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

<u>CITIES' ERRATA TO THE DIRECT TESTIMONY OF MARK E. GARRETT</u>

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 ("Cities") submit this Errata to the Direct Testimony of Mark E. Garrett and attach redline and clean copies of the corrected pages.

The revisions are clerical in nature and do not affect the substance of Mr. Garrett's testimony. The changes made are summarized as follows:

- Page 54 (footnote 75) "MG-6" should be "MG-2.6";
- Page 59 (line 10) "MG-2.6" should be "MG-2.8";
- Page 64, (line 14) "MEG-2.7" should be "MG-2.9";
- Page 65 (line 3), 66 (Table 7) "Big Cajun Units 2 and 3" should be "Big Cajun 2 Unit 3";
- Page 65 (line 12), 73 (footnote 111) "MG-2.8" should be "MG-2.12";
- Page 73 (footnote 112) "MG-2.9" should be "MG-2.13";
- Page 75 (line 10) "Exhibit MG-2 should be "Exhibits MG-2.7 and MG-2.11"; and
- Page 83 (line 1) "Exhibit MG-10" should be "Exhibits MG-2.14 and MG-2.15".

Page 66 of Mr. Garrett's testimony contains highly sensitive protected material and will filed separately under seal.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this document was served on all parties of record in this proceeding on this the 1st day of December, 2022, by email, First Class, U.S. Mail, facsimile transmission, or hand delivery.

Molly Mayhall Vandervoort

limitations under the Internal Revenue Code. Benefits payable under these supplemental plans are typically equivalent to the amounts that would have been paid but for the limitations imposed by the Code. In general, the limitations imposed by the Code allow for the computation of benefits on annual compensation levels of up to $285,000 for 2020, $290,000 for 2021, $305,000 for 2022. Retirement benefits on compensation levels in excess of annual compensation limits are paid through supplemental plans. Thus, supplemental retirement plans for highly compensated employees are designed to provide benefits in addition to the benefits provided under the general pension plans of the company. These plans are referred to as *non-qualified* plans because they do not qualify as a deductible tax expense under the code.

Q: WHAT AMOUNTS WERE INCLUDED IN PRO FORMA OPERATING EXPENSE FOR THE SUPPLEMENTAL EMPLOYEE RETIREMENT PLANS?

A: The Company included $1.329M for non-qualified plan in pro forma operating expense for ratemaking purposes in the Company's application.[75]

Q: WHAT DO YOU RECOMMEND WITH RESPECT TO NON-QUALIFYING COSTS FOR HIGHLY COMPENSATED EMPLOYEES?

A: I recommend that supplemental costs be disallowed in their entirety. If these supplemental costs are disallowed, ratepayers will pay for all of the executive benefits included in the Company's *regular* pension plans, and shareholders will pay for the additional executive

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[75] *See* Exhibit MG-2.6.

million deficiency and provide funding for the requested $15.3 million reserve in nine years and three months, which is nine months sooner than originally proposed by ETI and adopted by the Commission.[87] The current reserve accrual of $3.57 million should be retained by the Commission.

Q: WHAT ADJUSTMENT DO YOU RECOMMEND TO THE ANNUAL SELF-INSURANCE RESERVE ACCRUAL?

A: I recommend the current annual reserve accrual of $3.57 million be ordered by the Commission. This adjustment reduces the requested self-insurance reserve accrual by $4.67 million. This adjustment is found on Exhibit MG-2.~~6~~8.

VII. DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Q: WHAT AMOUNT IS THE COMPANY REQUESTING IN RATES FOR D&O LIABILITY INSURANCE IN THIS PROCEEDING?

A: During the test year, ETI incurred $263,580 for D&O liability insurance. In 2021, the Company began amortizing the premium over 12 months, beginning in July 2021, or $131,687. The Company is seeking full recovery of this expense.

Q: WHAT IS DIRECTORS' AND OFFICERS' LIABILITY ("D&O") INSURANCE?

A: D&O liability insurance generally protects the assets of a company's directors and officers from the financial impact of litigation that results from their actions and decisions taken

[87] Calculation: ($17.7 million + $15.3 million = $33.0 million; $33.0 million/$3.57 million = 9.25 years).

It is my understanding that the regulatory commissions in New York,[95] and Florida[96] have also allocated these expenses on a 50-50 basis on the determination that both shareholders and customers both benefit from D&O liability insurance.

Q: WHAT DO YOU RECOMMEND FOR THE RECOVERY OF D&O LIABILITY INSURANCE?

A: I recommend that the Commission allocate the cost of ETI's D&O liability insurance expense on a 50/50 basis between ETI's customers and shareholders.

Q: WHAT IS THE AMOUNT OF THE ADJUSTMENT TO THE D&O LIABILITY INSURANCE EXPENSE?

A: The adjustment to share the costs of the D&O liability insurance expense removes 50% of the cost from recoverable expenses. This adjustment reduces ETI's revenue requirement by $65,844. These adjustments are found on Attachments M~~E~~G-2.~~7~~9.

VIII. ACCELERATED DEPRECIATION OF RETIRING PLANTS

Q: PLEASE DISCUSS ETI'S PROPOSED TREATMENT OF GENERATING PLANTS NEAR RETIREMENT IN THIS APPLICATION.

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[95] Order Setting Electric Rates. State of New York Pub. Serv. Comm'n. Cases 08-E-0539 and 08-M-0618. (April 24, 2009), pp. 90-91.

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A: ETI accelerated the retirement dates for three production units and materially increased the depreciation rates of three other units near retirement. The Company moved up the retirement dates for Nelson Unit 6 and for Big Cajun 2 Unit~~s 2 and~~ 3. The retirement dates for Sabine Units 1, 3, and 4 were kept materially the same, but their depreciation rates were significantly increased to collect recent expenditures on these units before they retire.[97] I address, from a ratemaking perspective, why the Company's proposal is inconsistent with Commission precedent and should be rejected. David Garrett incorporates the corrected depreciation rates in his depreciation study analysis.

Q: HOW HAVE THESE APPROACHING PLANT RETIREMENTS AFFECTED ETI'S REQUESTED RATE INCREASE?

A: As shown in Exhibit MG-2.~~8~~12 and in the table below, these approaching retirements add approximately $59.3 million in increased depreciation expense to ETI's requested revenue requirement.[98]

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[97] Meyer Direct Testimony, p. 12, lines 1-8.

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Table 7: Impact of ETI's Early Retirement of Generation Units				
Ln	Unit	Retirement Dates 48371	Proposed Retirement	Rate Increase
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2	Nelson Unit 6	2042	[redacted]	$13,610,003
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4	Big Cajun 2 Common	2043	[redacted]	$467,274
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5	**Increased Depreciation Rates**		[redacted]	
6	Sabine Unit 1	2022	[redacted]	$10,678,080
7	Sabine Unit 2	2026	[redacted]	$5,605,900
8	Sabine Unit 3	2026	[redacted]	$12,090,677
			[redacted]	
9	Total		[redacted]	$59,349,569

Q: WHAT IS THE PROPER SEQUENCE OF EVENTS FROM A RATEMAKING PERSPECTIVE WHEN A PLANT IS RETIRED EARLY?

A: If the Commission were to find that the retirement is prudent, the following steps would occur: (1) the undepreciated plant balance would be transferred to a regulatory asset account where it could be easily tracked by the Commission, (2) the balance would be removed from rate base because the plant is no longer *used and useful*, and (3) the balance would be amortized (recovered) over the remaining useful life of the plant when the retirement decision was made. In other words, depreciation should ***not*** be accelerated.

If the retirement were found to be *imprudent*, the balance would be removed from rate base and ***no recovery*** of the remaining balance should be allowed.

Q: IS THIS ORDER OF EVENTS SPELLED OUT IN ANY RECENT COMMISSION ORDERS?

the future affords opportunities to offset these costs with other savings. These savings can come from improved technologies, increased operating efficiencies, lower capital costs, load growth, or merely with the passage of time. Over time, rate bases that are inflated with other environmental compliance costs have time to subside to more reasonable levels. Thus far, I have yet to hear many good arguments against spreading the higher costs of early plant terminations over some reasonable period into the future.

Q: DOES THIS POLICY OF SPREADING INCREASED COSTS OVER A REASONABLE PERIOD APPLY TO THE SABINE UNITS?

A: Yes. The increase in the Sabine units is not from early retirements but from a high level of recent investments in the plants that has resulted in unrecovered costs. The Company identified $66.8 million in plant additions to the Sabine Station since the last rate case, with the largest identified projects related to Sabine Unit 4.[110] The Company is seeking to recover the remaining investments in a relatively short period of time. The Company provided information showing the annual increase in depreciation is $10.7 million for Sabine Unit 1, $5.6 million of Sabine Unit 3, and $12.1 million for Sabine Unit 4.[111] My calculations show that the Sabine Units 1, 3, and 4 would have their costs fully recovered in 6, 11, and 13 years at the *current* depreciation rates.[112] In the case of Sabine Unit 1, the Company is requesting a major increase in the rates when the unit will be taken out of

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IX. REGULATORY ASSET AMORTIZATION PERIODS

Q: WHAT IS THE ISSUE WITH THE REGULATORY ASSET AMORTIZATION PERIODS?

A: The Company has recommended a 3-year amortization period for two regulatory assets. These assets should be amortized instead over a 4-year period to coincide with the Company's next scheduled rate case. Otherwise, the Company will over-collect the balance in these accounts. The two regulatory asset accounts that should be adjusted are set forth below. The revenue requirement impact of changing to a 4-year amortization is also shown for each account. These adjustments can be seen at Exhibits MG-2.7 and MG-2.11.

Pension and OPEB Regulatory Asset	$1,532,659
COVID-19 Bad Debt Regulatory Asset	$978,016

X. ETI PROPOSED ROE ADDER

Q: PLEASE DESCRIBE THE COMPANY'S PROPOSED ROE BONUS BASED ON ENTERGY TEXAS' ("ETI") PERFORMANCE.

A: In addition to its proposed 10.5 percent rate of return on common equity ("ROE"),[113] the Company proposes an additional 30 basis points[114] performance adder based on the

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Q: AS THE COMPANY WAS RESTORING SERVICE DURING THE 2020 HURRICANE SEASON, DID ETI ALLOW OTHER PRIORITIES TO BE DEFERRED?

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Q: WAS IT REASONABLE TO DIVERT RESOURCES AWAY FROM AMS IMPLEMENTATION IN ORDER TO PREPARE FOR PENDING TROPICAL WEATHER AND RESTORE SERVICE AS NEEDED?

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