. Ms. Maurice-Anderson argues that any gain, net of transaction costs, from the Gas
13 Transaction be shared between ENO and ratepayers.⁷² She argues, that, after all of ENO's
14 costs related to the Gas Transaction are allowed recovery, a portion of the remaining gain,
15 which she estimates as [REDACTED],⁷³ be returned to ratepayers. This is inappropriate
16 because, (1), the portion ENO would retain constitutes double-recovery of its investment
17 in its gas utility, and (2), this amount does not allow for mitigation of electric ratepayer
18 harm.

⁷¹ See Maurice-Anderson Rebuttal FN 15 at 19. Ms. Maurice-Anderson presents this value as HSPM, but it is a publicly stated value.

⁷² See Maurice-Anderson Rebuttal at 20.

⁷³ See Maurice-Anderson Rebuttal at 19:7.

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1 **XII. ENO'S TRANSACTION COSTS**

2 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COUNCIL**
3 **REGARDING THE RECOVERY OF ENO'S TRANSACTION COSTS.**

4 **A.** In my Direct Testimony, I stated, “[a]s there are no quantifiable electric ratepayer benefits
5 related to the Gas Transaction, recovery of ENO’s Gas Transaction costs constitutes a
6 ratepayer harm. As such, I recommend that as a condition of approval of the Gas
7 Transaction, ENO be directed to not seek recovery of its transaction costs and be required
8 to demonstrate how such costs have been excluded from its rate action filings, such as
9 ENO’s annual FRP Evaluation filings.”⁷⁴ I note that, after the filing of my Direct
10 Testimony, Ms. Maurice-Anderson identified and sponsored new testimony and analysis
11 regarding a ratepayer benefit related to NOLC, which, while not responsive to any direct
12 testimony, I discuss elsewhere in this testimony. In response to this new testimony, it is
13 more accurate to say that there are no net quantifiable electric ratepayer benefits related to
14 the Gas Transaction.

15 **Q. DOES MS. MAURICE-ANDERSON AGREE WITH YOUR RECOMMENDATION**
16 **THAT APPROXIMATELY \$29 MILLION IN TRANSACTION COSTS NOT BE**
17 **RECOVERED FROM RATEPAYERS?**

18 **A.** No. Ms. Maurice-Anderson argues that recovery of these substantial costs is not related to
19 the undisputed fact that the Gas Transaction will cause ratepayer harm to electric ratepayers
20 (absent mitigation) – only the amount of ratepayer harm is disputed. Rather, Ms. Maurice-

⁷⁴ Watson Direct at 54:1-5.

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1 Anderson appears to argue that unless these transaction costs are imprudent, they should
2 be allowed recovery.

3 **Q. DID YOU DISCUSS THE PRUDENCY OF THE TRANSACTION COSTS IN**
4 **YOUR DIRECT TESTIMONY?**

5 **A.** No. Ms. Maurice-Anderson appears to argue that because I did not “contend” that such
6 costs are imprudent, I might agree that they would be prudent.⁷⁵ I offer no opinion as to
7 prudence in this testimony as well.

8 **Q. IS IT NECESSARY TO ADDRESS PRUDENCY OF THE TRANSACTION COSTS**
9 **IN THE INSTANT PROCEEDING?**

10 **A.** No. It is simpler and more straightforward for the Council, as a condition of approval of
11 the Gas Transaction, to require ENO to mitigate harm to electric ratepayers to the Council’s
12 satisfaction. Non-recovery of transaction costs is one appropriate tool to, in part, achieve
13 the mitigation of quantifiable ratepayer harm.

14 **Q. SHOULD THE COUNCIL ALLOW ENO RECOVERY OF ITS TRANSACTION**
15 **COSTS, DOES THAT SUBSTANTIALLY AFFECT YOUR RECOMMENDATION**
16 **REGARDING MITIGATING ELECTRIC RATEPAYER HARM?**

17 **A.** No. Should the Council allow ENO recovery of its transaction costs, this recovery will
18 constitute ratepayer harm, and total ratepayer harm will increase by the amount of ENO’s
19 transaction costs. As I recommend that the Council require ENO to mitigate electric

⁷⁵ See Maurice-Anderson Rebuttal at 18.

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1 ratepayer harm, ENO’s recovery of transaction costs will be offset by increased mitigation
2 amounts.

3 **XIII. NEW DSU NO TESTIMONY**

4 **Q. SINCE THE FILING OF THE JOINT APPLICATION HAS A DSU NO**
5 **AFFILIATE ANNOUNCED AN ADDITIONAL ACQUISITION OF GAS**
6 **UTILITIES?**

7 **A.** Yes, on February 20, 2024, DSU Utilities issued a press release⁷⁶ announcing Delta
8 Utilities’⁷⁷ agreement to acquire gas utilities in Louisiana and Mississippi from CenterPoint
9 Energy, Inc. (the “CenterPoint Transaction”).

10 **Q. DID YOU DISCUSS THE CENTERPOINT TRANSACTION IN YOUR DIRECT**
11 **TESTIMONY?**

12 **A.** Yes, in my Direct Testimony, I noted that the CenterPoint Transaction, if it closes, could
13 significantly reduce the dollar amount of DSU NO’s proposed regulatory asset as well as
14 a significant reduction to shared O&M services allocated to DSU NO,⁷⁸ based on
15 preliminary analysis provided by DSU NO in response to Advisors’ discovery.⁷⁹

16 **Q. DOES MR. DISMUKES DISCUSS POTENTIAL NEW ORLEANS BENEFITS OF**
17 **THE CENTERPOINT TRANSACTION?**

⁷⁶ <https://www.prnewswire.com/news-releases/bernhard-capital-backed-delta-utilities-to-acquire-centerpoint-energys-louisiana-and-mississippi-natural-gas-distribution-operations-302065973.html>

⁷⁷ See DSU NO’s response to CNO 3-3 (“Delta Utilities is a trade name of the collective organization that will be the utility provider for both the Entergy Transaction and CenterPoint Transaction.”).

⁷⁸ See Watson Direct at 29:3-10.

⁷⁹ See DSU NO’s response to CNO 3-13.

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1 **A.** Yes, Mr. Dismukes notes that the ratepayer harm from the Gas Transaction is expected to
2 be lessened as a result of cost sharing with any CenterPoint utilities that DSU Utilities may
3 acquire.⁸⁰ I note that DSU NO witness Yuknis also discusses the CenterPoint Transaction
4 in his rebuttal testimony and offers similar observations as does Mr. Dismukes.⁸¹

5 **Q. DO YOU AGREE WITH MR. DISMUKES THAT THE CENTERPOINT**
6 **TRANSACTION CAN BE EXPECTED TO RESULT IN LOWERING DSU NO'S**
7 **COST OF SERVICE AS COMPARED TO THE GAS TRANSACTION ALONE?**

8 **A.** Yes. Assuming cost allocations among DSU Utilities' utilities are reasonable, such
9 reductions to ratepayer harm are likely, although I have not sought to validate Mr.
10 Dismukes's specific calculations. The Gas Transaction (ENO and ELL), as proposed in the
11 Joint Application, is not contingent on the CenterPoint Transaction. As such, there is no
12 guarantee that these benefits will be available as part of the initial rate case. The Council
13 may, as part of the initial rate case, consider what any CenterPoint Transaction's benefits
14 may be relative to the amount of harm mitigation the Council may find satisfactory.

15 **XIV. NEW ENO TESTIMONY**

16 **A.** *Avoided Debt Issuances*

17 **Q. PLEASE DESCRIBE MS. MAURICE-ANDERSON'S ESTIMATE OF THE**
18 **RATEPAYER BENEFIT FROM ENO'S NOT ISSUING NEW LONG TERM DEBT.**

19 **A.** Ms. Maurice-Anderson argues,

⁸⁰ See Ex. DED-3.

⁸¹ See Yuknis Rebuttal at 2 *et. seq.*

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1 “ENO intends to use the cash proceeds from the proposed transaction to
2 fund capital investments rather than obtaining new debt capital from the
3 market, as discussed by Company witness Ms. Rodriguez in her Direct
4 Testimony. Although the amount of cash proceeds to be retained by ENO
5 has not been determined, if, hypothetically, ENO were to retain \$150
6 million, the expected annual recurring savings is estimated to be roughly
7 \$2.8 million.”⁸²

8 Ms. Maurice-Anderson’s analysis compares the effect on ENO’s WACC of a future \$150
9 million long-term debt issuance at a [REDACTED] cost rate with no new debt issuance (*i.e.*,
10 maintaining ENO’s current cost of debt). Because ENO’s estimated rate of future debt
11 issuance is very significantly higher than its current actual cost of long-term debt, this
12 hypothetical indicates some electric ratepayer savings.

13 **Q. IS IT REASONABLE TO EXPECT ENO’S FUTURE LONG-TERM DEBT**
14 **ISSUANCES WILL BE AT A RATE HIGHER THAN ENO’S PRESENT COST OF**
15 **LONG-TERM DEBT.**

16 **A.** Yes, but that is not certain as bond markets cannot be predicted. ENO’s present cost of
17 long-term debt is 4.85%,⁸³ which represents embedded debt issuances that ENO likely
18 cannot achieve today. ENO’s most recent long-term debt issuance, which has a 10-year
19 tenor, has a cost rate of 6.61%, thus reflecting both current markets for long-term debt and
20 ENO’s present creditworthiness. It is unknowable whether the market for future ENO debt

⁸² Maurice-Anderson Rebuttal, Q11 at 9:16-10:2. *See also* Ex. AMA-2.

⁸³ *See* Figure 1 in this testimony.

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1 issuances will reflect a higher or lower rate than this 6.61%. This rate is substantially less
2 than ENO's speculative [REDACTED] rate, which is admittedly based on a hypothetical 30-year
3 issuance. As such, ENO's future long-term debt issuances, based on current conditions,
4 will likely be at a rate higher than 4.85%, possibly roughly 6.61%, but I see no meaningful
5 evidence they will be at [REDACTED]. I note that, if ENO had the choice of a 10-year issuance that
6 yielded 6.61% and a 30-year issuance that yielded 8.4%, ENO would, in that case, need to
7 carefully consider whether the rate stability of an extra 20 years to maturity is worth a [REDACTED]
8 [REDACTED] premium; on its face, that premium would not be reasonable.

9 **Q. DO YOU AGREE WITH THE ESTIMATE PRESENTED IN EXHIBIT AMA-2?**

10 **A.** No, even noting that interest rates cannot be predicted, Ms. Maurice-Anderson's estimate
11 is overstated. Ms. Maurice-Anderson's \$2.8 million per year estimate of ratepayer benefit
12 assumes that ENO will be able to avoid \$150 million in debt issuances in comparison to its
13 entire long-term debt portfolio's rate. ENO has \$198 million in long-term debt maturing
14 over the next five years. However, Exhibit AMA-2 considers a hypothetical 30-year
15 issuance. ENO's current cost of newly-issued long-term debt is 6.61% and has a 10-year
16 tenor, twice that of \$198 million in outstanding ENO debt. As such, this 6.61% rate is a
17 more apt comparison point than the hypothetical 30-year tenor [REDACTED] employed in Exhibit
18 AMA-2.

19 **Q. WHAT IS YOUR RECOMMENDATION TO THE COUNCIL REGARDING**
20 **QUANTIFIABLE RATEPAYER SAVINGS FROM AVOIDING HIGH-COST**
21 **LONG-TERM DEBT ISSUANCES?**

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1 **A.** I note that sound regulatory ratemaking principles provide that efficiencies, including
2 favorable financing structures, inure to the benefit of ratepayers. However, in the case
3 where ENO is mitigating harm caused by the Gas Transaction, specifically credits to its
4 cost of service and not the application of book gains from the Gas Transaction, I
5 recommend that, when calculating the amount of mitigation in future rate actions, that the
6 Council take into account any provable and quantifiable ratepayer savings caused by
7 ENO's not having to issue new long-term debt as compared to debt issuance that would
8 have been required for ENO to maintain the equity ratio hypothetically assigned by the
9 Council. I specifically note here that, in my opinion, neither the [REDACTED] rate employed in
10 Exhibit AMA-2 nor the methodology employed in that exhibit is reliable for any such
11 Council consideration.

12 **B.** *NOLC-Related Ratepayer Benefit*

13 **Q. PLEASE DESCRIBE MS. MAURICE-ANDERSON'S REBUTTAL TESTIMONY**
14 **REGARDING NOLC?**

15 **A.** Ms. Maurice-Anderson states that my quantifications of ratepayer harm to ENO (electric)
16 ratepayers relative to the Gas Transaction need adjustment.⁸⁴ She further claims that "The
17 Advisors did not quantify the potential reversal of gas-related asset accumulated deferred
18 income taxes ("ADIT") that would arise from the gain on the sale. . ." ⁸⁵ Specifically, Ms.
19 Maurice-Anderson notes that the taxable gain from the sale of ENO's gas utility is
20 estimated to reduce ENO's NOLC balance to [REDACTED]

⁸⁴ See Maurice-Anderson Rebuttal (REV) Q16 at 13.

⁸⁵ *Id.*

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1 [REDACTED].⁸⁶ Her revised testimony and responses to Advisor
2 discovery estimate the electric customer ratepayer benefit over two years to total [REDACTED]
3 [REDACTED]

4 **Q. DO YOU AGREE THAT THE ADVISORS FAILED TO CONSIDER THE**
5 **EFFECTS OF NOLC?**

6 **A.** To the extent Ms. Maurice-Anderson’s testimony that I quote above suggests that the
7 Advisors should have quantified the effects of NOLC ADIT on ENO, I do not agree. In
8 discovery, the Advisors requested, “[a] quantified estimate of the long-term benefits of the
9 proposed transaction to ENO’s electric customers, including projected rate impacts.”⁸⁸
10 ENO declined to provide projected rate impacts, but it did estimate a revenue deficiency
11 of [REDACTED].⁸⁹

12 My Direct Testimony relied on this estimate, which did not consider NOLC.

13 **Q. WHEN DID ENO FIRST INTRODUCE THE CONCEPT OF NOLC IN THE**
14 **INSTANT PROCEEDING?**

15 **A.** ENO provided an Addendum 2 response to CNO 1-13 on June 25, 2025 that introduced
16 the concept of NOLC, which was further revised in ENO’s response to CNO 7-2 on July
17 16, 2024. This data was introduced after my Direct Testimony and just before the filing of
18 ENO’s witnesses’ rebuttal. In my view, this is new testimony, not responsive to my Direct

⁸⁶ *Id.*

⁸⁷ *See Id.* See also ENO’s HSPM responses to CNO 1-13 Addendum 2 and CNO 7-2.

⁸⁸ DR CNO 1-13.e

⁸⁹ *See* ENO’s HSPM response to CNO 1-13.e.

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1 Testimony, and as such, it is somewhat misleading to imply a failure to quantify this
2 benefit. Indeed, the Joint Application does not mention NOLC or any form of ADIT at
3 all,⁹⁰ (NOLC is recorded in an ADIT account on ENO's books of account) which is where,
4 in my opinion, the Joint Applicants should have introduced and discussed this issue.

5 **Q. APART FROM THE PREDICATE FOR MS. MAURICE-ANDERSON'S**
6 **REBUTTAL TESTIMONY, DO YOU AGREE THAT THE EFFECT ON ENO'S**
7 **NOLC ADIT BALANCE FOLLOWING ANY CLOSE OF THE GAS**
8 **TRANSACTION IS AN ELECTRIC RATEPAYER BENEFIT?**

9 **A.** Mostly, yes. Relevant here is ENO's present claimed NOLC totaling [REDACTED]
10 [REDACTED]
11 [REDACTED].⁹¹ Prior to ENO's restructuring, ENO was a different
12 corporate entity (ENO was previously organized in Louisiana and is now a different entity
13 organized in Texas; these two companies happen to have the same name) and filed tax
14 returns as part of a different consolidated taxpayer than at present. It is unclear to me how
15 ENO's taxable earnings (*i.e.*, the tax gain from the Gas Transaction) can offset or use the
16 NOLC from the pre-restructuring period. Put another way, it is unclear to me how taxable
17 income from one taxpayer can be used to offset or use the NOLC of another taxpayer. Still,
18 it appears that ENO makes this claim.

⁹⁰ A text-based search of the 164-page *Joint Application and Exhibits of DSU NO and ENO PUBLIC* and the 71-page *Exhibit 1 Direct Testimony_Jeffrey Yuknis* (HSPM) does not identify any mention of ADIT or NOLC.

⁹¹ See ENO's 2024 FRP Evaluation Filing, *AJ03A - ADIT_E_WP_HSPM*, Tab *WP2_HSPM*.

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1 ENO should affirm that its claim that the Gas Transaction will cause [REDACTED]
2 [REDACTED] takes into account ENO's history of restructuring and tax returns
3 as part of multiple consolidated tax filings. To the extent the Gas Transaction will not, in
4 fact, offset NOLC from those periods, or in any event reduce or eliminate the effect on rate
5 base, ENO should modify its claims. Absent any clarification from ENO, I recognize this
6 estimated beneficial effect related to NOLC.

7 **Q. DO YOU HAVE ANY OTHER OBSERVATION REGARDING MS. MAURICE-**
8 **ANDERSON'S TESTIMONY IN THIS AREA?**

9 **A.** Yes, in FERC Docket No. ER21-915 *et. al.*, I testified that NOLC is the result of a
10 calculation that combines all the taxable revenues and tax-deductible expenses of a utility,
11 but that the effect on the total NOLC balance of a single tax deduction (gain in the instant
12 case) can be calculated.⁹² Here, Ms. Maurice-Anderson is performing a calculation based
13 on the premise of my testimony before FERC: calculating what NOLC would be under a
14 hypothetical, specifically the close of the Gas Transaction.

15 **Q. SHOULD NOLC ADIT-RELATED BENEFITS BE CONSIDERED AS AN OFFSET**
16 **TO ACTUAL RATEPAYER HARM RELATED TO THE GAS TRANSACTION**
17 **THAT YOU HAVE RECOMMENDED THE COUNCIL REQUIRE ENO**
18 **MITIGATE IN FUTURE RATE ACTIONS?**

19 **A.** Yes. Ms. Maurice-Anderson's testimony and ENO's responses to discovery indicate that
20 the effect of a particular event (*i.e.*, the taxable gain from the Gas Transaction) on NOLC

⁹² See FERC Docket Nos. ER21-915 and EL22-6, Ex. No. CNO-0001 (Watson Answering) at 23.

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1 is calculable. As such, as part of ENO’s first rate action following the close of the Gas
2 Transaction, the actual such beneficial effect of a reduced NOLC ADIT balance, as
3 compared to what ENO’s NOLC ADIT balance would have been absent the Gas
4 Transaction, should be considered as an offset to the ratepayer harm that I recommend be
5 mitigated.

6 *C. Customer Usage and Efficiencies*

7 **Q. PLEASE DESCRIBE MS. MAURICE-ANDERSON’S TESTIMONY REGARDING**
8 **CUSTOMER USAGE.**

9 **A.** Ms. Maurice-Anderson testifies that a myriad of factors occurring between now and ENO’s
10 first Electric FRP evaluation following the close of the Gas Transaction (*i.e.*, ENO’s 2026
11 FRP Evaluation Filing) could make the Advisors’ recommended ratepayer harm mitigation
12 unwarranted.⁹³ Specifically, in the next twenty-three months until the 2026 FRP Evaluation
13 Filing,

- 14 • ENO may be able to achieve cost efficiencies through ENO’s engagement in
15 opportunities for continuous improvement
- 16 • O&M can vary significantly from year to year
- 17 • The electric operations of the Entergy Operating Companies (“EOC”) are expected to
18 grow and utilize spare gas operational capacity

⁹³ See Maurice-Anderson Rebuttal at 14.

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- 1 • ENO’s existing electric customer usage is expected to grow slightly, plus a significant
2 usage increase due to the Sewerage and Water Board of New Orleans’s (“SWB”)
3 expected increase in consumption due to the electrification of certain major operations
4 presently fueled by gas.⁹⁴

5 **Q. DO YOU AGREE THAT THESE FACTORS AFFECT THE EXPECTED**
6 **RATEPAYER HARM CAUSED BY THE GAS TRANSACTION?**

- 7 **A.** No. None of these factors identified by Ms. Maurice-Anderson are relevant to ratepayer
8 harm related to the Gas Transaction or their mitigation.

9 Regarding potential efficiencies, ENO should pursue these under any circumstance.
10 Indeed, as ENO or its direct predecessors has been engaged in operating an electric utility
11 since the dawn of electric utilities, there is no apparent reason why these efficiencies are
12 expected to be affected only now.

13 Regarding O&M variances, O&M does vary from year to year somewhat, in particular that
14 allocated to ENO from affiliates. However, ENO’s [REDACTED] estimate of gas O&M
15 retained by ENO is based on the most current data available: 2023. ENO is free to update
16 this same analysis with 2024 data, which may be the final calendar-year data available
17 before the close of the Gas Transaction.

18 Regarding the growth of the EOCs, Ms. Maurice-Anderson does not explain how this will
19 not occur with or without the Gas Transaction. This efficiency, which is unquantified, is
20 not related to the Gas Transaction at all.

⁹⁴ *Id et. seq.*

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1 Regarding the effect of the SWB’s electrification, again, this will occur without the Gas
2 Transaction. While this might benefit electric ratepayers by spreading fixed costs across a
3 broader user base, it has nothing to do with the Gas Transaction.

4 **XV. ADDITIONAL AND REVISED RECOMMENDATIONS**

5 **Q. AS PART OF YOUR DIRECT TESTIMONY OR IN THIS TESTIMONY, ARE**
6 **YOU STATING THE DOLLAR AMOUNT OF MITIGATION THE COUNCIL**
7 **SHOULD REQUIRE AS A CONDITION OF APPROVAL OF THE GAS**
8 **TRANSACTION?**

9 **A.** No. To assist the Council in its evaluation of ratepayer harm due to the Gas Transaction,
10 in my Direct Testimony, I provide estimates of such an amount based on information
11 presently available.

12 **Q. SHOULD THE COUNCIL CONSIDER THE DOLLAR AMOUNT OF**
13 **RATEPAYER HARM MITIGATION BASED ON INFORMATION THAT IS**
14 **EXPECTED TO BECOME AVAILABLE?**

15 **A.** Yes. For example, ENO is expected to file one or two additional GFRP Evaluation Filings
16 before the initial rate case. If the final ENO GFRP filing is in 2025, proformed cost of
17 service information will be as of December 31, 2025. If there is another GFRP filing,
18 proformed cost of service information will be as of December 31, 2026. Based on a 2025
19 close to the Gas Transaction, the Period I date of the initial rate case could be the same
20 December 31, 2026 (assuming DSU NO uses a calendar year test period). This scenario
21 would provide useful data for comparing an ENO gas utility with a DSU NO gas utility.

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1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED FRAMEWORK FOR THE**
2 **COUNCIL TO DETERMINE THE SATISFACTORY DOLLAR AMOUNT OF**
3 **GAS RATEPAYER HARM MITIGATION.**

4 **A.** Consistent with my Direct Testimony, I recommend that the Council consider the
5 incremental revenue impact caused by the Gas Transaction, comparing ENO's revenue
6 requirement with that of DSU NO as part of DSU NO's initial rate case. I have identified
7 in my Direct Testimony the following impacts on revenue requirement.

- 8 1. The loss of credit-ADIT. This amount is likely best determined from ENO's final
9 GFRP Evaluation Filing, subject to provable adjustments for any period from the GFRP
10 measurement date through Period II of the initial rate case.
- 11 2. DSU NO's accumulation of credit-ADIT from the close of the Gas Transaction through
12 Period II of the initial rate case. This amount is calculable and is a standard component
13 of a rate case application.
- 14 3. The regulatory asset amount. DSU NO has explicitly declined to guarantee any
15 maximum amount for this requested recovery. Approval and closure of the CenterPoint
16 Transaction is expected to affect this amount significantly. As such, the amount of
17 mitigation the Council may deem satisfactory requires information that should be
18 available as part of the initial rate case.
- 19 4. Intangible plant. As with the regulatory asset, DSU NO does not guarantee any
20 maximum amount. Approval and closure of the CenterPoint Transaction will affect this
21 amount significantly. As I mention in my Direct Testimony and reiterate in this

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1 testimony, DSU must begin depreciating this investment at ENO's authorized
2 depreciation rate upon its close to plant in service. By the Period II date of the initial
3 rate case, this balance requiring mitigation may change significantly.

4 5. Change in cost of debt. Currently available data demonstrate that on an apples-to-apples
5 basis, DSU NO's cost of debt is higher than that of ENO, but this difference is less than
6 a simple comparison of ENO's embedded total cost of debt with DSU NO's cost of
7 debt. An analysis can seek to isolate the effect of the Gas Transaction from changes in
8 the debt markets overall.

9 6. ENO plant not transferred. The effect of this offset to the regulatory asset and intangible
10 plant will be reflected in DSU NO's detailed accounting. It should be possible to
11 calculate this amount by comparing such balances as of ENO's final GFRP Evaluation
12 Filing with equivalent balances on DSU NO's books as of the initial rate case.

13 7. O&M efficiency compared to that of ENO. In my analysis, I have not assumed any
14 change to operating expenses compared to that of ENO. Should DSU NO achieve
15 actual reductions to O&M as compared to ENO, DSU should be allowed to prove this
16 reduction is the result of its management versus that of ENO for the Council's
17 consideration.

18 I recommend that, when determining the dollar amount of ratepayer harm mitigation, the
19 Council consider, in the context of the most current ENO and DSU NO data available, each
20 of the above factors as they relate to specific changes to revenue requirement caused by the
21 Gas Transaction.

PUBLIC REDACTED VERSION

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED FRAMEWORK FOR THE**
2 **COUNCIL TO DETERMINE THE SATISFACTORY DOLLAR AMOUNT OF**
3 **ENO RATEPAYER HARM MITIGATION.**

4 **A.** ENO has estimated the annual revenue requirement of ratepayer harm as [REDACTED].⁹⁵
5 However, this estimate can be expected to change somewhat upon ENO's first rate action
6 following the close of the Gas Transaction (*i.e.*, an EFRP Evaluation Filing) and for rate
7 actions thereafter. As such, I recommend that the dollar amount of satisfactory ENO
8 ratepayer harm mitigation be calculated by,

- 9 1. Updating the calculation presented in ENO's response to DR CNO 1-13 using the most
10 currently available information, and
11 2. Offsetting the amount calculated by updating ENO's response to DR CNO 1-13 with,
12 a. The revenue requirement effect of any reduction to the amount of NOLC ADIT
13 includable in rate base as a result of the Gas Transaction, and
14 b. The provable revenue requirement effect on ENO's WACC from an avoided debt
15 issuance, specifically what effect on ENO's WACC that debt issuance would have
16 had.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 **A.** Yes.

⁹⁵ See ENO's HSPM response to CNO 1-13.e.

AFFIDAVIT

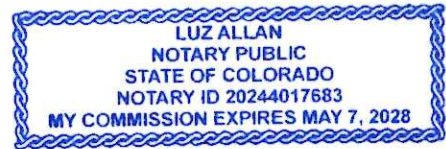
STATE OF COLORADO)
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COUNTY OF ARAPAHOE)

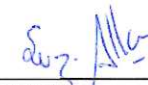
NOW BEFORE ME, the undersigned authority, personally came and appeared, Byron S. Watson, who after being duly sworn, did depose and state:

I am the person identified in the attached Surrebuttal Testimony and such testimony was prepared by me or under my direct supervision; the answers and information set forth therein are true and correct; and if asked the questions set forth therein, my answers thereto would, under oath, be the same.


Byron S. Watson

Subscribed and sworn to before me
this 1st day of August, 2024.





NOTARY PUBLIC