



Control Number: 51997



Item Number: 77

APPLICATION OF ENTERGY TEXAS, § PUBLIC UTILITY COMMISSION  
INC. FOR DETERMINATION OF §  
SYSTEM RESTORATION COSTS § OF TEXAS

**ORDER**

This Order addresses the application of Entergy Texas, Inc. for a determination of system restoration costs associated with hurricanes Laura and Delta and winter storm Uri. Entergy filed an unopposed agreement between the parties. The Commission determines Entergy's system restoration costs that are eligible for recovery and securitization in a financing-order proceeding to the extent provided in this Order.

**I. Findings of Fact**

The Commission makes the following findings of fact.

**Applicant**

1. Entergy is a Texas corporation registered with the secretary of state under filing number 800911623.
2. Entergy owns and operates for compensation in Texas equipment and facilities to generate, transmit, distribute, and sell electricity in Texas.
3. Entergy is required under certificate of convenience and necessity number 30076 to provide service to the public and retail electric utility service within its certificated service area.

**Application**

4. On April 19, 2021, Entergy filed an application requesting that the Commission take the following action:
  - a. find that Entergy's system restoration costs of \$252,502,759, which includes costs incurred through February 28, 2021 plus certain estimates, are reasonable and necessary and eligible for recovery and securitization;

- b. approve Entergy’s proposal to securitize the projected balance of an existing regulatory asset containing Commission-approved system restoration costs related to hurricane Harvey;
  - c. recognize the applicable carrying-cost rate on the system restoration costs as 9.03%; and
  - d. approve the manner in which the system restoration costs will be functionalized and allocated in the future financing proceeding.
5. In Order No. 2 filed on June 2, 2021, the Commission administrative law judge (ALJ) found Entergy’s application sufficient.

**Application – System Restoration Costs**

6. Entergy’s requested system restoration costs in the amount of \$252,502,759 comprised the following:

<b><u>Hurricane Laura</u></b>		
<b>Type of cost</b>	<b>Incurred through 02/28/2021</b>	<b>Estimated</b>
<b>Transmission</b>	\$15,452,535	\$0
<b>Generation</b>	\$7,433,832	\$2,098,668
<b>Distribution</b>	\$169,467,050	\$12,544,739
<b>Total</b>	<b>\$192,353,417</b>	<b>\$14,643,407</b>
<b><u>Hurricane Delta</u></b>		
<b>Type of cost</b>	<b>Incurred through 02/28/2021</b>	<b>Estimated</b>
<b>Transmission</b>	\$2,248,569	\$1,561,710
<b>Generation</b>	\$123,701	\$0
<b>Distribution</b>	\$35,021,395	\$1,642,725
<b>Total</b>	<b>\$37,393,665</b>	<b>\$3,204,435</b>
<b><u>Winter Storm Uri</u></b>		
<b>Type of cost</b>	<b>Incurred through 02/28/2021</b>	<b>Estimated</b>
<b>Transmission</b>	\$189,432	\$0
<b>Generation</b>	\$359,211	\$0
<b>Distribution</b>	\$4,359,192	\$0
<b>Total</b>	<b>\$4,907,835</b>	<b>\$0</b>

7. Entergy's requested system restoration costs included affiliate costs in the amount of \$6,157,948. Approximately \$2 million of the affiliate costs were billed through a loaned-resource process—mostly by affiliated operating companies—and approximately \$4.1 million were billed by Entergy Services, LLC through a service-company billing process.

**Application – Hurricane Harvey Regulatory Asset**

8. Entergy's existing hurricane Harvey regulatory asset referenced in finding of fact 4.b. comprises system restoration costs that are otherwise eligible to be securitized but to date have instead been included in Entergy's base rates.
9. Entergy's customers currently pay Entergy's authorized weighted average cost of capital on the balance of the hurricane Harvey regulatory asset in base rates.
10. The purpose of securitizing the projected balance of Entergy's existing hurricane Harvey regulatory asset is to reduce the financing costs borne by Entergy's customers.
11. As of February 28, 2021, Entergy's existing hurricane Harvey regulatory asset discussed in finding of fact 4.b. had a balance of \$16.5 million.
12. Entergy is required to file its next base-rate proceeding by June 30, 2022 and therefore expects its new base rates to be set on or around January 1, 2023.
13. Entergy calculated that its hurricane Harvey regulatory asset will have a balance of approximately \$13,328,375 by January 1, 2023.
14. Because the hurricane Harvey regulatory asset has been earning interest at Entergy's weighted average cost of capital in base rates, Entergy did not propose to apply any additional carrying costs to the amount of the regulatory asset to be securitized.

**Application – Carrying Costs on System Restoration Costs**

15. In Docket No. 48371,<sup>1</sup> the Commission approved Entergy's post-tax weighted average cost of capital of 7.73% and its pre-tax weighted average cost of capital of 9.03%.

**Application – Functionalization and Allocation**

16. Entergy proposed to use the cost-of-service study filed as schedule P in Docket No. 48371 as the basis for determining functionalization and allocation factors to be used in the future financing proceeding. However, Entergy proposed to update the cost-of-service study based on errata to its application filed on July 9, 2018 in Docket No. 48371.
17. Entergy recalculated the cost-of-service study to reflect the addition of a standby-and-maintenance-service rate class for customers that have their own generation equipment and contract for standby-and-maintenance service.
18. Entergy proposed to allocate the system restoration costs associated with its hurricane Harvey regulatory asset in the same manner that those costs are allocated in Entergy's current base rates.

**Notice**

19. Entergy provided notice of its application by one-time publication in newspapers of general circulation in all the counties in Entergy's retail service territory. Publication was completed on April 28, 2021.
20. Entergy sent notice of its application by certified mail to all the Texas incorporated municipalities that have retained original jurisdiction over Entergy. The mailing was completed on April 27, 2021.
21. On April 16, 2021, Entergy sent notice by electronic mail to all active parties who intervened in Docket No. 48371.
22. On May 25, 2021, Entergy filed the affidavit of Andrew Schonert, Entergy's manager of communications. Mr. Schonert testified that notice of the application was published as described in finding of fact 19.

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<sup>1</sup> *Entergy Texas Inc. 's Statement of Intent and Application for Authority to Change Rates*, Docket No. 48371, Order (Dec. 20, 2018).

23. On May 25, 2021, Entergy filed the affidavit of Christina Peralta, a senior administrative assistant for Entergy. Ms. Peralta testified that notice of the application was sent as described in finding of fact 20.
24. On May 25, 2021, Entergy filed the affidavit of Rebecca Torres, an administrative assistant III for Entergy. Ms. Torres testified that notice was sent as described in finding of fact 21.
25. In Order No. 2 filed on June 2, 2021, the Commission ALJ found Entergy's proposed form of notice sufficient.
26. On October 29, 2021, Entergy filed a complete version of its proof of notice, including two attachments that had previously been omitted inadvertently.

**Intervenors**

27. In Order No. 2 filed on June 2, 2021, the Commission ALJ granted the motions to intervene filed by the Office of Public Utility Counsel (OPUC), Texas Industrial Energy Consumers (TIEC), and the cities of Anahuac, Beaumont, Bridge City, Cleveland, Dayton, Groves, Houston, Huntsville, Liberty, Montgomery, Navasota, Nederland, Oak Ridge North, Orange, Pine Forest, Pinehurst, Port Arthur, Port Neches, Roman Forest, Shenandoah, Silsbee, Sour Lake, Splendora, Vidor, West Orange, and Willis (collectively, Cities).

**Testimony**

28. In support of its application, Entergy filed the testimony and exhibits of ten witnesses: Sallie Rainer, Allen T. East, Charles W. Long, Jason E. Willis, Ryan O'Malley, Allison P. Lofton, Richard E. Lain, Barbara P. Heard, Kristen R. Labat, and Amy M. Parker.
29. On August 6, 2021, TIEC filed the direct testimony and exhibits of Jeffry C. Pollock, and OPUC filed the direct testimony and exhibits of Karl J. Nalepa.
30. On September 29, 2021, Entergy and Commission Staff each filed testimony in support of the parties' unopposed agreement. Entergy filed the testimony and exhibit of Richard E. Lain, and Commission Staff filed the testimony of Diane Hopingardner.

**Referral to SOAH**

31. On July 16, 2021, the Commission referred this docket to the State Office of Administrative Hearings (SOAH).
32. On July 20, 2021, the Commission filed a preliminary order.
33. In SOAH Order No. 2 filed on July 26, 2021, the SOAH ALJ set a hearing on the merits for September 3, 2021.
34. In SOAH Order No. 4 filed on August 13, 2021, the SOAH ALJ abated the procedural schedule and cancelled the hearing on the merits at the parties' request because the parties had reached an agreement in principle.
35. On September 29, 2021, Entergy filed the agreement executed by itself, Commission Staff, TIEC, and OPUC. Cities did not sign, but also does not oppose, the agreement.
36. In SOAH Order No. 5 filed on September 30, 2021, the SOAH ALJ dismissed the proceeding from SOAH's docket and remanded it to the Commission.

**Evidentiary Record**

37. In SOAH Order No. 5 filed on September 30, 2021, the SOAH ALJ admitted the following into the evidentiary record:
  - (a) Entergy's application, including all attachments, filed on April 19, 2021;
  - (b) the direct testimonies and exhibits of Entergy's witnesses, filed on April 19, 2021;
  - (c) errata to Entergy's pre-filed witness testimony and supporting exhibits, filed on June 1, 2021;
  - (d) exhibit A to the joint motion to admit evidence, filed on September 30, 2021;
  - (e) the parties' agreement, including all attachments, filed on September 29, 2021;
  - (f) the direct testimony and exhibits of TIEC witness Jeffrey C. Pollock and OPUC witness Karl J. Nalepa, filed on August 6, 2021; and
  - (g) the testimony and exhibit of Entergy witness Richard E. Lain and the testimony of Commission Staff witness Diane Hoppingardner—both of which were filed on September 29, 2021 in support of the agreement.

38. In Order No. 3 filed on November 4, 2021, the Commission ALJ admitted into evidence Entergy's proof of notice, including all attachments, filed on October 29, 2021.

**Agreed System Restoration Costs**

39. Under the agreement, the total dollar amount of Entergy's system restoration costs eligible for recovery and securitization in the financing-order proceeding is the sum of the following:

- a. \$242,869,867 for storm restoration costs associated with hurricanes Laura and Delta and winter storm Uri as described in finding of fact 40;
- b. carrying costs on the \$242,869,867 at the rate and for the time period specified in finding of fact 45;
- c. \$13,328,375 related to the hurricane Harvey system restoration regulatory asset as described in finding of fact 46; and
- d. all other qualified costs to be determined by the Commission in the financing-order proceeding.

40. The figure of \$242,869,867 was calculated from the original amount of \$252,502,759 that Entergy requested be securitized in this proceeding minus the amounts discussed in findings of fact 41, 42, and 43.

41. Entergy agreed to remove \$4,334,992 from the amount it had originally requested to securitize in this proceeding and instead charge that amount to its storm reserve.

42. Entergy agreed to remove a black-box amount of \$5 million from the amount that it had originally requested be securitized in this proceeding. Entergy stated that it might request recovery of this amount in a future proceeding.

43. Entergy agreed to remove \$297,900 related to its attestation examination by Deloitte & Touche, LLP from the amount that it had originally requested be securitized in this proceeding.

44. In a filing made on October 29, 2021, Entergy clarified that the agreed figure of \$242,869,867 did not include any estimated costs because the estimated costs included in the application had now actually been incurred as of February 28, 2021 as set forth in

exhibit A to the joint motion to admit evidence. Exhibit A was filed as confidential information on September 30, 2021.

45. Under the agreement, the carrying costs described in finding of fact 39.b. will be calculated at Entergy's pre-tax weighted average cost of capital of 9.03% per year, which was the pre-tax weighted average cost of capital approved by the Commission in Docket No. 48371. Under the agreement, the carrying costs will accrue from the date on which the system restoration costs were incurred until the date that securitization bonds are issued.
46. Under the agreement, Entergy will also securitize \$13,328,375, which is the projected remaining balance of Entergy's hurricane Harvey system restoration regulatory asset as of the date Entergy's base rates are expected to be reset, provided that the hurricane Harvey asset is removed from base rates in Entergy's next base-rate proceeding.
47. The agreed treatment of system restoration costs is appropriate.
48. The agreed treatment of carrying costs on the system restoration costs is appropriate.

**Agreed Allocation**

49. The signatories agreed that the system restoration costs found to be eligible for recovery and securitization in this proceeding, including the projected remaining Hurricane Harvey system restoration costs, will be allocated to customer classes based on the midpoint between the allocation methodology proposed by Entergy in its application (excluding the standby-and-maintenance-service customers as a separate class) and the allocation methodology proposed by TIEC.
50. The signatories agreed that the charge to the standby-and-maintenance-service customers will be linked to the charge to the large-industrial-power-service class; there will not be a separate standby-and-maintenance-service class. Specifically, the signatories agreed that in the financing-order proceeding, the standby-and-maintenance-service charge will be designed as follows:
  - a. Start with the large-industrial-power-service class's charge for system restoration costs applicable to transmission service.

- b. Calculate the standby-and-maintenance-service revenue requirement, which is the sum of the standby delivery charge multiplied by the standby billing determinants and the maintenance delivery charge multiplied by the maintenance billing determinants.
    1. The standby-and-maintenance-service standby delivery charge is the transmission system restoration charge for the large-industrial-power-service class multiplied by 11.379%.
    2. The standby-and-maintenance-service maintenance delivery charge is the standby delivery charge multiplied by 75%.
    3. The standby-and-maintenance-service billing determinants for standby-and-maintenance services is based on usage during the most recent 12-month period.
  - c. Deduct the standby-and-maintenance-service revenue requirement from the overall revenue requirement for system restoration costs.
  - d. Reallocate any remaining revenue requirement for system restoration costs to the rate classes.
51. The signatories agreed that in the financing-order proceeding, rates for the large-industrial-power-service class for system restoration costs will be designed such that the \$4,074,900 in distribution-related system restoration costs allocated to the large-industrial-power-service class will be recovered only from the distribution-level customers in the large-industrial-power-service class. The signatories agreed that large-industrial-power-service customers taking service at transmission-level voltage will not be charged for distribution-related system restoration costs.
52. The signatories agreed that in the financing-order proceeding, Entergy will use the functionalization, allocation, and rate-design methodology of system restoration costs set forth in the agreement and the agreement's attachment A. Attachment A sets forth the following allocations:

<b>Class</b>	<b>Allocated system restoration costs and Harvey regulatory asset (class revenue requirements)</b>	<b>Allocation factors</b>
<b>Residential</b>	\$153,172,869	59.78685%
<b>Small general service</b>	\$10,575,311	4.12778%
<b>General service</b>	\$57,382,995	22.39789%
<b>Large general service</b>	\$15,379,857	6.00311%
<b>Large industrial power service</b>	\$11,661,782	4.55186%
<b>Lighting</b>	\$8,025,428	3.13251%
<b>Entergy – Total</b>	\$256,198,242	100%

**Agreed Future Action**

53. Entergy agreed that in future base-rate cases, it will make adjustments to exclude any costs that have been securitized to avoid double recovery of the system restoration costs.
54. It is appropriate for Entergy to make adjustments in future base-rate cases to exclude any costs that have been securitized to avoid double recovery of the system restoration costs.
55. Entergy agreed that in its next base-rate case, it will document how the securitized amounts have been removed from test-year adjusted costs.
56. It is appropriate for Entergy to document in its next base-rate case how the securitized amounts have been removed from test-year adjusted costs.
57. To the extent that Entergy receives any funds from insurance, grants, legislation, or other sources that would cover the same costs as the system restoration costs determined in this Order, Entergy agreed to return those funds to ratepayers based on the allocation and rate-design methodology outlined in the agreement and the agreement’s attachment A.
  - a. To the extent that Entergy receives any such funds before the issuance of the financing order, Entergy agreed to reduce the amount to be securitized by the amount of the funds so received.
  - b. To the extent that Entergy receives any such funds after the issuance of the financing order, Entergy agreed to credit the funds back to ratepayers through a rider, with carrying costs calculated at Entergy’s pre-tax weighted average cost of capital.

58. The signatories agreed that recovery of the reasonable expenses of a municipality participating in this docket will be deferred until Entergy's next base-rate proceeding.
59. It is appropriate for the recovery of the reasonable expenses of a municipality participating in this docket to be deferred until Entergy's next base-rate proceeding.

**Affiliate Charges**

60. The services performed by Entergy's affiliates were reasonable and necessary to support the restoration.
61. All affiliate charges included in the system restoration costs determined in this Order were billed by affiliates directly to Entergy at actual cost; none were allocated.
62. All affiliate charges included in the system restoration costs determined in this Order are reasonable and necessary and were charged to Entergy at a price no higher than that charged for the same item or class of items by the supplying affiliate to other affiliates or divisions or to a nonaffiliated person within the same market area or having the same market conditions.

**Informal Disposition**

63. More than 15 days have passed since the completion of notice provided in this docket.
64. Entergy, OPUC, TIEC, Commission Staff, and Cities are the only parties to this proceeding.
65. All parties in this proceeding either signed or did not oppose the agreement.
66. The decision is not adverse to any party.
67. No hearing is necessary.

**II. Conclusions of Law**

The Commission makes the following conclusions of law.

1. Entergy is a public utility as that term is defined in PURA<sup>2</sup> §§ 11.004(1) and 31.002(6).

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<sup>2</sup> Public Utility Regulatory Act, Tex. Util. Code §§ 11.001–66.016.

2. The Commission exercises jurisdiction over this proceeding under PURA §§ 36.401 through 36.406.
3. SOAH exercised jurisdiction over this proceeding under PURA § 14.053 and Texas Government Code § 2003.049.
4. Entergy provided adequate notice of its application in this proceeding in accordance with 16 Texas Administrative Code (TAC) § 22.55.
5. Entergy's application was processed in accordance with PURA, the Administrative Procedure Act,<sup>3</sup> and Commission rules.
6. The affiliate charges included in the system restoration costs determined in this Order comply with the requirements of PURA § 36.058.
7. The system restoration costs determined in this Order are reasonable and necessary and meet the requirements of PURA § 36.402(a).
8. The carrying costs approved in this Order for system restoration costs comply with the requirements of PURA § 36.402(b).
9. The provisions of the parties' agreement regarding funds from insurance, grants, legislation, or other sources that would cover the same costs as the system restoration costs determined in this Order comply with the requirements of PURA § 36.402(c).
10. Under PURA § 36.402(d), if the Commission finds that funds from insurance, grants, legislation, or other sources that would cover the same costs as the system restoration costs determined in this Order are of a magnitude to justify a separate tariff rider, the Commission may establish such a tariff rider.
11. The provisions of the parties' agreement regarding carrying costs on any funds from insurance, grants, legislation, or other sources that would cover the same costs as the system restoration costs determined in this Order comply with the requirements of PURA § 36.402(e).

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<sup>3</sup> Tex. Gov't Code §§ 2001.001–.903.

12. The functionalization, allocation, and rate-design methodology set forth in this Order comply with the requirements of PURA § 36.403(g).
13. The system restoration costs determined in this Order are eligible for securitization and recovery in accordance with PURA §§ 36.403(g) and 36.405(b).
14. The requirements for informal disposition under 16 TAC § 22.35 have been met in this proceeding.

### III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders.

1. The Commission determines that the dollar amount of Entergy's system restoration costs for hurricanes Laura and Delta and winter storm Uri that are eligible for recovery and securitization in the financing-order proceeding is \$242,869,867, plus associated carrying costs at Entergy's pre-tax weighted average cost of capital of 9.03% per year. Carrying costs must accrue from the date on which the system restoration costs were incurred until the date that securitization bonds are issued.
2. The Commission determines that the additional amount of \$13,328,375 related to Entergy's hurricane Harvey system restoration regulatory asset is eligible for recovery and securitization in the financing-order proceeding, provided that the hurricane Harvey asset is removed from base rates in Entergy's next base rate proceeding.
3. In the financing-order proceeding, the system restoration costs must be functionalized, the associated revenue requirement allocated, and the rates designed, in the manner provided in findings of fact 49 through 52 of this Order.
4. In future base-rate proceedings, Entergy must make adjustments to exclude any costs that have been securitized to avoid double recovery of the system restoration costs.
5. In its next base-rate proceeding, Entergy must document how the securitized amounts have been removed from test-year adjusted costs.
6. To the extent that Entergy receives any funds from insurance, grants, legislation, or other sources that would cover the same costs as the system restoration costs determined in this

Order, Entergy must return those funds to ratepayers based on the allocation and rate-design methodology set forth in findings of fact 49 through 52 of this Order.

- a. To the extent that Entergy receives any such funds before the issuance of the financing order, Entergy must reduce the amount to be securitized by the amount of the funds so received.
  - b. To the extent that Entergy receives any such funds after the issuance of the financing order, Entergy must credit the funds back to ratepayers through a rider, with carrying costs of 9.03% per year.
7. Entry of this Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the agreement and must not be regarded as precedential as to the appropriateness of any principle or methodology underlying the agreement.
  8. The Commission denies all other motions and any other requests for general or specific relief, if not expressly granted.

Signed at Austin, Texas the 2nd day of December 2021.

**PUBLIC UTILITY COMMISSION OF TEXAS**



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**PETER M. LAKE, CHAIRMAN**



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**WILL MCADAMS, COMMISSIONER**



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**JIMMY GLOTFELTY, COMMISSIONER**