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August 1, 2019

***(Via Electronic Mail Only)***

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**Re: Entergy New Orleans, LLC's Status Update regarding its Proposed *Path to Progress***

Dear Councilmembers:

As you are aware, the parties recently concluded the evidentiary hearing in ENO's 2018 Rate Plan.[1] Based in part on your insightful feedback, through this letter and planned outreach

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[1] *See* Council Docket UD-18-07, ENO's Revised Application for a Change in Electric and Gas Rates and Related Relief ("ENO's 2018 Rate Plan").

efforts, we want to make the Council and ultimately the public aware that ENO believes an agreement can be reached that would provide immediate rate decreases to typical residential electric and gas customers. The proposed approach, which would require more work among the parties to fully develop the details and the subsequent approval of the Council, would, among other things:

- **Reduce ENO's electric revenues by $27 million and its gas revenues by $3 million**;
- **Result in overall rate decreases for combined typical residential and gas customers** (*i.e.*, a total decrease of monthly bills by $3.14 for the typical[2] East Bank combination gas and electric residential customer and $2.11 for the typical Algiers combination gas and electric residential customer);
- **Maintain a financially viable utility** poised to implement electric grid modernizations that will result in continued improvements to customer service;

Following this letter, the Company will engage in a public outreach effort through various communications channels, which will, at a minimum, involve hosting local meetings in each Council district informing customers of the benefits of ENO's approach to resolve the rate case and answer any customer questions about the newly proposed *Path to Progress*.

ENO is hopeful that its proposed approach, or the *Path to Progress*, will afford the Company and the Council an opportunity to work collaboratively to address the needs of the communities served. My understanding is that a similar relationship existed immediately following Hurricane Katrina. At that time, despite ENO's bankruptcy, the Council and ENO worked together to help ensure a financially viable utility. As a result, customers benefited from rates below the national average (over a 10-year period). New Orleans was served by one of the cleanest fleets in the country with over 50% clean energy used to meet the load requirements and emissions rates 50% below the national average.

Once again, the Company and the Council are faced with important decisions about the energy future of New Orleans and ENO's role in it. The Company has an aggressive plan to invest in New Orleans over the next five years to meet the Council's and the Company's shared objectives. This investment plan and the rate structure necessary to support it are what have informed ENO's *Path to Progress*. Some objectives of ENO's *Path to Progress* include deploying Advanced Metering Infrastructure, expanding ENO's use of clean energy resources through renewables, increasing demand-side management alternatives (including stable funding), improving reliability of the electric grid and modernizing it to support the integration of distributed energy resources and Smart City objectives. These shared objectives must also be

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[2] The typical residential customer uses 1000 kWh of electricity and 50 ccf of natural gas per month.

coupled with a plan that preserves ENO's financial health as it commits substantial capital investment necessary to make these goals a reality.

**ENO's Proposal Supports the *Path to Progress***

While the Company maintains the soundness of the 2018 Rate Plan as filed, it also understands the value of compromise. ENO believes that, under the appropriate conditions, it could increase the amount of its originally proposed rate reduction from $20 million to $27 million for electric customers, while maintaining an authorized return on equity consistent with utilities facing risks similar to those of ENO, as discussed below. ENO's revised proposal would result in a decrease of $1.03 on the monthly electric bill of a typical East Bank residential customer, and no change to the monthly electric bill of a typical Algiers residential customer in connection with ENO's 2018 Rate Plan until 2021. Also, the proposal will increase the originally proposed reduction in gas revenues to $3 million, which will amount to a decrease of about $2.11 on the monthly gas bill of a typical residential gas customer.

**Accordingly, overall, ENO's proposal would amount to a total decrease of monthly bills by $3.14 for the typical East Bank combination gas and electric residential customer, and a decrease of $2.11 for the typical Algiers combination gas and electric residential customer**.

In short, ENO believes that with the leadership of the Council, ENO can deliver near-term decreases in rates to the typical customer while taking positive steps on its *Path to Progress*. In the Company's September 2018 plan, the Company voluntarily reduced its allowed return from 11.1% to 10.5%. Of course, the *allowed* return is not guaranteed; and a utility takes on risks when it invests money, especially in an area that is prone to severe weather like New Orleans. The events following Hurricane Katrina, for example, serve as a stark reminder that one singular storm can force New Orleans' electric/gas utility into bankruptcy. In fact, independent credit rating agencies consider ENO one of the riskiest utilities in the United States on a stand-alone basis due to its location, concentrated geographical area, and small number of customers in comparison to other larger utilities with more customer diversity. As such, the universal truth for any investment applies to ENO: the riskier the investment, the higher the return required by investors who advance monies to ENO to fund its investment in serving customers.

ENO believes it can reduce its requested return on equity (ROE) below 10.5% if paired with a Formula Rate Plan that reflects those modifications proposed by the Council's Advisors, but that contains a ROE commensurate with the risks that ENO's investors will undertake. Though ENO's stand-alone credit ratings indicate it is far riskier than most of the utilities listed on the chart below, the chart demonstrates that there are other utilities facing storm risks and/or other risks whose regulators have allowed returns above 10.0%:

| Company | ROE |
|---|---|
| Gulf Power (FL) | 10.25% |
| Tampa (FL) | 10.25% |
| Duke (FL) | 10.50% |
| FP&L (FL) | 10.55% |
| Atlanta Gas Light (GA) | 10.55% |
| Scana (SC)* | 10.75% |
| Ga Power (GA) | 10.95% |
| CLECO (LA) | 10.00% (current)/ 11.00% (requested) |
| PG&E (CA)* | 10.25% (current)/ 16.00% (requested) |
| * Credit ratings below investment-grade | |

ENO is one of only three utilities in the U.S. with a below-investment-grade credit rating, which signals that ENO is a riskier company when compared to other utilities with which it competes for capital and, therefore, requires a higher equity return. This means that it would not be prudent for the Council to set a return on equity at the bottom (or below) the range indicated above. Sound regulatory policy would not trade long-term financial stability for a short-term, temporary gain.

Further, the conditions under which ENO's rates may be resolved could include other significant benefits to customers as well as concessions to the other intervening parties in the rate case. For example, under the Company's revised plan, most commercial and industrial customers will also see reductions in their monthly electric bills. ENO's revised plan will also include annual evaluations of ENO's earnings for the next three years through a formula rate plan for electric and gas operations. Additionally, the Company has proposed an innovative way for the Council to incentivize energy efficiency (*i.e.*, the Demand-Side Management Cost Recovery Rider) and provide a stable funding source for these resources while saving customers money.

## ***<u>ENO's Next Steps on the Path to Progress</u>***

ENO has made significant strides over the past several months. For example, the Company has: developed a 90MW renewable solar generation portfolio that was very recently approved by the Council;[3] recommitted to environmental stewardship through a plan to use 70%

[3] ENO continues construction of a commercial-scale 5 MW Rooftop Solar project approved by the Council in June 2018, and of a residential Rooftop Solar pilot.

clean energy to serve New Orleans by 2030;[4] realized marked decreases in customer outages;[5] and, established a new organization aimed exclusively at improving customer service and community relations. And while we still have work to do, our goal is to continue this progress as we work to deliver world-class energy services to the citizens of New Orleans. But as the Council is aware, the Company must maintain solid financial footing to succeed.

The Company has proposed a *Path to Progress* wherein the earnest goals of its proposal are as follows: to reduce customer rates as appropriate while maintaining a financially healthy utility posture, positioning the company to capitalize on opportunities created by technology advancements while combating climate change. Recognizing the complexity of the issues presented herein for consideration, the Company's next steps will include:

- follow-up with members of the Council, the Advisors and intervenors in Docket UD-18-07 to provide further details on the framework that could provide for resolution of the pending litigation; and,
- engagement in a public outreach effort through various communication channels, which will, at a minimum, involve hosting additional meetings in each Council district over the next few weeks to inform customers regarding the benefits of its proposal and answer questions about ENO's proposed *Path to Progress*.

As always, I remain excited about the potential to advance the shared goals of the Council, the Community, and the Company; and, I thank you for your consideration.

Sincerely,

David D. Ellis

cc: Mr. Clinton A. Vince
Mr. Presley R. Reed, Jr.
Ms. Emma F. Hand
Mr. Basile Uddo
Mr. J. A. Beatmann, Jr.

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[4] *See* ENO's Clean Energy Standard Proposal, filed in Council Docket UD-19-01. The Company has a plan to use 70% clean energy to serve its electric demand by 2030 using diverse resources that will keep rates as low as reasonably possible for customers.

[5] For instance, ENO's distribution line-related customer interruptions decreased by approximately 20% in 2018, as compared to 2017, and ENO has continued to see significant improvements in distribution system reliability in 2019 as compared to the same period in 2018.

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Mr. Victor M. Prep
Mr. Byron S. Watson
Mr. Errol Smith
Brian L. Guillot
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