

# THE LAWTON LAW FIRM, P.C.

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September 27, 2022

*Via E-Mail*

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Re: **Entergy Texas, Inc.’s 2022 Statement of Intent to Increase Base Rates:  
Cities Consultants’ Initial Report**

Dear Cities:

On or about July 1, 2022, Entergy Texas, Inc. (“ETI” or “Company”) filed a Statement of Intent and Application for Authority to Change Rates (Application”). ETI’s Application was filed with the municipal regulatory authorities that have original ratemaking jurisdiction over the Company’s electric rates. The Company also concurrently filed an Application with the Public Utility Commission of Texas (“PUCT” or “Commission”) for areas outside the Cities’ original jurisdiction.

ETI’s rate increase proposal included an effective date of August 5, 2022, for the proposed rate increase to customers. Each of the Cities of the Steering Committee took action to suspend the Company’s proposed effective date for an additional 90 days until November 3, 2022. Now, the Cities must take final rate action prior to November 3, 2022. Based on the findings of the expert rate consultants retained to review ETI’s rate request, we recommend that the Cities pass the attached rate ordinance to deny ETI’s Application.

**SUMMARY OF ENTERGY TEXAS, INC.’S RATE INCREASE APPLICATION  
AND REGULATORY CONSULTING EXPERT FINDINGS:**

During the suspension period, the Lawton Law Firm hired four regulatory consultant firms, each with a different area of expertise to review a specific part of ETI’s request and to provide recommendations regarding the reasonableness of ETI’s rate request. These rate consultants

provided a summary of their findings, resulting in an overall finding and conclusion that the Company's Application is unreasonable and should be denied.

The starting point of the analysis is the Company's rate request, which is summarized in the following Table 1:

**TABLE 1**  
**ENTERGY TEXAS INC. RATE REQUEST**  
**TEST YEAR 12 MONTHS ENDING DECEMBER 31, 2021**

<b>DESCRIPTION</b>	<b>PRESENT RATES</b>	<b>PROPOSED RATES</b>	<b>CHANGE</b>
<b>BASE REVENUE<sup>1</sup></b>	\$890,124,234	\$1,219,024,749	\$328,900,515
<b>RIDER REVENUE<sup>2</sup></b>	\$283,259,890	\$85,756,987	-\$197,502,903
<b>TOTAL NON-FUEL REV.</b>	\$1,173,384,124	\$1,304,781,736	\$131,397,612

As discussed in footnote 2, fuel costs are not included in Table 1. This case does not impact fuel cost charges and collections – as such – fuel costs are not included in the analysis. To summarize the rate increase in Table 1:

1. The current annual base (non-fuel) costs for customers is \$890,124,234.
2. ETI proposes that the annual base (non-fuel) costs for customers be increased to \$1,219,024,749 – a \$328,900,515 increase.
3. Customers are currently paying \$197,502,903 of interim rate riders related to distribution (DCRF), transmission (TCRF), and generation (GCRR) riders that will be rolled into in the (\$1,219,024,749) of proposed rates.<sup>3</sup> This will bring the Company's annual rider revenue down to \$85,756,987.
4. The net rate change over and above what customers are currently paying is an annual rate increase of about \$131,397,612.
5. If approved, Entergy's base rate increase request would result in an average monthly increase of approximately \$13.50 for a residential customer using 1000 kWh per month.

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<sup>1</sup> Base Revenues includes the rates and charges for operating the system and generating electricity such charges include O&M, depreciation, interest, taxes (including federal income tax), and authorized profits. Base revenues does not include either fuel costs (such as natural gas, coal, or nuclear fuel) to generate electricity or fuel cost associated with power purchases.

<sup>2</sup> Rider Revenues include the rates and charges associated with EECRF (conservation), Storm cost surcharges, Interim rates charges for added distribution, transmission and generation plant, and other surcharge riders.

<sup>3</sup> The \$197,502,903 of interim rate riders related to distribution (DCRF), transmission (TCRF), and generation (GCRR) riders are subject to review for reasonableness in the case review. To date, experts have not identified any evidence that these costs are unreasonable.

## CONSULTANT GROUPS

The four expert regulatory consultant groups retained for the case review are the same experts used in the past – as these experts are familiar with ETI and the Entergy companies in general, as well as the Texas regulatory process in particular. These experts and their areas of expertise are:

1. NOVA Consulting – shareholder profit, return on investment, and financial issues.
2. Garrett Group – Accounting, tax, and cost of service issues.
3. ReSolved Energy Consulting – Cost of service modeling, allocation, rate design, rate base investment issues.
4. Resolve Utility Consulting – Depreciation and amortization costs.

## CONSULTANTS' PRELIMINARY FINDINGS

Entergy filed its statement of intent on July 1, 2022. The Company requested an increase of approximately \$131.4 million, which represents an average 11.2% increase across all customer classes. Key drivers of the requested increase include:

1. **Capital Investment:** Since January 1, 2018, Entergy has closed to plant ~\$2.3 billion in capital additions, including the rebuilding of aging infrastructure and construction and recent placement in service of the Montgomery County Power Station. About \$1.7 billion of this amount is currently being collected through incremental riders such as the Distribution Cost Recovery Factor, the Transmission Cost Recovery Factor, and the Generation Cost Recovery Rider. A major part of the proceedings will be to reconcile the revenue collected under these riders and to shift the remaining capital investment into rate base.

Analyses to date indicate the Company's capital investments were prudently constructed and managed. There are several capital investment adjustments the consultants are reviewing, but they are awaiting data in the discovery process.

2. **Depreciation:** Entergy is seeking approval of new depreciation rates based on a depreciation study it conducted in 2022. Entergy asserts that its requested depreciation rates will ensure that its capital investment is recovered over the time period that each of the underlying assets will be used to serve customers.

The Resolve Utility Consulting firm has concluded that the proposed depreciation level should be reduced by \$43.5 million annually. The majority of this proposed adjustment addresses the Company's proposal to change service lives of steam production plant.

3. **Financial Integrity:** Entergy requests a 10.8% return on equity, which includes a 30-basis point adder for three areas in which the Company considers its

performance to be exemplary. First, Entergy will argue that its rates are low compared to peer utilities. Second, Entergy seeks recognition for completing the Montgomery County Power Station ahead of schedule and below budget. Finally, the Company intends to show that its storm response and restoration efforts following Hurricanes Laura and Delta were outstanding enough to merit an increased return on equity for its shareholders.

Entergy's current return on equity is 9.65%, substantially below the 10.8% requested profit level. The NOVA Consulting Group's preliminary findings on current shareholder profits show a 9.50% return on equity is appropriate rather than ETI's requested 10.8% return on equity. NOVA Consulting Group also recommends excluding ETI's proposal for a 30-basis point bonus for shareholders.

This proposed adjustment to reduce shareholder profit from 10.8% to 9.50% reduces the Company's rate increase request by about \$37.2 million per year.

4. **Other Issues:** The experts continue to review and analyze other cost, tax, and tariff issues. These analyses will be completed for final expert testimony due at the Public Utility Commission on October 26, 2022.
5. **Summary:** A review of ETI's \$131.4 million annual increase indicates the request is substantially overstated, requiring significant reductions to requested profit levels (-\$37.2 million) and depreciation recoveries (-\$43.5 million). While the accounting and other experts have not yet finalized their analyses, estimates of additional adjustments ranging from self-insurance reserve, payroll, other insurance costs, and other cost-of-service items indicate an additional \$25 million to \$40.0 million in adjustments to ETI's request.

In conclusion, the consultants' collective recommendations indicate that the Company's rate increase request is not supported and should be denied.

Attached is a proposed rate ordinance for Cities to deny ETI's Application. **This proposed ordinance must be passed by November 3, 2022. Please forward completed ordinances to us by email at danlawtonlawfirm@gmail.com and molly@mayhallvandervoort.com.**

If there are any questions or concerns, please do not hesitate to call.

Sincerely,

/s/ Daniel J. Lawton