



Entergy New Orleans, LLC  
1600 Perdido Street  
New Orleans, LA 70112

Charles L. Rice, Jr  
President & CEO

March 5, 2018

Councilmember Jason Williams  
Councilmember-At-Large  
1300 Perdido Street, Room 2W50  
New Orleans, LA 70112

RE: Council Docket UD-16-02, New Orleans Power Station

Dear Councilmember Williams:

At the Council's Utilities, Cable, Telecommunications and Technology Committee ("UCTTC") meeting on February 21, 2018, certain of the intervenors suggested that it would be proper for the Council to impose certain conditions (discussed more fully below) on any approval of the New Orleans Power Station ("NOPS"). Although these intervenors would have this Council believe that their suggested conditions are reasonable and would create a path to "split the baby" in this proceeding, the Council should be warned that these conditions are essentially "poison pills" being used as a backdoor tactic to accomplish the Joint Intervenors sole aim in this proceeding: to kill a proposal that is badly needed for electric reliability in New Orleans.

One condition that Joint Intervenors are asking the Council to impose is a cap on the overall cost of the project. To be clear, however, ENO has worked diligently with its Engineering Procurement Contractor ("EPC"), which has extensive experience in constructing RICE units throughout the United States, to develop reasonable estimates that are based on engineering and the EPC's breadth of construction experience. The estimates include a reasonable amount of contingency dollars, however, as in any complex construction project, circumstances may arise during construction that are not reasonably anticipated and that are not covered by the contingency budget. While the Company believes that its contingency analysis is reasonable, conditioning approval on the imposition of a cost cap is unreasonable and should not be entertained. The intervenors are asking this Council to pre-judge the prudence of costs that have not yet been incurred. This recommendation makes little sense given that the Council will have an opportunity to examine the prudence of all costs following the completion of the project. Such a review will allow scrutiny based on the specific facts at issue — not based on a draconian condition proposed by the Joint Intervenors to defeat NOPS before construction begins.

The second condition suggested was that ENO should guarantee certain MISO capacity prices used solely for the purposes of economic analysis and, in effect, issue a "hold harmless" to customers in the event that these assumptions are inaccurate. Specifically, the Joint Intervenors argue that MISO capacity revenues are being used by ENO to make NOPS' cost to customers

RECEIVED  
MAR 05 2018  
BY: 

Mar 5 2 05

seem less expensive, but again, they egregiously misrepresent the utility resource planning principles at issue.

To be clear, ENO's estimated first-year customer bill impacts (*i.e.*, \$5.99 for the RICE units for a typical 1,000 kWh customer) did not include any reductions for possible MISO market revenues. As will be discussed below, ENO's planning principles focus on meeting its reliability and capacity needs — **not attempting to time volatile markets** — so the Company presented conservative estimates of customer bill impacts that were not reduced by MISO market revenues. Thus, if they are realized, any MISO capacity or energy market revenues that NOPS earns will only serve to reduce estimated customer bill impacts produced by ENO in this docket.

Moreover, the record is clear that ENO has two important planning needs that exist regardless of the MISO capacity price that are eventually realized: (1) a reliability need; and (2) a capacity shortage. It should be stated at the outset that MISO capacity prices over the next 20 years have absolutely no bearing on the City's important reliability need, which only NOPS will address. Regarding the capacity shortage, the Joint Intervenors make a risky bet that prices in the MISO capacity market will remain low despite the fact that many credible entities, including MISO and the North American Electric Reliability Corporation ("NERC"), predict that generation supply will dip below electric demand in 2023. Based on the law of supply and demand, this situation signals an increase in market prices (*i.e.*, where supply is low and demand is high, prices rise).

Paradoxically, however, in order to sustain their theory that prices will remain low, they argue that other utilities and regulators will construct generation to meet their customers' planning needs, which will add more supply to the market. In other words, they advise the Council to "do nothing" and instead depend on other utilities and regulators to act responsibly to meet their customers' needs, allowing ENO to "exploit" the market. Obviously, the Council would have no control over whether other utilities build, which accordingly begs the question: what if other utilities decide to do nothing to "exploit" the market as well? In that case, ENO customers would not only continue to be exposed to reliability issues, but would also be exposed to rapidly escalating market prices. NOPS would address both of these concerns, addressing reliability issues while creating a hedge against high market prices.

Simply put, risky market speculation does not equal prudent utility planning, and ENO will not engage in this type of behavior. ENO's capacity price assumptions were used solely for the purposes of economic analysis, were based on reasonable information known at the time, and are consistent with the very recent projections of a tightening generation supply by respected, independent entities such as MISO and NERC. But nothing is guaranteed and ENO and Council Advisors agree that resource planning needs should be met regardless of expected market prices. Here, ENO has submitted extensive evidence identifying the real risk of cascading outages and a capacity shortage that exists whether the MISO capacity price in 2023 is one cent per kW year or \$1000 per kW year. NOPS would address both of those needs—transmission upgrades would not. Requiring a utility to guarantee capacity price assumptions would contradict crucial and responsible resource planning principles and remove the incentive for utilities to build generation to protect their customers, because no utility could accept such a condition.

It should also be noted that the Company produced a sensitivity analysis in its Supplemental and Amending Application that reduced its capacity price assumptions by 40%. Tellingly, this sensitivity was first proposed by the Joint Intervenors in their original testimony submitted before this docket was stayed. In addition, the Joint Intervenors wrote a letter supporting the use of the 40% sensitivity in ENO's updated analysis used in the Supplemental and Amending Application. Now, after seeing the results, the Joint Intervenors argue that the capacity price should be reduced even lower to manufacture their desired result of making the transmission upgrades look more economically attractive than NOPS (because they know that the capital costs of the transmission upgrades do not account for the purchases of power to flow over those lines).

In conclusion, the Company has submitted a construction estimate that is based on analysis and past experience, and the Council will have an opportunity to determine the prudence of all costs based on specific facts after completion of the project. Moreover, the Company will continue to hold fast to its prudent utility planning principle that is planning needs should be met regardless of actual prices in the volatile markets. The Company is not in the business of market speculation and not even investment banks can guarantee the future performance of the markets despite the advanced analytical tools available to them. Accordingly, the request for ENO to guarantee MISO capacity prices should be rejected out of hand as wholly unfair and simply unreasonable. Likewise, the overall cost of the NOPS project should be reviewed after the fact and any suggestion that a draconian cost cap be imposed at the outset without specific facts should be rejected.

Sincerely,

A handwritten signature in black ink, appearing to read "C. L. Rice, Jr.", enclosed within a hand-drawn oval.

Charles L. Rice, Jr.  
President and CEO

cc: All Councilmembers via email  
Council Advisors via email  
Official Service List Docket UD-16-02