



## Filing Receipt

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SOAH DOCKET NO. 473-22-04394  
PUC DOCKET NO. 53719

APPLICATION OF ENTERGY	§	BEFORE THE STATE OFFICE
TEXAS, INC. FOR AUTHORITY TO	§	OF
CHANGE RATES	§	ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

SEAN C. MCHONE

ON BEHALF OF

ENTERGY TEXAS, INC.

NOVEMBER 2022

ENTERGY TEXAS, INC.  
REBUTTAL TESTIMONY OF SEAN C. MCHONE  
SOAH DOCKET NO. 473-22-04394  
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1 **I. INTRODUCTION**

2 Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

3 A. My name is Sean C. McHone, and my business address is 55 East Monroe Street,  
4 Chicago, Illinois 60603. I am a Member, Senior Vice President, and Project  
5 Director with Sargent & Lundy, LLC (“S&L”). S&L is a consulting engineering  
6 firm working mainly with electric utilities. S&L has provided consulting  
7 engineering services to the electric power utility industry for more than 130 years.

8  
9 Q2. ARE YOU THE SAME SEAN C. MCHONE THAT FILED DIRECT  
10 TESTIMONY IN THIS DOCKET?

11 A. Yes. I submitted direct testimony with Entergy Texas, Inc.’s (“ETI”) application  
12 filed in this docket on July 1, 2022.

13  
14 **II. PURPOSE**

15 Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

16 A. The purpose of my testimony is to respond to the recommendation of Cities’<sup>1</sup>  
17 witness David Garrett that no positive contingency amount should be added to the  
18 demolition studies that S&L has prepared for ETI in this case.

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<sup>1</sup> Cities include 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, Rose City, Shenandoah, Silsbee, Sour Lake, Splendor, Vidor, West Orange, and Willis.

1 Q4. DO YOU SPONSOR ANY REBUTTAL EXHIBITS?

2 A. No.

3

4 **III. DEMOLITION STUDY CONTINGENCY**

5 Q5. DO YOU HAVE AN OVERALL OBSERVATION TO MAKE ABOUT  
6 MR. GARRETT'S CRITICISMS PRIOR TO ADDRESSING THEM  
7 INDIVIDUALLY?

8 A. Yes. My initial overall observation is that, to my knowledge, Mr. Garrett has not  
9 prepared any independent studies of what costs would be expected to be incurred  
10 to dismantle and remove ETI's generating facilities upon their retirement. He  
11 simply criticizes certain aspects of the demolition studies, without offering  
12 alternative engineering studies covering the complete costs of demolition of each  
13 of ETI's generating units based on consideration of the specific attributes of each  
14 facility.

15 The S&L studies I sponsor in my direct testimony are actual studies of the  
16 costs that are expected to be incurred to dismantle and remove each ETI generating  
17 plant after its retirement. The studies were conducted using the extensive power  
18 engineering and generation facility experience of S&L, and represent a reasonable,  
19 appropriate, and reliable projection of the costs of dismantling and removing ETI's  
20 generating facilities upon their retirement.

1 Q6. DOES YOUR EXPERIENCE CONFIRM THAT THE INCLUSION OF  
2 POSITIVE CONTINGENCY FACTORS IN COST ESTIMATES IS  
3 NECESSARY AND APPROPRIATE?

4 A. Yes. Cost estimates for virtually all contract work include some amount of  
5 contingency. It is a common and expected standard industry practice to include a  
6 positive contingency to account for unknowns and future changes which cannot be  
7 accounted for in a cost estimate. The omission of a positive contingency in a cost  
8 estimate would be considered irresponsible and unreasonable by industry practice.

9  
10 Q7. ON PAGE 16, MR. GARRETT STATES THAT THE CONTINGENCY COSTS  
11 INCLUDED IN THE DEMOLITION COST ESTIMATES ARE ARBITRARY  
12 AND THEREFORE SHOULD BE DISALLOWED ALTOGETHER. WHAT IS  
13 YOUR RESPONSE TO THAT?

14 A. I disagree with this point of view. Mr. Garrett states that essentially contingency is  
15 “unknown by definition” and therefore could be higher or lower than estimated. As  
16 defined above, contingency is an amount added to account for unknown conditions  
17 that will occur, and will result in added cost based on past experience. This  
18 experience, derived by the professionals performing work throughout the roughly  
19 130-year history of the Electric Power industry, is the basis for why the use of  
20 contingency is the accepted norm in industry. Contingency essentially is to deal  
21 with scopes of work that will occur, but cannot be defined at the time of estimate  
22 development because the engineering scope development is not complete. For that

1           reason, as stated in the previous answer, the inclusion of contingency is appropriate  
2           and consistent with industry standard.

3

4   Q8.   ON PAGE 17, MR. GARRETT STATES THAT WHILE CONTINGENCY IS  
5           APPROPRIATE IN CONSTRUCTION CONTRACTS, IT IS NOT  
6           APPROPRIATE IN THE CONTEXT OF DEMOLITION COSTS FOR  
7           RATEMAKING. DO YOU AGREE?

8   A.   No. Mr. Garrett makes the point that “[i]n construction contracts, contingency costs  
9           are designed to cover unexpected costs during the construction process as well as  
10          the owner’s requested changes or design modifications.” This is also the very  
11          reason that contingency is used in demolition estimates. The purpose of the  
12          contingency is to address unknown factors that will occur in the future. Over the  
13          course of a power plant operating life, there will be changes, modifications, and  
14          additions that cannot be quantified at this time. However, it is prudent to account  
15          for these unknown additional costs. For that reason, it is appropriate to use a  
16          contingency factor when preparing demolition cost estimates because it is common  
17          practice, is reasonable, and more accurately reflects the realities of power plant  
18          operating lives.

1 Q9. PLEASE DISCUSS S&L'S EXPERIENCE IN PERFORMING DEMOLITION  
2 COST STUDIES SIMILAR TO THE ONES YOU SPONSOR IN THIS  
3 PROCEEDING.

4 A. S&L has worked on diverse construction projects involving numerous nuclear  
5 power plants, fossil fueled power plants (e.g., coal fired, oil fired, natural gas fired,  
6 etc.), and renewable energy facilities. Every single new generation power plant  
7 design project and every single power plant retrofit project that has been performed  
8 by S&L throughout its 130-plus year history has involved some type of site grading  
9 and/or demolition. This is true whether the assignment is related to the full  
10 decommissioning and demolition of a facility or a partial demolition to  
11 accommodate the development of new facilities and/or the retrofit of existing  
12 facilities.

13  
14 Q10. WAS THE DEVELOPMENT OF THE COST ESTIMATES FOR EACH ETI  
15 GENERATING STATION BASED ON EACH SITE'S UNIQUE SITUATION?

16 A. Yes. Due to the inherent differences between each unique generating facility, each  
17 plant was evaluated on an individual basis to ensure that prudent and reasonable  
18 cost estimates were provided for the most-likely demolition scenario. Site-specific  
19 walk-downs with ETI staff and site-specific, documented drawing reviews were  
20 performed to clearly define the scope of demolition, excavation, and disposal  
21 necessary for each individual site. S&L used discussions with site staff, documents,  
22 and the dimensional information from drawings to calculate the extent of



1 excavation and disposal required. The results of these site unique calculations were  
2 prepared and reviewed by S&L's qualified and experienced staff as part of the  
3 development of the cost estimate for each ETI station in Exhibit SCM-2 of my  
4 direct testimony.

5  
6 Q11. HAS THE COMMISSION PREVIOUSLY APPROVED THE USE OF A  
7 CONTINGENCY FACTOR IN DETERMINING NET SALVAGE?

8 A. Yes. In fact there are not one, but three prior Commission cases that provide  
9 substantial support for acceptance of a contingency factor of the type that S&L has  
10 included in its cost estimates in this case. These cases are:

- 11 • *Application of Southwestern Electric Power Company for Authority to*  
12 *Change Rates*, Docket No. 40443; and
- 13 • *Application of Southwestern Electric Power Company for Authority to*  
14 *Change Rates*, Docket No. 46449; and
- 15 • *Application of Southwestern Electric Power Company for Authority to*  
16 *Change Rates*, Docket No. 51415.

17 In all of these cases, the Commission was reviewing S&L's demolition  
18 studies that applied the same cost estimating methods used here, including  
19 application of a positive contingency. The Commission approved the inclusion of  
20 a positive contingency as a reasonable and well-accepted element of the demolition  
21 studies. In Docket No. 46449, the Commission determined that the contingency

1 amount should be no greater than 10%, and S&L's demolition studies in this case  
2 follow that direction.<sup>2</sup>

3

4 Q12. DOES MR. GARRETT ADDRESS THESE CASES?

5 A. No.

6

7 Q13. DID THE COMMISSION'S RULINGS IN THOSE PREVIOUS CASES  
8 ADDRESS CRITICISMS OF THE CONTINGENCY FACTOR SIMILAR TO  
9 THOSE PRESENTED BY MR. GARRETT?

10 A. Yes, they did. In fact, Mr. Garrett presented similar positions in Docket Nos. 46449  
11 and 51415 on behalf of a coalition of intervening cities referred to as Cities  
12 Advocating Reasonable Deregulation ("CARD"), which the Commission rejected.  
13 For example, in Docket No. 46449, Mr. Garrett argued that although contingencies  
14 were sometimes included in contractor estimates to address "future uncertainties,"  
15 this practice "also highlights why it is important not to include such contingency  
16 factors in the context of ratemaking."<sup>3</sup> He also urged in Docket No. 46449 that  
17 since contingencies address uncertain costs they are not "known and measurable."<sup>4</sup>  
18 Similarly, in Docket No. 51415, Mr. Garrett asserted that "[a]pplying an arbitrary  
19 10% contingency factor on the basis that future costs are 'uncertain,' on top of a

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<sup>2</sup> Docket No. 46449, Order on Rehearing at 5-6 and Finding of Fact 180 (Mar. 19, 2018).

<sup>3</sup> Docket No. 46449, Direct Testimony and Exhibits of David J. Garrett at 12 (Apr. 25, 2017) (emphasis in original).

<sup>4</sup> *Id.* at 12.

1 cost that is already uncertain further exacerbates the underlying problem with such  
2 costs.”<sup>5</sup>

3 Likewise, in the case now at hand, he argues that it is inappropriate to  
4 include contingency costs in rates because such costs are unknown by definition.<sup>6</sup>

5 Over the course of the 130 plus years since the beginning of the electric power  
6 industry, the use of contingency in all construction and demolition cost estimates  
7 has become the customary and accepted practice.

8

9 Q14. HOW DID THE COMMISSION RESPOND TO MR. GARRETT’S  
10 ARGUMENTS IN DOCKET NO. 46449?

11 A. The Commission squarely rejected those arguments. In the Proposal for Decision  
12 (PFD) in Docket No. 46449, the Administrative Law Judges (ALJs) found:

13 As SWEPCO noted, none of these arguments advanced by  
14 intervenors *with respect to the contingency* or escalation factors are  
15 new. All of these arguments were litigated in SWEPCO’s last rate  
16 case, Docket No. 40443, and were rejected at that time by this  
17 Commission. Despite Staff’s apparent nod to CARD and  
18 ETEC/NTEC regarding the use of an escalation factor, the  
19 arguments advanced do not provide sufficient basis to go against  
20 prior regulatory practice, including that employed by the  
21 Commission.<sup>7</sup>

22 The Commission agreed with the ALJs’ rejection of Mr. Garrett’s position.

23 Ultimately, the Commission found that “is common practice to include contingency

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<sup>5</sup> Docket No. 51415, Direct Testimony and Exhibits of David J. Garrett at 8 (Mar. 31, 2021).

<sup>6</sup> Direct Testimony of David Garrett at 16.

<sup>7</sup> Docket No. 46449, PFD at 219 (Sept. 22, 2017) (emphasis added).

1 amounts in cost estimates for contract work across all industries” and approved a  
2 10% contingency factor for SWEPCO.<sup>8</sup>

3

4 Q15. HOW DID THE COMMISSION RESPOND TO MR. GARRETT’S  
5 ARGUMENTS RELATIVE TO THE APPLICATION OF CONTINGENCY IN  
6 DOCKET NO. 51415?

7 A. The Commission squarely rejected Mr. Garrett’s arguments under that docket as  
8 well. In the PFD in Docket No. 51415, the ALJs found:

9 As SWEPCO noted, CARD’s arguments regarding contingency and  
10 escalation factors were litigated and rejected by the Commission in  
11 SWEPCO’s last two rate cases, Docket Nos. 40443 and 46449. In  
12 this proceeding, CARD has not pointed to any change in law, policy,  
13 or fact that warrants a reconsideration of this established precedent.  
14 Accordingly, the ALJ’s recommend that Commission adopt  
15 SWEPCO’s terminal production net salvage amounts in calculating  
16 the depreciation rates.<sup>9</sup>

17 The Commission adopted the PFD’s rejection of Mr. Garrett’s position, finding that  
18 the “use of a 10% contingency factor in SWEPCO’s demolition study to determine  
19 terminal-net-salvage amounts for SWEPCO’s generating plants is reasonable.”<sup>10</sup>

20

21 Q16. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes.

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<sup>8</sup> Docket No. 46449, Order for Rehearing at 5-6 and Findings of Fact 177-180.

<sup>9</sup> Docket No. 51415, PFD at 228-29 (Aug. 27, 2021).


<sup>10</sup> Docket No. 51415, Order at Finding of Fact 155 (Jan. 14, 2022).

AFFIDAVIT OF SEAN C. McHONE

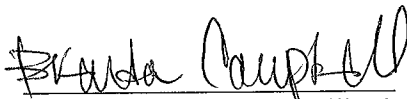
THE STATE OF ILLINOIS                    )  
  )  
COUNTY OF COOK                         )

This day, Sean C. McHone, the affiant, appeared in person before me, a notary public, who knows the affiant to be the person whose signature appears below. The affiant stated under oath:

My name is Sean C. McHone. I am of legal age and a resident of the State of Illinois. The foregoing testimony and exhibits offered by me are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.

  
Sean C. McHone

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 14 day of  
November 2022.

  
Notary Public, State of Illinois

My Commission expires:

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