Planning & Regulatory

Group Description	Direct	Allocated	Total	Non-Affiliate Costs	Total Net Requested
	Affiliate Costs				
Internal - Payroll / Benefits	7,375,953.98	957,712.20	8,333,666.18	-	8,333,666.18
Internal - All Other Internal Support Costs	52.20	-	52.20	26,580.76	26,632.96
External - Legal Contractor Costs	571,688.25	370,792.39	942,480.64	7,698,567.15	8,641,047.78
External – All Other Support Costs	4,724,244.22	1,450,975.74	6,175,219.96	4,510,149.58	10,685,369.54
AFUDC & Capital Overhead	-	-	-	-	-
Grand Total	12,671,938.65	2,779,480.33	15,451,418.98	12,235,297.49	27,686,716.47

These amounts represent the costs captured in the project codes identified in Exhibit PRM-9, which identifies the TTC costs for this class by project code/by year.

Q. IS THIS CLASS OF COSTS NECESSARY?

A. Yes. As I described previously, the requirements of SB 7 and the Commission directives issued in accordance with SB 7 made this class of TTC costs necessary.

Q. ARE THE TTC COSTS INCLUDED IN THIS CLASS REASONABLE?

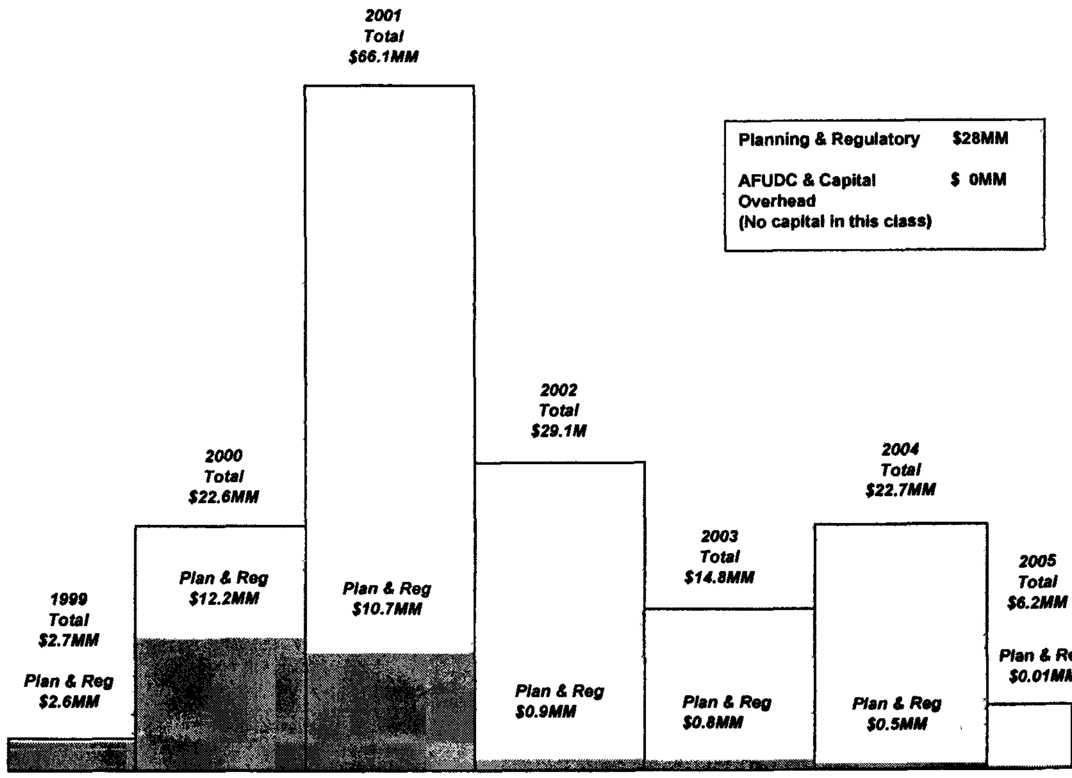
A. Yes. I base this opinion in part on how the TTC costs were managed and the financial processes that were put in place to monitor and control TTC costs as discussed above. Also, I base this opinion on cost trend data. Finally, I base this opinion on my review of the billings from third-party contractors that make up the majority of costs in this class. Those contractors are as follows: Bickerstaff, Heath, Smiley, Pollan, Kever, & McDaniel; Clark Thomas & Winters; Skadden, Arps, Slate, Meagher & Flom; The NorthBridge Group; and Accenture, previously known as Andersen Consulting. Each of these contractors was retained under a contract with specified rates. Managers were responsible for reviewing all invoices for services provided by each contractor prior to payment.

Q. WHAT DOES COST TREND DATA FOR THIS CLASS SHOW?

A. The cost trend data for this class provides assurance that the costs of this class are reasonable. The cost trend data is as follows:

Cost Trend Data Planning and Regulatory Class of TTC costs ($MM)	
1999	2.60
2000	12.18
2001	10.74
2002	0.88
2003	0.77
2004	0.50
2005	0.01
Total	27.69

Planning & Regulatory Class of Cost Compared to Total Spend



Q. PLEASE DESCRIBE THIS CHART.

A. This chart shows the "spend" amount by year for this class as compared to the total amount of requested TTC costs incurred in all TTC classes for each year. The shaded boxes represent the costs incurred by this class—the Planning and Regulatory class of TTC costs, which are included within the "bars" that represent the total TTC costs incurred in each year. I include similar "spend" charts for my other TTC classes as discussed later in my testimony.

Q. WHAT DOES THIS CHART SHOW?

A. The cost trend data is what one would expect given the timeline for the transition to competition set into motion by SB 7 discussed earlier in my testimony. The costs and activities increased over the period 1999 through 2001 then dropped precipitously thereafter but did not go away completely. This trend follows the level of activity one would expect as the initially anticipated January 1, 2002 commencement date for ROA approached. The costs incurred after this date follow the level of activity one would expect from the delay of ROA in ESAT and the regulatory proceedings in that timeframe.

Q. WHY ARE THE AMOUNTS PAID TO THE THREE LAW FIRMS THAT YOU LIST REASONABLE?

A. These three firms' charges total $7.6 million, which comprises the majority of the legal contractor costs in this class. Company witness Trostle explains and supports the outside legal costs included within the TTC cost.[3] She provides the more specific reasons as to why these outside legal costs were reasonable in the context of the TTC. I add that EGSI, ESI, and Entergy have worked with the lawyers from these three firms—Bickerstaff, Heath; Clark, Thomas; and Skadden, Arps—for many years,

[3] Ms. Trostle also addresses the reasonableness of the rate case expenses, which include not only the charges from the outside law firms, but the charges incurred to put the cases together, including the costs charged by the non-legal contractors (*e.g.*, PricewaterhouseCoopers) who assisted in the preparation of those cases.

including years preceding the TTC Cost period. These firms had and have excellent reputations in the field of regulatory law; they were staffed and available to undertake the TTC-related projects; and were already very familiar with EGSI's operations and structure prior to the passage of SB 7.

Q. WHAT WERE THE AMOUNTS PAID TO THE NORTHBRIDGE GROUP AND ACCENTURE?

A. The billings from the Northbridge Group in this class total $2.9 million, while those from Accenture total $729,000. These two firms represent the majority of outside, non-legal contractor services cost in this class of costs.

Q. WHY DID EGSI (AND ENTERGY) RETAIN NORTHBRIDGE TO ASSIST IN THE TRANSITION EFFORTS AND WHY ARE THEIR COSTS REASONABLE?

A. NorthBridge is an economic and strategic consulting firm specializing in the electric and natural gas industries, including regulated utilities and other parties interested in the newly competitive segments of these industries. Northbridge was engaged to work on EGSI transition to competition issues. NorthBridge was selected because of its extensive policy and implementation experience with transition to competition issues in New England, New York, Pennsylvania and more recently in the Midwest. Further, its substantive expertise in areas such as market design, transmission organizations, unbundling, retail rate design, federal and state regulation, price forecasting and asset valuation, were all relevant to the support that EGSI would require.

This experience and expertise with other utilities that were transitioning to competition made the firm a logical choice to support EGSI's transition planning efforts in the areas of unbundling, evaluation of stranded costs, and development of protocols associated with competitive wholesale markets. More specifically, Northbridge's support included analysis and advice in connection with the proposed changes to the System Agreement, market power and qualifying the power region, support for the Company's "Economic Costs Over Market" (ECOM) filing, analysis of the Company's proposed business separation, support of the Company's PTB Fuel Factor filing, capacity auction planning, and the development of ESAT market protocols.

This firm's level of work was documented in invoices that were reviewed for reasonableness and approved by responsible managers. As with the law firms, NorthBridge was already intimately familiar with EGSI's (and Entergy's) operations and structure, and was needed to provide advice from the federal perspective on issues and methods to restructure an electric market at the wholesale and "FERC" level, as well as at an overall—retail and wholesale—level.

NorthBridge was also needed because Entergy's internal staffing at the federal level has traditionally been very lean. Until 2004, Entergy (or more specifically ESI) had only one in-house lawyer whose job focused on federal/FERC regulatory issues. Entergy depended heavily on outside law firms for our FERC-work, as well as on firms such as Northbridge to provide policy and regulatory guidance on how to handle federal regulatory issues. Because we worked closely with NorthBridge, we were able to keep costs down by keeping their work in the hands primarily of just a few of their more experienced managers. We did not duplicate their work with in-house resources. Again, we did not anticipate that the transition would be as long as it was. The transition was anticipated to be a short-term event that did not require or need the development of in-house resources, of the caliber of NorthBridge, to provide the insights and work provided to us by that firm

NorthBridge, at an averaged rate of $249 per hour, was able to provide valuable and necessary services, working in a close collaborative manner with Entergy personnel, as well as leveraging their in-depth and historic knowledge of the Company. In addition, Entergy benefited when NorthBridge deferred and phased-in a 2001 increase in its standard firm-wide billing rates over a period of 18 months for Entergy. Copies of Northbridge's invoices for its TTC-related work are attached as workpapers to my testimony, as are the timesheets from this consulting firm.

Q. WHY DID EGSI (AND ENTERGY) RETAIN ACCENTURE TO ASSIST IN THE TRANSITION EFFORTS AND WHY WERE THEIR COSTS REASONABLE?

A. Accenture (formerly Andersen Consulting) is one of the world's largest management information consulting firms, and one that has provided Entergy with a wide range of consulting services in the past. In addition, Accenture had prior extensive experience in utility deregulation in other markets in the United States (in Pennsylvania, Illinois, New York, California, and Ohio), as well as overseas (in the United Kingdom, Australia, and the Netherlands). Accenture's expertise was also recognized in the Texas marketplace where it was selected to support the development of the ERCOT system and worked with other utilities such as Reliant and TXU. Accenture played a major role early in the ROA transition projects as one of the key resources to assist the Company in developing a clear picture of an unbundled business model and the impacts on operations and systems. This work included transition approach plans and systems infrastructure architecture and provided the basis for detailed implementation plans.

For the transition, EGSI's overall philosophy was to provide enough centralized coordination, integration and oversight to manage the programs, but, as discussed above, still have each business unit be responsible for its own deliverables. The goal here was to utilize EGSI and ESI personnel whenever possible and get the right outside support to leverage the in-house personnel. However, Entergy's in-house support personnel level is staffed to support the Company's day-to-day business, not to develop massive changes to processes and systems. Therefore, the Company relied upon outside resources for skills, expertise and as a supplement to the existing internal staff. Accenture aided Entergy in the mid- to late-1990s with customer service improvements, corporate-wide cost cutting and process re-engineering, as well as some systems installation. Thus, Accenture's selection was based on the Company's own experiences, including directly with Accenture, and Accenture's proven track record for managing and integrating large utility efforts.

Accenture's rates, at an averaged amount of $250 per hour, provided high level strategic planning and business analysis work. In addition, Accenture's rates were controlled by a Master Consulting Service Agreement that provided a preferred client discount of 25% to their normal rates, based on certain volumes of workload (which were met in each of these years). In 2002, that Master Service agreement was superseded by a competitively bid process through which Entergy selected four Secondary Services Providers to the major outsourcing service provider—SAIC. Accenture was one of the companies that won that Secondary Service provider status and provided a rate card that was deemed, through the bidding process, to be competitive with the market. Company witness Manasco discusses this selection process in more detail in his testimony.

Accenture kept internal time sheets that tracked the amount of effort that each individual spent on the TTC projects. Accenture's level of work was documented in invoices that were reviewed for reasonableness and approved by responsible managers. Copies of the Accenture TTC-related invoices, as well as its timesheets, are attached as workpapers to my testimony.

Q. PLEASE DESCRIBE THE REST OF THE TTC COSTS IN THIS CLASS.

A. The remaining amount of cost reflects work that is primarily a combination of smaller specialized consulting and legal firms, as well as employee labor and expenses required in support of the regulatory filings and the processes and systems development. As described previously, the effort to unbundle an integrated, multi-jurisdictional utility such as EGSI is an enormous task fraught with complexity and challenges. EGSI's pursuit of ROA, consistent with the mandates of SB 7, affected nearly every aspect of the business. As a result, nearly every functional area (including the service company as well as EGSI) was involved in planning and executing the transition.

Areas affected include, but are not limited to: Customer Service Support, Information Technology, Finance, Tax, Supply Chain, System Planning, Legal, Corporation Reporting, Nuclear-Regulated, Fossil, Human Resources, Regulated Retail, Administrative Support, Transmission, and Regulatory Services. Each of these areas was affected by transition planning in varying degrees, and at a minimum required an analysis of the potential impacts of the transition to competition, development of a plan to accommodate those impacts and implementation of that plan. In most instances this required both process and system changes, along with the integration of these changes with other groups. Invoices from the outside firms that provided this TTC-related support are attached as workpapers. These companies typically did not provide daily timesheets with their invoices—much of this work was on a project-by-project basis, rather than billed by the hour. The overall reasonableness of the TTC costs, which would include work billed from these vendors, is supported by Company witness Cuddy.

Q. WHAT ORGANIZATIONS WERE MOST ACTIVE IN THE REGULATORY AND PLANNING CLASS OF COSTS?

A. As I said, most organizations throughout EGSI and ESI were involved to some degree. However, it was the regulatory and legal organizations that were most active in this class of cost.

<u>Texas Regulatory Affairs</u> has served as the interface to the Commission and coordinated the Company's activities in all Commission-jurisdictional dockets. Because the Company is only requesting incremental costs related to SB 7, the Company is not requesting labor-related costs associated with this organization because these costs would

have normally been incurred by EGSI in any case. The Company is requesting non-labor and external costs for this organization.

ESI Legal Services provided legal services to EGSI through the internal legal department staff of ESI and, as necessary, through procurement of external legal counsel. External legal counsel was used to supplement the capacity of the existing legal department staff and for specialized expertise not available in-house. This organization provided direct legal support and assisted Texas Regulatory Affairs in managing the Company's response to a demanding slate of rulemakings, case filings, and rate-related activities. In all, the Company monitored, participated in, or was the subject of more than 50 dockets or projects related to ROA. Services rendered included regulatory assistance and advice related to the aforementioned matters; preparation and review of testimonies, pleadings, and petitions; advice on legal regulatory issues; legal research; and drafting of comments.

Transition Management, as described previously, was created and staffed to coordinate and manage the Company's overall efforts in preparing for ROA. In this role, Transition Management provided oversight and coordinated the Company's transition to competition activities. Within the Regulatory and Planning Class of costs, Transition Management led efforts to assess the impacts of deregulation and assisted the Decision Teams in providing decision support for the Decision

Boards. The activities of this organization are discussed throughout this testimony.

Regulatory Services provided regulatory support as further described in Section III, *Regulatory Support Class*, of my "affiliate"-related testimony below. Services rendered included analytical support in the areas of Regulatory Accounting, Revenue Requirements and Analyses, Pricing, and Rate Design and Administration, as well as facilitating the Company's response to requests for information in various regulatory proceedings and providing support for the physical production of regulatory filings. This organization's most significant task was support of the UCOS filing, but also included support for a number of Commission rulemaking projects. This work included financial analysis, rate and tariff design, drafting comments, and testimony, as well as the litigation support needed to coordinate requests for information and physical production support for all the filings.

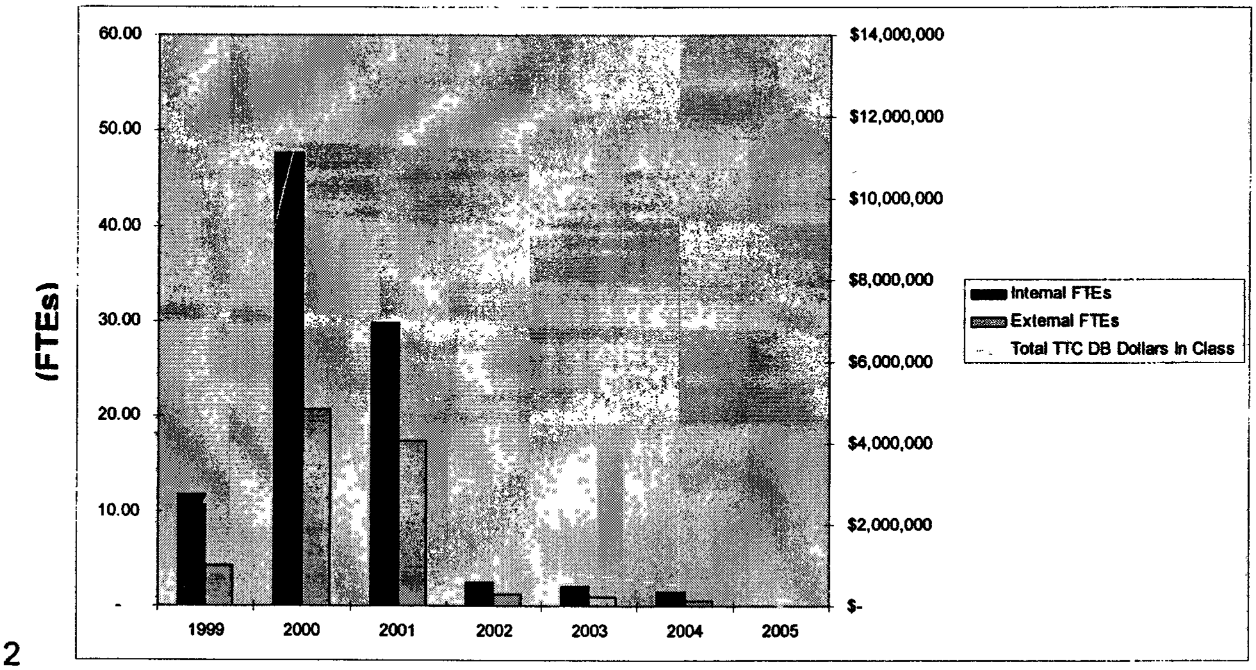
Customer Service Support provided customer-related business services that included phone center operation, revenue cycle (reading meters, rendering bills, and making deposits), credits and collections, and payment processing. They were involved with various Commission rulemaking projects and the ERCOT Protocols.

Financial Services includes services provided by Treasury and Internal Audit. Treasury manages the capital structure of Entergy and its affiliates, manage relationships with rating agencies, provide information to the various regulators, and manage the daily liquidity needs of Entergy and its affiliates. The primary costs in this area are related to the direct support of the UCOS and BSP filings. Other focus areas include "ECOM" support, financial modeling and analysis, investigation of financing options, and general support work needed for testimony. Internal Audit served as an independent appraisal function within Entergy for the purpose of assisting Senior Management with analyses and recommendations on internal controls. This group performed audits on Transition Management's cost tracking approach and overall readiness for ROA.

Q. ON A "FULL TIME EMPLOYEE" ("FTE") BASIS, WHY ARE THE COSTS IN THIS CLASS REASONABLE?

A. Looking at this class from an FTE basis, rather than a cost basis, one can also see that the number of FTEs used declined over time, as management revised and realigned work to account for the ongoing delays in ROA. Company witness Richard Ferguson discusses why the labor and benefits costs of Entergy personnel were reasonable. The costs incurred from the outside lawyers and contractors were also reasonable from the perspective of how the number of such personnel (as well as their aggregate cost) declined over time. This is shown in the following two charts:

Planning & Regulatory Entergy & Contractor FTEs By Year



Planning & Regulatory	1999	2000	2001	2002	2003	2004	2005
Total Employees Coding To This Class	186	818	961	79	52	42	2

Q. PLEASE DESCRIBE THESE CHARTS.

A. The bar graph/chart has three axes: the left vertical axis is the number of FTEs; the horizontal axis represents the years during which these costs were incurred; and the right vertical axis represents the total dollar amounts spent. The left of the two bars for each year represents the number of internal FTEs; the right bar represents external (outside contractor) FTEs. The line in the bar graph shows total dollars spent in each year for this class.

The line chart underneath the bar graph shows the total number of employees who entered time for this TTC class of costs by year. For example, in 2001, 961 employees worked to some extent on the projects that comprise the Planning and Regulatory class. But the "Full Time Equivalent" internal employee count for this class for 2001 was 30 FTEs. This means that the equivalent of 30 internal employees worked full time on the projects in this class during 2001. I will include similar charts below for my other TTC classes.

The number of total employees involved in this and several other of the TTC cost classes help demonstrate the comprehensive nature of the transition to competition process.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM THESE CHARTS?

A. I conclude that the amount of staff dedicated to the activities in this class, represented by the FTE counts I have developed, supports my opinion that these TTC costs were reasonable. The FTE count for internal employees ranged from 47.7 in 2000, when ROA-related activities were at their peak, to 2.5 or less from 2002 on. These counts from 2002 on are likely to be slightly understated as some employees involved in the ESAT Protocols and related dockets coded their time to the main implementation project code because many of the regulatory dockets related to how the Company was going to physically implement ROA. You will also see significant drops in the Implementation Management Class of costs over this time period as well. Given the enormous scope of activities involved in regulatory planning, the amount of staff represented by these FTE counts shows that EGSI dedicated a reasonable and appropriate amount of time and effort to the activities included in this class.

Q. WHAT PERCENT OF THE COSTS FOR THIS CLASS IS NON-AFFILIATE?

A. Non-affiliate charges in this class amount to $12.2 million of the $27.7 million class total or 44%. None of these costs include labor for EGSI-Texas employees (labor charges for EGSI-Texas employees are not included in the Company's TTC costs). The Company removed these amounts from its request. The majority of the costs are legal contract services, business resources to assist in regulatory filings (primarily UCOS), and for business planning related to the overall impacts of unbundling.

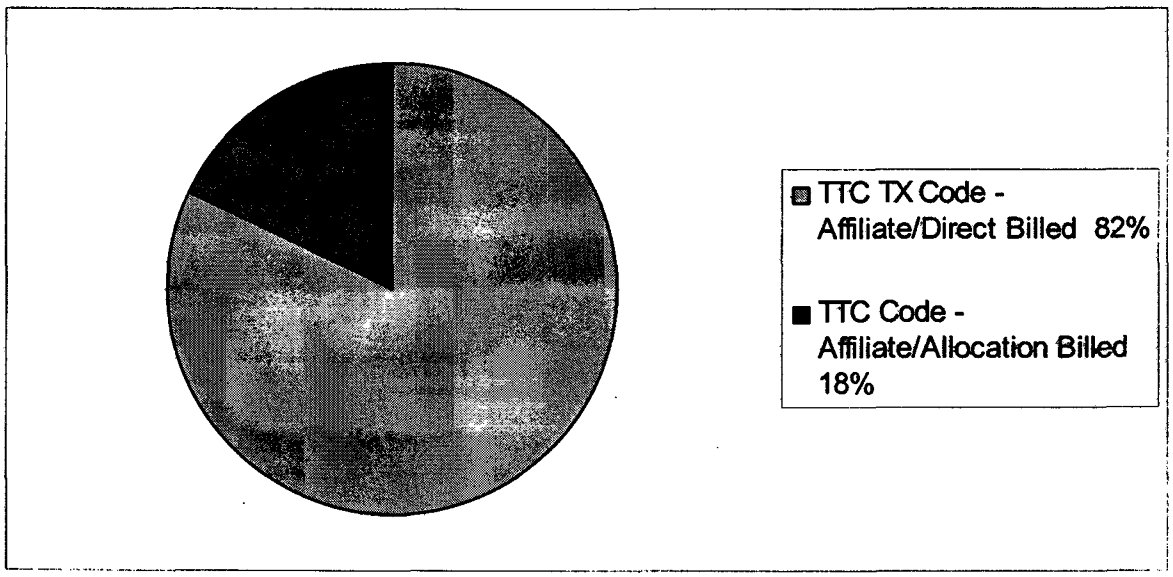
Q. WHAT PERCENT OF THE COSTS FOR THIS CLASS IS RELATED TO AFFILIATE CHARGES?

A. Fifty-five percent (56%) or $15.5 million are affiliate charges. It is critical to note however, that the overwhelming majority of these affiliate charges are from dedicated Texas-only TTC project codes. EGSI-Texas was allocated a relatively small amount (in proportion to the direct affiliate charges from ESI to EGSI-Texas) for Entergy-wide efforts that related to transition activities.

Q. IS THE PRICE CHARGED TO EGSI FOR THIS CLASS OF SERVICES BY AFFILIATES NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES FOR THE SAME OR SIMILAR SERVICES OR ITEMS?

A. Yes. Whenever appropriate, costs were direct billed to EGSI. Of the affiliate costs, 82% ($12.7 million of $15.5 million) were direct billed to EGSI as shown in Exhibit PRM-B using billing method "EGSI." When costs were incurred that benefited more than one of the Entergy companies, however, such costs are billed through an allocation.

Affiliate Charges for the Planning & Regulatory Class



Q. WERE ANY AMOUNTS ALLOCATED TO EGSI?

A. Yes. Only $3 million of the $27.7 million overall total in this class was allocated to EGSI-Texas. For these costs that were not direct billed, an allocation (or "billing") method was used. Only one predetermined billing method could be applied to a given project code at any given time

The use of a predetermined billing method for each project code ensured that the amount billed to EGSI for the services was no higher than the amount charged to other affiliates for the same or similar services and represents the actual cost of the services. For this class of service, the following billing methods were used to allocate the costs of this class. These allocations were revised at least annually to reflect operational changes between the Entergy jurisdictions.

- 35 – Number of Electric Customers
- 23 – Responsibility Ratio
- TTC – Number of Electric Customers in the Texas portion of EGSI and Entergy Arkansas, Inc.

Q. WHY WAS BILLING METHOD 35 – NUMBER OF ELECTRIC CUSTOMERS, APPROPRIATE TO USE FOR THE PROJECTS TO WHICH IT IS ASSIGNED?

A. This is an accepted methodology for large projects being shared across multi-jurisdictional entities. Billing Method 35 was appropriate for the projects to which it applied because it is allocating costs across the entire Entergy System. These are costs that benefit all customers in all of the Entergy Operating Companies and, as such, are appropriately billed on a customer volume basis. Prior to 2000, both Arkansas and Texas had passed legislation for retail electric access, and both Louisiana and Mississippi had regulatory or legislative activities moving in that direction. Therefore, this billing method would properly allocate costs to all of Entergy's customers at least at some point, based on the then-existing situation in which all customers would benefit from this early transition work. Codes that represented general planning and regulatory work early on used this billing method. For example, Project Code TRJSCI – Transition to Competition – captures and manages the TTC costs associated with transition planning from a system perspective. As can be seen in my Exhibit PRM-B for these project codes the price charged to EGSI as a result of the application of this billing method is no higher than the price charged to other affiliates for the same or similar service and represents the actual cost of the services. This conclusion is also supported in these exhibits for all of my TTC classes.

Q. WHY WAS BILLING METHOD 23 – RESPONSIBILITY RATIO APPROPRIATE TO USE FOR THE PROJECTS TO WHICH IT IS ASSIGNED?

A. This is a standard billing method used by the Company for work related to the System Agreement. The System Agreement costs are borne based on a load responsibility ratio because the costs were incurred to manage the *system* costs that were the responsibility of each of the Operating Companies based on the load they supported in each of their jurisdictions.

Work related to the System Agreement was the only type of TTC cost that used this billing method. For example, Project Code TRALSA – System Agreement Modification captures and manages the TTC costs associated with modifying the Entergy System Agreement. For these project codes, the price charged to EGSI as a result of the application of this billing method is no higher than the price charged to other affiliates for the same or similar service and represents the actual cost of the services.

Q. WHY WAS BILLING METHOD TTC – NUMBER OF ELECTRIC CUSTOMERS IN ARKANSAS AND TEXAS, APPROPRIATE TO USE FOR THE PROJECTS TO WHICH IT WAS ASSIGNED?

A. As stated, during 1999 and 2000, Entergy was working on deregulation initiatives for both Arkansas and Texas. Some of the organization and process unbundling work was applicable directly to both Texas and Arkansas, so these costs were shared on a customer ratio basis between those two Operating Companies. These are costs billed from the projects with this billing method that were not deemed to be costs that were "generic" for the benefit of all of the Operating Companies—they benefited only Texas and (at that time) Arkansas. This is a commonly accepted practice and represented the best approach to equitable cost sharing at that time. Project Code TRCUBI – Unbundling (Tariffs, Functions, Billing) – Incremental Costs is an example of the project codes that used this allocation. This split assigned 34.6% of these shared costs to the Texas portion of EGSI, rather than to EGSI as a whole (that is, to both Texas and Louisiana). The price charged to the Texas portion of EGSI for project codes using this billing method is no higher than the price charged to other affiliates for the same or similar service and represents the actual cost of the service.

2. Implementation Management Class

Q. PLEASE DESCRIBE THE TTC COSTS MAKING UP THE IMPLEMENTATION MANAGEMENT CLASS.

A. This class includes costs associated with the integration and support for implementing transition to competition in Texas. It includes integration planning and program management, ERCOT process development, internal process mapping and analysis, assistance with integration testing and design, revising and testing of numerous legacy systems, corporate infrastructure planning, and legal/regulatory support for implementation. Company witness Manasco discusses more discrete classes of distribution-related TTC costs. Company witness Manasco and I are not sponsoring the same costs—his projects, from which the TTC classes are derived, are not the same projects that comprise my classes. Essentially, the costs that I sponsor in this class fall into three general areas: overall program management and integration work performed primarily by Transition Management; the continued legal and regulatory work required for implementation support; and then all of the other implementation support work required within many business units and functional areas across the corporation. Company witness Manasco sponsors costs related to developing and implementing discrete projects or requirements, such as distribution-related costs associated with "Texas SET," load profiling/data aggregation, and classes of costs related to the Texas Customer Choice Pilot Project.

The first general area of costs in this class is overall program management and integration work primarily performed by Transition Management. As discussed previously, SB 7 affected almost every business process and support system. Soon after Transition Management was formed, due to the importance and scope of the implementation effort, Transition Management solicited TTC program management expertise. Accenture was retained to assist the implementation team to work with the business unit teams and help coordinate the overall transition activities. Having experience with ROA implementation in many other markets, Accenture assisted in developing the approach to manage the overall process and coordination of the program.

Transition Management and Accenture's role was integration of the various functional implementation plans and system changes. Each of the affected business units had its own detailed implementation plan and was responsible for execution of that plan. Transition Management and Accenture integrated those plans so that interdependencies between these plans were identified and resolved. The key functions of Transition Management and Accenture were:

- schedule integration;
- business requirement development;
- systems integration;
- testing;
- project performance status monitoring;
- readiness determination; and
- budget development, tracking, and monitoring.

The second area within this class of costs is the continued legal and regulatory work required for implementation support that was billed to the projects that comprise this Implementation Management Class. This work principally involved supporting the large number of ongoing dockets, previously discussed, that were a part of the Company's transition efforts. The work is distinguishable from that included in my Planning and Regulatory class, however, because it is comprised of different projects. Essentially, this class is for overall implementation of the transition, while the Planning and Regulatory class, as the name suggests, is developing the plans that would then be implemented. These implementation costs included the costs of the dockets and projects at both the state and federal levels, which required significant legal and regulatory support during this period.

The third area within this class of costs is the implementation support work required across many business units and functional areas. This remaining amount of costs reflects work that is primarily a combination of smaller specialized consulting and legal firms, as well as affiliate labor and expenses required to support implementing new systems and processes for an unbundled company and support of the Texas market rules. Implementation for these two very large and intertwined projects—ROA implementation and separation and unbundling of an integrated multi-jurisdictional utility—touched almost every function of the overall corporation, not just Texas. These areas included, but were not limited to: Customer Service Support, Information Technology, Finance, Tax, Supply Chain, System Planning, Legal, Corporation Reporting, Nuclear-Regulated, Fossil, Human Resources, Regulated Retail, Administrative Support, Transmission, and Regulatory Services. Each of these areas was affected in varying degrees, and at a minimum required an analysis of the potential impacts of ROA and implementation of that plan. In most instances this required both process and system changes, along with the integration of these changes with other groups.

Q. WHAT IS THE AMOUNT OF TTC COSTS IN THE IMPLEMENTATION MANAGEMENT CLASS?

A. The total amount of TTC costs in this class is $15.6 million. I have broken down this amount between affiliate and non-affiliate and internal and external in the following table:

Implementation Management

	Affiliate Costs				
Group Description	**Direct**	**Allocated**	**Total**	**Non-Affiliate Costs**	**Total Net Requested**
Internal - Payroll / Benefits	3,915,912.08	529,129.50	4,445,041.58	-	4,445,041.58
Internal - All Other Internal Support Costs	15.85	-	15.85	3,823.31	3,839.16
External - Legal Contractor Costs	-	(746.34)	(746.34)	828,071.11	827,324.77
External – All Other Support Costs	5,955,312.55	2,106,395.92	8,061,708.47	1,360,455.40	9,422,163.87
AFUDC & Capital Overhead	-	-	-	898,465.23	898,465.23
Grand Total	9,871,240.48	2,634,779.08	12,506,019.56	3,090,815.05	15,596,834.61

These amounts represent the costs captured in the project codes identified in Exhibit PRM-10, which identifies the TTC costs for this class by project code/by year.

Q. IS THIS CLASS OF COSTS NECESSARY?

A. Yes. SB 7 and the Commission's directives in accordance with SB 7 made this class of TTC costs necessary. SB 7 not only established a structure that required all utilities to participate in numerous rulemaking projects and regulatory proceedings such as business separation and unbundled cost of service, but also required the utilities to prepare to implement those changes throughout the corporation. This class of costs describes all of the general coordination and support work needed to physically implement all of the requirements of SB 7.

Q. ARE THE TTC COSTS INCLUDED IN THIS CLASS REASONABLE?

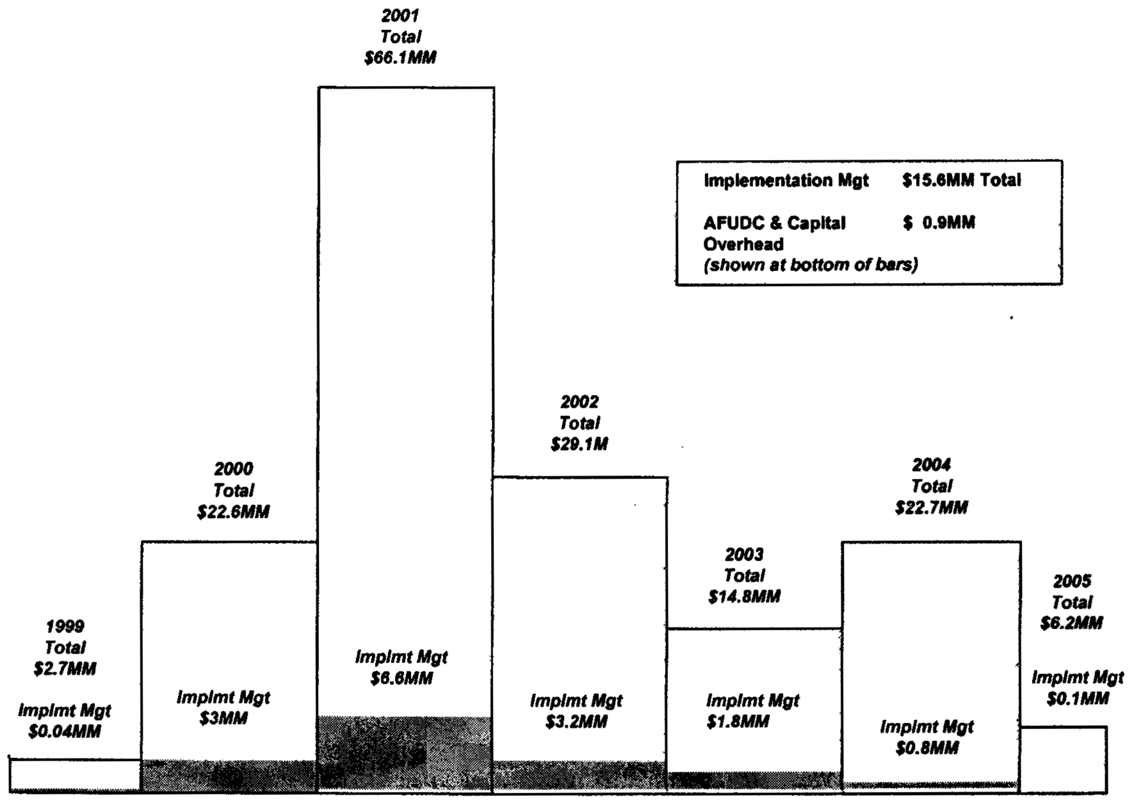
A. Yes. I base this opinion on how TTC costs were managed and the financial processes put in place to monitor and control TTC costs. Also, I base this opinion on cost trend data. Finally, I base this opinion on my review of the billings from third-party contractors that make up the majority of costs in this class. Those contractors are: Accenture; NorthBridge; and Clark, Thomas, & Winters. Each of the contractors was retained under a contract with specified rates. Managers were responsible for reviewing all invoices for services provided by each contractor prior to payment.

Q. WHAT DOES COST TREND DATA FOR THIS CLASS SHOW?

A. The cost trend data for this class provides some assurance that the costs of this class are reasonable. The cost trend data is as follows:

Cost Trend Data Implementation Management Class of TTC Costs ($MM)	
1999	0.04
2000	2.97
2001	6.61
2002	3.16
2003	1.85
2004	0.82
2005	0.14
Total	15.60

Implementation Class of Cost Compared To Total TTC Spend



The cost trend data for this Implementation Management class is what one would expect given the timeline for the transition to competition set into motion by SB 7, as I described in more detail with regard to the Planning and Regulatory class, above. AFUDC and Capital Overhead had some impact in this Implementation Management class as one project code was capital. It becomes more apparent in the later years when active spending was absent or nominal.

Q. WHAT WERE THE AMOUNTS PAID TO ACCENTURE AND NORTHBRIDGE IN THIS CLASS OF COSTS?

A. The billings from Accenture were $7.4 million, while those from Northbridge were $862,000.

Q. WHY ARE THE AMOUNTS PAID TO ACCENTURE REASONABLE?

A. My reasons are the same as I discussed previously. To maintain consistency, it was prudent to retain Accenture, given its prior ROA implementation experience, to assist in overall program management and integration coordination. Accenture worked to develop a consistent approach for implementation plans within the business units and functional areas as well as the integrated implementation plan and progress milestones across the Company. This work included detailed process flow analysis, process flow modifications, interpreting new market rules into business model and systems requirements, systems interface requirements, transition cutover, testing plans, and training and/or communications plans. The Company significantly reduced costs with Accenture after it became clear that we were not going to ROA in the near term. Spending went from over $3.5 million dollars in 2001 down to under $300,000 in 2002 and 2003.

Q. WHY ARE THE AMOUNTS PAID TO NORTHBRIDGE REASONABLE?

A. My reasons are the same as those that I discussed previously. NorthBridge provided analytical support for the TTC Decision Board, the Power Supply and Wholesale Marketing Decision Board, and the Restructuring Decision Board. In addition, NorthBridge provided planning and implementation support to the Company's overall transition efforts in Texas and became very involved with assisting us with the development of the ESAT protocols.

Q. WHAT IS THE AMOUNT PAID TO CLARK, THOMAS & WINTERS IN THIS CLASS OF COSTS?

A. The billings from this class of costs total $773,000, which is the vast majority of legal related costs in this class.

Q. WHY ARE THE AMOUNTS PAID TO CLARK, THOMAS & WINTERS REASONABLE?

A. My reasons are the same as those provided by Company witness Trostle and as I have discussed previously with regard to this law firm. Their work supported EGSI's plans and preparations for the Capacity Auction and the Qualified Power Region filings/applications at the Commission.

Q. WHAT ORGANIZATIONS WERE MOST ACTIVE IN THE REGULATORY AND PLANNING CLASS OF COSTS?

A. Although most organizations throughout Entergy were involved to some degree, as described earlier in this section of my testimony, Transition Management was the most active in this class of costs followed by the legal and regulatory areas, followed by the Customer Service Support and Transmission groups.

Texas Regulatory Affairs, as I previously described, served as the interface to the Commission and coordinated the Company's activities in all Commission-jurisdictional matters. Because the Company is only requesting incremental costs related to SB 7, the Company is not requesting labor-related costs associated with this organization as these costs would have normally been incurred by EGSI in any case. The Company is requesting non-labor and external costs for this organization, including the costs of external consultants engaged to assist in development of the ESAT Protocols.

Transition Management, as I previously described, coordinated and managed the Company's overall efforts in preparing for ROA. Within the Implementation Management Class of costs, Transition Management was assisted by Accenture to provide program oversight, reporting tools, planning integration, translation of regulatory environment changes to implementation schedule and approach, and decision support for business units and functional areas. The activities of this organization are discussed throughout this testimony.

ESI Legal Services, as I previously described, provided legal services to EGSI through the internal legal department staffs of ESI and, as necessary, through procurement of external legal counsel. External legal counsel was used to supplement the capacity of the existing legal department staff and for specialized expertise not available in-house. The organization provided direct legal support and assisted Texas Regulatory Affairs in managing the Company's response to a demanding slate of implementation related rulemakings, filings and dockets. Services rendered included regulatory assistance and advice, preparation and review of testimonies, pleading and petitions, advice on legal regulatory issues, legal research, and drafting comments.

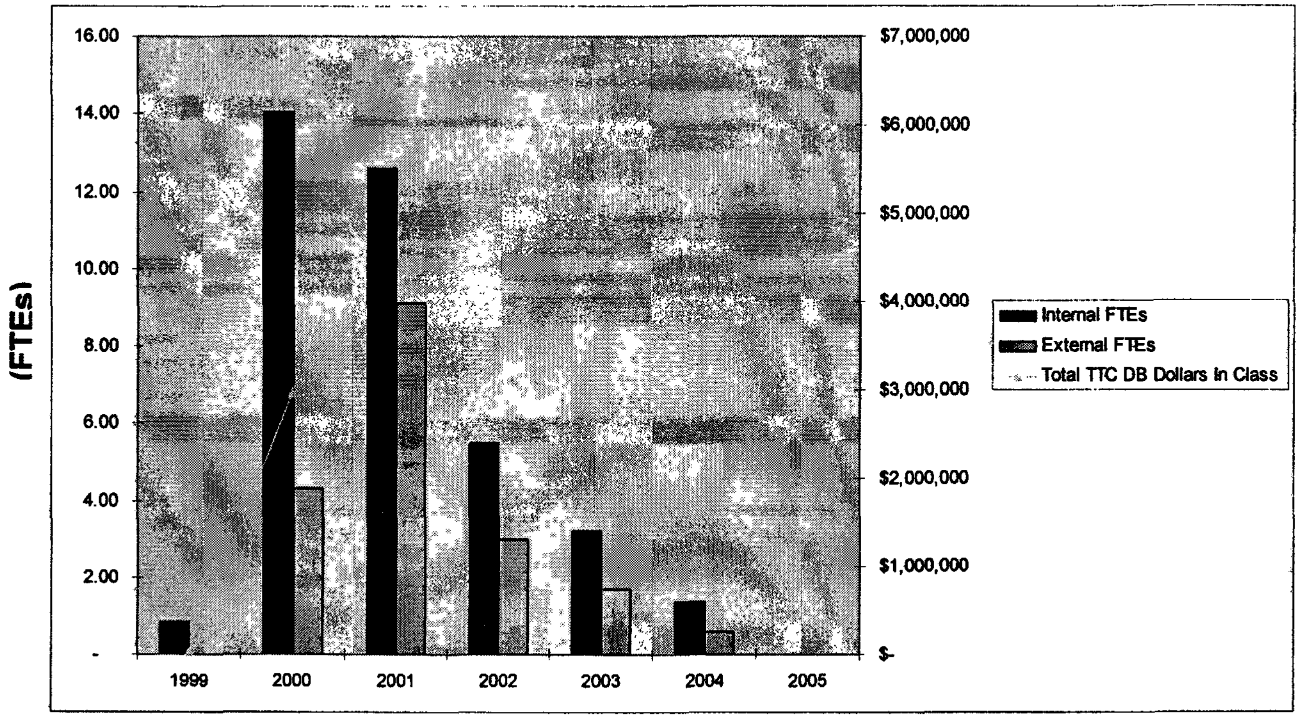
Customer Service Support provided customer related business services that included phone center operation, revenue cycle (reading meters, rendering bills and making deposits), credit and collection, and payment processing. The work in this group centered around understanding the possible impacts to the business operations of the integrated utility and developing positions on market rules and structure and deployment of those rules. They were very involved with the Commission rulemakings and ERCOT Protocols and were focused on the detailed processes and impacts to systems. Over 130 business processes were analyzed, mapped, and many reworked. This area of work reflected the ongoing involvement in the ERCOT Protocols and the need to adapt processes and systems. It included the development of employee training programs. This group was very involved in customer cutover planning and contingency planning for potential unanticipated events following cutover.

Transmission provided transmission-related services to Entergy's Operating Companies, including EGSI. Entergy's transmission system is planned and operated as a single integrated transmission system. The Transmission organization is responsible for the planning, operation, maintenance management, and construction management of the combined electric transmission system of the Entergy Operating Companies, including EGSI. This group was very involved in the preparation for the pilot project. They operated a website for potential market participants and REPs, and were active in the non-ERCOT market. They were very involved in the development of the ESAT Protocols, which development extended for over a year and a half. As a result of those protocols, numerous business processes and systems requirements had to be revised.

Q. ARE THE COSTS REASONABLE WHEN MEASURED ON AN FTE BASIS?

A. Yes. An analysis of this class of costs based on the average FTE count in the applicable projects shows that these costs are reasonable because the FTE count trended down over time. The projects were managed by reducing FTE work as the need for FTEs decreased.

Implementation Mgt Entergy & Contractor FTEs By Year



Implementation Mgt	1999	2000	2001	2002	2003	2004	2005
Total Employees Coding To This Class	27	238	167	84	61	47	0

Q. WHAT DO YOU CONCLUDE FROM THESE CHARTS?

A. These charts support my conclusion that the costs in this TTC class were reasonable. It shows the FTE count for internal employees ranged from 12 to 14 in 2000 and 2001 when implementation was at it height quickly down to three and less in 2002 after the Company's ramp down in order to conserve expenditures until a ROA date was more certain. Key resources continued to stay involved with the regulatory activities in order to closely monitor possible ramp up lead times required. Given the size and scope of all the TTC activities and this group's responsibility to coordinate individual business units and systems integration efforts, the amount of staff represented by these FTE counts show that EGSI dedicated a reasonable and appropriate amount of time and effort to the activities included in this class.

Q. WHAT PERCENT OF THE COSTS FOR THIS CLASS IS NON-AFFILIATE?

A. Non-affiliate charges in this class amount to $3.1 million of the $15.6 million class total or 20%. (Again, the Company's TTC costs do not include EGSI-Texas labor.) The majority of the costs are legal contract services, business resources to assist in regulatory filings (primarily UCOS), and for business planning related to the overall impacts of unbundling.

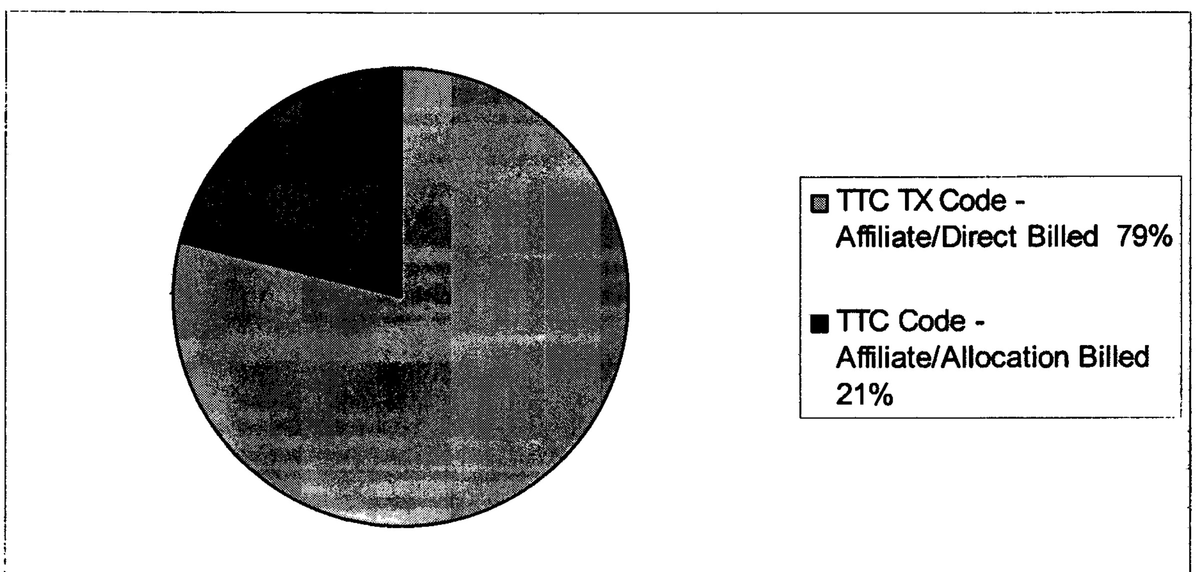
Q. WHAT PERCENT OF THE COSTS FOR THIS CLASS IS RELATED TO AFFILIATE CHARGES?

A. Eighty percent (80%) or $12.5 million are affiliate charges. A great majority of these affiliate charges are direct charges under Texas-only TTC project codes billed by affiliate employees and contractors working directly on Texas TTC matters and state-specific regulatory issues. EGSI-Texas received a relatively small amount of allocated costs (as opposed to direct billed costs) for this class.

Q. IS THE PRICE CHARGED BY AFFILIATES FOR THIS CLASS OF SERVICES TO EGSI IS NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES FOR THE SAME OR SIMILAR SERVICES OR ITEMS?

A. Yes. Whenever appropriate, costs were direct billed to EGSI, and 79% of the costs ($9.9 million of $12.5 million) in this class were direct billed to EGSI as shown in Exhibit PRM-B. When costs were incurred that benefited more than one of the Entergy Operating Companies, however, such costs were billed through an allocation.

Affiliate Charges for the Implementation Management Class



Q. WERE ANY AMOUNTS ALLOCATED TO EGSI?

A. Only $2.6 million of the $15.6 million overall total in this class was allocated to EGSI-Texas. For these costs that were not direct billed, an allocation (or "billing") method was used. Only one predetermined billing method could be applied to a give project code at any given time.

The only two billing methods that applied to the allocated costs in this class (as distinct from the majority of costs, which were direct billed) are: "35" and "TTC." I explained the details of these two billing methods in my foregoing discussion for the Planning and Regulatory class, and will not repeat those same explanations here for this class.

3. <u>The System Benefit Fund/Renewable Energy Credits Class</u>

Q. PLEASE DESCRIBE THE TTC COSTS MAKING UP THE SYSTEM BENEFIT FUND/RENEWABLE ENERGY CREDITS CLASS.

A. This class represents the $5,116,300 paid by EGSI to the Texas Comptroller of Public Accounts for this program based upon the System Benefit Fund ("SBF") requirements established by SB 7. This class also includes $2,319,667 paid to acquire mandated RECs as required by SB 7. I have broken down the total amount in this class between affiliate and non-affiliate and internal and external costs in the following table.

SBF & REC's

	Affiliate Costs				
Group Description	**Direct**	**Allocated**	**Total**	**Non-Affiliate Costs**	**Total Net Requested**
Internal - Payroll / Benefits	-	-	-	-	-
Internal - All Other Internal Support Costs	-	-	-	-	-
External - Legal Contractor Costs	-	-	-	-	-
External – All Other Support Costs	73,262.64	-	73,262.64	7,362,704.32	7,435,966.96
AFUDC & Capital Overhead	-	-	-	-	-
Grand Total	73,262.64	-	73,262.64	7,362,704.32	7,435,966.96

Q. WHAT ARE THE SBF PAYMENTS?

A. The System Benefit Fund is established in PURA § 39.903. It is a program established by SB 7 to fund, primarily: assistance for low-income customers, support for customer education programs regarding ROA, and support a school funding loss mechanism. Under the SBF program, EGSI is required to pay in certain amounts to fund. The Company received four assessments between 1999 and 2001 from the Commission payable to the Comptroller of Public Accounts. The first assessment received in October 1999 required EGSI to pay $73,263 related to fiscal year 2000. The second and third assessments were received in May and December of 2000 and required the Company to pay a total of $5,043,038 related to fiscal year 2001. These amounts were paid in full to the Comptroller. Copies of the invoices paid by EGSI for these SBF assessments are attached at my Exhibit PRM-11. The final assessment issued in August of 2001 requested $4,220,547 related to fiscal year 2002.

EGSI did not have to pay this last assessment due to the Commission's order in the Readiness Docket, which delayed ROA in ESAT, and relieved the Company of further payments until ROA commenced.

Q. WHAT ARE RENEWABLE ENERGY CREDITS?

A. Renewable Energy Credits represent renewable energy capacity that EGSI was required to purchase to the extent it could not, itself, generate electricity from sufficient renewable resources, such as hydro, wind, or solar generation projects. EGSI was required to purchase RECs to satisfy its renewable energy requirements mandated by SB 7 through what is now PURA § 39.904(b), and the Commission's rules issued in accordance with that section.

Q. HOW MUCH IS EGSI REQUESTING AS TTC RECOVERY OF ITS REC COSTS?

A. EGSI requests recovery of $2,319,667 in REC costs. The invoices showing that EGSI paid this amount are attached in my Exhibit PRM-12. These are costs that EGSI itself (not an affiliate) incurred and paid as a result the SB 7 and Commission rules.

Q. WHY DID ENTERGY CONTINUE TO PURCHASE RECS AFTER THE COMMISSION DELAYED ROA FOR ESAT?

A. Senate Bill 7 (specifically PURA § 30.904) requires the Commission to establish a RECs trading program whereby REPs, municipally owned utilities, and electric cooperatives in the competitive market must purchase RECs to the extent they do not have sufficient generating capacity from renewable energy resources to meet the "Goal for Renewable Energy" established in the statute. EGSI did not have renewable generating capacity to meet the goals, as established by the Commission. As I understand it, investor owned electric utilities were not, under the statute, required to purchase RECs because the assumption was that all of the IOUs (not expressly exempted from ROA) would move to ROA on January 1, 2002, and that the REC responsibility would therefore fall to, among others, the REPs that were unbundled from the IOUs (as well as non-affiliated REPs, and participating munis and coops.) But EGSI did not move to ROA on January 1, 2002. Nevertheless, it is my understanding that the Commission, at that time, expected IOUs that did not move to ROA on January 1, 2002 to acquire RECs (if they had insufficient renewable generation) that their affiliated REPs would have paid if ROA had commenced as planned. For this reason, the EGSI's REC obligation was memorialized in the settlement in Docket No. 24469 that delayed ROA for ESAT. I also emphasize that the Company, at least, was working under the assumption that the transition period would be of short duration—ending with either a FERC-approved RTO or an interim solution in the not-too-distant future. That was not the case. Nevertheless, the

REC payments made pursuant to SB 7 during EGSI's transition period, prior to June 18, 2005 are legitimate transition costs.

Q. IS THIS CLASS OF COSTS REASONABLE AND NECESSARY?

A. Yes. The SBF expense was mandated by SB 7 and the amount was determined by the Commission; therefore, it is reasonable and necessary.

The REC payments were necessary for the reasons stated above. These REC costs were incurred as part of the transition to ROA, and are properly considered to be TTC costs.

The REC payments are reasonable because, first, EGSI was required by Commission rule to purchase the RECs that it purchased and, second, EGSI paid the going market rate for these RECs. EGSI sought out the least cost renewable energy credits available on the market, and purchased the RECs at the lowest available prices.

The SBF and REC costs are unique to EGSI-Texas, and therefore, are properly borne by those customers through the TTC Rider.

Q. ARE THE COSTS IN THIS SBF/REC CLASS ALL NON-AFFILIATE COSTS?

A. All the SBF costs but $73,263 are non-affiliate costs. This amount is shown as an affiliate charge due to a timing issue with the budget. As I explained earlier in my testimony, in 1999 the TTC effort was budgeted and administered at the ESI level. Because the first SBF bill was due in that year, it was paid by the entity that had any TTC budget dollars to cover it. As a result, ESI paid $73,263 directly to the Texas State Comptroller on behalf of EGSI in accordance with the SBF assessments. In all subsequent years, these costs were paid directly by EGSI.

All of the REC costs were non-affiliate and paid directly by EGS.

Because all of the SBF and REC costs are non-affiliate costs, none of these costs was allocated to EGSI-Texas; they are already "in" EGSI, rather than being billed from an affiliate. For this reason, there are no allocation-based billing methods that applied to these costs.

4. The Default Service Providers Class

Q. PLEASE DESCRIBE THE TTC COSTS MAKING UP THE DEFAULT SERVICE PROVIDERS CLASS.

A. The Default Service Providers ("DSP") class captures the TTC "market mechanics" costs incurred by EGSI to prepare for and establish the affiliated PTB and POLR REPs that would have used the market mechanics functionality to serve their customers if ROA had commenced in the ESAT region. I refer to the PTB and POLR REPs collectively as the "Default Service Providers" because these were the REPs in ESAT that would serve customers who either chose not to switch to unaffiliated competitive REPs, or for whatever other reason would be served by the POLR REP. I note that Company witness Quick addresses similar, but not identical, classes of costs in which he refers to the PTB and POLR

REPs as the "ESAT REPs." We have made this distinction in testimony on purpose to segregate my DSP class from Mr. Quick's classes. The costs in this DSP class and Mr. Quick's class are not duplicative.

Concisely, my DSP class represents the costs that were incurred initially by EGSI—as the bundled utility—to establish the DSPs (later referred to as the "ESAT REPs") as required by SB 7. Mr. Quick's costs were billed to projects that were subsequently established to collect the costs incurred separately by the Entergy Retail organization, once that organization was established to continue with retail-related ROA efforts. My DSP class also does not include costs related to the affiliated "competitive" REP that was ultimately established as Entergy Solutions, Ltd. to compete for and serve customers in ERCOT. Nor does my DSP class of costs include the distribution-related market mechanics costs that are sponsored by Company witness Manasco.

Q. WHAT DO YOU MEAN BY THE TERM "MARKET MECHANICS"?

A. I use the term "market mechanics" to include the costs related to:

(1) the Standard Electronic Transaction—SET—versions mandated for use in the Texas retail markets by the Default Service Providers,[4]

[4] In my testimony, I refer to the SET functionality developed and implemented for the Default Service Providers as the "Retail SET," to distinguish it from the SET versions as they applied to EGSI's distribution operations, which Company witness Manasco refers to in his testimony as "Texas SET."

which allows business to be transacted with other market participants; and

(2) the load forecasting functionality that would be necessary for the Default Service Providers to anticipate their electrical load requirements.

Q. WHY ISN'T THIS CLASS DUPLICATIVE OF THE COSTS SPONSORED BY MR. MANASCO?

A. Mr. Manasco's market mechanics costs are costs attributable to and necessary for the *distribution company* to interface with the ROA market. The market mechanics included in my DSP Class of costs (and the market mechanics costs in Mr. Quick's classes of costs) are the costs attributable to and necessary for the *retail* companies (not the distribution company) to interface with the ROA market.

Q. WHAT IS THE AMOUNT OF TTC COSTS IN THE DEFAULT SERVICE PROVIDERS CLASS?

A. The total amount of TTC costs in this class is $13.6 million. I have broken down this total amount between affiliate and non-affiliate and internal and external in the following table.

Default Service Provider

	Affiliate Costs				
Group Description	**Direct**	**Allocated**	**Total**	**Non-Affiliate Costs**	**Total Net Requested**
Internal - Payroll / Benefits	448,466.36	-	448,466.36	1,377.18	449,843.54
Internal - All Other Internal Support Costs	-	-	-	-	-
External - Legal Contractor Costs	19,763.29	-	19,763.29	-	19,763.29
External – All Other Support Costs	5,451,729.46	-	5,451,729.46	3,329,586.84	8,781,316.31
AFUDC & Capital Overhead	-	-	-	4,369,942.48	4,369,942.48
Grand Total	5,919,959.11	-	5,919,959.11	7,700,906.51	13,620,865.62

These amounts represent the costs captured in the project codes identified in Exhibit PRM-13, which identifies the TTC costs for this class by project code/by year.

Q. WHAT IS THE TIME PERIOD OVER WHICH THE COSTS IN THIS CLASS WERE INCURRED?

A. The costs in this class were all effectively incurred between November 2000 and October 2002. The $13.6 million is all capital-related and, as such, is also comprised of AFUDC.

Q. WHY DO YOU SAY THAT THESE COSTS WERE ALL "EFFECTIVELY" INCURRED IN THE YEARS 2000 THROUGH 2002?

A. To establish this class of costs for purposes of requesting TTC recovery, EGSI determined that it would remove costs that were related to the affiliated "competitive" REP that ultimately was established to solicit and serve customers in ERCOT. Some of these costs have already been removed from EGSI's books because the competitive REP commenced business in ERCOT in 2002. But some costs related to the competitive REP remained in this class. Therefore, accounting entries, in the form of credits, were booked to remove all of the remaining costs attributable to the competitive REP from this class. These credits were entered in 2003 and 2004, thus along with the continuing accumulation of AFUDC results in the DSP class cost of $13.6 million.

Q. WHY SHOULD EGSI BE ALLOWED TO RECOVER THIS DEFAULT SERVICE PROVIDERS CLASS OF COSTS?

A. These costs were incurred by EGSI in the early stages of the transition—virtually all were incurred in 2001 and 2002—to implement the statutory ROA scheme mandated by SB 7 and the evolving SET changes. Because ROA has been indefinitely delayed in ESAT, these costs can now only be recovered as TTC costs, as requested in this docket. Because EGSI (and ESAT) did not proceed to ROA, there was and is no opportunity to recover these costs through the PTB and POLR rates that would have been charged by the DSPs. Even if EGSI were authorized to proceed to ROA today, the DSP class represents costs that were incurred years ago, and have since grown through AFUDC accruals. They are costs incurred in accordance with SB 7 for the transition to ROA. These costs, as is the case with the TTC costs sponsored by Company witnesses Quick and Manasco, could not be "avoided" because, until the summer of 2004, EGSI was required to be ready and able to implement ROA in the near-term. Even as the target dates continued to shift into the future, readiness had to be maintained until, ultimately, the Commission ceased efforts to move to ROA. Because of the restructuring and customer choice scheme established in SB 7, the Default Service Providers could not commence service until ROA. Because there is no ROA under either a permanent or an "interim" solution ("interim" meaning without an RTO), the DSPs cannot initiate their services, or provide any services. These costs, therefore, cannot "subsidize" entities that are precluded from providing services of any type to any customer.

Q. PLEASE EXPLAIN IN MORE DETAIL WHY EGSI INCURRED THE COSTS IN THIS CLASS.

A. EGSI incurred these costs in compliance with SB 7 and the Commission's rules and orders related to transitioning to ROA. As an initial matter, SB 7 required EGSI to unbundle into, among other things, a REP to serve the PTB customers in ESAT who chose not to switch to unaffiliated competitive REPs. The Commission's PTB Rule is P.U.C. SUBST. R. 25.41, and was first adopted in October 2000. In addition to PTB service, SB 7 also required a POLR service that would apply to customers who, essentially, were "dropped" by their REPs due to non-payment of their electric bills or whose REP went out of business. The Commission's

POLR Rule, also initially adopted in October 2000, is P.U.C. SUBST. R. 25.43.

Regarding POLR service, in May 2001, the Commission ordered in Project No. 20148 that EGSI's affiliated REP would serve residential small non-residential customers in AEP's (SWEPCO's) Texas service territory, and serve large non-residential customers in EGSI's own Texas service territory (*i.e.,* ESAT). In August 2002, however, P.U.C. SUBST. R. 25.43 was repealed and replaced with a new POLR P.U.C. SUBST. R. 25.43, which appears to apply only to service areas that have gone to competition, and which in any event provides that the "affiliated REP for that POLR area" shall provide POLR service for the residential and small non-residential customers.

Thus, during the period October 2000 through August 2002, taking into account the post-January 1, 2002 changes in the POLR Rule, it was necessary to develop and implement market mechanics processes and systems to accommodate the SB 7-mandated PTB and related POLR functions. It was ultimately EGSI's responsibility to establish these market mechanics prior to the commencement of the anticipated January 1, 2002 ROA start date.

Q. WOULD EGSI HAVE INCURRED THESE DEFAULT SERVICE PROVIDER COSTS IF IT HAD KNOWN THAT ROA WOULD NOT COMMENCE ON JANUARY 1, 2002, OR IN THE NEAR-TERM AFTER THAT DATE?

A. Only partially. The Company would have ceased work on establishing the systems required to support the Default Service Providers as soon as the Commission had established with certainty a significant delay in the ROA date for ESAT. The sooner that date was known, the lower these costs would have been. Until late 2001, as explained earlier in my testimony, EGSI operated under the mandate to unbundle and proceed to ROA as of January 1, 2002. That ROA commencement date was delayed, but the Company expected that ROA would nevertheless be able to commence in the "2002 time frame" and, if it did not commence in that time frame, that ROA would nevertheless commence in the near-term under an "interim solution." That was the assumption and the directive from the Commission until ROA was indefinitely delayed in ESAT through the Commission's order issued on July 12, 2004 in Docket No. 28818.

It is critical to note that the Default Service Providers' systems require significant time, testing, and resources to put into place. It is an enormous undertaking, requiring a sizable number of dedicated internal and external resources over that period of time, which must also account for the development of market and regulatory rules, and changes to those rules as they developed. SB 7 mandates placed onto all IOUs' Default

Service Provider entities necessitated a robust set of systems and processes to support the large number of customers that would move into its support systems within the first month of business.

The implementation requirements of SB 7 would not allow an IOU to wait until just a few months before ROA to begin preparation to establish the systems infrastructure needed—it needed to start as early as possible, such as early in calendar year 2000. As I discussed previously with regard to the Implementation Management class of TTC costs, the unbundled Entergy Texas Distribution company needed to prepare for an estimated million market transactions a month. The Company's Default Service Providers' systems also had to be capable of handling the same level of transactions. EGSI had no other responsible choice but to move on the aggressive schedule set by SB 7 and begin to build a robust solution in 2000 in order to meet the statutory January 1, 2002 ROA commencement date.

Q. PLEASE DESCRIBE THE MARKET MECHANICS ACTIVITIES THAT ARE REFLECTED IN THIS DEFAULT SERVICE PROVIDERS CLASS IN MORE DETAIL.

A. In general, the term "market mechanics" applicable to the DSP Providers Class (which I refer to as the "*Retail* Market Mechanics" to distinguish them from distribution-related market mechanics) encompasses the costs to support operations under ROA in Texas for the DSPs; that is, the costs