Filing Receipt

Received - 2022-11-16 02:49:28 PM
Control Number - 53719
ItemNumber - 353

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

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

REBUTTAL TESTIMONY

OF

RICHARD D. STARKWEATHER

ON BEHALF OF

ENTERGY TEXAS, INC.

NOVEMBER 2022

ENTERGY TEXAS, INC.
REBUTTAL TESTIMONY OF RICHARD D. STARKWEATHER
SOAH DOCKET NO. 473-22-04394
PUC DOCKET NO. 53719

TABLE OF CONTENTS

EXHIBITS

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard D. Starkweather. My business address is 3120 Cranesbill Drive, Raleigh, North Carolina 27613.

Q2. ARE YOU THE SAME RICHARD D. STARKWEATHER WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I provided direct testimony on behalf of Entergy Texas, Inc., a Texas corporation ("ETI"), which is a wholly owned electric utility subsidiary of Entergy Corporation ("Entergy").

II. PURPOSE

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to various arguments and assertions made by Charles S. Griffey, one of the witnesses for Texas Industrial Energy Consumers ("TIEC").

Q4. ARE YOU SPONSORING ANY REBUTTAL EXHIBITS?

A. Yes. I am sponsoring the following rebuttal exhibits:

a. Exhibit RDS-R-1 – Illustrative Retail Pricing Benchmarking Analysis;

b. Exhibit RDS-R-2 – West South Central Retail Pricing Benchmarking Analysis; and

c. Exhibit RDS-R-3 – West South Central Non-Fuel O&M Benchmarking Analysis.

Q5. WERE YOUR REBUTTAL TESTIMONY AND EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes.

Q6. PLEASE EXPLAIN HOW YOUR REBUTTAL IS ORGANIZED.

A. TIEC witness Griffey raised several issues with my benchmarking study and direct testimony, and my rebuttal testimony is organized to respond to each of these issues in turn. The first and second issues raised by TIEC witness Griffey concern the appropriateness of the national and regional peer groups I used in my retail pricing benchmarking study. The third issue raised by Mr. Griffey concerns the time period of my benchmarking analysis (i.e., 2017 through 2021). The fourth issue Mr. Griffey raised relates to his claim that I did not consider customer mix in my analysis. The fifth issue concerns Mr. Griffey's assertion that the level of ETI's retail rates, especially as they relate to the retail rates of other utilities in the peer groups, are largely due to natural gas prices and not underlying management processes and actions. I will discuss each issue in more detail below.

Q7. DO YOU AGREE WITH THE RECOMMENDATIONS AND CONCLUSIONS MADE BY MR. GRIFFEY?

A. No. I disagree with Mr. Griffey's assertions that ETI's retail rates are "average across an appropriate proxy group"[1] and "consistently close to average for similarly situated utilities."[2] Instead, I again conclude that during the period 2017 through 2021, ETI's average retail prices have generally been lower (i.e., more affordable), than the average retail prices of the other utilities in the national and SERC_Texas peer groups as well as Mr. Griffey's West South Central peer group. ETI's total average rates and average rates for the commercial, industrial and other customer classes were consistently near the top quartiles for each of the peer groups, or better than average. Only for ETI's residential customer class were its average retail rates near the median of the West South Central peer group (or "close to average") over the 2017 to 2021 time period, and the median of the SERC_Texas peer group in 2021.

III. RESPONSE TO INTERVENOR TESTIMONY

Q8. WHAT WAS MR. GRIFFEY'S POSITION REGARDING THE APPROPRIATENESS OF THE NATIONAL AND REGIONAL PEER GROUPS USED IN YOUR BENCHMARKING ANALYSIS?

---

1 Direct Testimony of Charles S. Griffey ("Griffey Direct") at 3, line 23.

2 Griffey Direct at 5, lines 11-12.

A. Mr. Griffey states that the peer groups used in my analysis should not have included "utilities with as little as 10,000 customers."[3] Mr. Griffey suggests that including such utilities "ignores the economies of scale that should be accounted for in such an analysis."[4] Mr. Griffey further states that the 25 companies included in my regional peer group, comprised of the four full service (i.e., non-wires only) utilities in Texas and the investor-owned utility members of the Southeastern Electric Reliability Council ("SERC"), "ignore other utilities of similar size in the region without giving a substantive reason why, other than they are not in SERC."[5]

Q9. DO YOU AGREE WITH MR. GRIFFEY'S POSITION ABOUT THE INCLUSION OF SMALLER UTILITIES IN YOUR PEER GROUPS?

A. No. As stated on page 9 of my direct testimony "…the quality, or relevance, of any particular benchmarking study is dependent on the characteristics, or similarities, of the companies populating the peer groups. When conducting a benchmarking analysis, one wants the peer groups populated with companies with similar characteristics to ensure reliable results." The challenge in defining such peer group characteristics is where to set the boundaries for the various attributes that define inclusion or exclusion in the peer group, e.g., the total number of customers, total sales, utility scale (total assets), region of the country where they are located, etc.

---

[3] Griffey Direct at 6, line 17.

[4] Griffey Direct at 6, lines 18-19.

[5] Griffey Direct at 6, lines 12- 13.

As I also stated on page 9 of my direct testimony "(r)estructuring of the industry has resulted in a variety of operating models (e.g., generation-only companies, transmission-only companies, etc.), ownership models (e.g., municipals, cooperatives, investor-owned utilities, etc.), and corporate structures (e.g., holding companies, service company affiliates, etc.). ETI is a vertically integrated, investor-owned utility with generation, transmission, and distribution assets serving a predominantly retail end-use customer base." Of note, the companies included in the national and SERC_Texas peer groups included in my analysis share the following characteristics:

a. The company must be of sufficient size to warrant comparison (companies with less than 10,000 customers were eliminated).

b. The company must be regulated and provide electric service (directly or indirectly) to retail end-use customers.

c. The company must be investor owned. Municipal utilities are not required to file Form 1 data with the Federal Energy Regulatory Commission, and because this data was used for my analysis, municipal utilities were excluded.

Q10. WOULD THE EXCLUSION OF SMALLER UTILITIES (AS DEFINED BY MR. GRIFFEY) FROM YOUR ANALYSIS CHANGE YOUR CONCLUSIONS?

A. No. The peer groups in my analysis simply included companies with varying customer counts in order to compare ETI to a broad population of other utilities.

Adjusting the size criterion for inclusion in the peer groups to, for example, at least 50,000 customers (about one tenth the size of ETI) or even 120,000 customers (about one quarter the size of ETI) does not materially impact results. Mr. Griffey selected utilities for his analysis with total energy sales to end-use customers that were "at least one quarter of ETI's total energy sales."[6]

There were 128 companies included in my national peer group; only 14 companies had between 10,000 and 50,000 customers. There were 25 companies included in the SERC_Texas peer group, with only one company having between 10,000 and 50,000 customers. If one excludes these smaller companies from the national and SERC_Texas peer groups, total retail revenues per kWh sold results for 2021 (compared to the original analysis) are as shown below:

Figure RDS-R-1: 2021 Total Retail Revenues per kWh Sold

2021 Total Retail Revenues per kWh Sold (cents per kWh)		Peer groups include companies with		
		>10,000 Customers	>50,000 Customers	>120,000 Customers
National Peer Group	Sample size	128	**114**	**98**
	Q1	8.41	**8.36**	**8.29**
	Q2 (Median)	10.23	10.23	**10.11**
	Q3	11.86	11.86	**11.71**
SERC_Texas Peer Group	Sample size	25	**24**	**24**
	Q1	9.33	9.33	9.33
	Q2 (Median)	10.11	10.11	10.11
	Q3	10.99	10.99	10.99
ETI		8.36	8.36	8.36

Only the national peer group (top quartile) results are impacted. ETI's total average price for electricity sold to retail customers is still in the top quartile. As stated on

[6] Griffey Direct at 7, line 22.

page 15 of my direct testimony, "… in 2021, ETI's total average price for electricity sold to retail customers was 8.36 cents per kWh. This is 18.3% below the national median (10.23 cents per kWh) and 17.3% below the SERC_Texas median (10.11 cents per kWh)." This statement is still true if companies with less than 50,000 customers are excluded from the analysis.

Further, as also shown above, if companies with between 10,000 and 120,000 customers are excluded from the peer groups, 98 companies remain in the national peer group and 24 companies remain in the SERC_Texas peer group. Again, only the national peer group results are impacted, but in this case all of the quartile metrics change. ETI's total average price for electricity sold to retail customers is now just outside the top quartile. However, ETI's total average price for electricity sold to retail customers (8.36 cents per kWh) is still 17.3% below the national and SERC_Texas medians (10.11 cents per kWh). Still very favorable results and consistent with the overall conclusions in my direct testimony.

Q11. WHAT WAS MR. GRIFFEY'S ISSUE REGARDING THE GEOGRAPHIC BOUNDARY CHOSEN FOR YOUR SERC_TEXAS REGIONAL PEER GROUP?

A. For Mr. Griffey's retail rates peer group he includes utilities in the Energy Information Agency's ("EIA") West South Central region (Arkansas, Louisiana, Oklahoma, and Texas). He also included Entergy Mississippi in his peer group "so

that all of the ETI affiliates would be in the mix."[7] Mr. Griffey's rationale for this peer group geographic boundary was that "utilities in this region are similarly situated with regard to access to natural gas and coal from the Powder River Basin. In contrast, many utilities in SERC have not had the same access to natural gas and purchase coal from other coal regions."[8]

Q12. DO YOU AGREE WITH MR. GRIFFEY'S POSITION ABOUT THE UTILITIES INCLUDED IN YOUR SERC_TEXAS PEER GROUP?

A. No. Again, as I stated above, the challenge in defining peer group characteristics is where to set the boundaries for the various attributes that define inclusion or exclusion in the peer group. Certainly one can define the region of the country where peer utilities are located more narrowly (e.g., the West South Central region) or more broadly (e.g., the SERC_Texas region, which essentially encompasses the EIA West South Central, East South Central and South Atlantic regions). For the purposes of my analysis, I wanted to capture utilities within a broader geographic footprint. I did find it interesting that in Mr. Griffey's analysis of ETI witness Mr. Bobby R. Sperandeo's operations and maintenance expense benchmarking analysis, he also appears to advocate for a broader geographic footprint, suggesting that utilities in most of the states within the EIA West South Central, East South Central and South Atlantic regions (or in other words my SERC_Texas region)

[7] Griffey Direct at 7, lines 5-6.

[8] Griffey Direct at 7, lines 9-11.

should be included in the peer group for that analysis. In addition, when conducting my own benchmarking analyses, for consistency and to avoid any concerns about tailoring the peer groups to favorably influence results for different metrics, I use the same peer groups for all elements of the analysis (i.e., all of the benchmarking metrics) for a particular utility.[9] In contrast, Mr. Griffey used one peer group for his retail rates analysis – "utilities similarly situated with regard to access to natural gas and coal from the Powder River Basin"[10] – and a completely different peer group for his operations and maintenance ("O&M") expense benchmarking analysis.[11]

Q13. WHAT WERE MR. GRIFFEY'S CONCERNS ABOUT THE TIME PERIOD YOU INCLUDED IN YOUR BENCHMARKING ANALYSIS, (I.E., 2017 THROUGH 2021)?

A. Mr. Griffey's concerns were centered around his assertion that "natural gas prices are a major factor in the level of rates for many utilities, including ETI, so a focus on the low gas price years of 2017-2021 will favor utilities who purchase more natural gas (and energy priced on natural gas) compared to utilities who have more solid fuel generation."[12] Mr. Griffey's analysis included data over a 25-year period, from 1997 through 2021.

---

[9] Note that peer group attributes may change from one utility analysis to another depending upon the nature of the assignment.

[10] Griffey Direct at 7, lines 9-10.

[11] Griffey Direct at 18, lines 10-11.

[12] Griffey Direct at 5, lines 15-18.

Q14. DO YOU AGREE WITH MR. GRIFFEY ON THIS ISSUE?

A. No. I agree that fuel prices impact the overall level of utility rates. However, there are many components included within a utility's retail tariff – monthly customer charges, demand and energy charges, rate riders, taxes, and fuel clause adjustments among others. In addition, there are many factors that influence utility fuel costs on a month-to-month basis, including electricity demand, fuel supply constraints, weather events, and generation resource availability. I began my benchmarking analysis in 2017 so that the last five years of FERC Form 1 data (the latest available) could be included in the analysis. In my opinion, five years is a reasonable time period for such benchmarking analyses to capture a utility's overall performance relative to its peers. Shorter time periods (two to three years) are often unduly influenced by specific events (e.g., the COVID-19 pandemic) and longer time periods (seven or eight years or even longer – e.g., 25 years) do not necessarily capture current utility performance levels as operating practices and procedures are often changed over time to better meet the needs of customers.

Q15. WHY WAS MR. GRIFFEY CONCERNED ABOUT WHETHER OR NOT YOU HAD CONSIDERED CUSTOMER MIX IN YOUR ANALYSIS?

A. Mr. Griffey states that "ETI's generally better ranking for total rates compared to other utilities is likely due to having a greater percentage of sales being from the lower per kwh cost industrial class."[13] He suggests that ETI's favorable retail rate

[13] Griffey Direct at 8, lines 17-18, and at 9, line 1.

benchmarking results compared to the national and SERC_Texas peer groups are simply due to the fact that ETI has a larger than average mix of industrial customers.

Q16. DO YOU AGREE WITH MR. GRIFFEY ON THIS ISSUE?

A. No. I agree that average rates for industrial customers are typically lower than for the commercial and residential classes. I also agree that "a utility that happens to serve an area with a large industrial concentration"[14] will have lower average total rates per kWh. However, analyzing ETI's relative performance against the peer groups within each of the rate classes individually (i.e., residential, commercial, industrial, and other customers), as was done in my benchmarking analysis, addresses this concern.

IV. ILLUSTRATIVE RETAIL PRICING BENCHMARK RESULTS

Q17. DID YOU CONDUCT ANY ADDITIONAL BENCHMARKING ANALYSES OF ETI'S RETAIL PRICES AS A RESULT OF MR. GRIFFEY'S RECOMMENDATIONS AND CONCLUSIONS?

A. Yes. To show the potential impacts on my conclusions, if any, of including only those companies with more than 120,000 customers (or about one quarter the size of ETI) in my analysis peer groups, I developed an illustrative retail pricing benchmarking analysis.[15] Again, retail pricing benchmarks (overall and by

[14] Griffey Direct at 9, lines 3-4.

[15] The native format of my Illustrative Retail Pricing Benchmarking Analysis is provided in Microsoft Excel as Exhibit RDS-R-1.

customer class for residential, commercial, industrial, and other customers) were calculated for the 2017 through 2021 time period. The pricing comparisons are reflected in Figures RDS-R-2 through RDS-R-7 described in the paragraphs that follow.

Q18. WHAT OVERALL CONCLUSIONS DO YOU DRAW FROM YOUR ILLUSTRATIVE ANALYSIS OF ETI'S AVERAGE PRICING?

A. Only ETI's industrial customer class benchmark results were significantly affected by the more narrowly defined peer groups. ETI's industrial rates were between the top quartile and the median (versus at or near the top quartile) for the national peer group but are still much lower than (i.e., better than) the first quartile for the SERC_Texas peer group over the 2017 through 2021 time period.

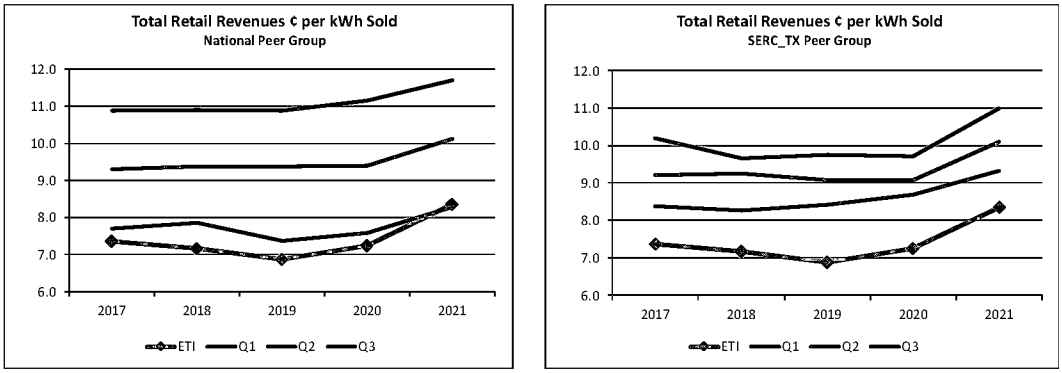
ETI's total average price for retail electricity remained consistently at or near the top quartile for the national and SERC_Texas peer groups throughout the 2017 to 2021 time period. ETI's average prices for the residential and commercial customer classes were also consistently at or near the top quartile for the national and the SERC_Texas peer groups throughout the 2017 to 2019 period, and through 2020 for the residential customer class. In 2021, ETI's residential average price was between the median and the top quartile of the national peer group, and slightly above the median of the SERC_Texas peer group. In 2020, ETI's commercial average price was between the top quartile and the median of the national peer group but still in the top quartile of SERC_Texas peer group. ETI's commercial

average price in 2021 was also between the median and the top quartile of the national peer group, but in the top quartile of the SERC_Texas peer group. ETI's average prices for the other customer class were at or near the top quartile for both peer groups over the 2017 through 2021 time period.

Q19. PLEASE DESCRIBE THE RESULTS OF YOUR ILLUSTRATIVE PRICING ANALYSIS.

A. As shown in Figures RDS-R-2 and RDS-R-3, in 2021, ETI's total average price for electricity sold to retail customers was 8.36 cents per kWh. This is 17.3% below the national and SERC_Texas medians (10.11 cents per kWh). ETI's total average price for retail electricity has remained consistently in or near the top quartile for the national and SERC_Texas peer groups throughout the 2017 to 2021 time period.

Figure RDS-R-2: Total Retail Revenues ¢ per kWh Sold



I also compared ETI's 2021 average price per kWh for each major customer class relative to the median total average retail price in each peer group. Figure RDS-R-3 depicts the results of this analysis.

Figure RDS-R-3: Average Price per kWh by Customer Class

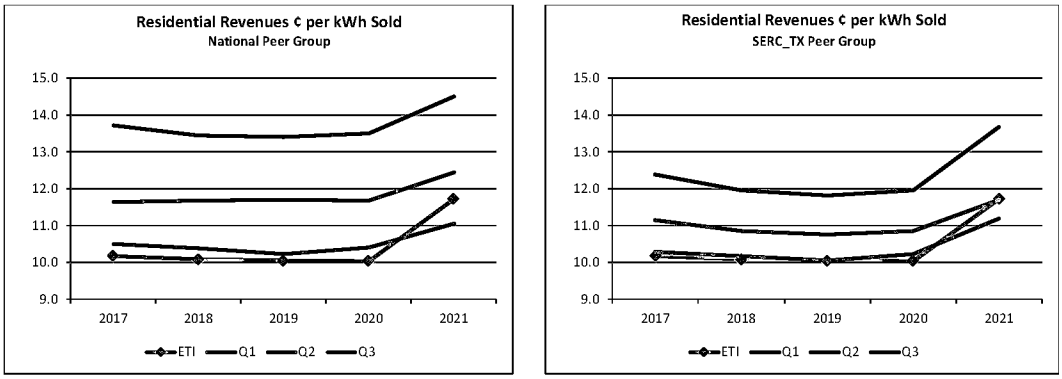
2021 Average Price per kWh (Cents per kWh)	ETI	National Median	SERC_Texas Median
Total Retail Sales	8.36	10.11	10.11
Residential Sales	11.73	12.45	11.70
Commercial Sales	9.02	10.14	10.28
Industrial Sales	5.59	6.66	6.66
Other Sales	9.62	14.91	11.14

With one exception, ETI's 2021 average price per kWh for each customer class was well below the median for each peer group. Only ETI's average price per kWh for residential customers was above the SERC_Texas peer group median.

Q20. PLEASE DESCRIBE THE RESULTS OF YOUR ILLUSTRATIVE PRICING ANALYSIS FOR RESIDENTIAL CUSTOMERS.

A. As shown in Figure RDS-R-3, in 2021, ETI's total average residential rate was 11.73 cents per kWh. As shown in Figure RDS-R-4, ETI's average residential retail prices have generally performed below the first quartile for the national peer group and at or near the first quartile for the SERC_Texas peer group over the 2017 through 2020 time period. This means that ETI provided service to the residential segment at a price that is among the lowest when compared to the national peer group and on par with the SERC_Texas peer group. Only in 2021 did ETI's average residential retail price increase to above the first quartile relative to the national peer group, and to slightly above the median of the SERC_Texas peer group.

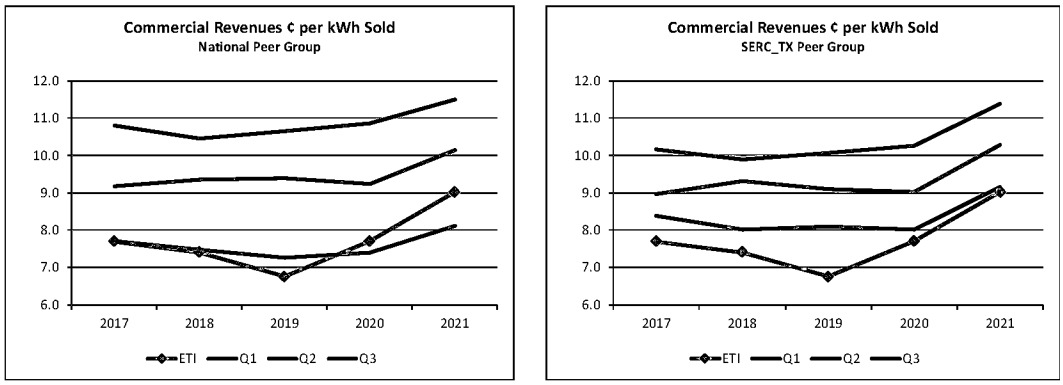
Figure RDS-R-4: Residential Revenues ¢ per kWh Sold



Q21. PLEASE DESCRIBE THE RESULTS OF YOUR ILLUSTRATIVE PRICING ANALYSIS FOR COMMERCIAL CUSTOMERS.

A. As shown in Figure RDS-R-3, in 2021, ETI's total average commercial rate, on a cents per kWh basis, was 9.02 cents per kWh. As shown in Figure RDS-R-5, ETI's average commercial electricity prices have essentially performed at or below the first quartile for the national peer group, and below the first quartile for the SERC_Texas peer group, over the period 2017 through 2019. In 2020 and 2021, ETI's average commercial electricity prices increased to between the median and the first quartile for the national peer group but was still slightly below the first quartile for the SERC_Texas peer group.

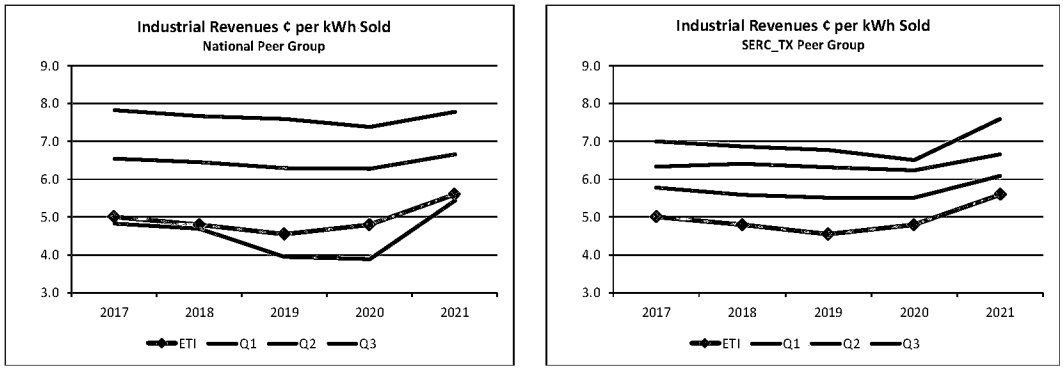
Figure RDS-R-5: Commercial Revenues ¢ per kWh Sold



Q22. PLEASE DESCRIBE THE RESULTS OF YOUR ILLUSTRATIVE PRICING ANALYSIS FOR INDUSTRIAL CUSTOMERS.

A. As shown in Figure RDS-R-3, in 2021, ETI's total average industrial rate, on a cents per kWh basis, was 5.59 cents per kWh. As shown in Figure RDS-R-6, ETI's industrial rates have been between the top quartile and the median for the national peer group but well below the first quartile for the SERC_Texas peer group since 2017.

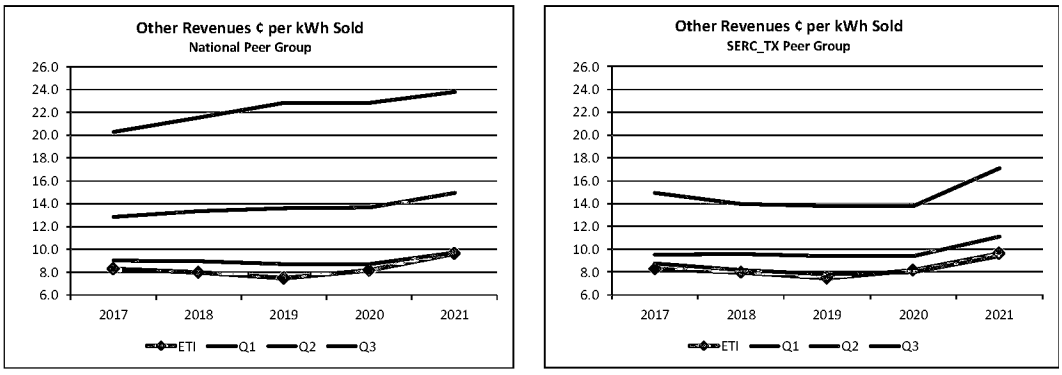
Figure RDS-R-6: Industrial Revenues ¢ per kWh Sold



Q23. PLEASE DESCRIBE THE RESULTS OF YOUR ILLUSTRATIVE PRICING ANALYSIS FOR OTHER CUSTOMERS.

A. As shown in Figure RDS-R-3, in 2021, ETI's total average rate for other customers (e.g., public street and highway lighting customers and public authorities), on a cents per kWh basis, was 9.62 cents per kWh. As shown in Figure RDS-R-7, ETI's average rates for other customers have been at or below the first quartile for the national peer group and at or near the first quartile for the SERC_Texas peer group since 2017.

Figure RDS-R-7: Other Revenues ¢ per kWh Sold



V. ADDITIONAL ANALYSES

Q24. DID YOU COMPLETE ANY OTHER RETAIL PRICING BENCHMARKING ANALYSES IN SUPPORT OF YOUR REBUTTAL TESTIMONY?

A. Yes. I also completed a benchmarking analysis of ETI's average rates against the utilities that reside in EIA's West South Central region. These are the same peer group utilities used in Mr. Griffey's analysis, with three exceptions. Mr. Griffey included all "investor owned and municipal utilities with total energy sales to end-

use customers of at least one quarter of ETI's total energy sales" that were also in the West South Central region. The following 13 data points (for 12 utilities) were included in Mr. Griffey's analysis over the 2017 to 2021 time period:

- City of Austin, Texas (dba Austin Energy)
- City of San Antonio, Texas (dba CPS Energy)
- Cleco Power LLC
- Entergy Arkansas, LLC
- Entergy Louisiana, LLC
- Entergy Mississippi, LLC
- Entergy New Orleans, LLC
- Entergy Texas, Inc.
- Oklahoma Gas and Electric Company (Oklahoma operations)
- Public Service Company of Oklahoma
- Southwestern Electric Power Company (Louisiana operations)
- Southwestern Electric Power Company (Texas operations)
- Southwestern Public Service Company[16]

Although Mr. Griffey's analysis included data from 1997 to 2021, my analysis only includes the last five years, consistent with my original benchmarking analysis. In addition, I included 3 more data points (and one more utility) in my analysis:

- El Paso Electric Company

[16] Southwestern Public Service Company was not included in the "early release" 2021 data used by Mr. Griffey.

- Oklahoma Gas and Electric Company (Arkansas operations)
- Southwestern Electric Power Company (Arkansas operations)

It was not clear to me why Mr. Griffey excluded El Paso Electric Company from his analysis as it is located within the West South Central region and also has more than one quarter of ETI's total energy sales. I also included the Arkansas operations of Oklahoma Gas and Electric Company and Southwestern Electric Power Company. Although the Arkansas operations alone for these two utilities have less than one quarter of ETI's total energy sales, in the aggregate across their West South Central service territories – Arkansas and Oklahoma for Oklahoma Gas and Electric Company and Arkansas, Louisiana, and Texas for Southwestern Electric Power Company – both of these utilities do meet this criteria, and in my opinion should be included in Mr. Griffey's peer group. I would note that I also used EIA Form 861 data for this analysis, the same data source used by Mr. Griffey.[17]

Q25. WHAT WERE THE RESULTS OF YOUR WEST SOUTH CENTRAL REGION RETAIL PRICING BENCHMARKING ANALYSIS?

A. As shown in Figures RDS-R-8 through RDS-R-11 below, ETI's total average price for retail electricity remained consistently at or near the top quartile for the West South Central peer group throughout the 2017 to 2021 time period. ETI's average rates for the commercial customer class were slightly above or below the top

[17] The native format of my West South Central Retail Pricing Benchmarking Analysis is provided in Microsoft Excel as Exhibit RDS-R-2.

quartile for the peer group throughout the 2017 to 2021 time period. ETI's average rates for the industrial customer class also remained consistently at or near the top quartile for the peer group throughout the 2017 to 2021 time period. Only ETI's average residential rates performed less favorably, with average rates near the West South Central peer group median from 2017 to 2019, between the median and the top quartile in 2020, and between the median and the third quartile in 2021.

Figure RDS-R-8: Total Retail Revenues ¢ per kWh Sold

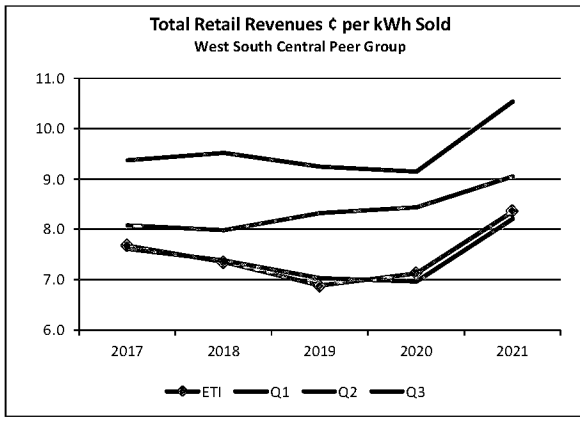


Figure RDS-R-9: Residential Revenues ¢ per kWh Sold

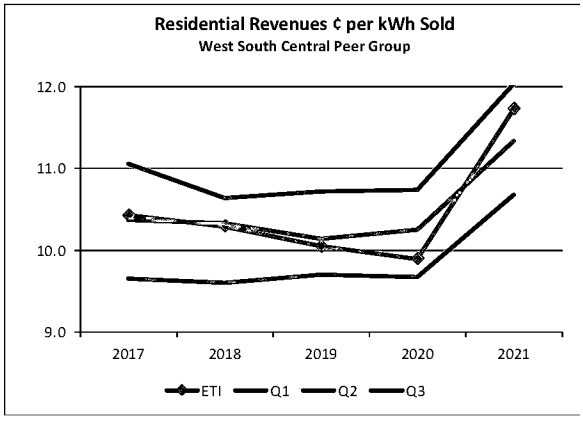


Figure RDS-R-10: Commercial Revenues ¢ per kWh Sold

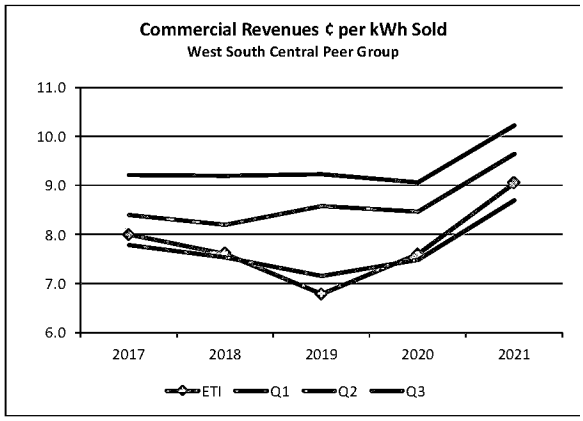
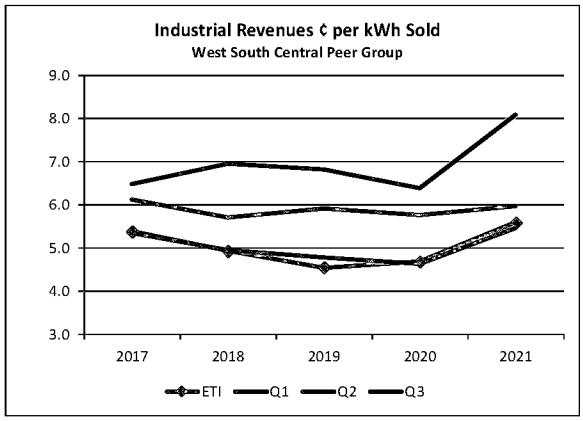


Figure RDS-R-11: Industrial Revenues ¢ per kWh Sold



Again, the residential, commercial, and industrial customer segments were analyzed separately to address any customer mix issues.

Q26. ARE THE RESULTS OF YOUR WEST SOUTH CENTRAL PEER GROUP ANALYSIS DIFFERENT THAN MR. GRIFFEY'S ANALYSIS?

A. Yes. Although Mr. Griffey's analysis encompasses a much longer time period, I would have expected that our results for the period 2017 through 2021 would be similar. Again, as described earlier, I would note that I included additional data

points in my analysis (applying Mr. Griffey's peer group criteria). However, Mr. Griffey's analysis shows that ETI's total retail rates per kWh sold were at the median of the West South Central peer group in 2017, 2018, 2020 and 2021, and at the top quartile in 2019.[18] As shown in Figure RDS-R-8 above, my analysis shows that ETI's total average price for retail electricity remained consistently at or near the top quartile for the West South Central peer group throughout the 2017 to 2021 time period.

Q27. DO THESE RESULTS CHANGE YOUR OVERALL OBSERVATIONS ABOUT ETI'S RETAIL RATES RELATIVE TO OTHER UTILITIES?

A. No. Based on my benchmarking analyses, I again conclude that during the period 2017 through 2021, ETI's average retail prices have generally been lower (i.e., more affordable), than the average retail prices of the other utilities in the national, SERC_Texas and West South Central peer groups. Mr. Griffey contends that "ETI's rates are consistently close to average for similarly situated utilities."[19] That would suggest that ETI's rates should be close to the median of the peer groups over the relevant time period. (Though I would note that the statistical computation of a peer group average is different than a computation of the peer group median.) In fact, ETI's total average rates and average rates for the commercial, industrial and other customer classes were consistently near the top quartiles for each of the

[18] Griffey Direct at 8, Figure 2.

[19] Griffey Direct at 5, lines 11-12.

peer groups, or better than average. Only for ETI's residential customer class were its average retail rates near the median of the West South Central peer group (or "close to average") over the 2017 to 2021 time period, and the median of the SERC_Texas peer group in 2021.

Q28. WHAT OTHER BENCHMARKING ANALYSES DID YOU COMPLETE IN SUPPORT OF YOUR REBUTTAL TESTIMONY?

A. I also completed an O&M expense benchmarking analysis of the utilities that reside in EIA's West South Central region.

Q29. WHY DID YOU PERFORM THIS ANALYSIS?

A. In his direct testimony, Mr. Griffey contends that ETI's retail rates are "largely due to the level of gas prices"[20] and that such natural gas prices are "unaffected by current management decisions."[21] Mr. Griffey further states that "(w)hen gas prices are low… ETI fares better in a comparison with the proxy's group's total rates"[22] and that ETI's benchmarking results relative to the proxy group have "nothing to do with exemplary performance of management, particularly today's management." He concludes that "whether ETI's rates are above or below the

[20] Griffey Direct at 3, lines 23-24.

[21] Griffey Direct at 8, lines 14-15.

[22] Griffey Direct at 12, lines 5-6.

mean is heavily influenced by natural gas prices and not by current management decisions."[23]

Q30. DO YOU AGREE WITH MR. GRIFFEY ON THIS ISSUE?

A. No. While I agree that fuel prices impact the overall level of utility rates, there are many components included within a utility's retail tariff – monthly customer charges, demand and energy charges, rate riders, taxes, and fuel clause adjustments among others. In addition, there are many factors that influence utility fuel costs on a month-to-month basis, including electricity demand, fuel supply constraints, weather events, and generation resource availability.

The revenue requirements that underlie utility rates are based in part on the level of the utility's investment in infrastructure (i.e., rate base), but also on the level of day-to-day costs to serve customers (or O&M expense). Thus, changes in a utility's rates over time can be an indicator of the utility's underlying management processes and actions. For example, more efficient business processes – all other things being the same – could lead to lower costs and rates. If, as Mr. Griffey contends, ETI's rates are largely due to fuel costs and have nothing to do with current management decisions, then one would expect that ETI's non-fuel O&M costs, relative to the proxy group, would just be average.

[23] Griffey Direct at 12, line 25, and at 13, lines 1-2.

Q31. WHAT ANALYSIS DID YOU CONDUCT TO INVESTIGATE THIS ISSUE?

A. I benchmarked ETI's non-fuel O&M expense per retail MWh sold and non-fuel O&M expense per retail customer against the other 12 utilities included in Mr. Griffey's West South Central peer group (the other 11 utilities included by Mr. Griffey and El Paso Electric Company) for the period 2017 through 2021.

Q32. WHAT DATA SOURCES DID YOU USE FOR THIS ANALYSIS?

A. For the investor-owned utilities in the peer group, non-fuel O&M expense and total retail sales, as well as the number of retail customers, came from FERC Form 1 filings. Municipal utilities do not file FERC Form 1 information, so EIA Form 861 data was used for total retail sales and the number of retail customers for Austin Energy and CPS Energy. For non-fuel O&M data for the municipal utilities, information was compiled from their websites.[24] (See Exhibit RDS-R-3 for the detailed analysis.)

Q33. WHAT WERE THE RESULTS OF THIS ANALYSIS?

A. The results are shown in Figures RDS-R-12 and RDS-R-13 below.

[24] Operations and maintenance ("O&M") data for Austin Energy for fiscal years 2020 and 2021 was not available on their website.

Figure RDS-R-12: Non-Fuel O&M per Retail MWh Sold

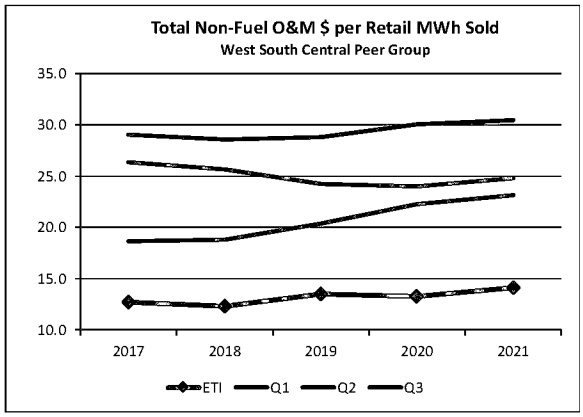
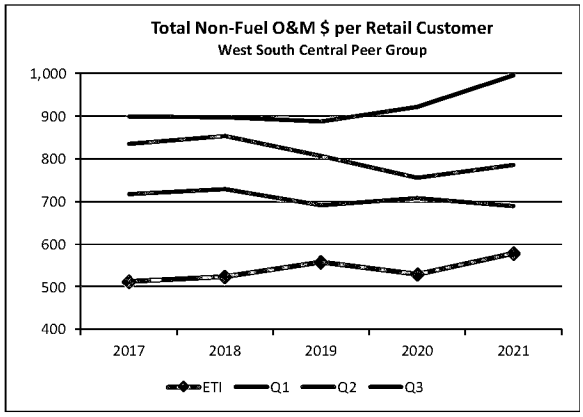


Figure RDS-R-13: Non-Fuel O&M per Retail Customer

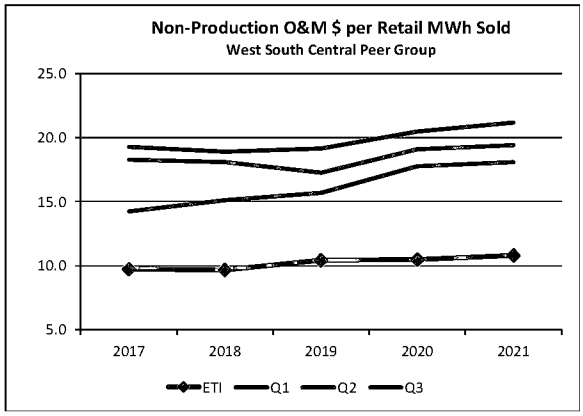


For both metrics, ETI is top quartile throughout the 2017 to 2021 time period. ETI also has the lowest non-fuel O&M per retail MWh sold and the second lowest non-fuel O&M per retail customer (Entergy New Orleans has the lowest) among the West South Central peer group utilities over the entire timeframe. ETI's non-fuel O&M benchmarking results are not "average" but in fact are "best in class" over the 2017 through 2021 time period. This suggests that ETI management is actively managing O&M costs on behalf of customers to help keep rates low.

Q34. DID YOU COMPLETE ANY OTHER O&M BENCHMARKING ANALYSES?

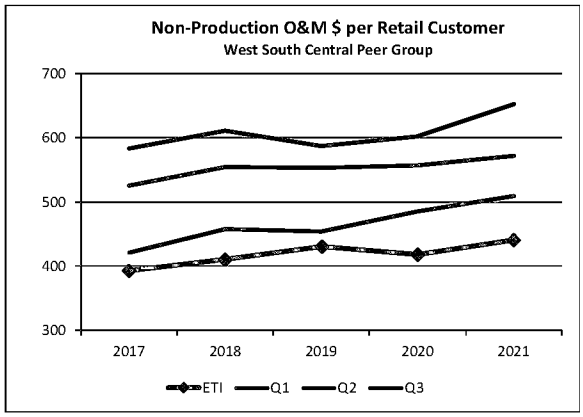
A. Yes. Beyond fuel costs, the generation mix of a particular utility also impacts non-fuel O&M expense as the operating and maintenance costs of natural gas, coal and nuclear plants (for example) are very different. To ensure that fuel mix and generation mix was removed from my analysis, I also benchmarked ETI's non-production O&M expense per retail MWh sold and non-production O&M expense per retail customer against the other nine utilities included in the West South Central peer group.[25] The results are shown in Figures RDS-R-14 and RDS-R-15 below.

Figure RDS-R-14: Non-Production O&M per Retail Customer



[25] O&M expense data for Austin Energy and CPS Energy was not available at a granular enough level to compute non-production O&M expense.

Figure RDS-R-15: Non-Production O&M per Retail Customer



Again, for both metrics, ETI is top quartile throughout the 2017 to 2021 time period. ETI also has the lowest non-production O&M per retail MWh sold in 4 out of the 5 years (Entergy Louisiana has the lowest in 2019), and the lowest non-production O&M per retail customer in 3 out of the 5 years (El Paso Electric Company has the lowest in 2020 and 2021). Again, ETI's non-production O&M benchmarking results are also not "average" but instead are "best in class" over the 2017 though 2021 time period. This further suggests that ETI management is actively managing O&M costs on behalf of customers to help keep rates low.

Q35. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

AFFIDAVIT OF RICHARD D. STARKWEATHER

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

RICHARD D. STARKWEATHER, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachment(s) and am familiar with the contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

Richard D Starkweather

RICHARD D. STARKWEATHER

Subscribed and sworn to before me this 14th day of November, 2022 by RICHARD D. STARKWEATHER.

Susan K Horton

Notary Public, State of North Carolina

My Commission Expires: 3/25/2024

SUSAN K HORTON NOTARY PUBLIC WAKE COUNTY NC

See Native Excel file Starkweather Rebuttal_Exhibit RDS-R-1.

See Native Excel file Starkweather Rebuttal_Exhibit RDS-R-2.

See Native Excel file Starkweather Rebuttal_Exhibit RDS-R-3.

The following files are not convertible:

Starkweather Rebuttal_Exhibit RDS-R-1.xlsx
Starkweather Rebuttal_Exhibit RDS-R-2.xlsx
Starkweather Rebuttal_Exhibit RDS-R-3.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.