UD-18-07: Combined Rate Case

UTILITY, CABLE, TELECOMMUNICATIONS, AND TECHNOLOGY COMMITTEE
OCTOBER 23, 2019
What is a Rate Case?

A rate case is a formal process to determine electric and gas rates charged to customers. This rate case is the first since the Summer of 2008 and the first since Algiers joined Entergy New Orleans (“ENO”).

Procedural Schedule:

❖ September 21, 2018 – ENO filed their revised rate application for change in electric and gas rates
❖ October 4, 2018 – City Council approved Resolution R-18-434, opening Docket No. UD-18-07 and initiating the discovery period
❖ November 5, 2018 – Intervention Deadline
❖ February 1, 2019 – Direct Testimony Deadline
❖ March 22, 2019 – Rebuttal Testimony Deadline
❖ April 26, 2019 – Surrebuttal and Cross-Answering Testimony Deadline
❖ May 24, 2019 – ENO Rejoinder Testimony Deadline
❖ June 17 – 21, 2019 – Evidentiary Hearing
❖ June 28, 2019 – Deadline for Hearing Officer to certify the record
❖ July 26, 2019 – Post-hearing Briefs Deadline
❖ August 9, 2019 – Reply Briefs Deadline
❖ November 9, 2019 – Council Action Deadline
What is City Council’s Role in a Rate Case?

❖ **Home Rule Charter Section 3-130** - The City Council is responsible for fixing and changing rates.

❖ **The City Council is responsible for:**
  - Reviewing ENO’s Rate Case application, information submitted as part of the record, and rendering a determination as to the proper retail electric and gas rates to be charged by ENO.
  - Ensuring rates are **just and reasonable** and allow ENO a reasonable opportunity to recover its prudently incurred costs and earn a reasonable return on the investments of the utility company such as power plants and any resources needed to serve customers’ electric and gas needs.
  - Balancing the interest of ENO’s customers with the interest of the utility company to ensure the lowest reasonable rates to provide safe and reliable electric and gas service.
Previous Rate Cases

The last rate case (2008) produced an ROE of 11.1% for the East Bank and excess revenue for ENO. Several subsequent rate reductions took effect.

- After the 2008 rate case (the last for ENO which first introduced), rates had to be adjusted four separate times through Formula Rate Plan (FRP):

  "...This would be the fourth straight year that the utility has [had to] **lower** its electricity rates, following an $18 million drop in 2010, a $35 million cut in 2009, and a $10.6 million reduction in 2008."

Source: [nola.com](http://nola.com), August 18, 2011
Changes Since the 2008 Rate Case

2011 Expiration of the FRP
➢ In 2008, the City Council approved a formula rate plan (periodic rate schedule adjustment procedure) through 2011. As a result, ENO has charged the same base rates since 2012.

Power Generation
➢ 2011 - Ninemile 6 (560MW) purchased for app. $655M
➢ 2015 - Union Power Block (495 MW) purchased for app. $948M
➢ 2016 - Michoud Power Plant (781MW) retired
➢ 2018 - NOPS (128 MW) approved est. cost $220
➢ 2019 - 90MW of Solar Generation, including 20MW New Orleans Solar Station, approved

Algiers Joins ENO
➢ Council adopted R-15-194 authorizing ENO to acquire Algiers’ electric operations, assets, & liabilities from Entergy Louisiana.
➢ UD-18-07 addresses bringing Algiers rates into alignment with New Orleans East Bank rates.

Technology And Resiliency Advancements
➢ Energy Smart Program initiated
➢ Advanced Metering Infrastructure
➢ 5MW DG Solar approved
➢ Community Solar program outlined and initiated
The City Council’s Rate Setting Resolution

What makes rates? Some key factors:

❖ **Revenue Requirement** - The total annual revenues a utility must collect from its customers to meet its operating expenses, provide is shareholders with a reasonable rate of return, and attract new capital. This is essentially ENO’s total cost to serve its customers.

❖ **Return on Equity** - The permitted return on assets which drives a utility company’s profitability. A return on equity is a utility’s profit margin.

❖ **Proforma Costs** – Adjustments based on known and measurable costs applied to customer bills to limit the amount of time between when the expense is incurred and when it is recovered.

❖ **Customer Charge** – The amount charged to each ratepayer to cover the utility’s operating expenses. The amount is constant from month-to-month regardless of variations in the amount of power used.
What Does the City Council’s Proposed Resolution Deliver?

★ Lower Monthly Rates
★ New Options For Renewable Power
★ A Balanced Rate Treatment That Respects All Stakeholders
How Did We Get Here?

From Filing to Resolution
Affordability First

Energy Poverty: New Orleans has among the highest “energy burdens” in the United States
- Low-income NOLA HHs pay ~9.8% of income for energy
- Why?
  - High poverty rates (3rd highest in US)
  - High energy usage (highest per capita in US), despite relatively low energy rates (lowest in US)

The Council’s Proposed Resolution Actually **Lowers** Residential Rates

And lowers rates for other taxpayer-funded payers (like S&WB/CNO) too, saving New Orleanians twice!

Plain as Day: Average residential ratepayers (1000kwh use) will see their monthly bills decrease:
- When was the last time a utility - or any bill - went down for the average New Orleanian?
- Affordability matters
How Does This Rate Case Affect YOU?

Freezes the Regressive Customer Charge

Affordability First

➢ **ENO** proposed doubling the regressive minimum customer charge to $15
➢ **The Council instead proposes to freeze the customer charge at $8** - among the only regulators across the nation to do so (See: Figure from EEI Q1’19 below)
   ○ **Why?** Even before you turn on the light, customers owe ENO the minimum charge. *Increasing this charge only increases the burden on low-income and working class people.*
   ○ A lower charge encourages more efficiency - **use less, pay less**

<table>
<thead>
<tr>
<th>Company</th>
<th>State</th>
<th>Original</th>
<th>Filed</th>
<th>Decided</th>
</tr>
</thead>
<tbody>
<tr>
<td>UGI Utilities</td>
<td>Pennsylvania</td>
<td>$5.50</td>
<td>$14.00</td>
<td>$14.00</td>
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<tr>
<td>Public Service Electric &amp; Gas</td>
<td>New Jersey</td>
<td>$2.27</td>
<td>$4.24 first year</td>
<td>$4.64</td>
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<tr>
<td>Indianapolis Power &amp; Light</td>
<td>Indiana</td>
<td>$17 for customers who use 350 kWh per month and above</td>
<td>$27</td>
<td>$17</td>
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<tr>
<td></td>
<td></td>
<td>$11.20 for customers who use less than 350 kWh</td>
<td>$16</td>
<td>$12.00</td>
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<td>$14</td>
<td>$15.18</td>
<td>$14.25</td>
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<td>Duquesne Light</td>
<td>Pennsylvania</td>
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<td>$16.25</td>
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<td>PECO Energy</td>
<td>Pennsylvania</td>
<td>$8.45</td>
<td>$12.50</td>
<td>$10</td>
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<tr>
<td>Entergy Texas</td>
<td>Texas</td>
<td>$7</td>
<td>$13.64</td>
<td>$10</td>
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</tbody>
</table>
How Does This Rate Case Affect YOU?

More Features, Less Cost

Features For ENO Customers

➢ Green Power Option
  • Provides customers with the option to purchase power derived from “green” energy sources over and above that provided through the grid.
  • Customers would be able to choose to purchase clean power at an amount that they choose through Renewable Energy Certificates (RECs).
  • This encourages the adoption of clean power while allowing customers the choice to further enhance their own climate action through their utility bill.
    ▪ Many large customers - including large companies with corporate social responsibility goals - want the option to offset energy use in any territory by purchasing 100% renewable power.
    ▪ Green options (tariffs) attract businesses and customers alike to markets that have the option to buy only clean power.
  • Type of approved REC sources will be determined by the Renewable Portfolio Standard Docket (UD-19-01), likely in early 2020.

➢ Energy Smart Continues
  • The Council’s award-winning energy efficiency program continues to reduce demand and is poised to deliver even more results.

➢ Electric Vehicle (EV) Chargers, EV home-charger rebates, & more
  • As EVs become affordable, ENO customers get access to rebates for installing home chargers and public charging stations are poised to proliferate.
How Does This Rate Case Affect YOU?

Algiers Customers Avoid Rate Shock

Since the merger between East and West Banks, Algiers customers have been paying different energy rates...

➢ To merge the two banks, Algiers rates must align with East Bank customers

The Council’s proposed resolution protects Algiers from initial rate shock, and moderates rate alignment over the next several years:

➢ Under the Council’s proposed resolution, Algiers Customers see ZERO first-year rate increases

➢ And future changes starting in 2021 are capped at only 4% a year
Key Issue: “Return On Equity” (ROE)

What does it mean and where did we land?

Through the “regulatory compact,” or the authorization of a regulated monopoly, regulators of Investor-owned utilities set an allowable return on equity for the utility. This is a significant component of revenue production for the utility.

Current: 11.1% (East Bank)

Requested: 10.75% (up to 11% w/ “incentives”)
The resolution proposes an ROE of 9.35% that is strongly supported by the market and testimony by experts from the Crescent City Power Users Group, Air Products, and the Council’s technical advisors.

Key Issue: “Return On Equity” (ROE)

*What does it mean and where did we land?*

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Key Issue: “Return On Equity” (ROE)

“ENO’s 10.75% is outside the range of expert analyses by the four other witnesses in the proceeding, and even many of ENO’s own analyses do not support a 10.75% ROE. While a 8.93% ROE, as recommended by the Advisors, is supported by market data, a 9.35% ROE also falls within the Advisors’ range of such analyses, comports with the latest Edison Electric Institute (“EEI”) report on ordered ROEs, and provides greater assurance of balancing the interests of all stakeholders by relying on the concurrence of four independent expert opinions.”
Resolution and Order: By the Numbers

ENO Revenue Reductions

➢ ENO Application: -$20.3M (electric) and -$0.9M (gas)
➢ Resolution: -$36.9M (electric) and -$3.7M (gas)

Return on Equity

➢ Current: 11.10 (Legacy) and 9.95 (Algiers)
➢ ENO Application: 10.75%
➢ Proposed Resolution: 9.35%

Customer Charge

➢ Current: $8.07
➢ ENO Application: $15.53
➢ Proposed Resolution: $8.07

Equity Ratio

➢ Current: 55.8% (2017)
➢ ENO Application: 52.5%
➢ Proposed Resolution: 50.0%
What’s New In This Proposed Resolution?

Pro Forma Costs
- Includes known and measurable costs in the rate base as opposed to in riders
- Beginning December 31, 2019
- Allows for greater stability on bills from month-to-month

Formula Rate Plans
- Allows for moderate adjustments to rates to include proforma costs
- Allows for decoupling adjustments between actual and authorized revenue
- Reduces ratemaking administrative costs

Green Power Option
- Provides customers with the option to ensure that power used is derived from “green” energy sources

Sustained Funding of Energy Smart
- The proposed Resolution establishes a steady, permanent funding mechanism for the Council’s popular and award-winning Energy Smart program.

Rebates for Electric Vehicle Chargers
- $250 rebate for customers that install electric vehicle charging equipment at their homes.
# Typical Residential Bill

**Ex: Current Rate Plan**

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<thead>
<tr>
<th>Account Summary for Jane Q. Public</th>
<th>Mail Date</th>
<th>QPC 08000</th>
<th>Invoice #</th>
<th>XX/XX/2019</th>
<th>Cycle 15</th>
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<table>
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<tr>
<th>Account Detail</th>
<th>Previous Balance</th>
<th>100.00</th>
<th>Payment Received</th>
<th>(XX/XX/2019)</th>
<th>-100.00</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Remaining Balance</td>
<td>$0.00</td>
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**Ex: Council’s Proposed Plan**

<table>
<thead>
<tr>
<th>Account Summary for Jane Q. Public</th>
<th>Mail Date</th>
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<td>Invoice # XXXXXXXXXX</td>
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<th>Account Detail</th>
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<td>Remaining Balance</td>
<td>$0.00</td>
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### Affordability First

The Council’s proposed rates decrease costs for nearly all ratepayers:

<table>
<thead>
<tr>
<th></th>
<th>Energy (kWh/mo.)</th>
<th>Demand (kW)</th>
<th>Number of Customers</th>
<th>Present Rates</th>
<th>Resolution Rates</th>
<th>Change</th>
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<tbody>
<tr>
<td>Residential Legacy</td>
<td>1,000</td>
<td>n/a</td>
<td>160,296</td>
<td>$125.77</td>
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<td>Residential Algiers</td>
<td>1,000</td>
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<td>21,204</td>
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<td>Small Electric Legacy</td>
<td>1,825</td>
<td>10</td>
<td>17,199</td>
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<td>$260.36 [1]</td>
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<tr>
<td>Small Electric Algiers</td>
<td>1,825</td>
<td>10</td>
<td>1,531</td>
<td>$273.08</td>
<td>$254.84 [1]</td>
<td>$(18.24)</td>
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<tr>
<td>Large Electric</td>
<td>91,250</td>
<td>250</td>
<td>333</td>
<td>$9,839</td>
<td>$9,181</td>
<td>$(658)</td>
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<td>Large Electric Algiers [2]</td>
<td>91,250</td>
<td>250</td>
<td>70</td>
<td>$8,692</td>
<td>$9,386</td>
<td>$694</td>
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<td>Large Electric HLF</td>
<td>118,625</td>
<td>250</td>
<td>536</td>
<td>$11,941</td>
<td>$10,855</td>
<td>$(1,086)</td>
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<td>High Voltage</td>
<td>5,840,000</td>
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<td>2</td>
<td>$518,252</td>
<td>$363,408</td>
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</table>

Note: Typical Bills include all Riders, franchise fees and sales taxes, and reflect impact of Algiers Residential Customer mitigation.

[1] Typical bills between Legacy and Algiers are different due to the City’s different franchise fee rates between east and west bank service areas.

[2] Large Electric Algiers customers are being transitioned to the Large Electric HLF.
Questions?