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Lawrence J. Hand, Jr.
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December 15, 2016

Via Hand Delivery

Ms. Terri Lemoine Bordelon
Louisiana Public Service Commission
Records and Recording Division
Galvez Building, 12th Floor
602 North 5th Street
Baton Rouge, LA 70802

2016 DEC 15 PM 3:44
LA PUBLIC SERVICE COMMISSION

Re: Entergy Louisiana, LLC, *Ex Parte* In re: Prudence Review, Including Project Costs, of the Waterford 3 Steam Generator Replacement Project Conducted in Compliance With Orders No. U-30670 and U-31944-A LPSC Docket No. U-32812

Dear Ms. Bordelon,

I have enclosed, on behalf of Entergy Louisiana, LLC ("ELL" or the "Company"), the original and three copies of the *revised* Settlement Term Sheet agreed upon by all parties in this docket. Please retain the original for your files and return a date-stamped copy to our by-hand courier. The additional copies can be provided to Commission Staff as appropriate.

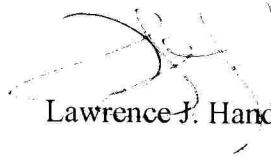
The attached, *revised* Settlement Term Sheet replaces and supersedes the version that was submitted to the Commission on November 1, 2016 (that version expired on its terms without timely action by the Commission at the November 2016 B&E meeting). The *revised* version increases the total refund amount by \$1 million and reflects changes regarding the required timing for Commission action and the timing of refunds to customers. As explained in the Settlement Term Sheet, the parties have agreed on terms that, if accepted by the Commission, would fully resolve the issues presented in the referenced docket and, among other things, provide refunds and payments to customers of \$70.48 million and a reduction in ELL's plant in-service of \$67.38 million. Because the Settlement Term Sheet requires ELL to issue agreed-upon refunds and rate reductions effective with January 2017 bills, it is imperative that the Commission consider this Settlement Term Sheet at its December 21, 2016 Business & Executive Meeting. I note that consideration of the settlement is included as Exhibit 3 on agenda for the Commission's Business & Executive Meeting scheduled on December 21, 2016.



Ms. Bordelon
December 15, 2016
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If you have any questions, please do not hesitate to contact me. Thanking you in advance for your prompt attention to this matter, I remain,

Sincerely,

A handwritten signature in dark ink, appearing to read "Lawrence J. Hand, Jr.", with a large, sweeping initial "L" and "H".

Lawrence J. Hand, Jr.

Enclosures

cc: All parties on Official Service List
Eve Gonzalez

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

2016 DEC 15 PM 3:44
LA PUBLIC SERVICE
COMMISSION

ENTERGY LOUISIANA, LLC,)
EX PARTE IN RE: PRUDENCE)
REVIEW, INCLUDING PROJECT)
COSTS, OF THE WATERFORD 3)
STEAM GENERATOR REPLACEMENT)
PROJECT CONDUCTED IN)
COMPLIANCE WITH ORDERS)
NO. U-30670 AND U-31944-A)

DOCKET NO. U-32812

SETTLEMENT TERM SHEET

1. This Settlement Term Sheet ("Settlement") is entered into on this 15th day of December, 2016, by and among the Louisiana Public Service Commission ("LPSC" or "Commission") Staff, the Louisiana Energy Users Group ("LEUG"), Marathon Petroleum Company, LP ("Marathon"), Bayou Steel Group, and Entergy Louisiana, LLC ("ELL" or the "Company") (collectively, the "Parties"), through undersigned counsel, for recommendation to the Louisiana Public Service Commission, and fully and finally resolves all issues arising out of or relating to the prudence review of ELL's replacement of the Waterford Steam Electric Station, Unit 3 ("Waterford 3") steam generators, reactor vessel closure head ("RVCH"), and control element drive mechanisms ("CEDMs") (the "Replacement Project"), including project costs, in compliance with Order Nos. U-30670 and U-31944-A, except as otherwise set forth herein.

2. The Settlement is reasonable in light of the record and consistent with the public interest.

3. The Settlement reflects a compromise, settlement, and accommodation between the signatories of disputed issues in ongoing litigation, and the terms and conditions herein are

interdependent. All actions by ELL contemplated or required by the Settlement are conditioned upon the Commission's issuance of a final order consistent with the terms of this Settlement.

Procedural Background

4. In Commission Order No. U-30670, the Commission found that the decision by ELL to undertake the Replacement Project – inclusive of the replacement steam generators (“RSGs”), the RVCH, and the CEDMs, based on an estimated cost of \$511 million (inclusive of \$64 million of allowance for funds used during construction (“AFUDC”)), and a target installation outage in 2011 – was prudent.

5. The Commission also determined in Order No. U-30670 that, upon completion of the Replacement Project, the Company would file and the Commission would undertake a prudence review to consider ELL's actions with regard to at least the following aspects of the Replacement Project: 1) project management; 2) cost controls; 3) success in achieving stated objectives; 4) the costs of the Replacement Project; and 5) the outage length and replacement power cost.

6. On December 19, 2011, ELL filed an Amended and Supplemental Application in Docket No. U-30670 (Subdocket A) which detailed a delay in the Replacement Project as a result of damage to the RSGs at the fabricator's facility that required repairs. A revised cost estimate of \$687 million resulted in ELL increasing its rates by \$88 million in January, 2013 after the Replacement Project was placed in service.

7. On April 30, 2013, the Company filed its Compliance Submission in Docket No. U-30670. In that filing, the Company documented that the repairs to the RSGs were successful, the RSGs were delivered in time for installation during Waterford 3's fall 2012 refueling outage, and the RSGs and other components of the Replacement Project were placed in-service in

December 2012. After all settlements with its contractors, the final cost of the Replacement Project was \$651.4 million, approximately \$140 million over the original estimated cost for the project.

8. In May 2013, LPSC Docket No. U-32812 was opened to conduct the aforementioned prudence review.

9. LEUG, Marathon and Bayou Steel Group filed interventions.

10. In December 2014, ELL implemented a rate reduction of \$3.6 million and a refund of \$7.7 million in order to true up the difference between the estimated cost of the Replacement Project and its actual, final cost. The parties to Commission Docket Nos. U-32812 and U-32708¹ filed a stipulation into the record of both proceedings on December 1, 2014 which, among other things, required ELL to submit a separate compliance filing to resolve any potential issues related to the appropriate calculations of ELL's Replacement Project refund and rate reduction.

11. After a full evidentiary hearing and briefings by the parties in this matter, the Administrative Law Judge ("ALJ") recommended that a portion of approximately \$92 million in cash costs that exceeded the original cost estimate for the Replacement Project should be disallowed. Specifically, the ALJ recommended a cash cost disallowance of \$67.38 million and a replacement power cost disallowance of \$2.2 million. The ALJ found that \$67.38 million of increased cash costs were attributable to contractor imprudence in an equipment failure that necessitated redesign and repair of the RSGs and resulted in an 18-month delay in the project, and that the \$2.2 million in replacement power costs were not demonstrated by ELL to be prudent. The ALJ also addressed the treatment of up to \$25 million in potential future service

¹ Entergy Louisiana, LLC, ex parte. *In re: Application for Authority to Change Rates, Approval of Formula Rate Plan and for Related Relief.*

credits that Westinghouse Electric Company (“Westinghouse”) agreed to provide in a negotiated settlement with ELL, to the extent such service credits were in the future received by ELL. ELL, LEUG, and Staff all filed exceptions to the ALJ’s Proposed Recommendation.

12. Staff sought a disallowance of \$79.3 million in Replacement Project costs (a \$59.4 million disallowance in cash costs, a \$2.2 million disallowance of replacement power costs, and a \$17.7 million exclusion of the net present value of the Westinghouse service credits). LEUG sought a disallowance of the \$140 million difference between the Replacement Project’s final cost of approximately \$651 million and the project’s original cost estimate of \$511 million (\$92 million in cash costs and \$48 million in AFUDC). ELL argued that all of its project costs were prudently incurred and that, accordingly, no disallowances should be made. The remaining intervenors did not file testimony or take formal positions in the case.

13. Following the issuance of the ALJ’s Final Recommendation, ELL, the Commission Staff, LEUG, Bayou Steel Group and Marathon commenced settlement discussions regarding the ALJ’s findings and recommendation. These discussions resulted in this Settlement.

Terms of the Settlement

14. This Settlement resolves fully all issues arising out of or relating to the Replacement Project, except as otherwise set forth herein.

15. The Settlement includes refunds to customers in the amount of \$70.48 million, a rate reduction in the amount of \$9.44 million, and a reduction to ELL’s plant in service of \$67.38 million. The Settlement shall be on a black box basis, with no amounts assigned to particular findings of the ALJ or recommendations made by the Commission Staff or LEUG.

16. To implement this Settlement, ELL's LPSC-jurisdictional customers will receive a refund in the amount of \$70.48 million ("Settlement Refund"), consisting of a refund of \$2.5 million through ELL's Fuel Adjustment Clause,² and a refund of \$67.96 million to ELL Legacy customers through ELL's Formula Rate Plan ("FRP"), outside of sharing. If approved by the Commission in December 2016, the Settlement Refund shall be included in January 2017 bills. Additionally, ELL Legacy FRP Revenues will be reduced by \$9.44 million effective with the first billing cycle in January 2017 to recognize a \$67.38 million reduction to ELL's plant in service. All refunds through the FRP will be assigned to Legacy ELL customer classes and rate schedules in the same manner as the Replacement Project was originally put into rates.

17. As part of this Settlement, any payments or credits by Westinghouse in accordance with the Waterford 3 settlement agreement that are received subsequent to FRP Test Year 2015 shall be retained by ELL's shareholders, below the line without any reflection of such payments or credits in ELL's rates or rate base.

18. Certain signatories to this Settlement raised issues in Docket No. U-32708 regarding the appropriate calculation of the Replacement Project revenue requirement currently in ELL's rates and such amounts to be refunded to customers. The signatories to this settlement agree that the Settlement Refund and revenue requirement reduction set forth in paragraph 16 are appropriately calculated and further review by them is not required. However, consistent with the Stipulation described in paragraph 10, above, there shall be a compliance filing and nothing

² On October 1, 2015, pursuant to LPSC Order No. U-33244-A, Entergy Gulf States Louisiana, L.L.C. ("Legacy EGSL") and Entergy Louisiana, LLC ("Legacy ELL") combined substantially all of their respective assets and liabilities (the "Business Combination") into a single operating company, Entergy Louisiana Power, LLC, which subsequently changed its name to Entergy Louisiana, LLC ("ELL"). Subsequent to the Business Combination, ELL utilizes a single fuel clause for Legacy EGSL and Legacy ELL customers. The \$2.5 million will be refunded through the ELL FAC, but the effect of inclusion of the \$2.5 million in the ELL FAC will be addressed in the 2017 fuel tracker filing required as part of the Commission approval of the Business Combination in LPSC Order U-33244-A. For purposes of this Settlement, the term "Legacy ELL customers" refers to the customers of Legacy ELL as it existed prior to the closing of the Business Combination.

herein is intended to waive any issues or arguments the non-signatory parties may have with regard to the calculation of the Replacement Project refund and ongoing Replacement Project revenue requirement. However, the signatories to this Settlement shall take no position regarding the compliance filing that is inconsistent with this settlement.

19. As soon as practicable, but no later than 60 days from the date of the Commission's order approving the Settlement, ELL shall submit the aforementioned compliance filing to the Commission. Consistent with the December 1, 2014 Stipulation, the sole purpose of the compliance filing review will be to determine the accuracy and appropriate calculation of the rate reductions and refunds referenced above.

20. This Settlement will fully and completely discharge any refund or imprudence liability that ELL may have for any and all issues arising out of or related to the Replacement Project, including, without limitation, any and all issues raised or that could have been appropriately raised in the prudence review proceedings in Docket No. U-32812 arising out of or related to the Replacement Project. The Parties will recommend to the Commission that it enter an Order approving the Settlement; confirming the full and complete discharge of ELL's refund or imprudence liability in connection with the Replacement Project; and, finding that, with the exception of the Settlement Refund, all other costs incurred by ELL in connection with the Replacement Project are declared to be prudent and fully recoverable by ELL.

21. This Settlement will not be an admission or agreement by any party that another party's position or the ALJ's Final Recommendation was correct or had merit. In the case of ELL, this Settlement is not an admission that any aspect of the Replacement Project was managed imprudently or that any of the costs were unreasonable, unsupported, or imprudently incurred.

22. If the Commission rejects this Settlement or declines to enter the Order that the Parties will recommend under paragraph 20, then the Parties agree that this Settlement is without prejudice and shall not bind any of the Parties to a position regarding the appropriate outcome of this proceeding. Rather, this Settlement is conditioned upon the Commission accepting the Settlement fully without modification and entering a final Order that is entirely consistent with this Settlement. If the Commission does not accept this Settlement as presented or enters an Order inconsistent with the terms of the Parties' recommended Order or any other term of this Settlement, then this Settlement shall be null and void, unless the Parties expressly agree otherwise. In addition, should such action occur, the Parties each reserve fully the right to present any and all arguments and advance any positions regarding any and all issues involved in this proceeding.


23. Other than in a proceeding to approve or enforce this Settlement or proceedings regarding recovery of the costs of the Replacement Project or rate treatment of Westinghouse service credits, the Settlement and the terms contained therein shall not be presented, utilized or admissible in evidence by or against either the Commission Staff, ELL, LEUG, any other party to this proceeding, or any Entergy Operating Company, and shall not be used either as an admission or concession of any sort. All oral or written statements made during the course of the settlement negotiations are governed by Louisiana Code of Evidence article 408.

24. Except as expressly stated herein, this Settlement shall have no precedential effect in any other proceedings involving issues similar to those resolved herein and shall be without prejudice to the right of any party to take any position on any such similar issue in future proceedings. Furthermore, that an issue resolved in this Settlement involving or related to the

Replacement Project is not mentioned expressly in this Settlement shall not support a later argument or position that the issue was not resolved by this Settlement.

25. A Commission Order on the recoverable costs associated with the Replacement Project will be effective immediately upon issuance.

Louisiana Public Service Commission Staff

By: 

Louisiana Energy Users Group

By: _____

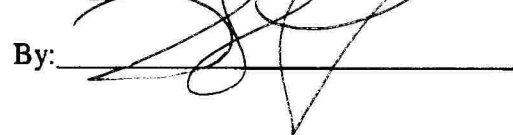
Marathon Petroleum Company, LP

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Bayou Steel Group

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Entergy Louisiana, LLC

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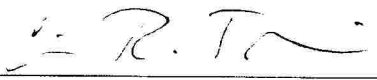
Replacement Project is not mentioned expressly in this Settlement shall not support a later argument or position that the issue was not resolved by this Settlement.

25. A Commission Order on the recoverable costs associated with the Replacement Project will be effective immediately upon issuance.

Louisiana Public Service Commission Staff

By: _____

Louisiana Energy Users Group

By: 

Marathon Petroleum Company, LP

By: _____

Bayou Steel Group

By: _____

Entergy Louisiana, LLC

By: _____

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Louisiana Public Service Commission Staff

By: _____

Louisiana Energy Users Group

By: _____

Marathon Petroleum Company, LP

By: John H. Chavanne

Bayou Steel Group

By: _____

Entergy Louisiana, LLC

By: _____

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Marathon Petroleum Company, LP

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Bayou Steel Group

By:  _____

Entergy Louisiana, LLC

By: _____