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LA PUBLIC SERVICE
COMMISSION

October 10, 2022

Ms. Terri Lemoine Bordelon
Records and Recording
Louisiana Public Service Commission
602 North 5th Street, 12th floor
Baton Rouge, Louisiana 70802

VIA HAND DELIVERY

Re: In Re: Rulemaking to Research and Evaluate Customer-Centered Options for all Electric Customer Classes as well as Other Regulatory Environments
LPSC Docket No. R-35462
KM File No. 4388-333

Dear Ms. Bordelon:

We have enclosed for filing an original and three (3) copies of Louisiana Energy Users Group's Reply Comments and attachments in the referenced docket.

If you have any questions, please do not hesitate to contact us. Thank you for your assistance.

Very truly yours,

Randy Young

Randy Young

JRY/mac
Enclosures
cc: Official Service List (via electronic mail)

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

LOUISIANA PUBLIC SERVICE COMMISSION,
ex parte

In Re: RULEMAKING TO RESEARCH AND EVALUATE CUSTOMER-CENTERED OPTIONS FOR ALL ELECTRIC CUSTOMER CLASSES AS WELL AS OTHER REGULATORY ENVIRONMENTS

DOCKET NO. R-35462

LOUISIANA ENERGY USERS GROUP REPLY COMMENTS

The Louisiana Energy Users Group ("LEUG") appreciates the opportunity to submit these reply comments to the Louisiana Public Service Commission ("LPSC") in this proceeding.

LEUG seeks to have Louisiana industry be part of the solution to help reduce or avoid some of the need for Entergy to increase rates for all ratepayers to replace aging generation fleet and to build or acquire renewable generation.

Entergy is projecting the need to replace thousands of megawatts of aging electric generation fleet in the coming years and also to invest in new solar and wind generation.

LEUG's consultant estimates the cost of Entergy's generation replacement plans could be in the range of $8 Billion, and increase base rates for industrial customers on the order of 40% or more, as indicated in Attachments 1 and 2 hereto.[1]

[1] LEUG consultant estimates are based on Entergy data from its current ongoing Integrated Resource Planning ("IRP") process before the LPSC in LPSC Docket I-36181.

If Entergy can avoid spending hundreds of millions or even potentially billions of dollars on new power plant by allowing more options for industrial customers, that benefits all of the ratepayers and is in the public interest for the state of Louisiana.

The LEUG proposals that are currently pending for consideration in this proceeding are: (1) an Industrial Customer Market Option, including expanded opportunities to utilize environmentally advantaged Combined Heat and Power ("CHP") cogeneration; and (2) a Renewable Generation Option for industrial customers to be able to directly negotiate with and obtain power from renewable developers.

If an industrial customer is willing to take on the risk of meeting its electricity supply on its own in whole or part, either from renewable developers, or a CHP cogeneration island, or other source separate from Entergy, then Entergy would not have to construct or acquire generation resources that would otherwise be needed to serve that industrial customer load and the cost of the generation could be avoided by Entergy for the benefit of all ratepayers.

LEUG has requested the LPSC evaluate these options in this proceeding, including studying whether any protections are needed to ensure there is no harm to other ratepayers.

LEUG submits that its proposals provide benefits to all ratepayers, while also at the same time helping industry in Louisiana maintain competitive electricity prices and promoting economic development in Louisiana including by providing access to the significant amounts of renewable energy that will be needed by industry to be able to support and bring capital projects to Louisiana as they compete within their companies

against other potential sites within the United States and globally for capital investment opportunities for project development and expansions.

LEUG also emphasizes that the time for the LPSC to investigate these options is now. The LPSC should not wait to begin evaluating alternative options until after Entergy proposes to deactivate the next generation unit and replace it with constructing another new generation unit that will have to be paid for by ratepayers through rate increases.

To be clear, LEUG is not proposing to deregulate the electric utilities in Louisiana, or a move to full retail open access, or to create a new market for electricity supply like exists in Texas.

LEUG is submitting that there is currently a convergence of projected future electric supply costs and needs in the Entergy service area that make this a very critical and opportune time for the LPSC to evaluate and consider whether it can avoid or reduce costs and rate increases for the benefit of all ratepayers by providing options for industrial customers to seek alternative power supply separate from Entergy. And, at the same time, have the LPSC also promote economic development and Louisiana jobs and employment by allowing industry access to the options they need to help sustain and bring new capital investment in Louisiana.

LEUG recommends and urges that the evaluation of its proposals move forward as soon as possible in this proceeding such that they can be presented for consideration by the LPSC by July 2023.

In further response to the various comments submitted by other stakeholders to the LPSC in this proceeding on September 8, 2022, these LEUG reply comments address below the following:

(1) Background on LEUG;

(2) Entergy generation resource spending plans;

(3) Cost of new Entergy generation that will be added to ratepayer bills;

(4) Louisiana does not have the lowest industrial rates in the country;

(5) Importance of electric supply options for Louisiana industry;

(6) LEUG Proposals -- Industrial Customer Market Option, Enhanced CHP Opportunities, and Renewable Generation Option;

(7) Topics for LPSC evaluation to ensure LEUG proposals do not harm other ratepayers;

(8) Montana and Washington as examples of industrial customer programs;

(9) Circumstances that exist today for Entergy customers are nothing like 20 years ago when LPSC last considered limited retail access options for industrial customers.

Attachments:

1) BAI: Cost of Projected Entergy Generation Additions
2) BAI: Ratepayer Bill Impacts For Projected Entergy Generation Additions
3) BAI: Louisiana Industrial Rates Not Among Lowest in Southeastern U.S.
4) BAI: LEUG Proposals
5) Topics for LPSC Evaluation To Ensure No Harm To Other Ratepayers
6) Charles Griffey Paper: *Electricity Supply Options Are Important For Industrial Customers and Economic Development*

Background On Louisiana Energy Users Group

LEUG is an association consisting of twenty-five large industrial companies who all buy significant amounts of electricity from Entergy. Some LEUG members also have CHP generation that serves some portion of their needs, and some of those have excess generation they sell into the market at various times or to Entergy.

LEUG members include a diverse range of companies, including chemical manufacturing, refineries, industrial gasses, pulp & paper, steel, pipeline and sawmills. Collectively, LEUG members provide more than 35,000 good, high-paying jobs in Louisiana ($94K average salary), they provide about $1.9 Billion in annual payroll, and spend over $6 Billion in Louisiana each year on electricity, goods and other services.

Electricity cost for the large industrial customers such as LEUG members is a significant factor in overall production costs - - for some industrials, electricity is among the very largest operational costs.

Electricity cost and optionality is also a significant factor in economic development siting decisions - - for plant expansions for industry already located in Louisiana, as well as for those looking at Louisiana for potential new plants.

More and more, many industrials need access to renewable generation as part of sustainability objectives they have to meet within their companies including in particular when competing to bring capital investment projects to Louisiana.

To give some context, even a medium sized industrial plant with a 50 MW load, and assuming a 60% capacity factor and 5 cent power, pays about a million dollars per month for electricity. In recent months, the Fuel Adjustment alone has been at or above 5 cents. Larger plants have much larger electric bills each month. So, electricity prices and changes in electric rates are very important for industrial customers.

Because of the size and amount of spend on electricity, industrial customers tend to have the resources to be able to evaluate and assess risks and costs of whether it is economically feasible for them to pursue options for electricity supply other than through regulated utility service. And, they also tend to have access to business tools that allow them to hedge and manage risks of market-based electricity supply and pricing.

And, because of the volume of electric service they use and generation capacity needed to serve them, allowing industrial customers the options to seek alternative power supply can serve to meaningfully reduce the amount of generation capacity that Entergy will need in the future and thus help avoid or reduce costs and rate increase impacts for all ratepayers.

LEUG anticipates that not all large industrial customers would be willing to take on the risk of a market option - - some will prefer to remain with regulated utility service. But for those willing to take on the risk, it could provide benefits to all customers by avoiding costs of new generation that would otherwise be needed by Entergy to serve them.

Entergy Generation Resource Spending Plans

Entergy's most recent Integrated Resource Plan ("IRP") filed with the LPSC in 2019 projected a capacity deficit of about 7,000 MW in Louisiana over its planning horizon.[2] That deficit included a need to replace 5,800 MW of generation capacity, and about 3,100 of those MWs were aging legacy gas-fired generation units that are already in the range of 43-52 years old.[3] Regarding replacement resources to meet its capacity deficit, Entergy's 2019 IRP included a portfolio analysis of multiple types of resources and indicates that its Portfolios 1 and 3 "balance Entergy's planning objectives of Cost and Risk while considering Reliability."[4] The Portfolios 1 and 3 indicate a range of potential resource types as follows:[5]

4,080 - 4,590 MW: Combined Cycle Combustion Turbine (CCGT)
0 - 1,200 MW: Combustion Turbine (CT)
1,700 - 3,200 MW: Solar Generation
1,200 - 2,000 MW: Wind Generation
0-100 MW: Battery Storage
554 MW: Demand Response

In the current ongoing Entergy IRP process at the LPSC toward Entergy's 2023 IRP in Docket I-36181, Entergy assumptions indicate a deactivation of more than 5,200 MW by 2042. In particular, Entergy assumes 3,568 MW of generation deactivations through 2032, and an additional 1,691 MW of deactivations between 2033 and 2042. Additionally, the IRP assumptions data includes:

Solar additions presented to the LPSC for approval:
475 MW Solar generation additions, for 2023/2024

Capacity additions assumed, but not yet filed at the LPSC:
2025 - ELL Solar PPA (600 MW)*
2025 - ELL Solar Build-Own-Transfer (600 MW)*
2027 - ELL Combustion Turbine (365 MW)*

[2] Entergy 2019 IRP, page 11, LPSC Docket I-34694.
[3] Entergy 2019 IRP, page 6, LPSC Docket I-34694.
[4] 2019 IRP, page 66.
[5] 2019 IRP, page 61.

[*Entergy placeholder, pending further study]

Generation Unit Deactivation Assumptions:
2,198 MW: 2023-2030
2,129 MW: 2031-2035
932 MW: 2034-2042

And, Entergy's website indicates that it has 600 MW of solar resources pending from its 2021 Solar Request for Proposals, and is pursuing an additional 1,500 MW of renewable resources in a 2022 Requests for Proposals.

Moreover, Entergy has in the past accelerated assumed deactivations dates for 1,086 MW of legacy gas generation by as much as ten years. So experience indicates that deactivations of aging generation units have and can occur much sooner than scheduled by Entergy.

The cost of adding generation fleet and the potential rate increase impacts those costs would have on ratepayers is an important consideration that adds additional emphasis to the need to consider options that could reduce the amount of new generation that is ultimately needed by Entergy and the avoided cost impacts and rate increases on the ratepayers.

Recent experience is that the cost for Entergy to add approximately 2,000 MW of replacement Combined Cycle Gas Turbine ("CCGT") generation would be close to $1.7 Billion, or $850/kW.[6] For recent CCGT additions, the projected increase in base rates is in the range of $115 million per year to pay for the costs to construct the generation including Entergy's return of and on the investment.

Entergy assumes in its current IRP planning assumptions an acquisition of a 150 MW solar build-own-transfer ("BOT") that would be in service in 2024 and a second solar BOT of 600 MW to be in service in 2025. Entergy's IRP assumptions indicate that such resources will cost more than the new CCGTs on a dollar per kW basis - - approximately $1,063/kW in 2024 and $991/kW in 2025 (each being installed cost projections).[7]

Further, Entergy's Legacy generation assessment report in Docket X-35643 states: "ELL evaluated a variety of different options and concluded that the preferred long-term

[6] Entergy post-construction report filings for the 930 MW J. Wayne Leonard CCGT and 994 MW Lake Charles CCGT indicate that construction costs were approximately $850 million and $810 million, respectively.

[7] The per kW cost for solar resources is even higher when considered on a MISO-accredited capacity basis. For example, under MISO's current annual capacity new solar resources are only given a capacity accreditation of 50% of their nameplate rating, while new CCGT and CT generation typical receives a capacity accreditation based on 90 to 95% of its summer rated capacity. On such a capacity accredited basis, the projected cost of solar resources is approximately $2,126 per kW for 2024 and $1,982 per kW for 2026.

Amite South supply plan allows for economic deactivation of additional legacy generation and eventual replacement of legacy generation through the addition of up to __ MW of solar photovoltaic resources combined with additional combined-cycle gas turbines ("CCGTs") and combustion turbines ("CTs") located in Amite South."[8]

Cost Of New Entergy Generation That Will Be Added To Ratepayer Bills

The LPSC IRP Rule requires identification of some measure of "rate impacts" of utility resource plans and planning scenarios.[9]

For Entergy's 2019 IRP, Entergy estimated a resulting rate increase of 3.5 - 4 cents per kWh on customer bills for its Portfolios 1 and 3, as a combined base rate and fuel rate effect.[10]

Entergy has not to date identified the increase in base rates that would be added to customer bills from its projected generation resource additions that will be included in its 2023 IRP that is currently under development.

For Entergy's 2023 IRP, the draft IRP is due October 23, 2022, and the final IRP is due May 22, 2023.[11]

Based on Entergy's data for its 2023 IRP process, LEUG's consultant, Brubaker & Associates Inc., has estimated that the construction cost of Entergy's planned new generation resources would be in the range of $8 Billion, and resulting increase in base rates for industrial customers in the range of a 40% increase, as indicated by the information in Attachments 1 and 2 hereto.

While operating efficiencies from new generation units can help offset some of the costs, there is no question that ratepayers will see significant base rate increases and/or increases through the Fuel Adjustment to pay for costs of new generation units as they are constructed and come on-line. No guarantees have been provided by Entergy to date that the fuel adjustment portion of customer bills will decrease below any levels as new generation is added to replace aging fleet. In fact, projections provided by Entergy in its 2019 Draft IRP showed that variable supply costs (essentially the Fuel Adjustment Charges) continued to increase.[12] It is important to understand that new modern generation, whether from CCGTs, CTs or renewable resources, will provide generation

[8] Entergy Report on Assessment of Economic Viability of Legacy Gas Generation, pages 2-3. The number of MW is designated as confidential and redacted from the public version of the Report.
[9] LPSC IRP Rule, Section 6 i). LPSC General Order R-30021, April 18, 2012.
[10] 2019 IRP, page 67.
[11] LPSC Docket I-36181.
[12] 2019 IRP, page 104.

that is more fuel efficient and will reduce the utilization and costs of fuel relative to generation from older units.

However, it is equally important to understand that adding a new more fuel efficient generation unit does not necessarily result in a reduction in the fuel adjustment portion of the customer's bill, and Entergy offers no indication or guarantee that the level of fuel adjustment charges will be reduced after replacement generation is added. Moreover, even if there is some amount of decrease in the fuel adjustment portion of the bill from current levels, there is no indication or guarantee the reduction will offset the base rate increase that would be added to the bill to pay for the new generation unit plus the return on that investment that is expected by the electric utility on the new generation unit. The base rate increase to pay for the new generation plant and the utility's return is guaranteed to be added to customer bills, but the potential reduction in the fuel adjustment is not guaranteed.

Ultimately, any reduction in the fuel adjustment is highly dependent on numerous factors such as for example: (1) the price of natural gas that occurs in the market - - the lower the price of natural gas the lower the fuel savings from adding a new generation unit; (2) what energy resources are actually being replaced by the new unit - - Entergy's old generation unit that is being replaced probably is not run very much due to its age and so the new unit could be replacing lower cost energy that is being purchased from the market; (3) how the generation units in Louisiana are dispatched by the Midcontinent Independent System Operator ("MISO") that controls the generation unit dispatch for much of Louisiana; and (4) as Entergy's fleet is modernized over time the incremental fuel efficiencies from adding each new generation unit will be reduced.

Louisiana Does Not Have The Lowest Industrial Rates In The Country

Industrial rates charged by Legacy Entergy Louisiana and Legacy Entergy Gulf States Louisiana have increased substantially relative to other utilities in the southeastern United States. Attachment 3 hereto provides a history of the benchmark 50 MW, 90% load factor transmission service level customer that Brubaker & Associates, Inc. has been tracking for LEUG for many years. Attachment 3 shows the change in rates for this benchmark customer class from January 2009 to the present. The graph shows the ranking of the Louisiana utilities relative to the group of about 30 utilities that are part of the southeastern regional utilities group. Attachment 3, page 1, shows information for Legacy Entergy Louisiana. Whereas in 2009 the rate was slightly above the middle of the pack of the total group of utilities, by July 2022 as shown on the graph, the Legacy Entergy Louisiana rate is second highest. Attachment 3, page 2 shows similar information for Legacy Entergy Gulf States. From the ranking of approximately 19 in 2009, the rates for Legacy Entergy Gulf States have increased to a position of third

highest out of the total group by July 2022. Page 3 of Attachment 3 presents the most recent rankings for Legacy Entergy Louisiana and Legacy Entergy Gulf States. They are ranked second and third highest, respectively.

Importance Of Electric Supply Options For Louisiana Industry

Texas currently holds an advantage over Louisiana in providing optionality of power supply for industrial customers considering capital investments for expansion of existing plant as well as new plant projects.

Optionality of power supply is also becoming increasingly important for existing industrial plants as they seek to remain competitive and meet their needs for diversity of power supply.

The ability to have a variety of ways to hedge electric supply, align electric supply cost with the revenue from product sales, link electric supply across plant sites, and contract directly with renewable providers to fulfill corporate strategies is an advantage in economic development for new and expanding industrial plants as well as sustaining the competitiveness of existing industrial plants.

Allowing industrial customers in Louisiana alternative power supply options including enhanced opportunities for combined heat and power ("CHP") cogeneration would allow these consumers to effectively manage their power costs. Industrial customers in Texas value the optionality that access to the wholesale market and other sellers provides. Providing the same optionality in Louisiana could improve economic development and reduce the need for Entergy to acquire all of the billions in new generation assets in its current plans.[13]

LEUG Proposals

Industrial Customer Market Option:

The Industrial Customer Market Option would allow an industrial customer to leave Entergy service in whole or part and obtain all or some portion of its electric supply from whatever other source it may choose, at its own risk and cost. The alternative source could be any of a number of potential options - - such as entering a long-term contract with some other utility or private entity that has excess generation it needs to sell, or building or joining in a shared CHP island with neighboring plants, or serving itself with excess CHP or other generation located

[13] See, *Electricity Supply Options are Important for Industrial Customers and Economic Development*, by Charles S. Griffey, October 5, 2022.

at affiliate plant sites, or buying from the MISO market if they are willing to accept the risk of short-term market prices.

Under any of the options, the point is that Entergy would not have to supply the power to the departing customer load and thus could avoid replacing and/or adding generation plant that would otherwise be needed to meet the departing customer load.

Enhanced CHP Opportunities:

Enhanced CHP Opportunities is a subset of the Industrial Customer Market Option, and includes: (a) allow sharing of CHP power among industrial customers and steam consumers without current requirements for ownership or leasehold interests, and (b) allow sharing of CHP power among affiliated industrial sites.

Renewable Generation Option:

The Renewable Generation Option would allow industrial customers to select and negotiate terms with renewable developers to "purchase and utilize" renewable power, while coordinating and "sleeving" the transaction through Entergy for delivery and stand-by or back-up power.

Topics For LPSC Evaluation To Ensure LEUG Proposals Do Not Harm Other Ratepayers

The LPSC has previously expressed that it must ensure there is no harm to any customer class before authorizing any form of competitive options for industrial customers.[14]

LEUG submits that its proposals can benefit all ratepayers by helping reduce or avoid some of the need for Entergy to increase rates for all ratepayers to replace aging generation fleet and to build or acquire renewable generation.

Certain commenters cited several alleged problems that have transpired in other states that have implemented retail competition. For example, Entergy argued that retail open access has led to higher rates for residential customers, predatory practices targeting only certain types of customers and resource adequacy challenges.[15] SWEPCO argued

[14] "Prior to sanctioning even the most limited competitive experiment, we had to ensure that no class of ratepayers would be harmed by such a change." LPSC Order Consolidated U-21453, U-20925(SC), U-22092(SC) (Subdocket A) – B, December 4, 2001, pages 1-2.

[15] Response of ELL to Staff's Second and Third Requests for Information at pages 2-3.

that retail open access has led to problems with higher prices, implementation costs, cost shifting, stranded costs and retail suppliers.[16]

In response to these comments, LEUG emphasizes two points. First, the potential pitfalls associated with retail open access that are cited in these comments are more relevant to full retail open access programs that allow all customers, large and small, to purchase power from competitive suppliers. These concerns can largely be avoided by implementing LEUG's Industrial Customer Market Option that would apply only to industrial customers.

Industrial customers are sophisticated users of electricity who are accustomed to purchasing various commodities and services from the competitive markets. As such, industrial customers do not require the types of protections against higher prices, unscrupulous retail suppliers and predatory practices that may apply to smaller customers, and there is no reason for the LPSC to reject the implementation of options for industrial customers only due to these potential problems discussed by other commenters.

Further, LEUG recognizes that there are several issues that the LPSC would need to address and to resolve in conjunction with implementing LEUG's proposed Industrial Customer Market Option to ensure that non-industrial customers are not harmed by this Option.

In particular, LEUG has identified in its previous comments and herein the topics that it believes would need to be evaluated by the LPSC to ensure no customers are harmed from its Industrial Customer Market Option proposal, including: (1) LPSC certification of retail suppliers, (2) LPSC reporting requirements for retail suppliers, (3) metering, (4) temporary default service, (5) return to regulated service, (6) stranded costs, (7) securitization costs, and (8) changes needed to LPSC rules.

LEUG likewise anticipates and supports LPSC evaluation to ensure no customers are harmed from its proposal for a Renewable Generation Option.

Proper implementation of safeguards in these areas would ensure that LEUG proposals could be implemented without creating the potential problems identified by other commenters. For example, the resource adequacy concerns raised by some parties can be addressed through appropriate conditions on the ability of participants in the Industrial Customer Market Option to return to regulated service. Similarly, stranded cost concerns can be addressed by establishing appropriate guidelines for calculating any net stranded costs that are directly associated with departing load and that cannot be mitigated, and then recovering these costs through exit fees over an appropriate time period. Registration and reporting requirements for retail suppliers would ensure that these

[16] Response of SWEPCO to Staff's Second and Third Requests for Information at pages 1-3.

suppliers are competent and capable of fulfilling their obligations to their customers. All of these safeguards can be addressed by the LPSC prior to implementation of the Industrial Customer Market Option.

Properly implemented safeguards in these areas should provide the LPSC with adequate assurances that all customer classes will be protected and will not be harmed by LEUG proposals.

Several electric cooperatives express concerns with retail open access and commented that cooperatives are typically exempted from such programs.[17] In response, LEUG points out that its Industrial Customer Market Option and Renewable Power Option proposals are intended to create savings for Entergy customers by avoiding some of the anticipated generation expansion costs that Entergy expects to incur in Louisiana over the coming years to replace retiring generation. LEUG focus is on industrial customer options in the Entergy Louisiana service area. LEUG is not aware that any of its members or similarly situated industrials are served by cooperatives in Louisiana.

Montana and Washington As Examples Of Industrial Customer Programs

In its responses to Staff's requests for information, LEUG highlighted the limited retail access programs in Montana and Washington as examples of industrial customer-only options that have successful track records and have attracted robust customer participation. These examples are appropriate for the LPSC to consider in light of LEUG's Industrial Customer Market Option proposal for industrial customers in Louisiana.

Some commenters addressed the experience with limited retail open access in certain other jurisdictions that LEUG did not discuss in its own responses to Staff's requests for information. For example, Walmart referenced limited retail access programs in states including Arizona, Michigan, California, Virginia, Nevada and Oregon.[18]

Several of the examples of limited retail open access cited by other commenters either differ in structure from LEUG's proposals or have design elements that create unnecessary impediments to the success of the programs. For example, the retail open access program in California is not available to all industrial customers, but is restricted to a specified load participation limit for non-residential customers in each utility service territory, with program participants

[17] Response of BECi, Claiborne, SLECA, and WST to Staff's Second Request for Information, Response 2-9 and Response of Jefferson Davis Electric Cooperative, Inc. to the Staff's Second Request for Information, Response 2-5.

[18] Second Comments of Walmart, Inc., page 7.

selected via a lottery system. In California, a direct access auction only occurs when incremental direct access capacity is made available to eligible customers. Existing direct access program capacity remains with the current direct access customers. The California program is currently at full capacity and is therefore no longer accepting new participants. As Walmart noted, Arizona also applies a lottery system to select program participants. This approach creates unnecessary complications and limitations on program participation relative to LEUG's proposal.

The Michigan program also differs from LEUG's proposal in that Michigan applies a 10% load limit on retail open access participation, but allows participation by all customer classes. Therefore, Michigan's retail access program creates the need to address small customer safeguards and broader stranded cost recovery concerns that would not be applicable to LEUG's proposed programs, which are narrowly restricted to large industrial customers.

The Nevada retail access program has allowed some large customers to purchase power from competitive suppliers, but that program requires the negotiation and calculation of individual customer stranded cost obligations through extensive litigated proceedings. This approach creates unnecessary regulatory hurdles to program participation. The limited retail open access programs in Virginia and Oregon suffered from limited program participation due to issues such as high stranded cost charges and standard offer rates that limit the potential savings that program participants can obtain through competitive suppliers.

For the reasons discussed above, LEUG continues to believe that Montana and Washington are the most appropriate and successful examples of retail open access options for industrial customers that can be studied and considered in the Louisiana context.

In its responses to Staff, Entergy argued that Montana's experience with retail access resulted in several pitfalls including higher retail power rates and financial problems for the incumbent utility.[19] However, LEUG notes that these problems resulted from Montana's initial decision to fully deregulate its electric industry and to open its retail market to competition for all customers, large and small, combined with the spillover effects of California's electricity crisis on other markets in the Western United States. And, Montana subsequently decided to scale back its retail access program such that the program is now limited only to large customers, similar to LEUG's proposal for Louisiana. As discussed above, the limited, large customer program in Montana has had a successful track record.

[19] Response of ELL to Staff's Second Request for Information at page 21.

Circumstances That Exist Today For Entergy Customers Are Nothing Like 20 Years Ago When LPSC Last Considered Limited Retail Access Options For Industrial Customers

Twenty years ago in 2001, the LPSC Staff presented a plan to the LPSC for consideration that would have permitted industrial customers with average loads greater than 5 MW the opportunity to access the competitive generation market, while providing for continued regulated service and protections for all other customers including industrials who chose to continue regulated service.[20] According to the LPSC, the Staff believed that its plan provided "numerous benefits for all customers", including that customers continuing to take regulated service would avoid the potential cost and reliability risks associated with the unregulated generation market, and those customers would also remain protected from cost shifting as customers choosing access would remain liable for their fair share of stranded costs. The LPSC also would continue to maintain both its authority and flexibility to respond to changing circumstances in the future.[21]

Notably, the LPSC Staff was able to develop a plan that provided appropriate protections for non-participating customers, stating in particular: "Should the Commission determine that retail access may be in the public interest for large customers, this plan is designed to provide the Commission with an implementation approach that protects the interest of residential and small commercial customers, while permitting access to those who desire it."[22]

While the LPSC found in 2001 that the Staff plan was a careful and measured approach and designed to retain the benefits of continued regulation for the vast majority of customers and provide choice to the very few customers who desire it, while maximizing Commission flexibility, the LPSC decided against the plan "at this time" in 2001.[23]

Very importantly, however, the LPSC was explicit in 2001 as to why it did not approve implementation of the plan for industrial customers "at this time" in 2001. In particular, the LPSC discussion references in 2001 included: over the seven past years, while there has been some volatility in fuel costs, base rates of Louisiana's four investor-owned utilities have been reduced by approximately $300 million and further rate reductions were anticipated; implementation of retail access would be premature at that time; there was no functioning Retail Transmission Organization ("RTO"), which the

[20] LPSC Order Consolidated U-21453, U-20925(SC), U-22092(SC)-(Subdocket A) – B, December 4, 2001, pages 7-8.
[21] LPSC Order Consolidated U-21453, U-20925(SC), U-22092(SC)-(Subdocket A) – B, December 4, 2001, page 7.
[22] LPSC Staff Proposed Competitive Transition Plan, Docket U-21453, U-20925(SC), U-22092(SC), January 2001, page 4.
[23] LPSC Order Consolidated U-21453, U-20925(SC), U-22092(SC)-(Subdocket A) – B, December 4, 2001, page 8.

LPSC stated it believed would greatly enhance the potential for success of any retail choice regime; and questions existed whether there was a robust wholesale market as well as to the adequacy of the bulk transmission system.[24]

Fast forwarding to 2022, MISO has been in place as the RTO for the Entergy service area in Louisiana for almost a decade - since 2013; hundreds of millions of dollars have and continue to be spent by Entergy on MISO-approved transmission system upgrades in Louisiana;[25] recent power procurement processes by electric cooperatives before the LPSC have made clear there are abundant competitive options available in the market today;[26] there is a group of competitive energy suppliers actively engaged in this proceeding and wanting to pursue competitive power supply options in Louisiana; Entergy has implemented multiple hundreds of millions of dollars of base rate increases in recent years;[27] and Entergy's IRP process contemplates spending in the billions of dollars in the future for new generation resources that could be avoided or reduced at least to some extent by providing alternative options for industrial customers willing to take on the risk of pursuing alternative power supply options.

Thus, the circumstances that exist today for Entergy ratepayers is nothing like 20 years ago in 2001 when the LPSC last considered limited retail access options for industrial customers.

An LPSC decision of 20 years ago made in a very different time and context does not in any manner control or limit the flexibility available to the LPSC today to act in the best interest of the ratepayers or the state of Louisiana in considering LEUG proposals presented in this proceeding.

[24] LPSC Order Consolidated U-21453, U-20925(SC), U-22092(SC)-(Subdocket A) – B, December 4, 2001, pages 7-8.

[25] Entergy Louisiana has spent roughly $3 Billion on transmission system investment during the seven year period 2015-2021.

[26] LPSC Dockets U-35927, U-36133, U-36135.

[27] Entergy Louisiana has implemented over $1 Billion in Formula Rate Plan base rate increases during the eight year period 2015-2022.

RESPECTFULLY SUBMITTED:

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CERTIFICATE OF SERVICE

I hereby certify that a copy of Louisiana Energy Users Group's Reply Comments has been served by electronic mail and/or by U.S. mail, postage prepaid, on all parties on the Official Service List.

Baton Rouge, Louisiana this 10th day of October 2022.

Randy Young

COST OF PROJECTED ENTERGY GENERATION ADDITIONS

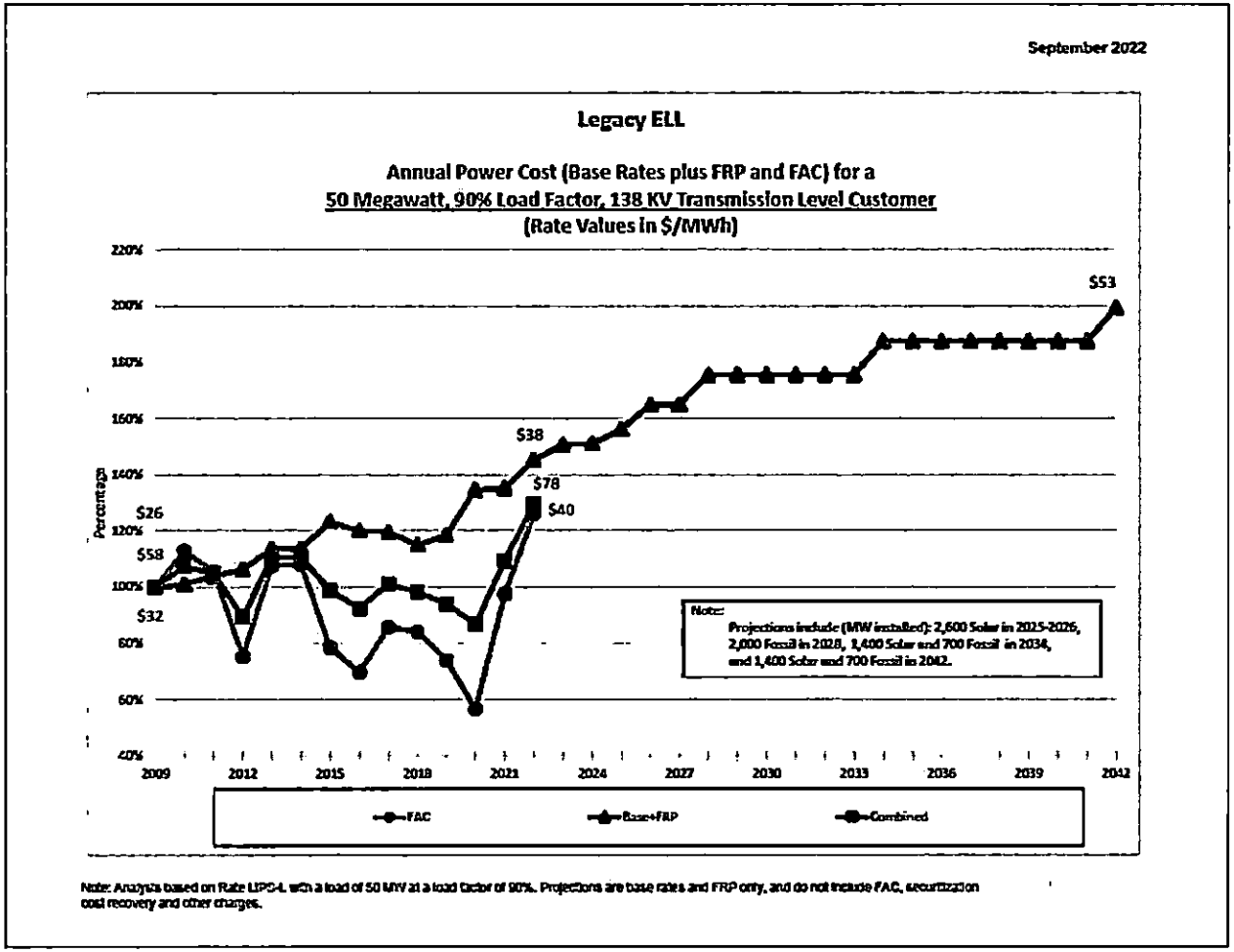
ENTERGY LOUISIANA, LLC

Generation Capacity Additions

Line	Year	Installed Capacity Additions (MW)	Type of Capacity	MISO Value of Capacity (MW)	Cost per Installed kW	Total Installed Cost ($Billions)	Carrying Cost Rate	Annual Cost ($Millions)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	2025	1,100	Solar	550	$1,000	$1.1	15%	$165
2	2026	1,500	Solar	750	$1,000	$1.6	15%	$225
3	2028	2,000	Fossil	2,000	$900	$1.8	15%	$270
4	2034	1,400	Solar	700	$1,000	$1.4	15%	$210
	2034	700	Fossil	700	$900	$0.6	15%	$95
5	2042	1,400	Solar	700	$1,000	$1.4	15%	$210
	2042	700	Fossil	700	$900	$0.6	15%	$95
	Total					$8.5		$1,270

BAI
Brubaker & Associates, Inc.

RATEPAYER BILL IMPACTS FOR PROJECTED ENTERGY GENERATION ADDITIONS (LEGACY ELL)



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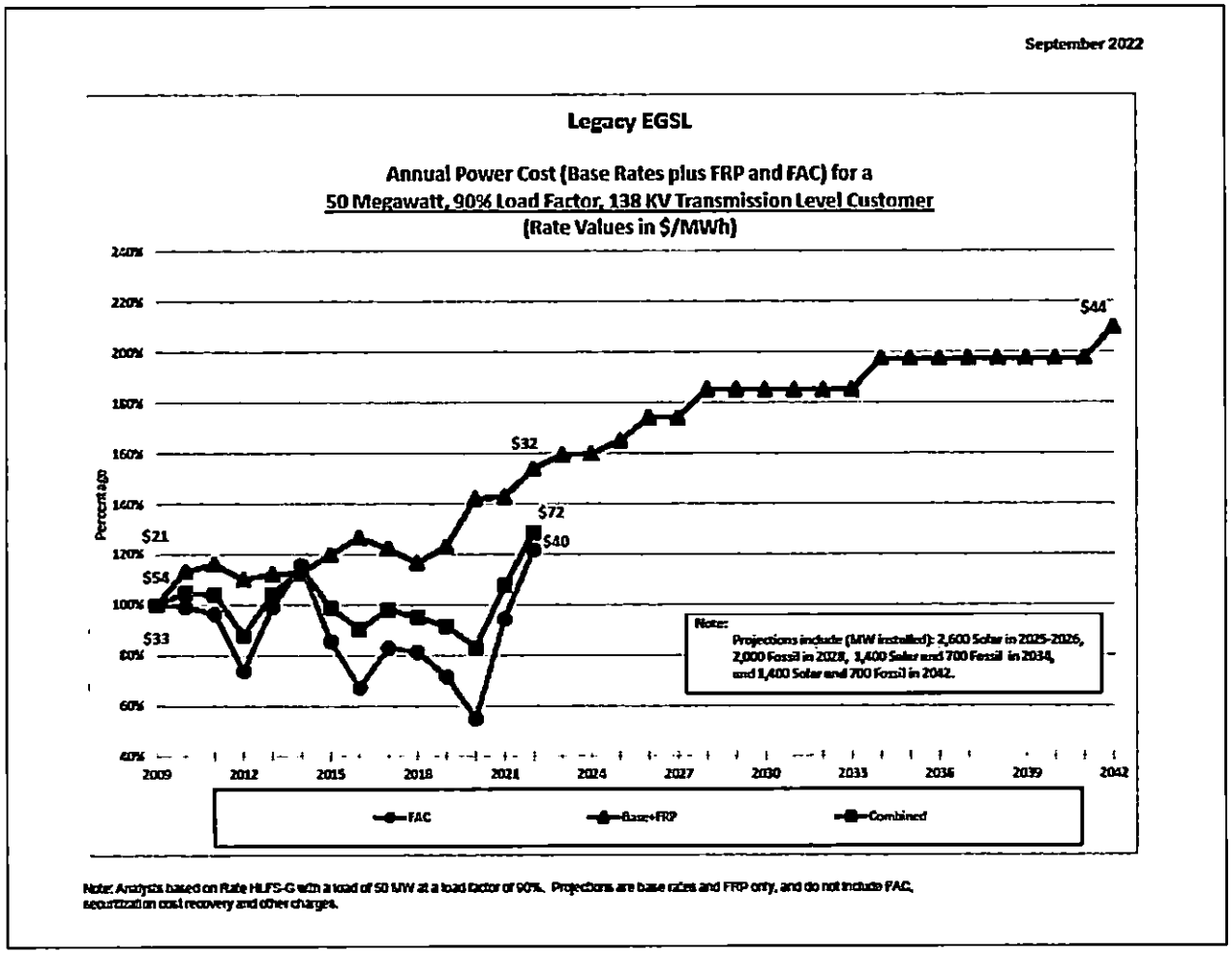
RATEPAYER BILL IMPACTS FOR PROJECTED ENTERGY GENERATION ADDITIONS (LEGACY EGSL)



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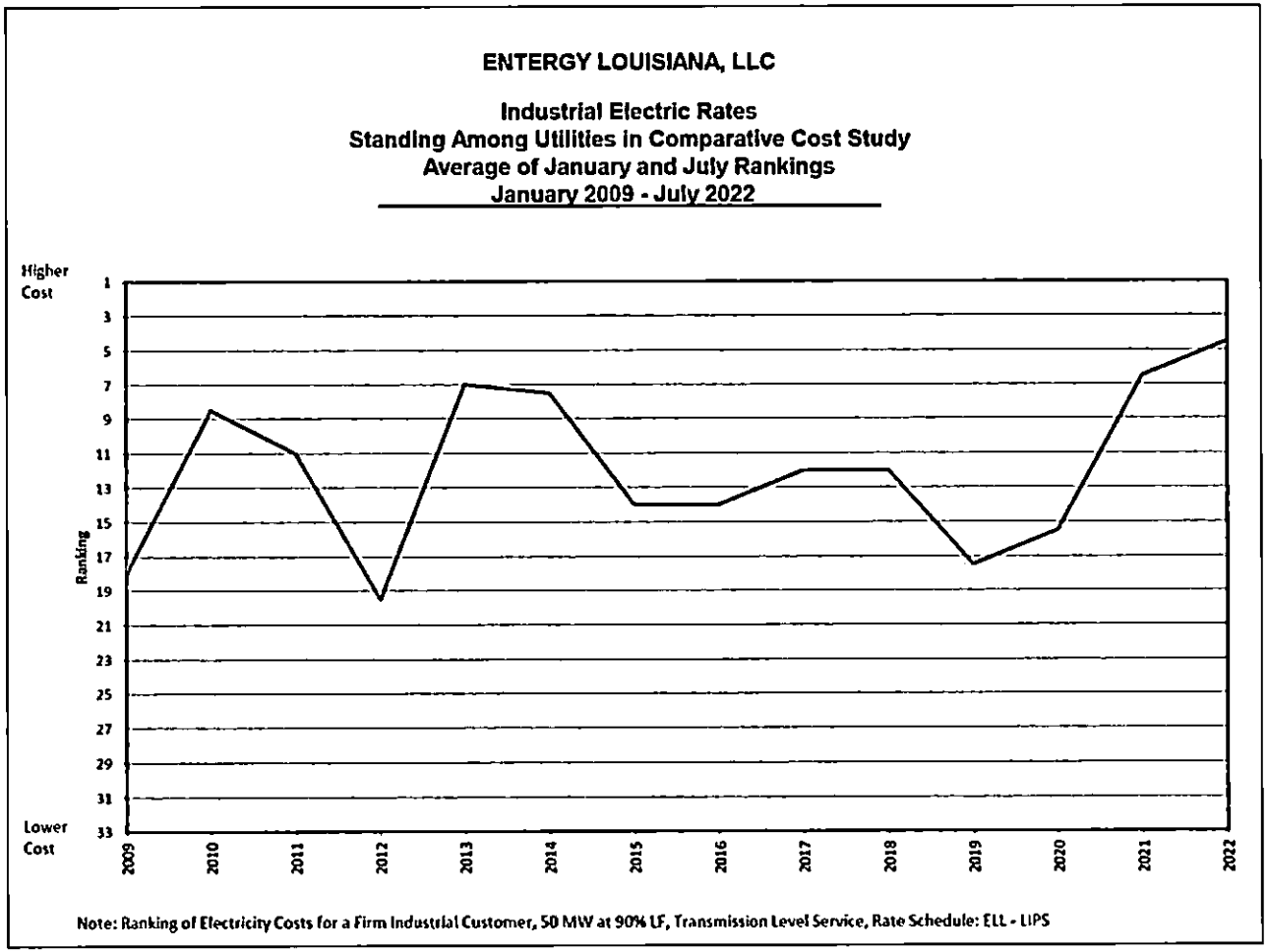
LOUISIANA INDUSTRIAL RATES NOT AMONG LOWEST IN SOUTHEASTERN U.S. (LEGACY ELL)



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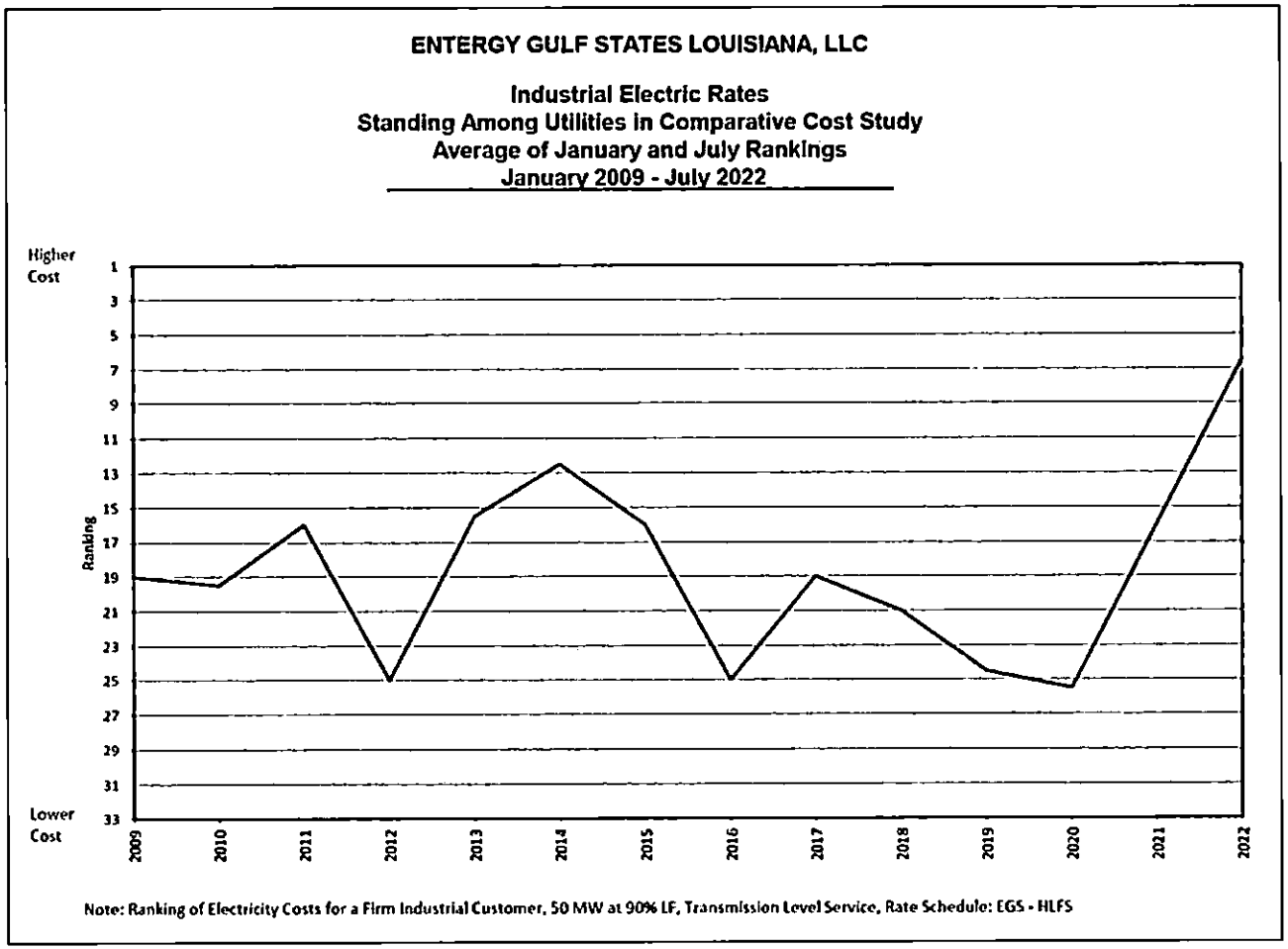
LOUISIANA INDUSTRIAL RATES NOT AMONG LOWEST IN SOUTHEASTERN U.S. (LEGACY EGSL)



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LOUISIANA INDUSTRIAL RATES NOT AMONG LOWEST IN SOUTHEASTERN U.S. (ABRIDGED TABLE)

BRUBAKER & ASSOCIATES, INC.

July 2022 Survey of Electricity Cost
for an Industrial Customer
50,000 kW Load, 90% Load Factor
90% Power Factor and Transmission Service[1]

Line	Utility Company	Mills per kWh
1	Central Louisiana Electric Company, Inc.	105.99
2	Entergy Louisiana LLC	100.34
3	Entergy Gulf States Louisiana, LLC	93.75
4	Kentucky Power Company	86.67
5	Southwestern Electric Power Company, LA	86.64
6	Entergy New Orleans, Inc.	81.52
22	Entergy Mississippi, Inc.	59.38
23	Monongahela Power Company, WV	59.21
24	Entergy Arkansas, Inc.	54.72
25	Entergy Texas Inc.	52.25
29	Duke Energy Carolinas, NC	47.05
30	Southwestern Electric Power Company, TX	46.79
31	**July 2022 Average**	**68.28**

Notes: The above was prepared by Brubaker & Associates, Inc. using publicly available information.
Calculations do not include sales or use tax.
SWEPCO includes some adjustment factors that may not be the most current.
[1]**For base rates that vary by season (i.e. not because of fuel or other riders), a seasonal blended rate is used.**

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LEUG Proposals

INDUSTRIAL CUSTOMER MARKET OPTION

- Industrial Customer Market Option would allow an industrial customer to leave Entergy service in whole or part and obtain all or some portion of its electric supply from whatever other source it may choose, at its own risk and cost.
- The alternative source could be any of a number of potential options - - such as:
  1) entering a long-term contract with some other utility or private entity that has excess generation it needs to sell, or
  2) building or joining in a shared CHP island with neighboring plants, or
  3) serving itself with excess CHP or other generation located at affiliate plant sites, or
  4) buying from the MISO market if they are willing to accept the risk of short-term market prices.
- Under any of the options, the point is that Entergy would not have to supply the power to the departing customer load and thus could avoid replacing and/or adding generation plant that would otherwise be needed to meet the departing customer load.

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ENHANCED CHP OPTIONS

- Enhanced CHP Opportunities is a subset of the Industrial Customer Market Option, and includes:
  a) allow sharing of CHP power among industrial customers and steam consumers without current requirements for ownership or leasehold interests, and
  b) allow sharing of CHP power among affiliated industrial sites.

RENEWABLE GENERATION OPTION

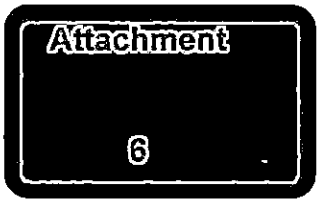
- Renewable Generation Option would allow industrial customers to select and negotiate terms with renewable developers to "purchase and utilize" renewable power, while coordinating and "sleeving" the transaction through Entergy for delivery and stand-by or back-up power.

TOPICS FOR LPSC EVALUATION TO ENSURE NO HARM TO OTHER RATEPAYERS

1) LPSC certification of retail suppliers,
2) LPSC reporting requirements for retail suppliers,
3) metering,
4) temporary default service,
5) return to regulated service,
6) stranded costs,
7) securitization costs, and
8) changes needed to LPSC rules.

October 5, 2022

ELECTRICITY SUPPLY OPTIONS ARE IMPORTANT FOR INDUSTRIAL CUSTOMERS AND ECONOMIC DEVELOPMENT



Charles S. Griffey[1]

Introduction

In 2016 I co-authored a paper[2] that analyzed whether it would be beneficial for the State of Louisiana to allow large industrial customers in the service territory of Entergy Louisiana to pursue alternative power supply options including enhanced opportunities for combined heat and power ("CHP") cogeneration. While the analysis in that paper still holds, in this paper I look at the additional value that having electricity supply options gives to industrial customers, and how those options may give another reason for such customers to locate in Texas rather than Louisiana.

Texas currently holds an advantage over Louisiana in providing optionality of power supply for industrial customers considering capital investments for expansion of existing plant as well as new plant projects. Optionality of power supply is also becoming increasingly important for existing industrial plants as they seek to remain competitive and meet their needs for diversity of power supply.

The ability to have a variety of ways to hedge electric supply, align electric supply cost with the revenue from product sales, link electric supply across plant sites, and contract directly with renewable providers to fulfill corporate strategies is an advantage in economic development for new and expanding industrial plants as well as sustaining the competitiveness of existing industrial plants.

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[1] Mr. Griffey is a consultant to the energy industry, focusing on all aspects of the value chain. Previously, he was Senior Vice President for Market Design and Regulatory Affairs at Reliant Energy. In that position, he was involved in the development of the retail market in Texas from 1995-2009. He was also an Adjunct Professor of Management at the Jones Graduate School of Business at Rice University for five years from 2011-2016.

[2] "The Benefits of Allowing Access to the Competitive Wholesale Power Market for Industrial Customers in Louisiana," Charles S. Griffey and Eric Smith, August 1, 2016, submitted in LPSC Docket S-34426.

In addition, allowing alternative electric supply options for these industrial customers could benefit other customers of Entergy by avoiding the cost for Entergy to construct new regulated generating plants, and it could help the environment by providing a greater ability to tap combined heat and power projects, which are more efficient than comparable utility generation and will lessen emissions.

How Electric Procurement Affects Economic Development

As was explained in the 2016 paper, industrial plants in Louisiana currently operate in a commodity and product market that is both strongly interconnected with but also competes with comparable industrial plants in Texas. Electricity is an important input cost, and the structural disadvantage of buying only from a monopoly seller means that new industrial facilities or expansions that might otherwise locate/occur in Lake Charles or along the Mississippi River corridor could instead happen in Texas.

While it is true that power costs are only one of a number of costs that impact location choices, power is typically one of the principal costs for industrial facilities. In addition to price, a critical component to power procurement is the amount of managerial control that a customer can exercise over power cost over time. In the integrated utility world, customers have few options – they take power under the tariff for the rate class to which they are assigned. The decisions about how much power will cost in the future are made by utility management though its choice of generation mix, and the industrial customer either takes it as a given or locates somewhere else. In contrast, under a market design where an industrial customer can access the wholesale market, it can

- control the period for which it contracts,
- the source of power from whom it purchases,
- hedge and fix the price of power for a term it chooses,

- link electric supply across multiple sites just as they do with other inputs (e.g., feedstock, steam),
- make more economic decisions about whether to invest in cogeneration or buy from third parties,
- choose to electrify its operations without placing a burden on other customers,
- Choose to purchase renewable energy directly rather than relying on the utility and its ability to make full use of tax incentives (or not).

Furthermore, industrial customers in Louisiana as well as Texas are uniquely situated to bear the risks associated with purchasing market-priced power. Power prices in Louisiana and Texas are closely correlated with natural gas prices and industrial customers in both states are often part of companies that have the ability to hedge natural gas costs internally to manage power and natural gas price risk. It is better economically to allow these companies the option to efficiently hedge than to rely on a regulated utility to make multi-billion dollar generation decisions to attempt to reduce gas price risk. Finally, allowing industrial customers the ability to buy from someone other than Entergy also relieves other customers from supporting the cost of Entergy's planned new facilities. It therefore would be more efficient to let such customers have the option to bear the price risk associated with natural gas prices rather than to have a utility such as Entergy attempt to manage that risk for them through its resource planning decisions.

Louisiana's power contracting disadvantage relative to Texas can be equalized if industrial customers are allowed options for power supply. Given the above reasons, then, Louisiana could benefit if large industrial customers are allowed alternative power supply options including enhanced opportunities

for combined heat and power ("CHP") cogeneration.[3]

It Makes Sense to Allow Industrial Customers Access to Competitive Prices

Comparison of How Large Customers Purchase Power in Texas Compared to Louisiana

Under the traditional regulated utility model, customers are considered passive "load," who simply buy power from the utility under a regulated tariff. The customer has little control over how electricity is purchased or how it is generated, and has limited ability to hedge. A customer with multiple sites is treated as multiple customers, such that the customer cannot fully integrate his sites. In comparison, in a market where an industrial customer is given access to wholesale markets, the customer is able to far better manage his power costs. The customer can choose from whom to buy power (renewable and/or fossil fuel sources), can directly hedge power prices many years into the future if it so chooses, can align its cost structure to its expected revenue, can integrate multiple sites, and can share and optimize its power, utility, and feedstock inputs across other customers.

There are several examples that can demonstrate the optionality provided by access to the market. Many industrial customers operate adjacent to or close by other industrial customers – Lake Charles, Mississippi River corridor, Houston Ship Channel, Bayport Industrial Complex, Freeport, Corpus Christi/Ingleside. The Louisiana locations must buy power in the traditional method as described above. But the Texas locations do not. I am aware of industrial customers who self-generate, buy power from adjacent CHP facilities, buy power from third parties, sell ancillary services to the grid from self-generation and controllable load and load that can quickly turn-off, and sell back energy in real-time if their production facilities can defer some operations when prices are high. The power purchases can be

[3] There are a number of details that need to be worked out as part of such a decision. This paper focuses on the benefit of allowing access to the wholesale market and is not meant to be a complete discussion of all of the details that would need to be fleshed out in order to implement such a decision.

combinations of block power purchase, shaped power purchase, self-generation/co-generation, and partial requirements contracts. The block power purchases can be fixed price, spot, or any combination thereof, and the other purchases can be similarly managed. The customer can hedge the cost of capacity, energy, heat rate only, or natural gas only as it so desires. This optionality is very important in allowing a customer to manage its risk and justify a new industrial plant or expansion. The inability to hedge power cost, or to subject itself to higher power cost based on regulated utility management decisions that have an incentive to favor capital intense projects, is a negative for a prospective customer.

With respect to renewables, in ERCOT industrial customers can contract directly with renewable generators to get the term and pricing they desire. Customers who prefer the lowest price do not have to directly bear the cost of renewables at all, while customers desiring renewables energy can purchase in the lowest cost way via a PPA or ownership as they see fit. This is important because in Louisiana customers must rely on the utility's generation portfolio for renewables exposure. What gets into the utility's generation portfolio is a function of what is best for utility shareholders (subject to regulatory approval), not what is best for an individual customer. As an example, utilities will typically prefer to own at least a portion of their renewables generation. This preserves their earnings ability. But in doing so they may pass on less expensive PPAs.[4] Or utilities may insert conditions in their RFPs that could lead to higher cost bids, e.g., placing regulatory risk on the seller of renewables or having veto rights on a future buyer of a facility.[5] These are conditions that industrial customers are unlikely to require. Finally, allowing industrial customers to contract directly with renewables providers keeps the risk of PPAs off of the utility and its other customers and onto the industrial customer itself. To the extent that an industrial customer wants to have its facilities powered by renewable energy, it is less expensive and more straightforward to do so with direct access to the market than through a utility intermediary that has

[4] This happened in the Entergy Texas 2019 RFP for renewables. *See* Finding of Fact 52 in the Final Order in Docket 51215 before the Public Utility Commission of Texas, *Application of Entergy Texas, Inc. to Amend Its Certificate of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County*: "Entergy did not demonstrate that it was reasonable to select the build-own-transfer offer for the proposed facility, whose net-present-value net benefits were lower than those of the purchased-power-agreement offer for the proposed facility as well as the Umbriel purchased-power-agreement offer."

[5] Entergy has said these types of provisions are standard in all of its operating company PPAs.

different interests.

Competitive pricing puts price risk on customers most able to manage it

One of the issues that traditional utility purchasing cannot address is the explicit cost of managing price risk. Traditional utility resource planning assumes that the utility is the entity responsible for managing price risk, resulting in the utility making trade-offs between higher capital cost and lower fuel cost. Historically, however, utilities have not done an effective job of making such trade-offs, and the incentives inherent in regulation make it unlikely that utilities will choose the optimal outcome for the economy or for any particular customer. Within a regulated environment, for instance, utilities effectively make their trade-offs with ratepayers' money rather than their own. Utilities naturally have an incentive to choose higher-capital-cost alternatives, because they make money on invested capital; it is not surprising, then, that utility resource plans tend to favor higher-capital-cost resources, because utilities can pass costs on to consumers while benefitting from a high level of invested capital.

Allowing access to the wholesale market shifts the responsibility for making price risk management trade-offs away from the utility to the industrial customer. Sophisticated customers who are managing risk for themselves can be expected to make better decisions over time, and in any case the risk of those decisions are borne by the customers individually. They are not spread across the system as in the case of traditional utility regulation.

Industrial customers in Louisiana are sophisticated purchasers of energy. Energy is their business, and many are already participating in competitive electricity markets in Texas. They regularly review electricity economics, debating the merits of steam boilers versus cogeneration and comparing the costs of powering pumps and compressors with steam drives versus with electricity. In short, they are making the same type of price risk management decisions today that they would need to make if they had access

alternative power supply options. Furthermore, many of these firms have the ability to hedge against natural gas price volatility.

If a customer has the ability to hedge natural gas costs internally it has less need to spend capital to protect itself against natural gas price increases. Rather than forcing such a customer to pay for a utility's hedging decision on its behalf, the state should let a sophisticated customer make that decision for itself. Given the significant size of the industrial class relative to all customers, it is far better economically to let large industrial customers make their own price risk management decisions than to have Entergy make them and have all customers pay for its decisions. Furthermore, many of these customers have balance sheets larger than Entergy's, so they can better afford the collateral needed for hedging. It is economically better to let them do it than to charge all ratepayers for this cost.

Result can be a win-win for all parties

Allowing large industrial customers alternative power supply options could be a win-win for Louisiana and all parties involved in Louisiana. If large, sophisticated industrial customers are responsible for their own price risk management decisions, other customers will not have to pay Entergy to make hedging decisions for customers who have the ability to do so. Additionally, if large industrial customers are responsible for their own power procurement decisions, Entergy will not have to acquire or build new generation to supply those customers. This will relieve pressure on Entergy's cash flow and could lead to lower base rates for all remaining Entergy customers.

Increasing Cogeneration Options Can Also Benefit Louisiana

As noted in the previous paper, large industrial users often have considerable needs for both steam and electricity and are likely candidates for the installation of cogeneration facilities. Cogeneration can be the most energy efficient means of providing electric generation, and lower heat rates produce

fewer emissions and has greater environmental benefits than many other electric generation alternatives. Thus, cogeneration can help meet Louisiana's capacity needs in an economically and environmentally efficient manner.

As described above regarding how customers procure power in Texas, many industrial customers purchase from co-generators owned by other nearby entities, whether or not steam is sold between the parties.[6]

Conclusion

Allowing industrial customers in Louisiana alternative power supply options including enhanced opportunities for combined heat and power ("CHP") cogeneration would allow these consumers to effectively manage their power costs. Industrial customers in Texas value the optionality that access to the wholesale market and other sellers provides. Providing the same optionality in Louisiana could improve economic development and reduce the need for ELL to acquire all of the billions in new generation assets in its current plans.

Furthermore, allowing large industrial customers alternative power supply options including enhanced opportunities for combined heat and power ("CHP") cogeneration is more economically efficient than requiring ELL to make plans to serve them. Many of these larger customers are actually in a better position to hedge power and fuel commodity risks than is ELL acting on their behalf. These large industrial customers already are equipped to hedge a variety of price and cost risks that they routinely face as they purchase raw materials and sell petrochemical intermediates in their daily operations. For them, power is just one more input that needs to be managed. Having ELL attempt to manage fuel or power price risk can actually increase price risk for all customers as it increases the size of the capital expenditures and the amount of load for which ELL has to plan.

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[6] Different registration requirements may be needed at FERC and the local regulator depending on the precise configuration of the co-generator, the steam host(s) and the customer.

Finally, there are a number of actions that Louisiana could take to make its industrial sites more amenable to the operation of efficient cogeneration facilities. These include allowing combined operations of cogeneration and multiple steam customers, or with affiliates, or at multiple locations. Greater penetration of industrial and electric cogeneration is environmentally superior to utility generation because of the lower heat rates available from such cogeneration facilities.