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

REBUTTAL TESTIMONY

OF

BOBBY R. SPERANDEO

ON BEHALF OF

ENTERGY TEXAS, INC.

NOVEMBER 2022

ENTERGY TEXAS, INC.
REBUTTAL TESTIMONY OF BOBBY R. SPERANDEO
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EXHIBIT

I. INTRODUCTION AND PURPOSE OF TESTIMONY

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

A. My name is Bobby R. Sperandeo. My business address is 2107 Research Forest Drive, The Woodlands, Texas 77380. I am employed by Entergy Services, LLC ("ESL") as the Director, ETI Finance for Entergy Texas, Inc. ("ETI" or "Company"). ESL is the service company affiliate of ETI.

Q2. ARE YOU THE SAME BOBBY R. SPERANDEO THAT FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I submitted direct testimony with ETI's application filed in this docket on July 1, 2022.

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to Cities'[1] witness Mark Garrett's recommendation regarding allocation of Directors and Officers ("D&O") Insurance costs between shareholders and ratepayers, to Texas Industrial Energy Consumers ("TIEC") witness Charles Griffey's contentions regarding ETI's Operations and Maintenance ("O&M") benchmarking study, and to Rate Regulation Division ("Staff") of the Public

[1] 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, Splendora, Vidor, West Orange, and Willis.

Utility Commission of Texas ("Commission") witness Mark Filarowicz's "ring-fencing" recommendations.

II. D&O INSURANCE COSTS

Q4. HOW DO YOU RESPOND TO MR. GARRETT'S RECOMMENDATION THAT D&O INSURANCE COSTS BE SPLIT 50-50 BETWEEN RATEPAYERS AND SHAREHOLDERS?

A. While I disagree with many of the reasons Mr. Garrett provides for his recommendation, ETI has no dispute with his ultimate recommendation that D&O Insurance costs be split between ratepayers and shareholders. As shown in my Rebuttal Exhibit BRS-R-1, Entergy already splits the D&O Insurance costs between ratepayers and shareholders. I can confirm that ETI's allocable share of D&O Insurance costs included in ETI's rate filing package is approximately 4% of the total annual costs.

These costs are shown on Rebuttal Exhibit BRS-R-1. Entergy starts the allocation process by assigning half of the total D&O Insurance costs to shareholders. The remaining half the costs are then divided among the Entergy Operating Companies.[2] During the test year, ETI was allocated approximately 8% of the D&O Insurance costs. However, because the amortization of the premium did not begin until July 2021, only six months, or approximately 4%, of

[2] The Entergy Operating Companies are ETI, Entergy Arkansas, LLC, Entergy Louisiana, LLC, Entergy Mississippi, LLC and Entergy New Orleans, LLC, collectively.

the premiums have been included in the rate filing package. ETI should be permitted to recover the entirety of this amount, as it represents only half of the D&O Insurance costs otherwise allocable to ETI. ETI reserves the right to request the full amount in a future case.

III. O&M BENCHMARKING

Q5. TIEC WITNESS CHARLES GRIFFEY CONTENDS THAT ETI'S EFFORTS TO MANAGE O&M EXPENSE IS "NOT EXEMPLARY" RELATIVE TO PEERS. HOW DO YOU RESPOND?

A. I disagree with Mr. Griffey for several reasons. Mr. Griffey's statement is based on unsupported assumptions and on a flawed peer group analysis.

Q6. PLEASE EXPLAIN.

A. Mr. Griffey puts forward several unsupported opinions in an attempt to undercut ETI's industry-wide peer group for purposes of an O&M benchmarking analysis. Mr. Griffey suggests that ETI's analysis, which includes utilities with more than 20,000 customers, is flawed because in his opinion ETI should have made the cutoff 100,000 customers. However, he provides no support for that opinion other than a bare assertion that he undertook a relevant study in 2005 with his former employer. ETI requested a copy of the study in order to test his opinions, but TIEC did not provide it. Mr. Griffey attempted to buttress his bare assertion regarding the 100,000 customer threshold by pointing to a scatterplot of utilities that he developed, but he provided no statistical analysis to support his reading of the chart. He also disregarded all California utilities based on another bare assertion that "the cost of doing business in California makes them outliers."[3] Even then Mr. Griffey had to concede that his chart showed "significant noise."[4]

Q7. WHAT IS YOUR RESPONSE TO THE PEER GROUP MR. GRIFFEY SELECTED TO PERFORM HIS OWN O&M BENCHMARKING ANALYSIS?

A. Mr. Griffey's analysis appears to be unreliable. As an initial matter, he chose a completely different peer group to reach his O&M efficiency conclusions compared to the peer group he chose to reach his retail rate benchmarking conclusions. As Mr. Starkweather's Rebuttal Testimony demonstrates, when ETI's O&M costs are compared to the utilities Mr. Griffey includes in his retail rate analysis, ETI's O&M efficiency performance is "best in class."[5]

Mr. Griffey also started his comparison at the holding company level, and excluded all utilities that are not part of a corporate family that serves at least 2 million customers. That choice appears arbitrary, given Mr. Griffey's opinion that economies of scale drop off at the 1 million customer level.[6]

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[3] Griffey at 17, n. 20.

[4] Griffey at 17.

[5] Starkweather Rebuttal at 26.

[6] Griffey at 17.

Q8. WHAT IS YOUR CONCLUSION REGARDING MR. GRIFFEY'S OPINIONS ABOUT ETI'S O&M COST SAVINGS?

A. Mr. Griffey's attempts to characterize ETI's O&M cost savings as "average" are flawed. ETI compared its performance to 124 utilities across the United States, taking an industry-wide look, and presented those results for the Commission's consideration. Based on this broad review, ETI has performed quite well when it comes to keeping O&M costs low, which ultimately benefits customers through lower rates. When ETI's O&M costs are compared to the peer group Mr. Griffey selected for his retail rate analysis, ETI's performance is not average, but rather "best in class."[7]

IV. "RING-FENCING" MEASURES

Q9. MR. FILAROWICZ LISTS SEVERAL CORPORATE GOVERNANCE AND OTHER RECOMMENDATIONS HE DESCRIBES AS RING-FENCING MEASURES THAT HE RECOMMENDS BE IMPOSED ON ETI IN THIS PROCEEDING. HOW DO YOU RESPOND?

A. I believe it is not necessary or appropriate to impose such measures on ETI. Additionally, it seems that a rate proceeding is not the appropriate forum to enact these measures. I believe the structure and corporate powers of the organization should be determined by ETI's management, consistent with state and federal law, in order to best deal with factors that are unique to the company.

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[7] Rebuttal Testimony of Richard Starkweather at 26.

Q10. MR. FILAROWICZ REFERENCES ONCOR'S RING FENCE AS A REASON TO IMPOSE HIS RECOMMENDED "RING-FENCING" MEASURES ON ETI. IS THAT A RELEVANT CONSIDERATION?

A. No. Oncor's ring fence was implemented with the agreement of purchasers of Oncor's former parent, TXU Energy, as part of one of the largest leveraged buyouts in history. The private equity led transaction saddled Oncor's indirect parent, Energy Future Holdings, with more than $40 billion in debt based on a gamble that natural gas prices would rise. By contrast, Entergy Corporation, a traditional utility holding company, acquired ETI's predecessor, Gulf States Utilities, Inc., in a transaction that was consummated over 28 years ago, and that did not involve significant levels of debt financing.

Q11. ARE ANY OF THE PROVISIONS RECOMMENDED BY MR. FILAROWICZ ALREADY IN PLACE AT THE DIRECTION OF ETI'S MANAGEMENT?

A. Yes. ETI management, at its own discretion, already operates the business in a way that reflects the following recommendations in Mr. Filarowicz's testimony:

> 4. Stand-Alone Credit Rating. ETI will take the actions necessary to ensure the existence of a ETI stand-alone credit rating.[8]
>
> 8. No ETI Debt Secured by Non-ETI Assets. ETI's debt will not be secured by non-ETI assets.
>
> 9. No ETI Assets Pledged for Other Entities' Debt. ETI's assets will not secure the debt of Entergy Corporation or its non-ETI affiliates. ETI's assets will not be pledged for any other entity.

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[8] ETI has a standalone credit profile rating from S&P.

> 10. <u>No Credit for Affiliate Debt.</u> ETI will not hold out its credit as being available to pay the debt of any Entergy Corporation affiliates.
>
> 11. <u>No Commingling of Assets.</u> Except for access to the utility money pool and the use of shared assets governed by the Commission's affiliate rules, ETI will not commingle its assets with those of other Entergy Corporation affiliates.

ETI would not object to continuing to operate its business in a manner that reflects the recommendations stated above with one important clarification. The term "affiliate" for purposes of the Recommendation #10 should not include ETI subsidiaries. If ETI subsidiaries were included in that definition, it could severely constrain ETI's ability to engage in certain types of cost-effective project financing, in which a project may be developed by an ETI subsidiary, and in turn the savings from such a transaction inure to the benefit of customers through lower rates.

Q12. WHAT IS YOUR RESPONSE TO MR. FILAROWICZ'S "NO CROSS-DEFAULT PROVISIONS" RECOMMENDATION?

A. ETI would not oppose such a provision if it is clarified in one respect. Mr. Filarowicz's recommendation is as follows:

> 5. <u>No Cross-Default Provisions</u>. ETI's credit agreements and indentures will not contain cross-default provisions by which a default by Entergy Corporation or its other affiliates would cause a default by ETI.

ETI does not object to this provision as long as "default" in this refers to default on debt obligations, which I believe is the intent of the provision, and the term "affiliate" does not include ETI subsidiaries, for the reason described above.

Q13. ARE SOME OF MR. FILAROWICZ'S RECOMMENDATIONS INAPPROPRIATE FOR ENTERGY TEXAS?

A. Yes. The following recommendation is highly problematic and should not be imposed on ETI:

> 13. <u>No Inter-Company Lending and Borrowing Commitment</u>. Except for any participation in an affiliate money pool, ETI will not lend money to or borrow money from Entergy Corporation affiliates.

ETI's proximity to the Gulf of Mexico makes it susceptible to property loss from major storms, notably hurricanes. ETI is in an adequate liquidity position because Entergy Corporation manages immediate demand liquidity reserves as a group at the parent level. If ETI's liquidity is required to be self-sustaining, it would be more expensive than the current system in place. The commitment on no inter-company and borrowing could hamper ETI's liquidity, which could adversely affect its ability to promptly respond to major storms and resulting service outages. It is critical that ETI continue to have the liquidity support of its parent in order to safely restore power after catastrophic events. The Commission should therefore decline to impose Recommendation #13 on ETI.

Q14. ARE THERE ANY OTHER MEASURES WITH WHICH ETI DISAGREES?

A. Yes, ETI does not agree with the Regulatory Return on Equity ("ROE") Commitment (#3):

> 3. Regulatory Return on Equity (ROE) Commitment. If ETI's issuer credit rating is not maintained as investment grade by S&P or Moody's, ETI will not use its below-investment-grade ratings to justify an argument in favor of a higher regulatory ROE.

While ETI's strives to maintain investment grade ratings from S&P and Moody's, there are factors outside of ETI's control that the rating agencies consider in their rating determination. A lower rating indicates a higher risk profile for a company, and that would result in investors seeking a higher return on their investment. By way of example, credit rating agencies pay close attention to the ROE set by regulatory commissions in the rate setting process. If the ROE is set too low, or other elements of a regulatory decision result in the inability to meet the required coverage metrics established by the rating agencies for the company's current rating, it is possible that the rating agencies would view the regulatory jurisdiction as unsupportive, and the combination of low metrics and unsupportive regulation could result in a ratings downgrade. If such a downgrade resulted in ratings that were below investment grade, it would not be in anyone's best interest – not the Commission's, not ETI's and not customers', for ETI to be precluded from presenting the Commission with the information and positions that would assist ETI in receiving a ratings upgrade. In order to try to climb out of the "junk" credit hole, a higher ROE might be appropriate in such a situation. Businesses with "junk" ratings have significantly higher borrowing costs, and such costs would be passed on to customers. In addition, many investors are precluded from investing in companies with less than investment grade credit, which shrinks the pool of potential investors, which in turn could increase the cost of capital. I would note that the Commission recently declined to impose this condition on Southwestern Electric Power Company in its base rate proceeding.[9] The Commission should continue to decline to impose this condition in this case.

Q15. WHAT IS YOUR RESPONSE TO MR. FILAROWICZ'S "NO DEBT DISPROPORTIONALLY DEPENDENT ON ETI" RECOMMENDATION?

A. As an initial matter, I think it is inappropriate for Mr. Filarowicz to recommend that the Commission attempt to regulate the corporate activities of Entergy Corporation or affiliates of ETI, none of whom are within the Commission's regulatory jurisdiction. Mr. Filzarowicz's recommendation states:

> 14. <u>No Debt Disproportionally Dependent on ETI</u>. Without prior approval of the Commission, neither Entergy Corporation nor any affiliate of Entergy Corporation (excluding ETI) will incur, guaranty, or pledge assets in respect of any incremental new debt that is dependent on: (1) the revenues of ETI in more than a proportionate degree than the other revenues of Entergy Corporation; or (2) the stock of ETI.

Mr. Filarowicz cites no authority under PURA or the Commission's rules for directly limiting the corporate actions taken by ETI's parent or its affiliates and for attempting to obtain direct regulatory oversight and preapproval for their

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[9] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 51802 Order (adopting SOAH Proposal For Decision) (May 20, 2022).

conduct. Imposing such a condition could also hamper ETI's ability to pursue corporate opportunities that would be beneficial to ETI's customers and to the Company's continued provision of reliable electric delivery service at a reasonable cost.

V. CONCLUSION

Q16. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

AFFIDAVIT OF BOBBY R. SPERANDEO

THE STATE OF TEXAS)
)
COUNTY OF Montgomery)

This day, Bobby Sperandeo 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 Bobby R. Sperandeo. I am of legal age and a resident of the State of Texas. 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.

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 16th day of November 2022.

NOTARY PUBLIC STATE OF TEXAS
NANCY MAXWELL
Notary ID #129702124
My Commission Expires
January 12, 2026

Nancy Maxwell
Notary Public, State of Texas

My Commission expires:
1-12-2026

See Native Excel file Sperandeo Rebuttal_Exhibit BRS-R-1.

The following files are not convertible:

Sperandeo Rebuttal_Exhibit BRS-R-1.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact centralrecords@puc.texas.gov if you have any questions.