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EXHIBITS

Table of Contents – William T. Craddock (continued)

I. WITNESS INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is William T. Craddock. I am President of Craddock & Associates, Inc. My business address is P.O. Box 11168, Conway, Arkansas 72034.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am testifying on behalf of Entergy Gulf States, Inc. ("EGSI" or "the Company").

Q. WHAT IS YOUR EXPERIENCE WITH EGSI?

A. I was the Director of Revenue Cycle Operations for Entergy Services, Inc. ("ESI") from 1998 through December 2004, at which time I retired from ESI. From 1996 through 1997, I was the Director of Customer Billing for ESI. ESI is the corporate support services company established to provide centralized corporate support services to the Entergy Operating Companies, which include EGSI.[1] In December 2003, I announced my planned retirement from ESI. In January 2004, my direct operational

[1] There are five Entergy Operating Companies ("EOCs"), including EGSI. The other four EOCs are: Entergy Arkansas, Inc.; Entergy Louisiana, Inc.; Entergy Mississippi, Inc.; and Entergy New Orleans, Inc.

responsibilities for the Entergy[2] customer billing process shifted to another Director within the Customer Service Support Department. I remained familiar and involved with Customer Service Support operations and systems until my retirement and have now been retained by EGSI to support recovery of certain costs related to the operations and systems that I worked with while employed by ESI.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Science Degree in Electrical Engineering from the University of Kentucky, where I graduated in 1971. I began work for the Department of Army, and earned a Master of Engineering Degree in Industrial Engineering from Texas A&M University in 1973. I earned a Doctor of Education Degree in Higher Education from the University of Arkansas at Little Rock in 1999. I am a registered Professional Engineer, licensed in the State of Virginia.

I held various civilian positions with the Department of Army from 1971 to 1980. I then joined Arkansas Power & Light Company as the Manager of Availability Engineering. In that position, I supported both fossil and nuclear plant operations. I held various manager level positions until 1988, when I was promoted to General Manager of Nuclear

[2] I use the term "Entergy" to refer to Entergy Corporation and its direct and indirect subsidiaries, each of which is a distinct legal entity.

Oversight/Support. In 1992, I joined the Customer Service organization as Director of Planning and Analysis. Since then, I held various director level positions. I became the Director of Customer Billing in 1996, and the Director of Revenue Cycle Operations in 1998.

From 1996 to 2004, I was responsible for providing management oversight and direction for all aspects of the billing portion of the revenue cycle process for the Entergy Operating Companies, including Entergy Gulf States, Inc. This billing portion of the revenue cycle begins with the receipt of meter reading data and ends with the timely delivery of accurate invoices to customers.

Additionally, from 2000 to 2003, I was a member of the leadership team for a major project in which the old customer information system used by the Operating Companies was to be replaced by a new customer information system known as the Customer Care & Service System.

I formed Craddock & Associates, Inc. in January 2005 to provide management consulting services. My areas of focus include customer care, stakeholder change management, and process improvements.

I am also active in three professional associations: the Project Management Institute; the Institute of Management Consultants; and the Academy of Management.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION OR OTHER REGULATORY AGENCIES?

A. Yes. I submitted pre-filed testimony on behalf of EGSI in the Texas Unbundled Cost of Service case in 2000 (Docket No. 22356), but I did not testify because that case was subsequently resolved through a non-unanimous settlement. In addition, I submitted direct testimony in Commission Docket No. 30123 (2004 EGSI rate case and rider filings), but that proceeding never went to hearing. I have also testified on behalf of EGSI and Entergy Louisiana, Inc. before the Louisiana Public Service Commission.

II. PURPOSE AND ORGANIZATION OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony covers two main topics.

First, I support a portion of the Transition to Competition ("TTC") costs that EGSI seeks to recover in this docket, specifically, certain costs related to the Customer Care & Service System ("CCS"). These costs comprise the Texas Distribution CCS class of costs.

Second, I provide support for ESI's general Information Technology ("IT")-related costs during the TTC cost period, June 1, 1999 through June 17, 2005.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In Section III, I discuss the relationship between this testimony and the testimony of certain other EGSI witnesses. In Section IV, I discuss the

four CCS-related projects that comprise the Texas Distribution CCS class of costs. In Section V, I discuss ESI's general IT-related costs.

Q. WHY ARE YOU QUALIFIED TO ADDRESS THESE ISSUES AND TO PROVIDE THIS TESTIMONY?

A. From 2000 to 2003, I was a member of the leadership team responsible for procuring and installing the new CCS, and I remain familiar with the activities regarding the system. I am also familiar with IT activities based on my interactions with IT as a business leader in the customer care area and during the implementation of the CCS.

Q. DO YOU SPONSOR ANY EXHIBITS?

A. Yes. My exhibits are listed in the table of contents to this testimony. The benchmark studies in some of the exhibits are the types of surveys commonly relied on by business leaders to assess the economic and operational efficiencies of their business operations.

In addition to the exhibits listed in my table of contents, I also co-sponsor with Company witness Chris E. Barrilleaux the project summaries that apply to the TTC costs that I sponsor. The project summaries are attached as an exhibit to Mr. Barrilleaux's testimony.

Q. DO YOU SPONSOR ANY PRO FORMA ADJUSTMENT?

A. Yes. I sponsor one pro forma adjustment, AJ015. In my testimony, I describe four projects that make up my Texas Distribution CCS class of costs. The costs that I sponsor for these projects have been included in the TTC costs through pro forma adjustment AJ015. My Exhibits WTC-2, 4, 6, and 7 (one exhibit for each of the four projects) collectively provide the dollar amount of pro forma adjustment AJ015. I cover each of those exhibits later in my testimony. In addition to containing the costs that I sponsor in the Texas Distribution CCS class of costs, pro forma adjustment AJ015 also reflects $2.6 million of costs for CCS/Market Mechanics interfaces for the Entergy Retail organization. As I mention later in my testimony, Company witness Andrew E. Quick discusses the treatment of those $2.6 million of costs.

III. RELATIONSHIP BETWEEN THIS TESTIMONY AND THE TESTIMONY OF OTHER EGSI WITNESSES

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF EGSI'S OTHER WITNESSES?

A. There are three EGSI witnesses who sponsor TTC costs that reflect the CCS-related activities to implement retail open access ("ROA") in Texas. Each of these witnesses discusses a distinct component of these CCS-related activities and sponsors the TTC costs specific to that distinct activity. I am one of those witnesses. The other two Company witnesses are Thomas R. Manasco and Mr. Quick.

If EGSI had implemented ROA, the CCS would have been integral to the Entergy Texas Distribution utility's ability to provide overall customer care to its customers, the retail electric providers ("REPs"), and to comply with the Commission's requirements regarding distribution utilities, and also would have been integral to the Entergy Retail organization's ability to provide overall customer care to its end-use customers and to comply with the Commission's requirements regarding REPs.

I discuss the CCS-related costs to prepare for ROA in the Entergy Settlement Area in Texas ("ESAT"). These costs include the interfaces between the Distribution CCS and the Distribution Market Mechanics systems.

Company witness Manasco discusses the costs associated with the Market Mechanics systems that were needed for the Entergy Texas Distribution utility and the Entergy Retail organization to prepare for ROA in ESAT.

Company witness Quick discusses, among other things, the CCS costs to prepare the Entergy Retail organization for ROA in ESAT.

My attached Exhibit WTC-1 shows the relationship among these three witness areas with respect to the CCS and Market Mechanics systems. The Texas Distribution CCS class of costs that I sponsor is related to but does not overlap with costs in the classes sponsored by Messrs. Manasco and Quick.

Q. IN THE ANSWER YOU JUST GAVE, YOU USED THE TERMS "EGSI TEXAS," "ENTERGY TEXAS DISTRIBUTION UTILITY," "MARKET MECHANICS," AND "INTERFACES." PLEASE EXPLAIN THOSE TERMS.

A. *EGSI Texas* is the Texas side of EGSI. EGSI actually operates in both Texas and Louisiana. EGSI Texas is the functional entity within EGSI that serves Texas customers in EGSI's Texas service territory (also referred to as ESAT), and is subject to the retail jurisdiction of the Texas Public Utility Commission. EGSI Louisiana is the functional entity within EGSI that serves customers in Louisiana, and is subject to the retail jurisdiction of the Louisiana Public Service Commission.

Entergy Texas Distribution utility ("ETD") is the entity that would have been the separate Entergy electric distribution utility in Texas that would have been formed if ROA had begun in ESAT. ETD would have been formed upon the start of ROA in accordance with the Texas ROA legislation, which I understand requires that the "bundled" electric utility—EGSI Texas—be "unbundled" into separate generation, retail, distribution, and transmission entities.

Market Mechanics refers to the various actions that enable ROA market participants to exchange information about end-use customers. Company witness Manasco discusses the Market Mechanics in greater detail.

Interfaces are, in general, the connections between computer systems. Here, specifically, the CCS sat in the middle between the Entergy Texas Distribution utility and the Market Mechanics systems that communicated with various Retail Electric Providers ("REPs"), including the Entergy Retail organization. The Entergy Texas Distribution utility would have had its own need to exchange information about or for customers, which would have required access to its Market Mechanics systems. Likewise, the Entergy Retail organization would have had its own need to exchange information about or for its customers, which would have required access to its Market Mechanics systems. The Entergy Texas Distribution utility had to connect its Market Mechanics systems and the Distribution CCS in order to transmit its customer information. Similarly, the Entergy Retail organization had to connect its Market Mechanics systems and the Retail CCS in order to transmit its customer information. Thus, the *interfaces* between the CCS and the Market Mechanics systems refer to the IT software necessary to allow the Distribution CCS to communicate with the Entergy Texas Distribution utility Market Mechanics and the Retail CCS to communicate with the Entergy Retail organization Market Mechanics.

IV. TRANSITION TO COMPETITION COSTS

A. Background and Description of the Texas Distribution CCS Class

Q. EARLIER IN YOUR TESTIMONY, YOU USED THE TERM "TTC COSTS." WHAT DOES THAT TERM MEAN?

A. TTC costs are costs that EGSI incurred as it prepared for the start of ROA in ESAT on January 1, 2002, and after that date as the Company continued on the path to ROA established by the Commission. When ROA was delayed in EGSI's Texas service territory beyond January 1, 2002, EGSI continued to incur costs in order to be in a position to start ROA in the near-term on the date that was to be set by the Commission. Ultimately, however, the Commission determined that it would indefinitely delay ROA in EGSI's Texas service territory. EGSI is now seeking to recover those costs in accordance with legislation enacted in June 2005: House Bill 1567.

Q. WHAT IS THE CATEGORY OF THE TTC COSTS YOU SPONSOR?

A. The TTC costs I sponsor are certain of the costs related to the development and implementation of the Entergy's customer information system (also generally called a customer care system).

Q. HOW DID THE ACTIVITIES REPRESENTED IN THE TEXAS DISTRIBUTION CCS CLASS OF COSTS SUPPORT THE OVERALL TTC EFFORT?

A. The customer care functions enabled by the CCS were critical to the overall effort to serve customers. The CCS/Market Mechanics interfaces were necessary to communicate end-use customer data among the market participants.

Q. WHAT IS A CUSTOMER CARE SYSTEM?

A. A customer information system is an integrated program that enables the automation of customer care functions for utilities, such as the Entergy Operating Companies. Beginning in 2001, Entergy replaced the operations of its legacy Customer Information System ("CIS") with the CCS. This replacement was completed in 2003 except for the regulated version of the CCS for EGSI Texas. Thus, EGSI Texas continues to use the CIS for its typical bundled utility customer care activities.

Q. WAS THIS CCS INSTALLED SPECIFICALLY FOR ROA?

A. No. ROA was not the primary driver requiring the EOCs to replace the CIS with the CCS. The CIS was approaching technological obsolescence for use in a traditional, regulated utility environment. That technological obsolescence was the main driver for replacing the CIS with the CCS. At the time Entergy was planning and implementing the CCS, however, Texas was moving to ROA. Consequently, Entergy had to develop the CCS so that it would be compliant with and useable in the anticipated Texas ROA market.

Q. IF ROA HAD NOT BEEN ON THE HORIZON IN TEXAS, WOULD THE CCS HAVE BEEN PLANNED AND IMPLEMENTED DIFFERENTLY?

A. Yes. As I will explain, the delay in ROA has caused some of the work for the EGSI Texas CCS to be unusable in a regulated environment. The costs associated with that work that has now been rendered unusable are captured in the four projects that comprise my class. In other words, the costs that I sponsor in this docket are the EGSI Texas costs associated with the CCS projects that have been rendered useless due to the delay in ROA in ESAT.

Q. IS EGSI ASKING TO RECOVER THE COSTS FOR IMPLEMENTING THE REGULATED VERSION OF THE CCS IN TEXAS?

A. No. All CCS costs in this docket are for the portions of the CCS and related systems that are unusable due to the delay of ROA in ESAT.

Q. IS EGSI ASKING FOR THE COSTS ASSOCIATED WITH THE CIS?

A. No. The CIS was approaching technical obsolescence and was replaced with the CCS. Thus, EGSI has not included the costs associated with the CIS as part of its request in this docket.

B. Description of the CCS

Q. WHAT ARE CUSTOMER CARE FUNCTIONS?

A. Customer care functions are basic activities a utility company performs in order to provide customer service. The functions can be grouped into seven categories:

(1) meter services;

(2) call center;

(3) service orders;

(4) billing/rates;

(5) financials;

(6) credit/collection; and

(7) customer requests/other.

A utility company's customer information system (both the CIS and the CCS) must be able to capture, record, and maintain information obtained in the performance of these customer care functions in a readily usable form.

Q. WHAT SPECIFIC CUSTOMER CARE ACTIVITIES ARE PERFORMED IN EACH OF THESE SEVEN CATEGORIES?

A. First, the meter services category records each customer's usage data into the customer information system. The primary activity is the exchange of meter reading data between the customer information system and the meter reading systems. Most of the meter readings are collected

in hand-held computers carried by meter readers to each customer's service location. The list of meters to be read each day and the resulting meter readings received at the end of the day are maintained in the customer information system. The other activities within the meter services category include maintaining links with other systems that contain information about the meters (*e.g.*, meter identification numbers and multipliers used in the interpretation of the meter readings) and other equipment used in the gathering of usage data.

Second, the call center operations category is responsible for responding to inquiries or requests when customers contact the Company via telephone. These inquiries range from requests for new service or rate information to the reporting of outages or questions about the customer's invoice. Because the range of possible inquiries is broad, the call center agents must have timely access to a wide range of information in order to successfully meet the customer's expectation for information. Some of this information (*e.g.*, customer location) is contained within the customer information system database. Other information (*e.g.*, estimated outage restoration time) is obtained via links to other systems.

Third, the service orders category includes the activities necessary to make physical changes in a customer's service. The primary activities are the establishment of new service and the disconnection of existing service. Other activities include the replacement of meters, the reporting of outages, and changes to a customer's service (*e.g.*, a request to

relocate a pole). The activities in this category primarily require links to other systems used by field operations groups.

Fourth, the billing/rates category includes the activities necessary to create a customer invoice. These tasks require accessing information about customer rates, calculating the usage by subtracting successive meter readings, calculating the basic amount due by multiplying the rate times the usage, determining any adjustments necessary, and calculating the taxes due. In addition, this category includes the activities required to format and prepare the invoice for printing and mailing to the customer. While most of these activities are performed within the customer information system, there are some links to other systems.

Fifth, the financials category includes the activities necessary to keep track of the accounts receivable data derived from the billing calculations. This involves recording an accounts receivable entry for each customer that reflects the amount due. It also involves recording each customer's payment. Although this financial data is aggregated and forwarded to the general accounting system for revenue recording, the customer information system also keeps track of the billing and payment history on an individual customer basis.

Sixth, the credit/collection category includes the activities necessary to make credit decisions on an individual customer basis. Some examples of these decisions are the amount of deposit required, the customer credit category based on payment history, and the actions

required for customers who are delinquent with their payment. Although most of these activities are performed within the customer information system, some involve links with other systems.

Seventh, the customer requests/other category refers to the ability to satisfy customer requests for non-energy services or information. Traditional examples in this category include inquiries about security lighting and requests for energy saving tips. Non-traditional examples include the option to pledge a standard charitable contribution amount to a third-party customer assistance agency to be included on each month's invoice.

Q. HOW ARE THESE CUSTOMER CARE FUNCTIONS HANDLED IN A DEREGULATED ENVIRONMENT?

A. All of these customer care functions must be performed in both regulated and deregulated environments. The primary difference is who has responsibility for each function – regulated Distribution (or "wires") services, unregulated Retail services, or both. These responsibilities are defined by the market rules for each jurisdiction.

Q. WHO HAS RESPONSIBILITY FOR EACH OF THESE CUSTOMER CARE FUNCTIONS IN TEXAS?

A. In the current regulated environment, EGSI Texas has responsibility for all of the seven customer care functions I have described. In the anticipated

deregulated environment, the Entergy Texas Distribution utility would have responsibility for the meter services and service orders categories. These involve traditional distribution services.

The Entergy Retail organization would have responsibility for the credit/collections category.

Both Entergy Texas Distribution and the Retail entities would have responsibility for their own call centers, billing/rates, financials, and customer request/other categories. Both Entergy Texas Distribution and Retail would have had separate call centers; both would have had to calculate their own bills for their amounts due; and both would have had to field inquiries from customers.

Q. HOW WAS THE IMPLEMENTATION OF THE CCS FOR EGSI TEXAS AFFECTED BY THIS DIVISION OF RESPONSIBILITY FOR THE CUSTOMER CARE FUNCTIONS IN A DEREGULATED ENVIRONMENT?

A. The CCS system was designed and implemented for EGSI Texas to reflect the division of responsibilities in a deregulated market that I have just described. For example, the Entergy Texas Distribution CCS system had only Distribution rates, and had no credit/collection functionality. The retail rates and the credit/collection functionality were included in the Retail CCS system. Consequently, the Entergy Texas Distribution CCS

implemented for ROA in Texas would not (and will not) work properly in a regulated environment.

Q. DID ESGI TEXAS USE THE CCS TO PREPARE FOR THE START OF RETAIL OPEN ACCESS?

A. Yes. The CCS was configured and implemented first for EGSI Texas in preparation for the anticipated ROA Pilot in mid-2001. This implementation included the establishment of interfaces between the CCS and the Market Mechanics system. In addition, the implementation of the CCS to support ROA included providing distinct functionality for support of both Retail and Distribution company responsibilities.

Q. FOR THE TTC COST PERIOD (JUNE 1, 1999 THROUGH JUNE 17, 2005), WHAT IS THE TOTAL AMOUNT OF TEXAS DISTRIBUTION CCS COSTS ATTRIBUTABLE TO PREPARING THE ENTERGY TEXAS DISTRIBUTION UTILITY FOR ROA THAT ARE NOW UNUSABLE DUE TO THE DELAY IN ROA?

A. The total Texas Distribution CCS costs to prepare the Entergy Texas Distribution utility for ROA that are now unusable due to the delay in ROA are, as of June 17, 2005, approximately $13.0 million, including the

allowance for funds used during construction ("AFUDC").[3] These costs are summarized in the following Table 1.

Table 1

Bill Craddock

Group Description	Direct	Affiliate Costs Allocated	Total	Non-Affiliate Costs	Total Net Requested
Internal - Payroll / Benefits	697.43	1,689,034.54	1,689,731.97	-	1,689,731.97
Internal - All Other Internal Support Costs	-	-	-	-	-
External - Legal Contractor Costs	-	-	-	-	-
External – All Other Support Costs	(114.37)	5,218,912.85	5,218,798.48	2,767,847.12	7,986,645.61
AFUDC & Capital Overhead	-	-	-	3,283,250.47	3,283,250.47
Grand Total	583.06	6,907,947.39	6,908,530.45	6,051,097.59	12,959,628.05

Q. PLEASE EXPLAIN TABLE 1.

A. In this table, the rows segregate TTC costs between either "internal" or "external" costs. Internal TTC costs are costs incurred and billed by ESI personnel to a specific project. The row entitled, "Payroll / Benefits" shows the payroll and benefits costs of the ESI employees' time spent on the applicable TTC projects. The row entitled, "All Other Internal Support Costs" shows the cost of the system hardware, software, and the like developed by the internal employees for TTC purposes.

[3] Company witness J. David Wright discusses the accounting practice of AFUDC.

The "external" costs rows are segregated between either outside (non-Entergy employee) lawyer/legal fees charges and outside (non-legal) contractors' charges to TTC projects.

The columns are segregated between "affiliate" and "non-affiliate" costs. The *affiliate costs* are those TTC costs that were incurred by one of EGSI's affiliates (*e.g.*, ESI) and then billed to or allocated to EGSI. In contrast, the *non-affiliate* costs are those TTC costs incurred directly by EGSI on its own behalf.

Q. DO YOU SPONSOR ANY EXHIBITS THAT PROVIDE ADDITIONAL DETAILS ABOUT THESE COSTS?

A. Yes. The Texas Distribution CCS class of costs consists of four different projects. My attached Exhibit WTC-A summarizes this $13.0 million by major cost category. My attached Exhibit WTC-B shows this information for the individual projects. My attached Exhibit WTC-C shows this information by year, and Exhibit WTC-D shows this information segregated between capital and expense. Company witness Barrilleaux also includes these exhibits in his testimony.

Q. WHAT ARE THE PROJECTS THAT MAKE UP THE TEXAS DISTRIBUTION CCS CLASS OF COSTS?

A. The four projects that comprise the Texas Distribution CCS class are:

1. CCS/Market Mechanics Interfaces;

2. CCS/Market Mechanics Interfaces Revision;
3. CCS Customer Care Functionality Unusable Work; and
4. Bill Delivery Functionality Unusable Work.

Q. PLEASE SUMMARIZE THE ACTIVITIES ASSOCIATED WITH EACH OF THESE FOUR PROJECTS.

A. The first project, CCS/Market Mechanics Interfaces, revised the interfaces between the CCS and the Market Mechanics systems to meet the evolving requirements of the Texas Standard Electronic Transfer ("SET") versions during the implementation of the CCS. Company witness Manasco discusses the evolutions of SET revisions. The costs of this first project were $6.3 million for two upgrade efforts, not including any AFUDC. Not all of the $6.3 million of costs, however, are included in my Texas Distribution CCS class of costs. A portion of the costs to revise the interfaces is attributable to what would be the Entergy Texas Distribution CCS and a portion is attributable to what would be the Entergy Retail CCS. Consequently, I have divided the costs between the two. Based upon my analysis of hours spent on specific tasks, I have assigned $3.7 million of the costs to the Entergy Texas Distribution utility and have assigned $2.6 million of the costs to the Entergy Retail organization. The necessity and reasonableness of this whole $6.3 million, however, are discussed in the next section of this testimony.

As a result of this assignment, the Texas Distribution CCS class, which I sponsor, reflects the $3.7 million for the Distribution CCS/Market Mechanics Interfaces. To this amount, I have added AFUDC, which brings the Distribution CCS/Market Mechanics Interfaces amount to $5.1 million. Company witness Quick discusses the $2.6 million for the Retail CCS. The details of the analysis of this assignment between Distribution and Retail are contained in my attached Exhibit WTC-2.

The second project, CCS/Market Mechanics Interface Revisions, was required to update these interfaces between the Distribution CCS and the Market Mechanics systems again in order to meet new, further upgraded SET requirements that were in effect after the CCS was implemented, that is, after the first project was completed. The CCS/Market Interface Revisions project was also known as "FI7006". The costs of this second project were $1.5 million, including AFUDC, and were for the Entergy Texas Distribution CCS only. The details of this second project are contained in my attached Exhibit WTC-4.

The third project, CCS Customer Care Unusable Work, involved work during the CCS implementation that reflected the anticipated ROA market rules for customer care functions at that time. This unusable work is primarily in the accounts receivable and credit/collections areas. The original work reflected a *de*regulated ROA market environment, and will not work properly for EGSI Texas (that is, the "bundled" utility) in a regulated environment. The costs of this third project were $5.0 million,

including AFUDC. The details of this third project are contained in my attached Exhibit WTC-6.

The fourth project, Bill Delivery Unusable Work, involves similar work on the Bill Delivery System. This Bill Delivery work reflected a deregulated market environment and, thus, will not work properly for the EGSI Texas Bill Delivery System in a regulated (*i.e.*, a non-ROA) environment. The Bill Delivery System is connected to the CCS System, and allows invoices to be formatted for printing and mailing to the end use customer. The costs of this fourth project were $1.4 million, including AFUDC. The details of this fourth project are contained in my attached Exhibit WTC-7.

Q. WHAT IS THE PERCENTAGE OF THE TOTAL CLASS COSTS OF $13.0 MILLION REPRESENTED BY EACH OF THESE FOUR PROJECTS?

A. Each project reflects the following percentage of total costs for the Texas Distribution CCS class:

1.	CCS/Market Mechanics Interfaces	39%	($5.1 million)
2.	CCS/Market Mechanics Interfaces Revisions	12%	($1.5 million)
3.	CCS Customer Care Functionality Unusable Work	38%	($5.0 million)
4.	Bill Delivery Functionality Unusable Work	11%	($1.4 million)
		100%	($13.0 million)

C. First Texas Distribution CCS Project: CCS/Market Mechanics Interfaces

Q. PLEASE DESCRIBE THE ACTIVITIES ASSOCIATED WITH THE FIRST OF THESE FOUR PROJECTS, THE CCS/MARKET MECHANICS INTERFACES.

A. This work occurred in 2000 to 2002 during the CCS implementation project. Twice during that time, the programming for specific SET interfaces with Market Mechanics Systems had to be revised as new SET versions were issued. The costs involved the design, development, and testing of the revised programming. These costs were incurred primarily by ESI personnel and an external firm that served as the system integrator for the CCS. The external firm was PricewaterhouseCoopers ("PwC"). PwC's consulting group subsequently was acquired by International Business Machines ("IBM") and was referred to as "IBM-PwC."

Q. WAS IT NECESSARY TO INCUR THESE CCS/MARKET MECHANICS INTERFACE COSTS IN ORDER TO PREPARE FOR ROA IN ESAT?

A. Yes. Without these interfaces between the CCS and the Market Mechanics system, it would have been impossible to transmit customer care information (such as meter readings or distribution company charges) from EGSI Texas to an ROA pilot participant's REP or, after full ROA, to transfer that information from Entergy Texas Distribution to a REP.

Q. HOW MUCH DID THESE INTERFACES COST?

A. As I mentioned earlier, the cost of these interfaces was $6.3 million, excluding AFUDC.

Q. HOW DID YOU DETERMINE THIS DOLLAR AMOUNT?

A. This work was done in conjunction with implementing the CCS throughout the Entergy system. In December, 2000, there was a change to the CCS contract. A specific item in this contract change was for the CCS/Market Mechanics interfaces applicable only to EGSI Texas (for the pilot) and Entergy Texas Distribution (full ROA). The total cost of this change was $4.2 million. In May 2002, there was an additional contract change to increase the CCS scope. Again, a specific item in this contract change was for additional CCS/Market Mechanics interfaces applicable only to EGSI Texas and Entergy Texas Distribution. The total cost of this second change was $2.1 million. Together, these two contract changes are the $6.3 million of costs for the interfaces in this first project. These costs do not include AFUDC.

Q. HAVE YOU PREPARED AN EXHIBIT PROVIDING THE DETAILS OF THE $6.3 MILLION OF COSTS FOR THESE INTERFACES?

A. Yes. My Exhibit WTC-2 provides that detail. This exhibit shows the number of hours spent on specific activities to implement these interfaces and the cost of that work.

Q. WAS THIS $6.3 MILLION ACTUALLY SPENT DURING THE TTC COST PERIOD?

A. Yes. The cost for this work was incurred in 2000 through 2002.

Q. HOW WERE THE COSTS FOR THIS INTERFACE WORK MANAGED?

A. A formal project organization was established for the CCS implementation that included the CCS/Market Mechanics interfaces. This CCS implementation project organization monitored the project progress and costs, and made routine status reports to senior management. I was a member of the leadership team for this project.

Q. WAS THE COST FOR THIS INTERFACE WORK REASONABLE?

A. Yes. The number of hours spent on this interface work was reasonable given the specific functionality that had to be implemented. Most of this interface work was performed by an outside vendor, PwC, which also performed the general CCS work. ESI selected PwC as the result of a competitive bidding process for CCS work. Several vendors bid on the CCS work. ESI chose the vendor that provided the best balance of cost, technical expertise, business reputation, familiarity with Entergy's operations, and personnel availability. This competitive bidding process ensured that ESI paid no more than market rates for PwC's interface work. I attach as my Exhibit WTC-3 an excerpt from the Request for Proposal through which PwC was selected to perform this work for this work. This

excerpt describes the scope of the work the potential vendors were being asked to provide. PwC, Andersen Consulting (now known as Accenture), Soliance, Alpha Sapience Consulting, and Convergys submitted proposals.

In addition to PwC, ESI personnel also performed this interface work. As discussed by Company witness Richard N. Ferguson, ESI's compensation and benefits during the TTC cost period were reasonable. Thus, PwC's work on these interfaces was provided at market rates for external labor and ESI's work on these interfaces was provided at market rates for internal labor.

Q. ARE THERE ANY BENCHMARK STUDIES ASSESSING THE COSTS OF INTERFACE WORK?

A. No. This interface work is an example of IT application work. As I explain later in section V of my testimony, benchmark studies for IT application work are not available.

Q. WERE THE ESI CHARGES FOR THIS WORK NO HIGHER THAN THE ESI CHARGES FOR THE SAME OR SIMILAR WORK ON INTERFACES?

A. Yes. This work specifically was for EGSI Texas to comply with requirements to prepare for ROA in ESAT. Thus, there was no same or similar work occurring at the time the work in this first project was being

performed. Even so, the hourly labor rates for PwC and ESI work on these interfaces were at the same hourly rates charged for other CCS work occurring at the same time.

Q. FOR THIS PROJECT, HOW MUCH WAS BILLED FROM OUTSIDE CONTRACTORS?

A. The amount of costs in this project billed from outside contractors was $5.5 million.

Q. EARLIER IN YOUR TESTIMONY, YOU DIVIDED THIS $6.3 MILLION OF INTERFACE COSTS BETWEEN EGSI TEXAS AND THE ENTERGY RETAIL ORGANIZATION. WHAT WAS THE BASIS FOR THAT DIVISION?

A. I performed an analysis to determine the appropriate split of interface costs between EGSI Texas and the Entergy Retail organization. The total cost of the interfaces between the CCS and Market Mechanics was $6.3 million. As mentioned previously, the interface cost incurred for the Distribution function, *i.e.*, EGSI Texas, was $3.7 million (excluding AFUDC). The remaining $2.6 million (excluding AFUDC) was for comparable interface work for the retail function, and is discussed by Company witness Quick. This analysis is in my Exhibit WTC-2.

As shown on pages 2 and 6 of Exhibit WTC-2, the December 2000 contract change resulted in work divided 60.1% to Distribution and 39.9%

to Retail, and the May 2002 contract change resulted in worked divided 54.7% to Distribution and 45.3% to Retail. These splits are based upon hours associated with specific tasks.

Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT $3.7 MILLION OF THIS $6.3 MILLION OF INTERFACE COSTS WAS FOR DISTRIBUTION. YET THE COST THAT YOU SPONSOR FOR THIS FIRST PROJECT IS $5.1 MILLION. WHY IS THERE A $1.4 MILLION DIFFERENCE?

A. The $1.4 million is for AFUDC on the $3.7 million, which brings the total cost for the Distribution interfaces to $5.1 million.

Q. OF THE $5.1 MILLION OF THIS INTERFACES WORK ATTRIBUTABLE TO DISTRIBUTION, WILL ANY OF THESE SYSTEMS OR SOFTWARE BE USABLE WHEN ROA IS IMPLEMENTED IN ESAT?

A. No. The Distribution CCS/Market Mechanics interfaces will have to be updated to conform to the market rules in place at the time ROA is introduced. For example, there is a new Texas SET being implemented for the deregulated market later this year (2005). That new Texas SET will render unusable the interfaces in this first project.

Q. WERE THE COSTS THAT ESI BILLED FOR THESE CCS ACTIVITIES REDUNDANT TO THE COSTS BILLED BY DEPARTMENTS WITHIN EGSI?

A. No. Although both ESI and EGSI employees participated in some of the activities preparing for ROA, they did not perform the same activities. EGSI employees did not replicate any of the CCS preparation activities performed by ESI employees.

D. Second Texas Distribution CCS Project: Update to Distribution CCS/Market Mechanics Interfaces

Q. PLEASE DESCRIBE THE ACTIVITIES ASSOCIATED WITH THE UPDATES TO THE DISTRIBUTION CCS/MARKET MECHANICS INTERFACES.

A. In 2002, after the implementation of the CCS, the programming for specific SET interfaces between the Distribution CCS and the Market Mechanics Systems had to be revised again in order to address the known revisions to market mechanics. Company witness Manasco discusses the number and magnitude of changes to Texas SET (as does Company witness Quick) that occurred from mid-2001 through mid-2004. The Distribution CCS/Market Mechanics Interfaces needed to be revised to adapt to these continuing revisions to the SET upgrades/revisions. The costs for these revisions to the Distribution CCS/Market Mechanics Interfaces, captured in this project, involved the design, development, and testing of the revised programming. These costs were primarily incurred by ESI personnel and an external firm, Accenture.

Q. WAS IT NECESSARY FOR EGSI TO INCUR THESE ADDITIONAL DISTRIBUTION CCS/MARKET MECHANICS INTERFACE COSTS AS PART OF ITS PREPARATION FOR ROA?

A. Yes. Without these updated interfaces between the CCS and the Market Mechanics system, the CCS would not have conformed to the most recent SET requirements. I understand that EGSI Texas would have been unable to continue to participate in, or at least would have been unprepared to participate in, the ongoing ESAT Pilot if it were out of compliance with the then-current SET versions. It would not have been possible to transmit customer care information (such as meter readings or distribution company charges) from EGSI Texas to an ROA pilot participant's REP, either for purposes of the pilot or when full ROA commenced after the pilot. Therefore, because EGSI Texas was required to continue to participate in the ongoing ESAT Pilot, and in anticipation that ROA (or at least a "reinvigorated" Pilot) was not far off, it was necessary for EGSI Texas to incur these revisions costs.

Q. WAS THIS LEVEL OF COST REASONABLE FOR THIS SCOPE OF ACTIVITIES?

A. Yes. The vast majority of the costs were for the Accenture design, development, and testing. This work was the result of a competitive bidding process. I attach as my Exhibit WTC-5 an excerpt from the

Request for Proposal through which Accenture was acquired for this and other work. Accenture, Keane, BIS, and SAIC submitted proposals.

Q. WAS THE WORK FOR THESE UPDATES TO THE DISTRIBUTION CCS/MARKET MECHANICS INTERFACES SUBJECT TO A COST CONTROL PROCESS?

A. Yes. In addition to a budget, the project followed the ESI process for project approval, which included a review of the costs. A formal project organization was established for the CCS/Market Mechanics interfaces revision project. This project organization monitored the project progress and costs, made day-to-day task assignments, and made status reports. In addition, a program manager provided project oversight, including overall schedule status and communications to management.

Q. OF THE $1.5 MILLION OF COSTS FOR THIS PROJECT, HOW MUCH WAS BILLED FROM OUTSIDE CONTRACTORS?

A. The amount of costs in this project billed from outside contractors was $1.3 million.

Q. WILL ANY OF THE SYSTEMS OR SOFTWARE REPRESENTED IN THE $1.5 MILLION OF COSTS BE USED AND USEFUL WHEN ROA IS INTRODUCED IN ESAT?

A. No. This project will have to be updated to conform to the market rules in place at the time ROA is introduced. As I mentioned earlier, future updates to Texas SET will render useless the interfaces reflected in this $1.5 million of costs.

Q. HOW DID ESI TRACK THE COSTS FOR THIS PROJECT?

A. As mentioned above, the CCS/Market Mechanics interface costs for this project were charged to one project code. As Company witness Barrilleaux explains in his direct testimony, only one billing method is assigned to each project code. Any organization performing work associated with a project code will bill its work to that project code, but regardless of the organization that does the work, the billing method for all work done on that project code remains the same. The billing method for the project code is based on cost causation. This practice of assigning and using one billing method for each project code based upon cost causation assures that the price billed to EGSI for the service provided under the project code is no higher than the price charged to other affiliates for the same or similar services and represents the actual costs of the service.

Q. PLEASE DESCRIBE THE BILLING METHOD USED FOR THE DISTRIBUTION CCS/MARKET MECHANICS INTERFACES REVISIONS COSTS.

A. The costs for the Distribution CCS/Market Mechanics Interfaces Revisions were billed 100% to EGSI (total company) and then assigned 100% to EGSI Texas. None of these Distribution costs was billed to other Entergy Operating Companies. No work was performed for the Entergy Retail organization in this project.

Q. WERE THE COSTS THAT ESI BILLED FOR THESE CCS ACTIVITIES REDUNDANT TO THE COSTS BILLED BY DEPARTMENTS WITHIN EGSI?

A. No. Although both ESI and EGSI employees participated in some of the activities preparing for ROA, they did not perform the same activities. EGSI employees did not replicate any of the Distribution CCS/Market Mechanics revision activities performed by ESI employees.

E. Third Texas Distribution CCS Project: Customer Care Functionality Unusable Work Due to the Delay of Deregulation

Q. PLEASE DESCRIBE THE ACTIVITIES ASSOCIATED WITH THE UNUSABLE CUSTOMER CARE CCS WORK.

A. Now that ROA has been delayed in ESAT for the foreseeable future, some of the functions in the CCS have no value to EGSI Texas. As described earlier, the Distribution CCS that was implemented in anticipation of ROA in ESAT, and in accordance with the ESAT requirements at the time of implementation, did not have Credit & Collection functionality. In addition,

Accounts Receivable and other functionality is inadequate for EGSI Texas. Thus, the work that was performed for an unregulated environment now has been rendered useless.

Q. WAS IT NECESSARY TO INCUR THESE CCS COSTS AS PART OF THE PREPARATION FOR ROA IN ESAT?

A. Yes. These CCS functions (Credit & Collection, Accounts Receivable, and related functionality) were programmed as required by the market rules in effect at the time of CCS implementation. Otherwise, it would have been impossible for the CCS to operate successfully during the initial pilot, or ultimately in ROA as originally intended and planned.

Q. WAS THE WORK ON THIS THIRD PROJECT IN THIS CLASS SUBJECT TO A BUDGET OR COST CONTROL PROCESS?

A. Yes. As I discussed under the first project in this class of costs (the CCS/Market Mechanics interfaces), there were contract changes in December 2000 and in May 2002 to account for, among other things, the need to revise the CCS implementation to reflect changes in ROA requirements and timing in ESAT. The work for this third project (Credit & Collection, Accounts Receivable, and other functionality) was performed at the same time. As described earlier, a formal project organization was established for the CCS implementation project that included this CCS functionality that is no longer usable. This CCS implementation project

organization monitored the project progress and costs, and made routine status reports to senior management.

Q. WAS THE $5.0 MILLION FOR THIS PROJECT SPENT DURING THE TTC COST PERIOD?

A. Yes. The non-AFUDC costs for this third project were incurred during 2000 through 2003.

Q. WAS THE COST OF THE WORK FOR THIS PROJECT REASONABLE?

A. Yes. The cost of this work to ensure that the CCS complied with the ESAT requirements governing the Credit & Collection, Accounts Receivable, and related functions was reasonable given the functionality that had to be addressed. The work reflected in this third project was performed by PwC, Science Applications International Corporation ("SAIC"), and ESI employees. For the reasons I discussed under the first project in this class (CCS/Market Mechanics interfaces), the costs for the PwC and ESI work on this third project (Credit & Collection, Accounts Receivable, and other functionality) were reasonable. I will discuss the reasonableness of the SAIC costs in section V of my testimony.

Q. WERE THE ESI CHARGES FOR THIS WORK NO HIGHER THAN THE ESI CHARGES FOR THE SAME OR SIMILAR WORK FOR OTHER EGSI AFFILIATES?

A. Yes. This work in this project was Texas-specific work to comply with requirements to prepare for ROA in ESAT. Thus, there was no same or similar work occurring at the time the work in this third project was being performed. Even so, the hourly labor rates for PwC and ESI work on this CCS functionality were at the same hourly rates charged for other CCS work occurring at the same time.

Q. FOR THIS PROJECT, HOW MUCH WAS BILLED FROM OUTSIDE CONTRACTORS?

A. The amount of costs in this project billed from outside contractors was $2.4 million.

Q. WILL ANY OF THE SYSTEMS OR SOFTWARE REPRESENTED IN THIS PROJECT BE USED AND USEFUL WHEN ROA IS IMPLEMENTED IN ESAT?

A. No. As with the first two projects in this class of costs, the CCS functionality will have to be updated to conform to the market rules in place at the time ROA is introduced.

Q. ARE THE COSTS THAT ESI BILLED FOR THESE CCS ACTIVITIES REDUNDANT TO THE COSTS BILLED BY DEPARTMENTS WITHIN EGSI?

A. No. Although both ESI and EGSI employees participated in some of the activities preparing for ROA, they did not perform the same activities. EGSI employees did not replicate any of the CCS preparation activities performed by ESI employees.

F. Fourth Texas Distribution CCS Project: Bill Delivery Functionality Unusable Work Due to the Delay of Deregulation

Q. PLEASE DESCRIBE THE ACTIVITIES ASSOCIATED WITH THE BILL DELIVERY WORK THAT IS NOW UNUSABLE.

A. As I mentioned earlier, the delay in ROA in ESAT has rendered unusable for EGSI Texas some of the programming work done for the CCS Bill Delivery System. That now-unusable work made the Bill Delivery System functional in a deregulated (ROA) environment. These costs were incurred primarily by ESI personnel and two vendors, Truepro and SAIC.

Q. WAS IT NECESSARY FOR EGSI TO INCUR THESE BILL DELIVERY COSTS AS PART OF ITS PREPARATION FOR ROA?

A. Yes. Without this work, it would have been impossible to properly prepare bills and invoices for customers.

Q. WERE THE COSTS FOR THIS SCOPE OF WORK REASONABLE?

A. Yes. Most of this Bill Delivery work was performed by two outside vendors, Truepro and SAIC. ESI selected Truepro as the result of

comparing bids from Truepro and a similar vendor. ESI chose Truepro to provide the best balance of cost, technical expertise, business reputation, familiarity with Entergy's operations, and personnel availability. This competitive bidding process ensured that ESI paid no more than market rates for Truepro's Bill Delivery work.

In addition to Truepro and SAIC, ESI personnel also performed Bill Delivery work. As discussed by Company witness Ferguson, ESI's compensation and benefits during the TTC cost period were reasonable. Thus, Truepro's work on the Bill Delivery System was provided at market rates for external labor and ESI's work on these interfaces was provided at market rates for internal labor. I will discuss the reasonableness of the SAIC costs in Section V of my testimony.

Q. FOR THIS PROJECT, HOW MUCH WAS BILLED FROM OUTSIDE CONTRACTORS?

A. The amount of costs in this project billed from outside non-legal contractors was $0.5 million.

Q. WILL ANY OF THE SYSTEMS OR SOFTWARE INCLUDED IN THE $1.4 MILLION OF COSTS FOR UNUSABLE BILL DELIVERY WORK BE USED AND USEFUL WHEN ROA IS IMPLEMENTED IN ESAT?

A. No. This Bill Delivery programming work is not usable today. As with the earlier three projects in this class of costs, the Bill Delivery System will

have to be updated to conform to the market rules in place at the time ROA is introduced in ESAT.

Q. ARE THE COSTS THAT ESI BILLED FOR THESE CCS ACTIVITIES REDUNDANT TO THE COSTS BILLED BY DEPARTMENTS WITHIN EGSI?

A. No. Although both ESI and EGSI employees participated in some of the activities preparing for ROA, they did not perform the same activities. EGSI employees did not replicate any of the preparation activities performed by ESI employees.

V. ESI INFORMATION TECHNOLOGY COSTS

A. Background

Q. WHAT EXPENSES DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I demonstrate that ESI's overall expenses for IT services during the TTC cost period were necessary and reasonable. IT expenses are found in many categories of TTC costs. This section of my testimony is part of the horizontal or matrix view of EGSI's evidence in this case, much as Company witness Ferguson provides for compensation, benefits, and labor related expenses.

Q. PLEASE PROVIDE AN OVERVIEW OF THE ENTERGY INFORMATION TECHNOLOGY ORGANIZATION.

A. The ESI and the Entergy Operating Companies require computer technology business services in order to make their operations more efficient, which, in turn, enables them to provide more reliable services to the electric customer. Services required of IT are varied, ranging from providing and maintaining company-wide electronic mail capabilities to developing and supporting computer software systems that enable customer service agents to access customer information electronically.

In July 1999, Entergy restructured its IT governance model to more effectively ensure that IT initiatives were aligned with and in support of the needs of the business. Each business unit now has its own head of IT (referred to as the Business Unit Chief Information Officer or "BUCIO") to direct the IT initiatives of their business units, to oversee the services and costs from the IT service delivery function, and to collaborate with their peer BUCIOs to agree on shared IT initiatives that address common needs. The corporate IT organization retains responsibility for overall policy and standards, technology architecture, and strategic planning. The corporate IT organization is also responsible for all hardware, software, and telecommunications resources that are shared among all the business units.

Entergy was a leader in the electric utility industry in outsourcing IT operations. On October 1, 1999, ESI outsourced virtually all of its IT

services to SAIC. These services include technology evaluation and implementation planning, desktop and telecommunications support, application development and maintenance, and mainframe and midrange processing support. In short, SAIC assumed responsibility for the IT service delivery function for ESI and other Entergy companies. Although a small portion of the service delivery staff remained ESI employees, most became SAIC employees, and all are managed by SAIC management. Subsequently, a limited number of leading outsourcing companies have been added, primarily for application development and maintenance. ESI continues to own the IT equipment and software, and has retained a small corporate staff to manage the hardware and software assets as well as the outsourcing relationships and to provide strategic information systems direction for the entire corporation.

B. Necessity for the Services Provided by the IT Organization

Q. DURING THE TTC COST PERIOD, DID ESI NEED THESE IT SERVICES?

A. Yes. ESI and the Entergy Operating Companies are highly dependent upon computer technology. Many business functions have been automated and require the use of some type of computer. ESI uses computer technology to maintain its daily operations in several areas including electronic mail, word processing functions, spreadsheets, and most importantly, major business functions and management reporting

and control. In order to ensure this functionality, these business systems and the underlying infrastructure that supports them must be maintained and supported by the IT department.

C. Reasonableness of Overall IT Costs

Q. DURING THE TTC COST PERIOD, HOW DID ESI ENSURE THAT THE COSTS FOR IT SERVICES WERE REASONABLE?

A. As stated earlier, in October of 1999 ESI outsourced the majority of its IT functions through a competitive procurement process. My attached Exhibit WTC-8 shows that over 85% of all IT expenses for Entergy are for hardware, software, or outsourced services that are competitively procured at market based prices.

Q. WAS THE OUTSOURCING LIMITED TO THE CORPORATE IT FUNCTIONS?

A. No. The scope of the outsourcing included the IT functions that had become the responsibility of the individual business units through the change in the IT governance model described previously. The breakdown of IT spending shown in my attached Exhibit WTC-8 reflects all Entergy IT spending, not just for the corporate IT group and it includes both affiliate and non-affiliate costs.

Q. DURING THE TTC COST PERIOD, DID ESI CONTINUE TO SEEK WAYS TO IMPROVE SERVICES AND REDUCE COSTS FOR IT-RELATED SERVICES?

A. Yes. During the TTC cost period, ESI continually examined ways to reduce costs. The outsourcing contract with SAIC requires benchmarking to ensure that costs remain advantageous to Entergy and that service levels are maintained at a high level. Entergy also undertook a competitive procurement process to select a limited number of additional outsourcers or secondary providers. Having these secondary providers enabled competitive bidding for new work, and in particular application development, without significantly diluting the advantages of economies of scale. The number of additional suppliers and their overall performance was reviewed at least every two years. And as indicated in Exhibit WTC-9, Entergy received Gartner's Technology, Organization and Process Performance Award for 2004 in recognition of the Company's "ongoing commitment to continuous improvement" and "[s]ignificant improvement achieved as a result of benchmarking." This award places Entergy in the company of businesses such as ExxonMobil, JP Morgan Chase, and Air Products and Chemicals.

Q. DOES ENTERGY HAVE IT BENCHMARK DATA FOR THE TTC COST PERIOD?

A. Yes. A recent benchmark study that was conducted covering calendar year 2003 is included as Exhibit WTC-10. This study shows that Entergy compares favorably to comparable companies with respect to IT costs.

Q. PLEASE DESCRIBE THE SCOPE OF THE BENCHMARK.

A. This benchmark covers IT spending throughout Entergy for the IT functions indicated in the study. As such, it includes outside vendor costs billed to Entergy and internal IT costs that, under Entergy's IT governance model, are the responsibility of the business units and are included in various business functions. The study also includes the IT functions of IT Planning & Architecture, Desktop & Telecomm, and Processing Services. Application development was not included within the scope of the benchmark.

Q. WHY WAS APPLICATION DEVELOPMENT EXCLUDED?

A. Effective and objective application development benchmarking has always been a challenge for IT professionals because of the inherent difficulty in measuring the functional complexity of an application program. Without an objective basis for comparison of product delivered, comparisons of cost to product are meaningless. The problem has only been further exacerbated by the increasingly prevalent use of off the shelf applications, reusable code, and web based services. As a result, Entergy depends on

competitive bidding among its outsourcing providers to ensure market based prices for application development.

Q. WHAT OTHER COMPANIES WERE USED FOR COMPARISON PURPOSES IN THE BENCHMARK?

A. The composition of the benchmark comparison groups is described on pages 6 through 8 of the study. As a matter of principle, Gartner does not identify the names of the individual companies that make up the comparison groupings.

Q. WHAT IS MEANT BY THE TERMS "TOP QUARTILE" AND "TOP HALF" ON THE CHARTS IN THE STUDY?

A. As noted on page 7 of the study, the comparisons to "Top Quartile" and "Top Half" are to the averages of those groups. Thus, for example, the comparison to the top quartile targets the average of the top quartile, or roughly the top one-eighth. Exhibit WTC-11 visually indicates where those comparison points fall in a population with uniform distribution.

Q. PLEASE DESCRIBE THE BENCHMARK RESULTS.

A. As stated on page 15 of the study, "Entergy's overall cost efficiency performance has IT performing at a level of efficiency between that of its peer group and the top 25% of performers within its peer group."

There are some individual categories in the study where Entergy's costs do not reach that level. But, the study states (on page 11) "that it is TCO [total cost of ownership] that matters most and that cost 'by category' comparisons can be misleading.'" Still, with respect to those individual categories, Entergy is working with its outsourcers to drive the costs down.

Q. WHAT IS YOUR CONCLUSION ABOUT THE REASONABLENESS OF ESI'S OVERALL IT COSTS DURING THE TTC COST PERIOD?

A. During the TTC cost period, the overall IT costs incurred by ESI were reasonable because over 85% of the costs were obtained at competitive market rates while the remaining portion, Entergy labor, were reasonable with respect to the level of compensation and benefits as demonstrated in the testimony of Company witness Ferguson. This conclusion is further corroborated by benchmarking results.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY?

A. The four projects in the Texas Distribution CCS class of costs represent work performed for the Distribution CCS and related systems in anticipation of ROA that is now unusable. That work and those costs were both necessary and reasonable. Additionally, ESI's overall IT costs during the TTC cost period were both necessary and reasonable.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, at this time.