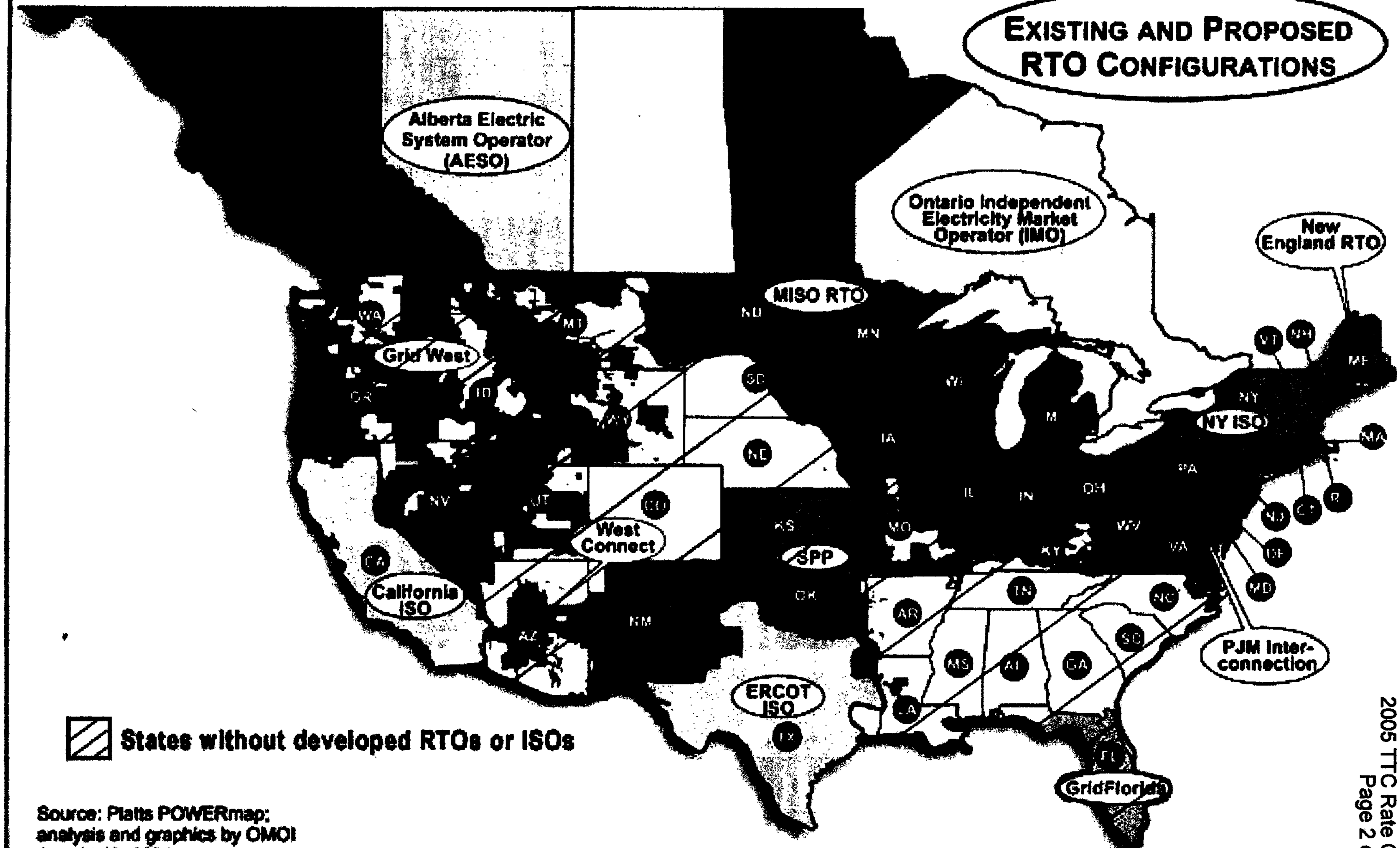
Exhibit VCC-8
2005 TTC Rate Case
Page 2 of 18

EXISTING AND PROPOSED RTO CONFIGURATIONS

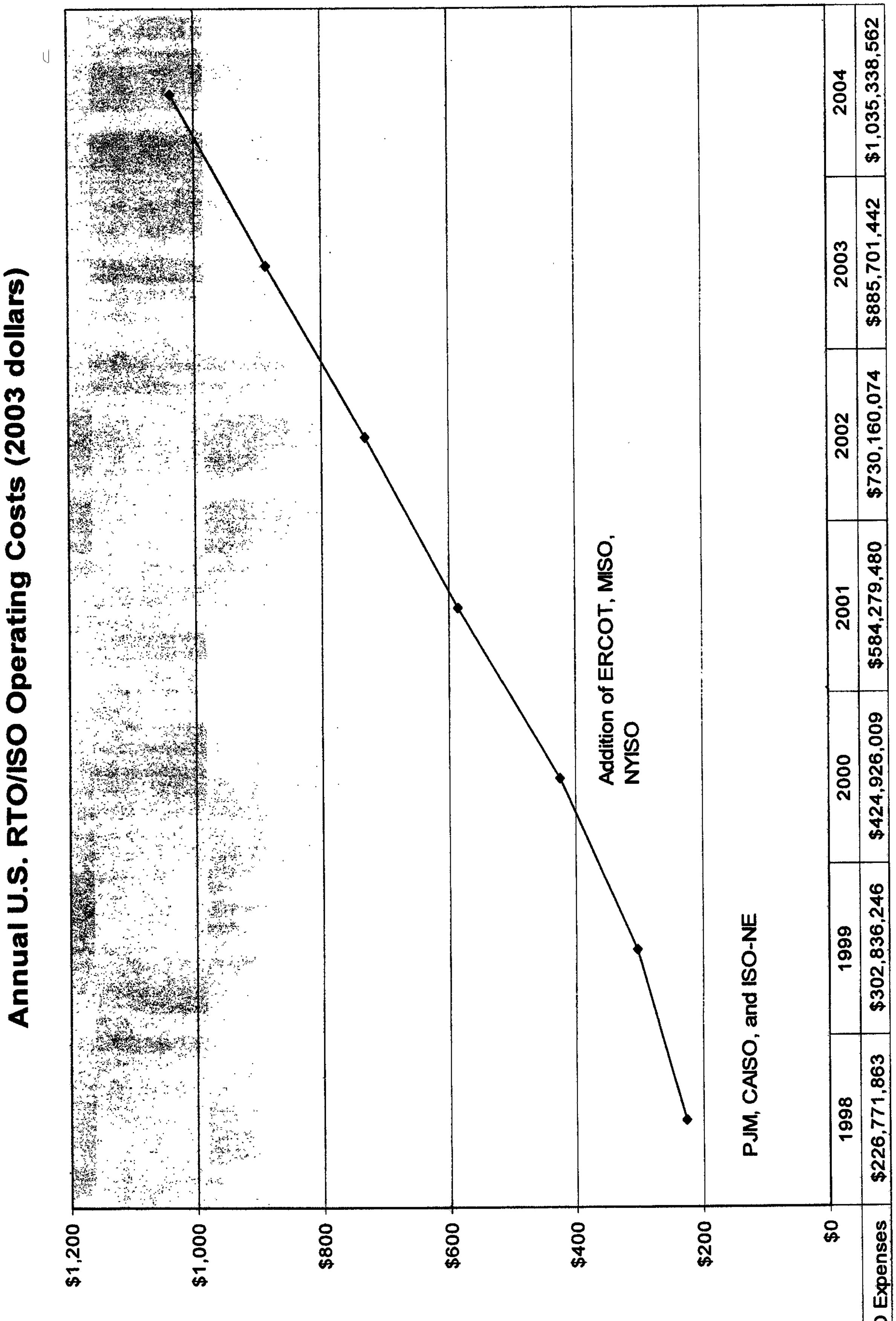


States without developed RTOs or ISOs

Source: Platts POWERmap; analysis and graphics by OMOI August 13, 2004

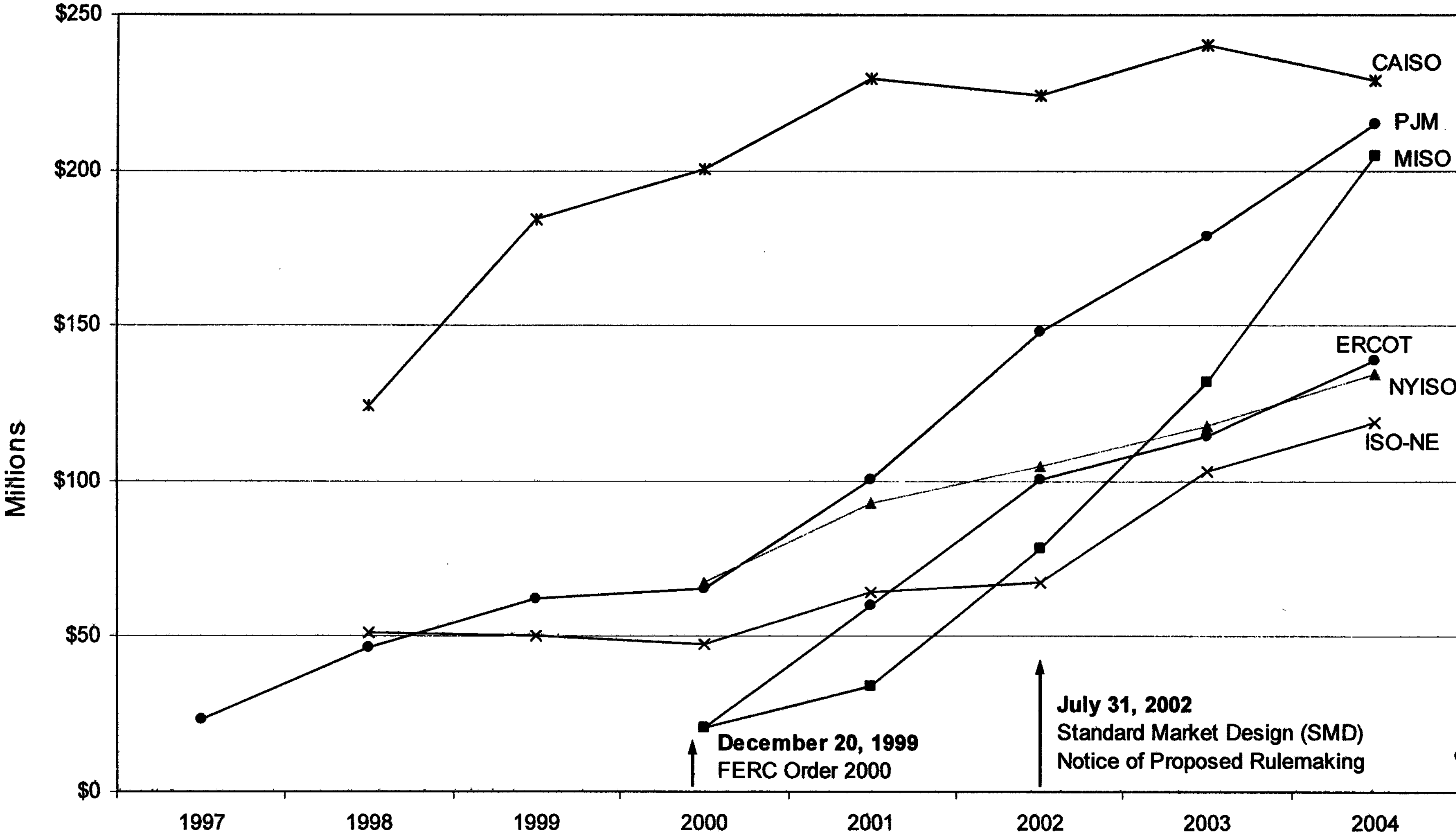
Source: http://www.ferc.gov/industries/electric/indus-act/rto/rto-map.asp

3

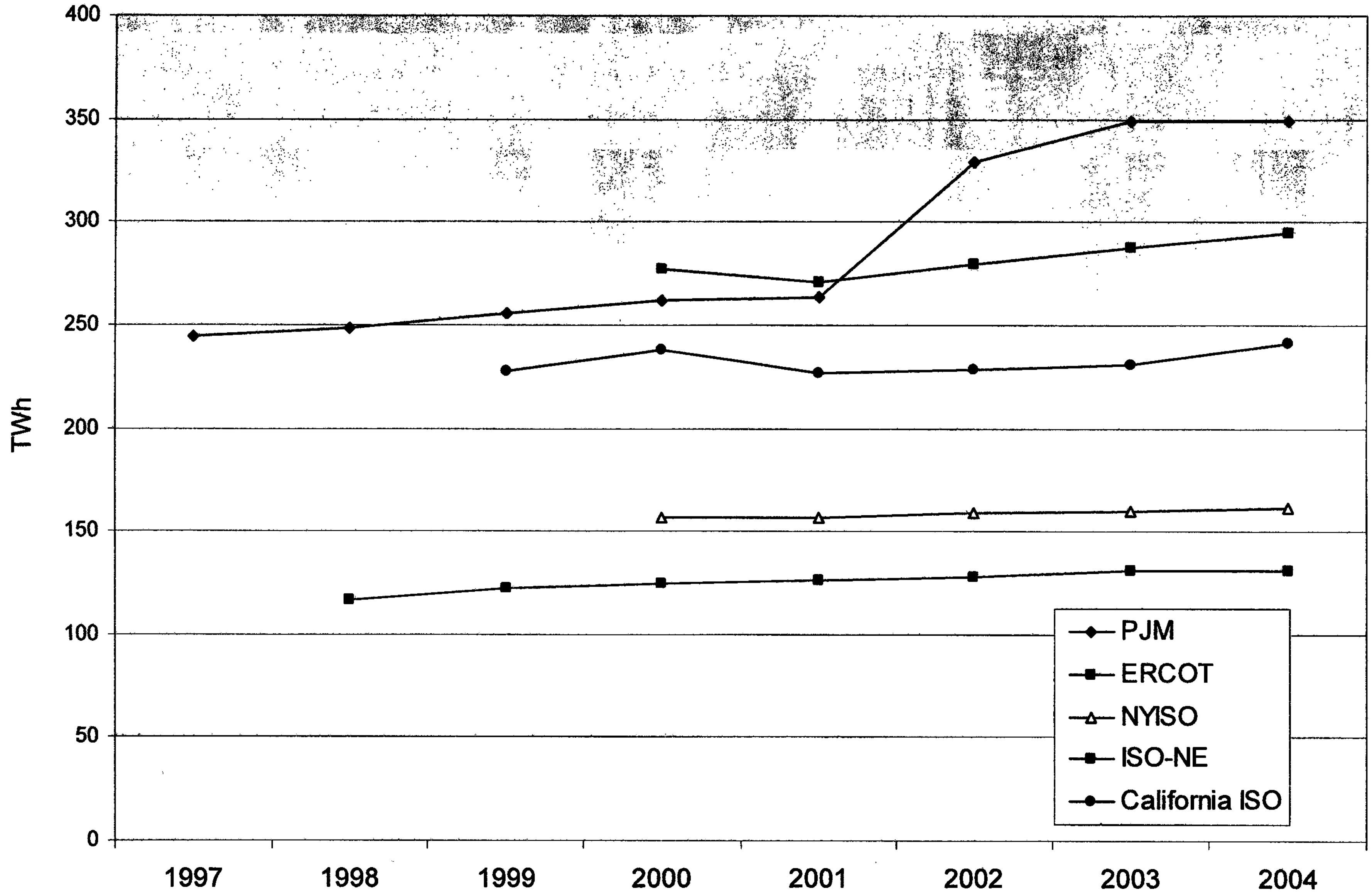


	1998	1999	2000	2001	2002	2003	2004
RTO Expenses	$226,771,863	$302,836,246	$424,926,009	$584,279,480	$730,160,074	$885,701,442	$1,035,338,562

ISO/RTO Annual Operating Costs (Including Amortization, Depreciation and Interest Expenses in 2003 dollars)

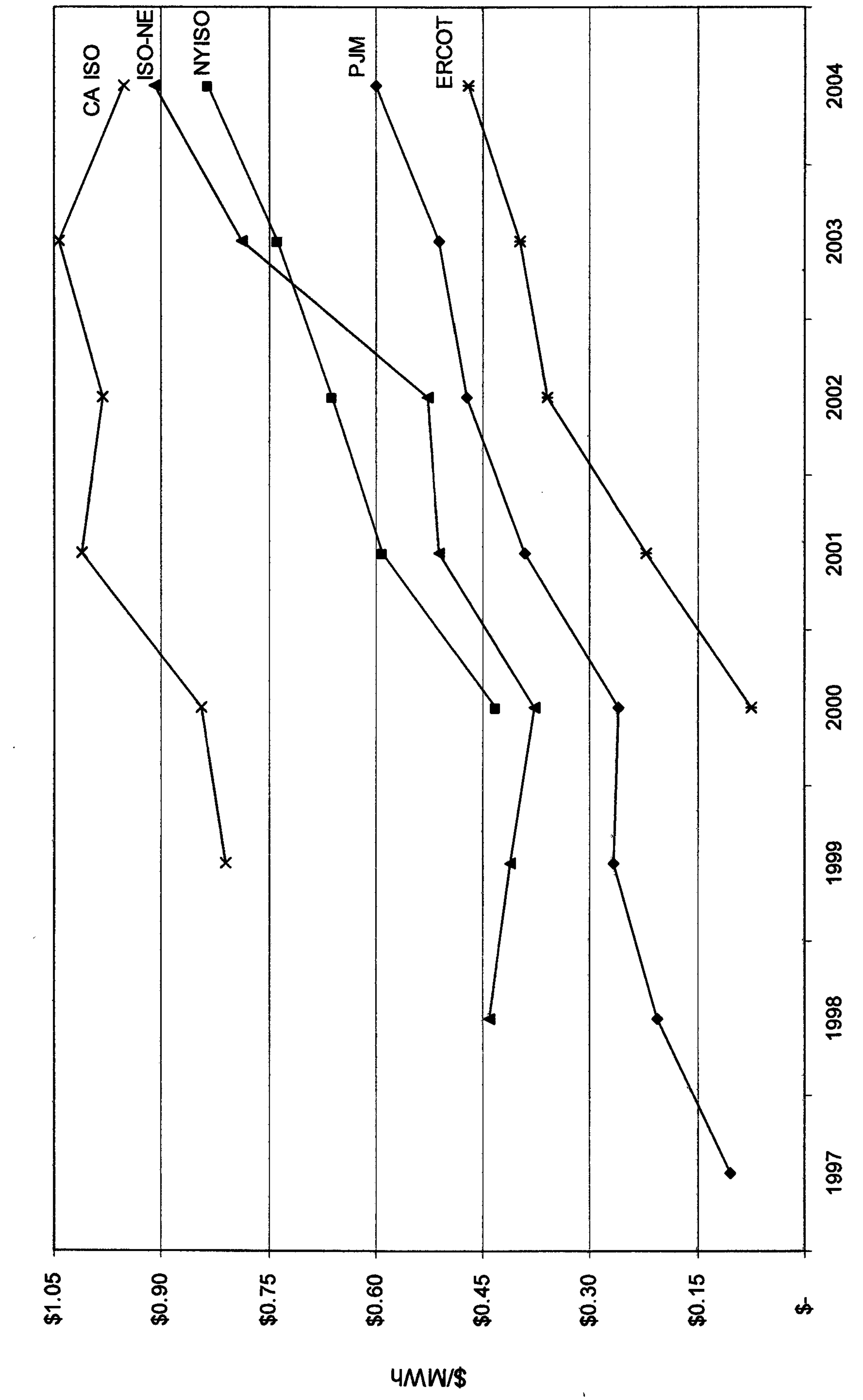


ISO/RTO Net Annual Energy Demand (Load)



6

RTO/ISO $/MWh Annual Operating Costs (2003 Dollars)



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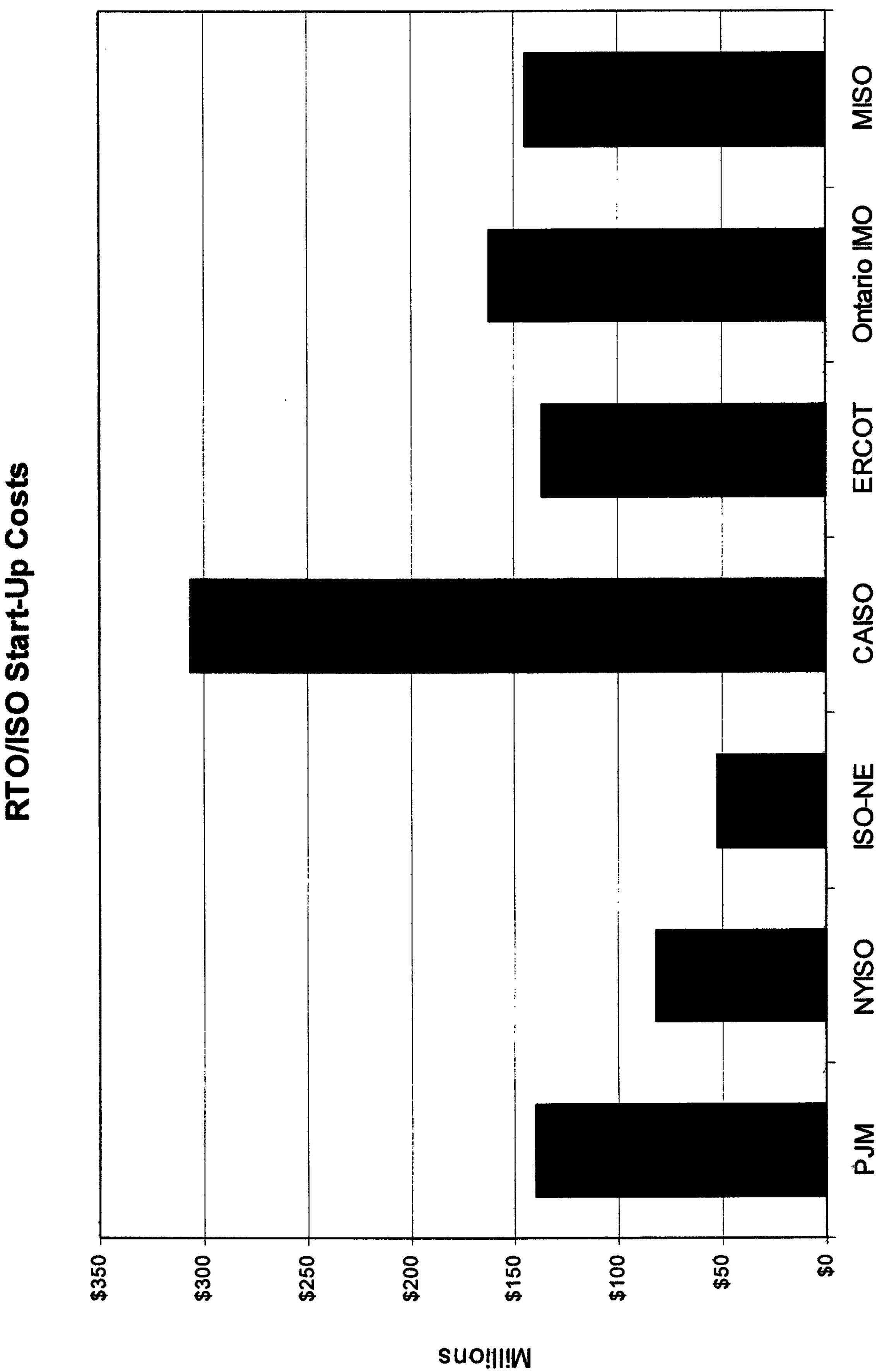
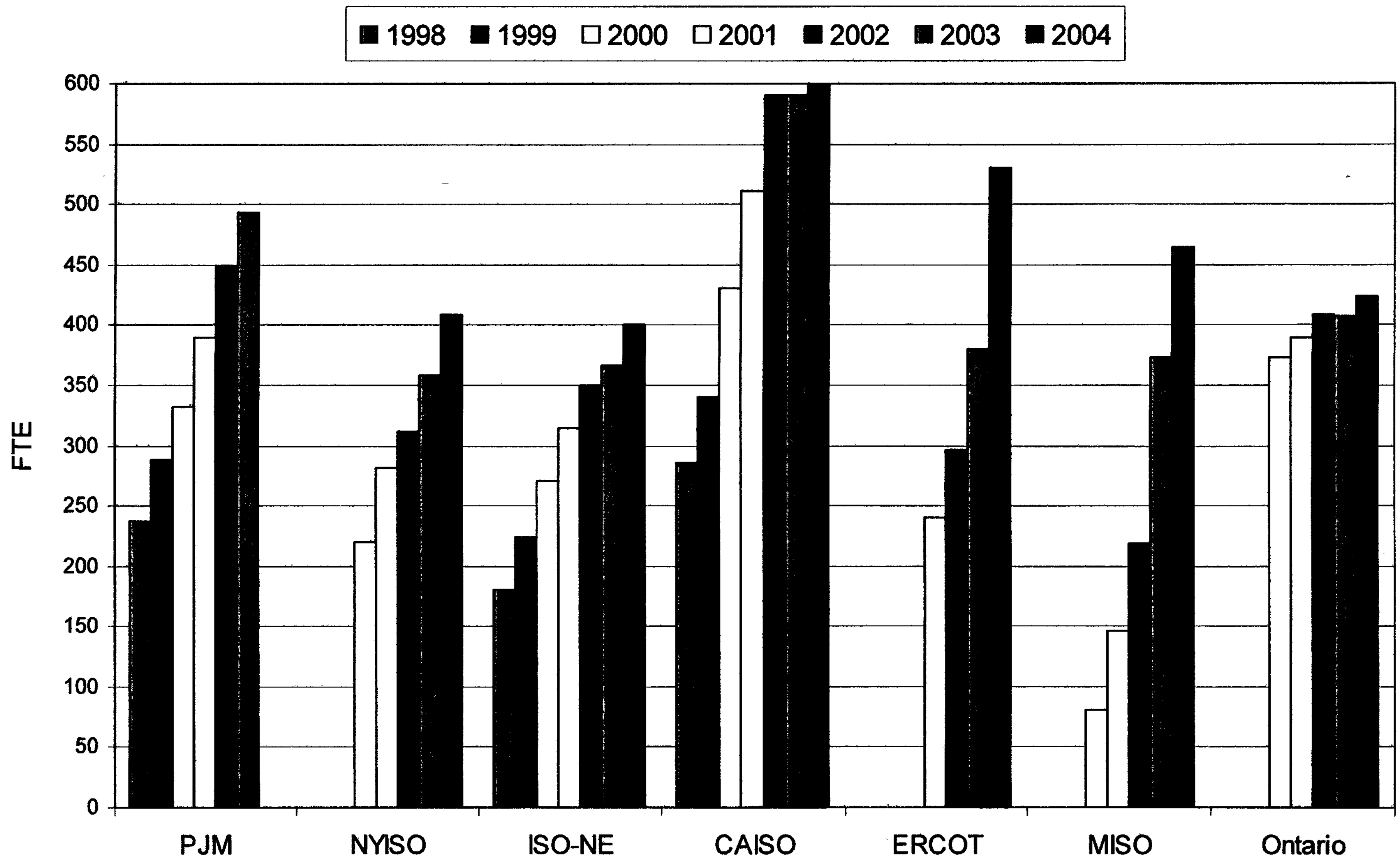
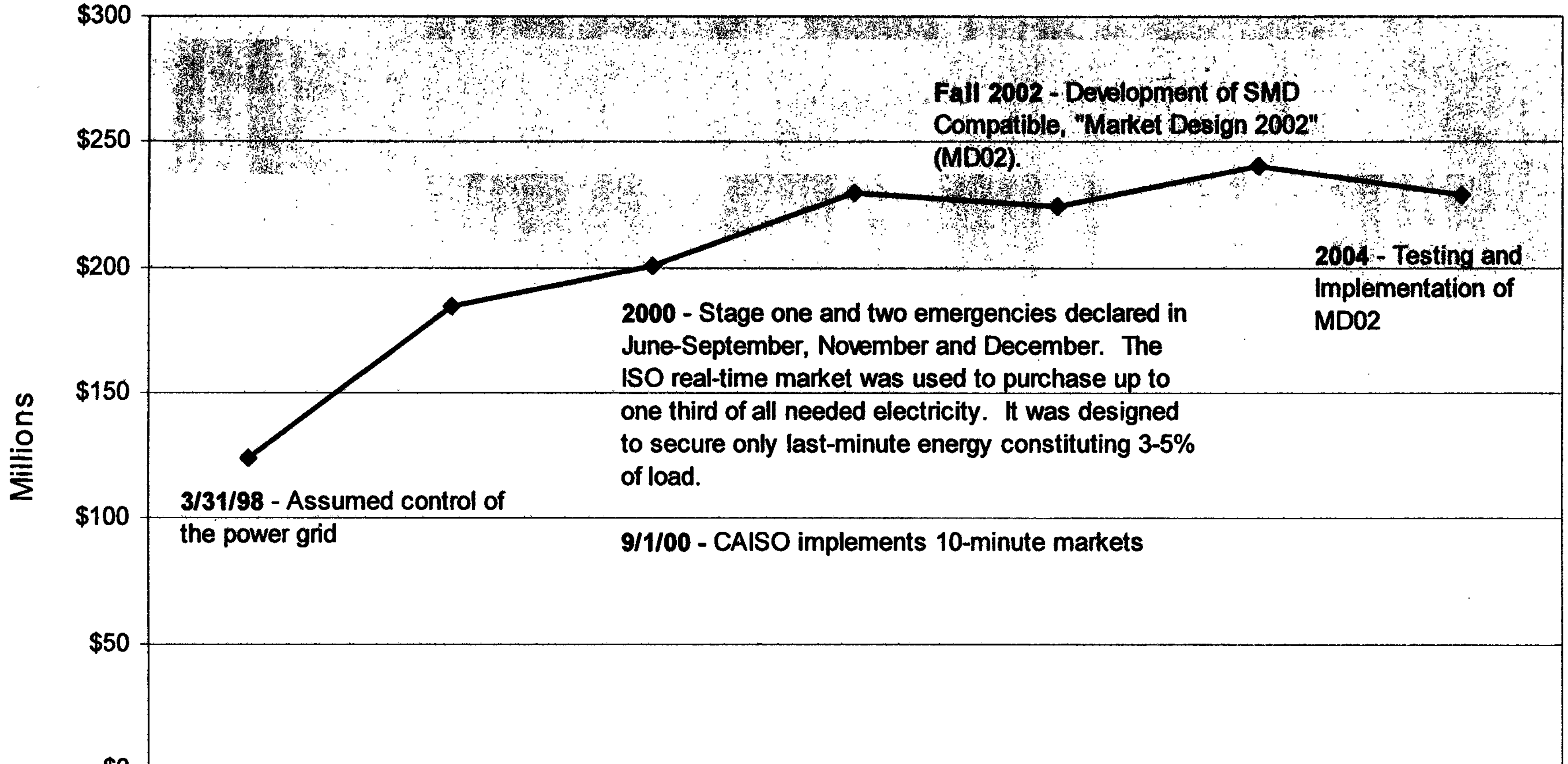

RTO/ISO Start-Up Costs
Millions
$350
$300
$250
$200
$150
$100
$50
$0
PJM
NYISO
ISO-NE
CAISO
ERCOT
Ontario IMO
MISO

ISO/RTO Staffing Levels



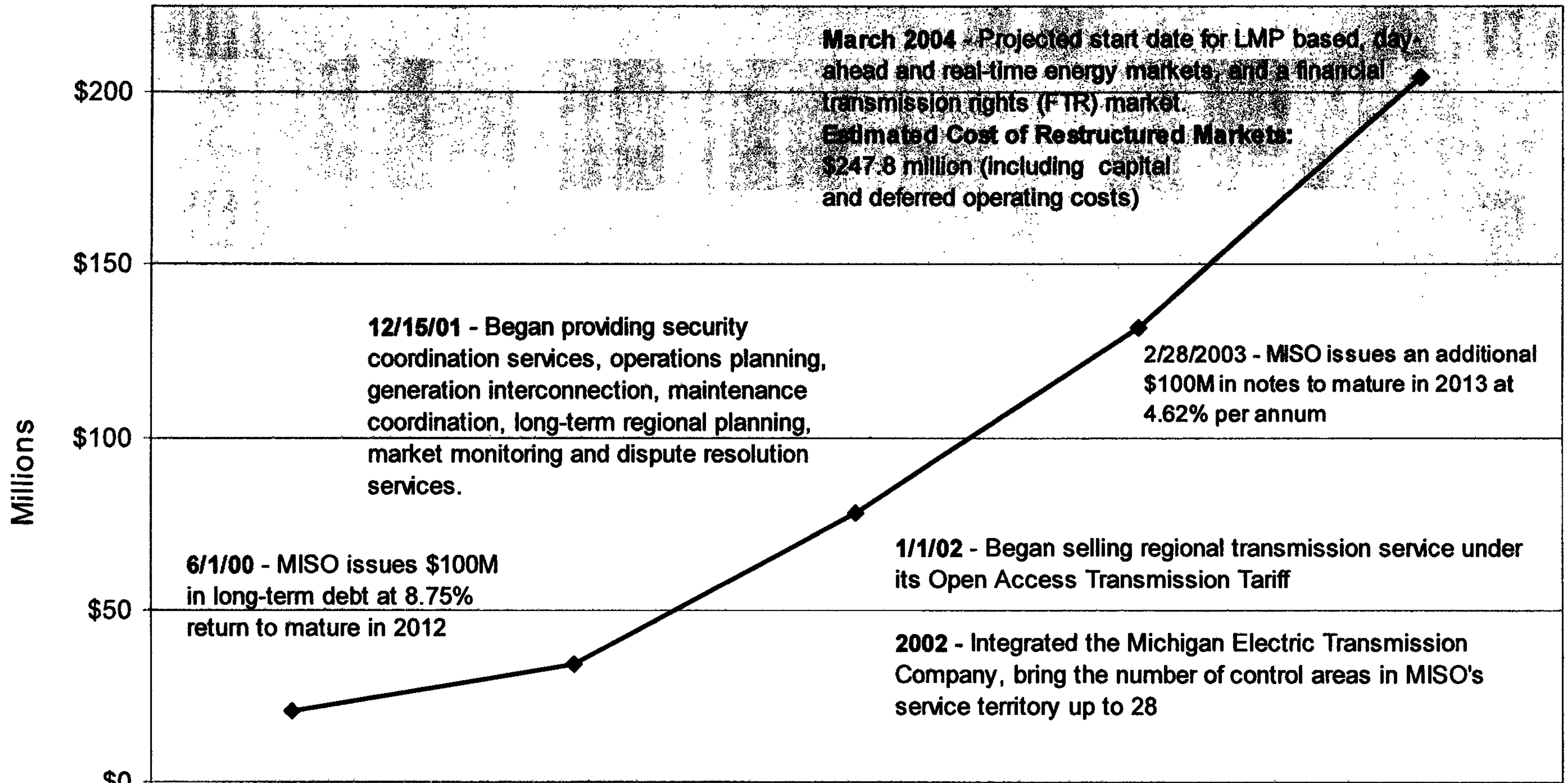
* It is unclear whether contractors are included in some data points. FERC Form 1 data do not include contractors. For consistency, contractors have been excluded whenever possible. (Sources provided on slides 16-18.)

California ISO Annual Operational Costs (2003 dollars)



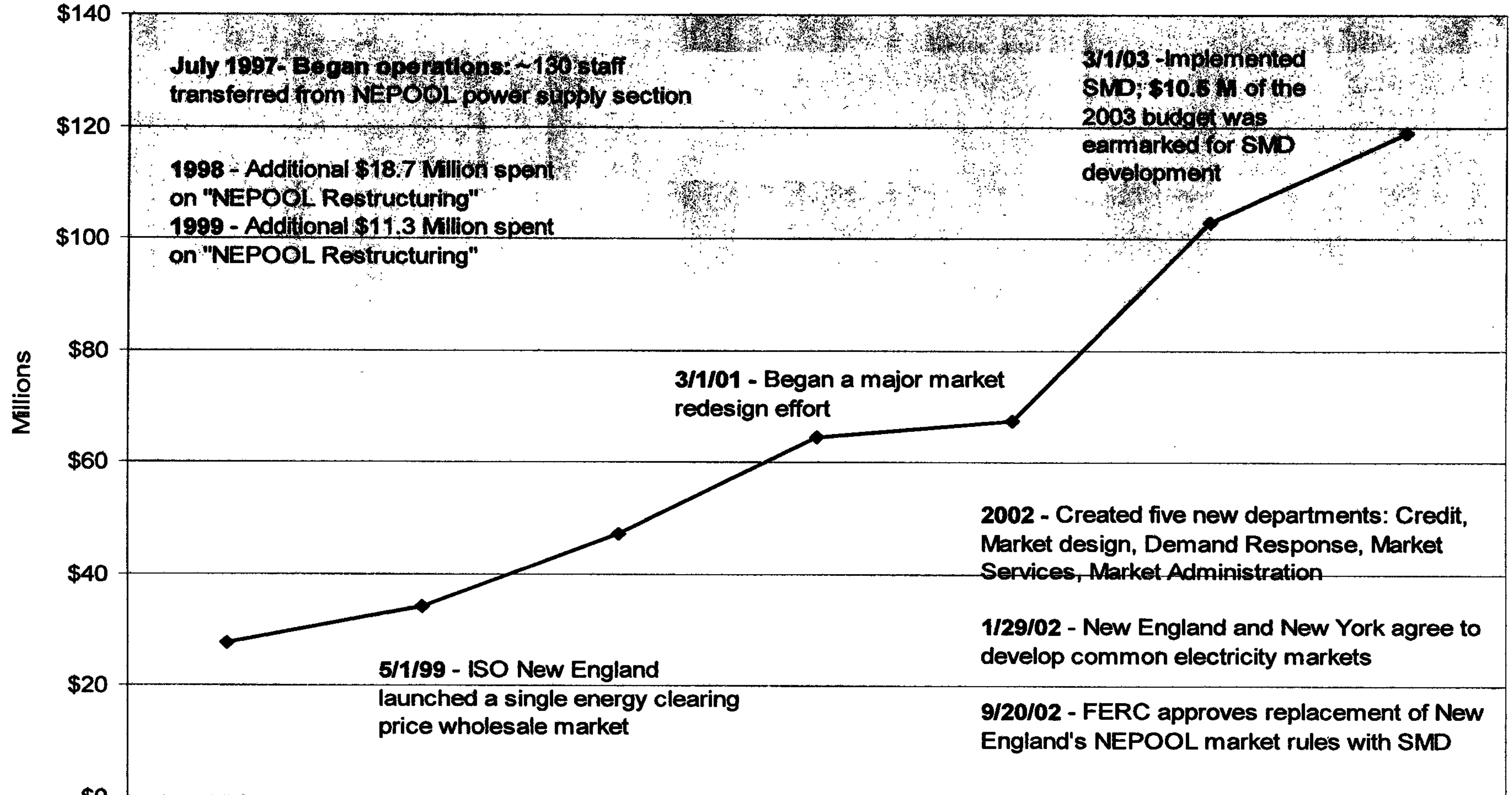
	1998	1999	2000	2001	2002	2003	2004
Op Costs	$123,969,114	$184,245,582	$200,490,117	$229,737,582	$224,090,535	$240,411,000	$229,182,674
% Change		48.62%	8.82%	14.59%	-2.46%	7.28%	-4.67%
Staffing	286	341	431	511	590	591	599
% Increase	-	19.23%	26.39%	18.56%	15.46%	0.17%	1.35%

Midwest ISO Annual Operating Costs (2003 Dollars)



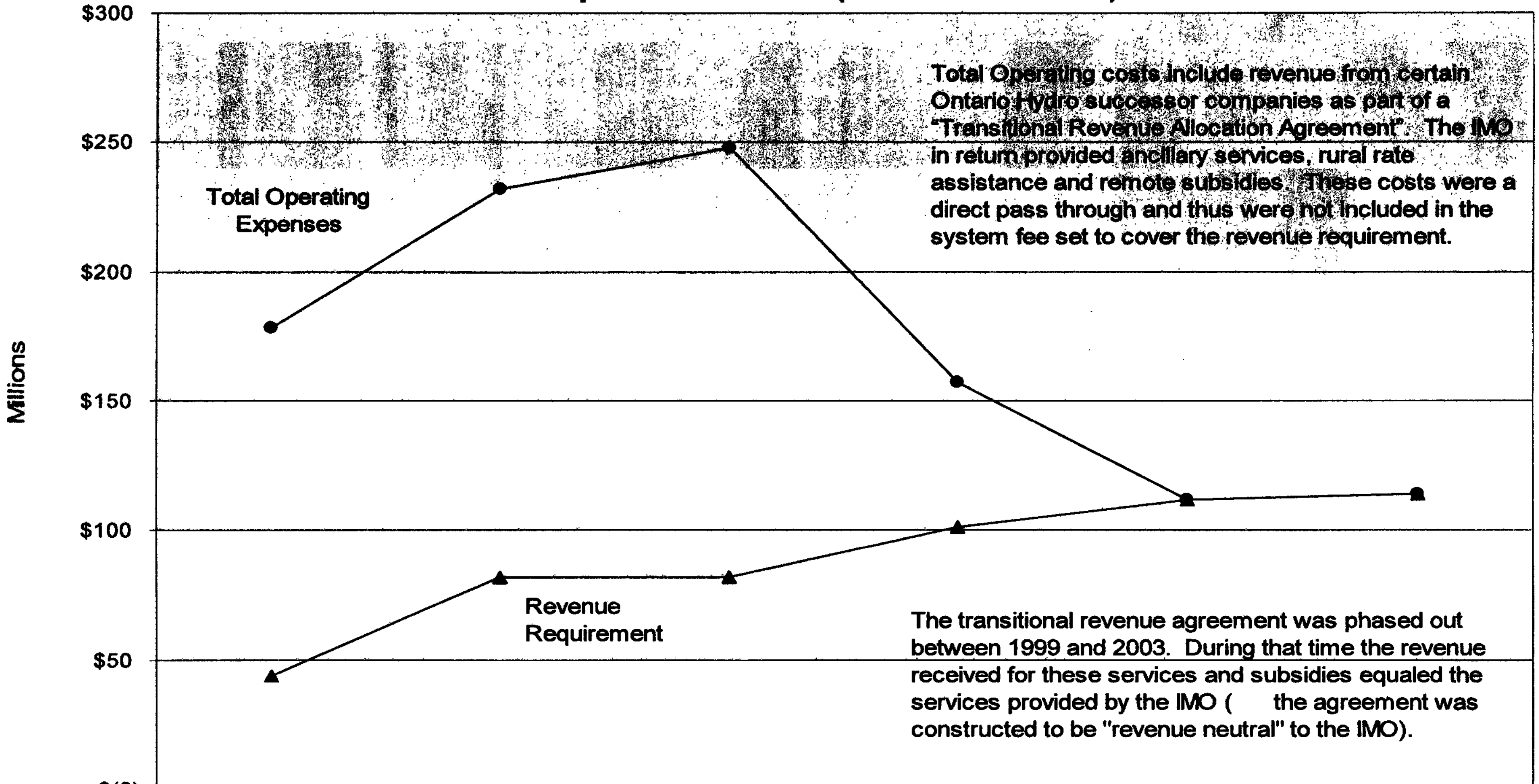
	2000	2001	2002	2003	2004
Op Cost	$20,726,448	$34,095,882	$78,029,133	$131,642,000	$204,592,593
% Increase		64.50%	128.85%	68.71%	55.42%
Staffing	80	146	218	373	465
% Increase	-	82.58%	49.25%	71.10%	24.66%

ISO New England Annual Operational Costs (2003 Dollars)



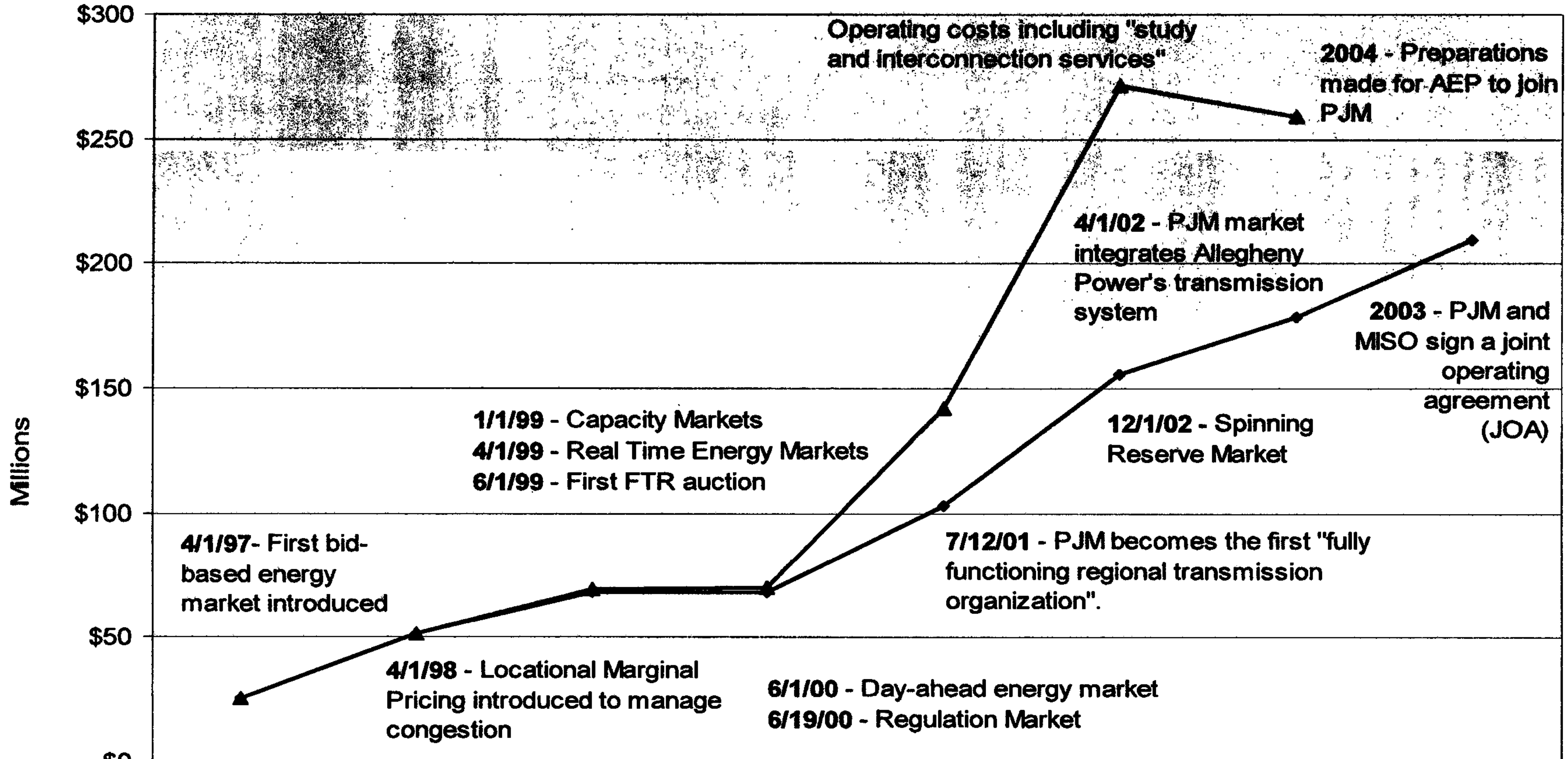
	1998	1999	2000	2001	2002	2003	2004
Op Costs:	$27,685,000	$34,295,000	$47,324,487	$64,451,126	$67,280,297	$102,924,000	$118,965,624
% Change:		23.88%	28.45%	36.19%	4.39%	52.98%	15.59%
Staffing:	180	224	271	314	350	366	402
% Increase:	-	24.44%	20.98%	15.87%	11.46%	4.57%	9.70%

Ontario Independent Market Operator (IMO)
Annual Operational Costs (2003 U.S. Dollars)



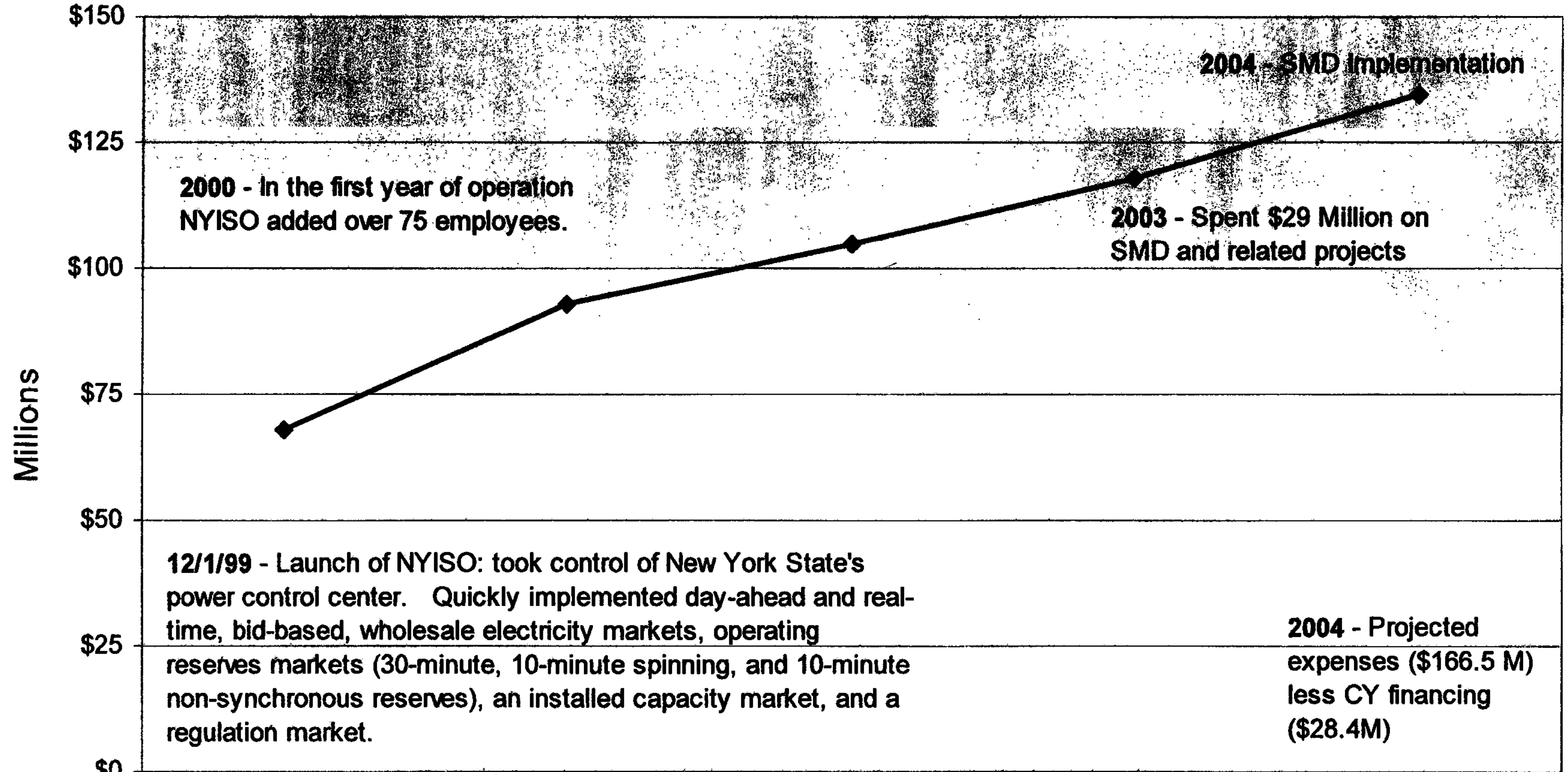
	1999	2000	2001	2002	2003	2004
Total Expense	$178,083,278	$231,935,946	$248,209,497	$157,304,028	$111,597,840	$114,060,370
Revenue Req.	$43,847,951	$81,666,325	$81,943,185	$101,321,760	$111,597,840	$114,060,370
Staffing		373	390	408	407	424
% Change		86.25%	0.34%	23.65%	10.14%	2.21%

PJM Annual Operating Costs (2003 Dollars)



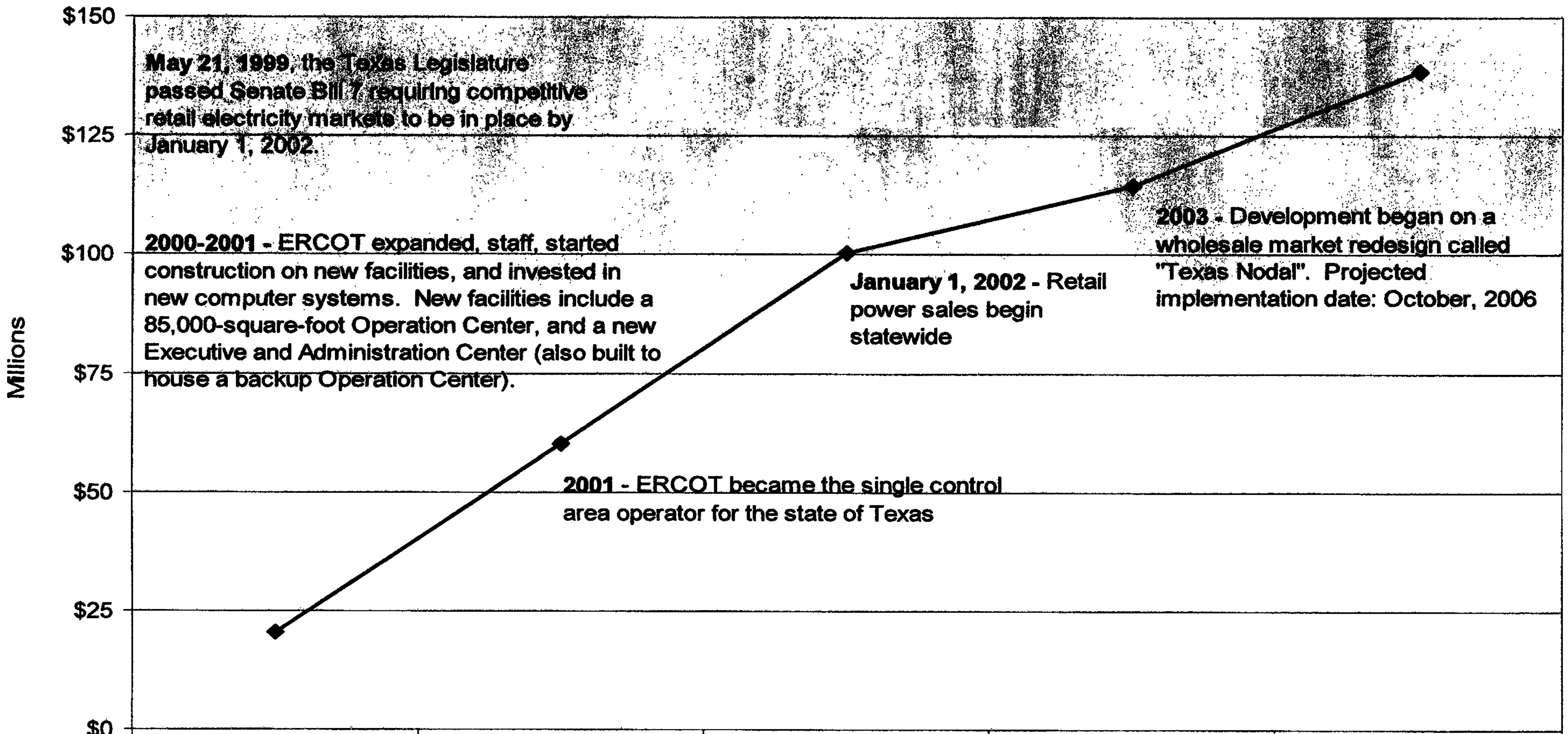
	1997	1998	1999	2000	2001	2002	2003	2004
Op Costs	$25,240,977	$51,290,561	$68,405,894	$68,188,810	$103,196,856	$155,627,431	$178,492,173	$209,463,845
% Increase		103.20%	33.37%	-0.32%	51.34%	50.81%	14.69%	17.35%
W/ S&I Services	$25,240,977	$51,290,561	$69,473,280	$70,271,237	$141,865,885	$271,411,002	$259,103,173	
Staffing		238	288	332	390	448	493	undisclosed
% Increase			21.0%	15.3%	17.5%	14.9%	10.0%	

New York ISO Annual Operating Costs (2003 dollars)



	2000	2001	2002	2003	2004
Op Costs	$67,669,514	$92,660,733	$104,718,914	$117,819,269	$134,543,986
% Change		36.93%	13.01%	12.51%	14.20%
Staffing	220	282	312	358	392
% Increase	52.8%	28.2%	10.6%	14.7%	9.5%

ERCOT Annual Operating Expense



	2000	2001	2002	2003	2004
O&M	$20,526,635	$60,137,302	$100,413,764	$114,413,000	$138,589,841
% Increase		192.97%	66.97%	13.94%	21.13%
FTE	50	240	296	380	530
% Increase		380.00%	23.33%	28.38%	39.47%

Data Sources:

PJM:

O&M, Amortization, Depreciation, and Interest Expense: 1997-2003 (FERC Form 1 submissions); 2004 (Approved 2004 Budget and Service Category Rates, 10/28/2003).

Annual Energy: 1997-1999 (1999 Annual Report on Operations); 2000 (2000 Annual Report on Operations); 2001 (2001 Annual Report on Operations); 2002-2003 (Corresponding Annual Reports); 2004 (Approved 2004 Budget and Service Category Rates, 10/28/2003).

Staffing Levels: 1998-2001 (FERC Form 1 submissions); 2002 (448 employees as of 9/30/2002 noted in PJM's 2002 3rd Quarter Financial Statement); 2003 (NYISO 2003 Budget Review for the Budget, Performance, and Standards Committee, 9/30/2002).

Start-up Costs: PJM staffers indicated that they have not calculated their overall start-up costs. Estimate provided by the Ontario IMO 2001-2003 Business Plan, 11/13/2000, pg. 41.

New York ISO:

O&M, Amortization, Depreciation, and Interest Expense: 2000-2003 (FERC Form 1 submissions); 2004 (NYISO 2004 Budget Report for the Budget, Standards and Performance Subcommittee, 11/12/2003).

Annual Energy: 2000-2002 (NYISO 2003 Gold Book - Load and Capacity Data); 2003-2004 (Backed into using revenue requirements and $/MWh rates in NYISO 2004 Budget Report, 11/12/2003).

Staffing Levels: 2000 (Annual Report); 2001 (NYISO Budget vs. Actual Results, February 2002); 2002 (2003 Budget Review, 9/30/2002); 2003-2004 (2004 Budget Overview, 9/26/2003).

Start-up Costs: Tabors Caramanis RTO West Cost Benefit Study, 3/11/2002.

ISO New England:

O&M, Amortization, Depreciation, and Interest Expense: 1998-2002 (Corresponding Annual Reports); 2003 (2003 Final Audited Financial Statement, 3/3/2004); 2004 (ISO-NE March Forecast for End of Year 2004, March 2004).

Annual Energy: 1998-2004 (1999-2004 Annual Capacity, Energy, Loads, and Transmission (CELT) Reports, Note: 2004 is a forecast).

ISO New England Cont.

Staffing Levels: 1998-2001 (FERC Form 1 Submissions); 2002 (Annual Report); 2003 (NYISO 2003 Budget Review, 9/30/2002); 2004 (ISO-NE March Forecast for End of Year 2004, March 2004, Note: Projected FTE).

Start-up Costs: FERC order "Accepting for Filing and Suspending Cost Recovery Proposal, Subject to Refund and Establishing Hearing" Docket No. ER99-4235-000, 10/13/1999.

California ISO:

O&M, Amortization, Depreciation, and Interest Expense: 1998-2002 (FERC Form 1 submissions); 2003 (December Monthly Financial Report, 12/31/2003 Note: Actual 2003 numbers - unaudited); 2004 (Proposed FY2004 Operating & Maintenance Budget and Capital Budget, 9/18/03).

Annual Energy: 1998 (2000 Annual Report on Market Issues and Performance, November 2001); 1999-2001 (2002 Annual Report on Market Issues and Performance, April 2003); 2002-2003 (2003 Market Performance Review from the Office of Market Analysis, April 2004); 2004 (Proposed FY2004 Operating & Maintenance Budget and Capital Budget, 9/18/03).

Staffing Levels: 2000-2001 (FERC Form 1 submissions); 2002 (Proposed FY 2003 Budget, 10/16/2002, Note: "revised and approved staffing" level); 2003 (December Monthly Financial Report, 12/31/2003); 2004 (Proposed FY2004 Operating & Maintenance Budget and Capital Budget, 9/18/2003 Note: projected FTE).

Start-up Costs: Financing Plan Execution, 4/23/1998.

ERCOT:

O&M, Amortization, Depreciation, and Interest Expense: 2000-2003 (2003 Annual Report); 2004 (2004 Texas PUC rate filing (Docket # 28832)).

Annual Energy: 2000-2004 (2004 Texas PUC rate filing - Docket # 28832, Note: 2001-2002 are actuals, 2003 is part actual and part budgeted and 2004 is budgeted).

Staffing Levels: 2000, 2001, 2003 (2003 Annual Report); 2002 (Estimate based on rate filing information); 2004 (2004 Texas PUC rate filing (Docket # 28832)).

Start-up costs: Start-up Costs: Tabors Caramanis RTO West Cost Benefit Study, March 11, 2002.

Midwest ISO:

O&M costs, Amortization, Depreciation, and Interest: 2000-2003 (Corresponding Annual Reports); 2004 (Updated 2004 Budget Presentation, 3/18/2004, Note: original budget from MISO Budget Advisory Committee Presentation, 12/10/03).

Annual Energy: MISO does not collect or compute annual energy demand at this time. Estimates of MISO annual demand calculated using FERC Form 1 submissions of MISO membership.

Staffing Levels: 2000 (MISO Order 2000 Compliance Filing (RT01-87-000); 1/16/2001); 2001, 2002, 2004 (2004 Budget Advisory Committee Presentation, 12/10/2003.); 2003 (2003 Annual Report).

Start-up Costs: MISO 2000 Annual Report.

Ontario IMO:

O&M, Amortization, Depreciation, and Interest Expense: 1999-2002 (Corresponding Annual Reports); 2003 (2003 Final Audited Financial Statement, 1/12/04); 2004 (IMO Business Plan 2004-2006 Financial Overview, 9/30/2003).

Annual Energy: Demand Overview section of Ontario IMO's webpage: http://www.theimo.com/imoweb/media/md_demand.asp

Staffing Levels: 2000, 2002 (IMO Business Plan 2001-2003, 11/13/2000); 2002 (Annual Report); 2003-2004 (IMO Business Plan 2004-2006 Financial Overview, 9/30/2003 Note: 2003 is projected, 2004 is budgeted).

Start-up Costs: Ontario IMO 2001-2003 Business Plan, 11/13/2000.

DOCKET NO. ________

APPLICATION OF ENTERGY GULF STATES, INC. FOR RECOVERY OF TRANSITION TO COMPETITION COSTS	§ § § §	PUBLIC UTILITY COMMISSION OF TEXAS

DIRECT TESTIMONY

OF

CHRIS E. BARRILLEAUX

ON BEHALF OF

ENTERGY GULF STATES, INC.

August 2005

SUMMARY OF DIRECT TESTIMONY OF CHRIS E. BARRILLEAUX

Mr. Barrilleaux presents an overview of the affiliate transactions between Entergy Services, Inc. and Entergy Gulf States, Inc. He also provides a detailed explanation of the presentation of the Transition to Competition costs for both the affiliate and non-affiliate portions of this case and the layout of the witnesses' testimony and exhibits that support the net requested recovery for each class of Transition to Competition costs. He describes how the information in this filing is laid out to prove that:

1. affiliate costs charged to Entergy Gulf States are necessary;
2. affiliate costs charged to Entergy Gulf States are reasonable;
3. the price charged to Entergy Gulf States, Inc. for each affiliate class of items is no higher than the price charged to other Entergy Gulf States affiliates for the same class of items;
4. the allocated affiliate amounts reasonably approximate the actual cost of services to Entergy Gulf States; and
5. non-affiliate costs are reasonable and necessary.

Each witness that sponsors a class of services has attached the cost schedules for that class as exhibits to his or her testimony. Mr. Barrilleaux, as the financial overview witness, provides testimony that collects all of those individual class schedules in one exhibit for ease of review. Additionally, Mr. Barrilleaux's testimony presents in one comprehensive exhibit the project summaries for all project codes used to capture Transition to Competition Costs billed to or incurred by Entergy Gulf States during the period during which the Transition to Competition cost were incurred, and presents the complete listing of Entergy Services billing methods. Mr. Barrilleaux's exhibits include the identification of all of the pro forma adjustments to the Transition to Competition costs requested by witnesses sponsoring classes of Transition to Competition costs.

In addition, Mr. Barrilleaux describes how the billing system, with its use of allocation methods, helps ensure that prices charged by Entergy Services to one affiliate are no higher than prices charged to any of its other affiliates for the same item or service.

DOCKET NO. ____________

APPLICATION OF
ENTERGY GULF STATES, INC.
FOR RECOVERY OF
TRANSITION TO COMPETITION COSTS

DIRECT TESTIMONY OF CHRIS E. BARRILLEAUX

TABLE OF CONTENTS

Table of Contents – Chris E. Barrilleaux (continued)

EXHIBITS

Table of Contents – Chris E. Barrilleaux (continued)

I. NAME AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Chris E. Barrilleaux. My business address is 639 Loyola Avenue, New Orleans, LA 70113.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Entergy Services, Inc. ("ESI" or "Entergy Services") as a Project Manager for the Chief Accounting Officer. ESI is a service company established to provide professional services primarily to Entergy's domestic regulated utilities.

Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I have a Master of Business Administration degree from the A.B. Freeman School of Business at Tulane University and a Bachelor of Science degree in Accounting from the University of New Orleans. I am a Certified Public Accountant licensed in the State of Louisiana.

Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I have been employed by subsidiaries of Entergy Corporation ("Entergy" or "ETR") for approximately 18 years and have held various positions in the Accounting organization.[1] Prior to my employment with Entergy, I was employed by the New Orleans Metropolitan Convention and Visitors Bureau, Inc. (formerly known as the Greater New Orleans Tourist & Convention Commission, Inc.) in a key accounting position. My work experience is described in more detail in Exhibit CEB-1.

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. In my present role, I report to the Senior Vice President – Chief Accounting Officer. I am responsible for accounting policy implementation, maintenance, and interpretation. I also work with both accounting and regulatory personnel on various accounting issues related to reporting for Entergy's domestic utility companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE A REGULATORY AUTHORITY?

A. Yes. I testified in EGSI's Public Utility Commission of Texas ("Commission" or "PUCT") Docket No. 22356 and filed testimony in PUCT

[1] When I use the term "Entergy" alone, I am referring to Entergy Corporation and all of its subsidiaries and affiliates. Entergy's domestic utility companies (the "Entergy Operating Companies" or the "Operating Companies") are those regulated affiliates that operate to provide electric and gas service in the United States. These companies are EGSI, Entergy Arkansas, Inc. ("EAI" or "Entergy Arkansas"), Entergy Louisiana, Inc. ("ELI" or Entergy Louisiana"), Entergy Mississippi, Inc. ("EMI" or "Entergy Mississippi"), and Entergy New Orleans, Inc. ("ENOI" or "Entergy New Orleans").

Docket Nos. 20150 and 30123 on behalf of EGSI. I did not testify in Docket No. 20150. In Docket No. 30123, I filed testimony, but the case did not go to hearing. I also have testified about affiliate costs on behalf of Entergy New Orleans, Inc. before the Council of the City of New Orleans, and on behalf of EGSI before the Louisiana Public Service Commission.

II. INTRODUCTION

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The Transition to Competition ("TTC") costs that EGSI seeks to recover ("Total Net Requested") in this docket include both non-affiliate costs incurred by EGSI, and affiliate costs billed by ESI to EGSI. In order to support its presentation of the costs and the demonstration of their reasonableness and necessity, EGSI has organized the costs into logical groupings, or classes, according to the scope of the service being provided. All but two of the 14 TTC classes include both affiliate and non-affiliate costs. (The two exceptions are the TTC-Energy Efficiency Costs class sponsored by Company witness Karen M. Radosevich, which does not include any affiliate costs, and the Customer Care Service class sponsored by Company witness William T. Craddock, which includes only affiliate costs.)

My testimony explains the presentation of these costs. First, I will address several affiliate transaction-related issues such as the affiliate billing processes used by ESI to bill costs to its affiliates, including EGSI, for services rendered. Second, I will explain how the affiliate and non-affiliate portions of the Company's filing are organized. Third, I will describe the affiliate "shared services loader" process through which ESI's own operating costs, including office rent and maintenance, telephone service, information technology services, and human resources services, are billed to the entities that receive service from ESI.

My testimony does not address the costs initially incurred by Entergy's Retail Organization (Entergy Solutions Management Services LLC, Entergy Solutions Select Ltd., Entergy Solutions Essentials Ltd, and others) and then transferred to EGSI. Company witnesses Andrew E. Quick addresses these retail-related costs and transfers.

Q. WHAT INFORMATION DO YOU PROVIDE IN YOUR TESTIMONY?

A. I provide information about the following topics:

Affiliate Transaction-Related Issues

In connection with my discussion of the affiliate billing processes, I will:

(a) provide background information regarding Entergy and its regulated and non-regulated companies;

(b) discuss the regulation of Entergy's affiliate transactions;

(c) describe the affiliate billing process, including discussions regarding project billings and their controls;

(d) discuss the ESI service billings, including an overview of the billing process, a summary of ESI charges to affiliated companies, billing methods, and specific allocation method calculations;

(e) discuss TTC-related billings to EGSI during the transition period; and

(f) describe the pro forma adjustments to the affiliate billings to EGSI included in this filing and discuss these pro forma adjustments that I sponsor.

<u>Cost Layout</u>

In the Cost Layout section of my testimony, I describe how EGSI affiliate and non-affiliate charges have been organized into classes, explain how witness "cost" exhibits and tables are linked together, and provide an exhibit that displays the TTC cost classes with the sponsoring witness for each class, and dollar amount for the class.

In addition, I describe how the information in this filing is presented to establish that:

(a) affiliate costs charged to EGSI are necessary;

(b) affiliate costs charged to EGSI are reasonable;

(c) the prices charged to EGSI for each class of affiliate items are no higher than the prices charged to other Entergy affiliates for the same or similar class of items;

(d) the allocated amounts reasonably approximate the actual cost of affiliate services to EGSI; and

(e) the non-affiliate amounts incurred by EGSI are reasonable and necessary.

EGSI's presentation of this case includes witnesses who will provide testimony to support the reasonableness and necessity of the specific classes of TTC costs that they sponsor. These witnesses will also support the appropriateness of the "billing methods" that are used for the affiliate costs included in the classes that they address. Tables and exhibits in consistent formats accompany each witness's testimony to show the affiliate and non-affiliate percentages of costs for each TTC cost class. As the overview witness on the affiliate billing process, I collect and assemble all of those individual class cost schedules into one exhibit for ease of review (Exhibits CEB-A through CEB-D).

Q. WHY ARE YOU QUALIFIED TO TESTIFY REGARDING THE AFFILIATE BILLING PROCESS FOR SERVICES PROVIDED BY ESI TO EGSI?

A. As Exhibit CEB-1 indicates, I was Manager – Intrasystem Affiliate Billing for approximately five years, three of which were during the 72.5-month period during which the TTC costs subject to this filing were incurred (June 1, 1999 through June 17, 2005). The experience and knowledge of the affiliate billing process that I gained while in this position qualifies me to provide testimony regarding affiliate transactions. My responsibilities in subsequent positions have required that I continue to interact with and stay current on the Entergy Affiliate Billing process and affiliate transactions.

Q. WHAT WERE THE PRINCIPAL AREAS OF YOUR RESPONSIBILITY AS MANAGER – INTRASYSTEM AFFILIATE BILLING?

A. While in this role, I had overall responsibility for various affiliate billing functions. These functions included ESI's billings to affiliates, billings among Entergy's domestic utility companies, and billings from ESI and Entergy's domestic utility companies to Entergy's non-regulated service company, Entergy Enterprises, Inc. ("Entergy Enterprises" or "EEI").

My responsibilities also encompassed reviewing the elements of billable project code requests and approving each billable project code before it became effective. I was responsible for analyzing the amounts billed to affiliates to ensure that the billing process was efficient and effective. I had oversight responsibility for the provision of advice and training to ESI employees regarding affiliate billing issues. My accounting responsibility for ESI as a legal entity included providing information required for the preparation of the United States Securities and Exchange Commission's ("SEC") Form U-13-60, which is an SEC-required informational report addressing affiliate transactions.

Q. WHAT IS THE DOLLAR AMOUNT OF AFFILIATE AND NON-AFFILIATE CHARGES THAT EGSI HAS INCLUDED IN THIS FILING?

A. EGSI is requesting, as of June 17, 2005, $164,240,109 of combined affiliate and non-affiliate charges, Total Net Requested, which includes the attendant Allowance for Funds Used During Construction ("AFUDC"). This amount is displayed in graphic form on Exhibit JFD-1 in the testimony of Company witness Joseph F. Domino. The breakout between the affiliate and non-affiliate costs included within this Total Net Requested is shown on my Exhibit CEB-A.

Q. WHAT EXHIBITS ARE YOU INCLUDING AS PART OF YOUR TESTIMONY?

A. The exhibits that I am including as part of my testimony appear in the Exhibit list following the Table of Contents to this testimony.

III. BACKGROUND INFORMATION REGARDING ENTERGY AND ITS SUBSIDIARIES

Q. PLEASE BRIEFLY DESCRIBE ENTERGY.

A. Entergy owns both regulated and non-regulated companies. Exhibit CEB-2 is an organization chart for the Entergy System, and includes both regulated and non-regulated companies as of June 30, 2005. Exhibit CEB-3 provides a more detailed discussion of the Entergy System.

Q. PLEASE BRIEFLY DESCRIBE ENTERGY AND ITS WHOLLY-OWNED REGULATED SUBSIDIARIES.

A. Entergy owns all of the outstanding common stock of five domestic retail electric utility operating company subsidiaries: EGSI, EAI, ELI, EMI, and ENOI. As of June 30, 2005, these Operating Companies provided electric service to approximately 2.6 million customers in the states of Arkansas, Louisiana, Mississippi, and Texas.

ESI is a service company established to provide professional services primarily to Entergy's domestic regulated utilities.

Entergy also owns all of the outstanding common stock of a number of other subsidiaries that did not bill TTC costs to EGSI. I do not discuss the nature of those other subsidiaries in this testimony.

Q. DOES THIS FILING INCLUDE COSTS ASSOCIATED WITH NON-REGULATED SUBSIDIAIRES?

A. Yes. The TTC costs include costs incurred by Entergy's Retail Organization. As stated, these retail-related TTC costs were transferred from Entergy Retail to EGSI, and are addressed by Company witness Andrew E. Quick. In the interest of completeness, I occasionally refer to these retail-related costs; however, Mr. Quick supports the reasonableness of these costs.

Q. IN REGARD TO THE TTC COSTS, WHICH OF THE ENTERGY SUBSIDIARIES BILLED AFFILIATE CHARGES TO EGSI?

A. The great majority of affiliate-related costs in this case were billed to EGSI by ESI. A portion of the affiliate-related costs also were transferred to EGSI from Entergy Retail. ESI and Entergy Retail are the only affiliates that charged (or transferred) TTC costs to EGSI. The costs that were not billed or transferred to EGSI from these two entities were incurred directly by EGSI.

Q. WHY IS ESI THE SOURCE OF MOST OF EGSI'S TTC AFFILIATE CHARGES?

A. ESI is the service company that provides many common services to its regulated electric utility affiliates, including EGSI. This situation results from the centralization of activities through the creation of service companies. This centralization produces economies of scale that benefit the affiliates that ESI serves. Because the services required by TTC activities are within the scope of the common services readily available from ESI, including contractors retained by ESI, EGSI has been able to take advantage of the resulting economies by utilizing ESI as a primary source of services in completing TTC-related tasks.

Q. PLEASE DESCRIBE THE PURPOSE AND FUNCTION OF ESI.

A. ESI is authorized to conduct business as a service company by a temporary order of the SEC dated March 1963, which was made permanent in March 1965. ESI was formed as, and continues to be, primarily a service company for Entergy's domestic electric utility companies. Costs incurred by ESI to provide services to all regulated companies, including EGSI, are billed at cost and do not produce a profit. ESI performs services for some of Entergy's non-regulated companies through ESI's Service Agreement with EEI.

Q. WHAT TYPES OF SERVICES DOES ESI PROVIDE TO THE ENTERGY COMPANIES?

A. The services ESI provides to its affiliates include general executive, advisory, administrative, accounting, legal, regulatory, and engineering services. These services are provided in accordance with Service Agreements entered into by ESI and the affiliates to which it provides services. The Service Agreements between ESI and its affiliated domestic electric utility companies are included as Exhibit CEB-4A-4H. These Service Agreements between ESI and its affiliates outline the general types of services ESI provides. The Service Agreement between ESI and Gulf States Utilities Company (now EGSI) was entered effective December 31, 1993, upon the consummation of the merger between Gulf States Utilities Company (now EGSI) and Entergy.

ESI provides services according to functional groupings that reflect the way ESI is organized. For example, ESI's Legal Services Organization provides legal services on a centralized basis to all the Entergy Operating Companies.

The types and amount of services provided by ESI vary among the Operating Companies, depending on the types of services they require during any given period of time. For example, if an affiliated utility is developing a rate case (or a TTC case) filing, that utility may rely more heavily on centralized legal and accounting services from ESI than it would at other times.

Q. IS THE SERVICE AGREEMENT BETWEEN ESI AND EGSI DIFFERENT FROM THE SERVICE AGREEMENTS ESI HAS WITH THE OTHER SYSTEM COMPANIES?

A. No. The Service Agreements between ESI and each of the other System companies discussed previously are the same in substance as the Service Agreement between ESI and EGSI.

Q. WHAT TYPES OF SERVICES ARE PROVIDED BY ESI TO THE NON-REGULATED COMPANIES THROUGH ENTERGY ENTERPRISES?

A. Although ESI was formed to serve primarily Entergy's regulated domestic utility operations, there are two general categories of services that ESI renders to the non-regulated companies through EEI. First, there are those costs for services that are provided for the sole benefit of EEI or a non-regulated affiliate. These costs are billed 100% to EEI. For instance, ESI provides services with regard to specific non-routine projects, international tax issues, or legal, accounting, and other support services directly associated with Entergy Enterprises or a non-regulated affiliate.

Second, EEI is billed for a portion of ESI's overhead and departmental costs. ESI, like any corporation, incurs costs that are necessary to maintain and support its existence. Therefore, ESI's expenses for its own overhead costs such as accounting, tax, legal, and other support must be distributed reasonably to all of the legal entities that

ESI serves, including EEI. Further, each department within ESI must incur costs that are not related to any specific service, but instead represent the basic costs of maintaining each department. EEI is billed for a portion of these costs. These include items such as administrative labor costs associated with office and general service employees (including not only salaries and wages but also other related employment costs), rent and utilities, depreciation, materials and supplies, telephone use, and postage. Again, each affiliate that ESI serves must pay its appropriate share of such costs. I discuss ESI's overhead and departmental costs in more detail later in my testimony.

Q. DOES ESI PROVIDE ANY SERVICES TO THE ENTERGY RETAIL ORGANIZATION OR THE NON-REGULATED COMPANIES FREE OF CHARGE OR AT A DISCOUNT?

A. No. ESI costs incurred to provide services to its regulated affiliates are billed at cost, and to non-regulated affiliates at cost plus 5% (pursuant to a June 1999 SEC order).

IV. AFFILIATE TRANSACTION REGULATION

Q. ARE YOU FAMILIAR WITH THE STANDARDS USED BY THE COMMISSION TO DETERMINE THE REASONABLENESS OF EXPENSES ASSOCIATED WITH AFFILIATE TRANSACTIONS, AND THE ELIGIBILITY OF SUCH EXPENSES FOR RECOVERY?

A. Yes. Section 36.058 of the Public Utility Regulatory Act, as well as the PUCT's Order in PUCT Docket No. 16705, sets forth the Commission's affiliate standard. This standard involves a four-part inquiry as to: (1) the necessity of the affiliate services on a class of items basis; (2) the reasonableness of the costs related to the class; (3) the compliance with the "no higher than" standard which requires that the price for the same or similar services rendered be no higher for one affiliate than for another; and (4) the price charged must approximate the actual cost of providing services. I also note that the recent 79th Texas Legislature amended PURA § 36.058 to authorize the PUCT to set a reasonable cost for an affiliate item or class of items, in the event that the utility is found to not otherwise have proven up reasonableness and necessity of the cost of that item or class of items. This amendment, and its effect on the affiliate standard, is discussed in more detail in the testimony of Company witness Dennis R. Thomas.

Q. WHAT OTHER REGULATORY REQUIREMENTS REGARDING AFFILIATE TRANSACTIONS ARE RELEVANT TO A REVIEW OF AFFILIATE TRANSACTIONS?

A. Entergy is a holding company registered under the Public Utility Holding Company Act of 1935 ("PUHCA") and, therefore, is subject to the oversight of the SEC. (PUHCA was repealed after June 17, 2005—the end of the TTC cost period in this filing.) ESI is a service company established in accordance with PUHCA and is also subject to regulation by the SEC. Section 13(b) of PUHCA prohibits the performance of service, sales, and construction contracts, as well as the performance of services by an affiliate service company or any other affiliate on behalf of an affiliate, unless such contracts or services are in accordance with SEC rules and regulations. It states in pertinent part that:

> After April 1, 1936, it shall be unlawful for any subsidiary company of any registered holding company or for any mutual service company, by use of the mails or any means or instrumentality of interstate commerce or otherwise, to enter into or take any step in the performance of any service, sales, or construction contract by which such company undertakes to perform services or construction work for, or sells goods to, any associate company thereof except in accordance with such terms and conditions and subject to such limitations and prohibitions as the Commission by rules and regulations or order shall prescribe as necessary or appropriate in the public interest or for the protection of investors or consumers and to insure that such contracts are performed economically and efficiently for the benefit of such associate companies at cost, fairly and equitably allocated among such companies.

ESI's compliance with the SEC standard helps to ensure that affiliate costs are properly allocated. Also, the SEC conducts periodic audits of service company transactions and reviews requests for new billing allocation methods. The most recent SEC audit report for ESI is included in Exhibit CEB-5.

V. THE ESI AFFILIATE BILLING PROCESS

Q. PLEASE DESCRIBE THE AFFILIATE TRANSACTIONS THAT PRIMARILY AFFECT EGSI'S TTC COSTS.

A. Other than the TTC costs that were transferred from the Entergy Retail Organization to EGSI, the affiliate portion of EGSI's TTC are comprised of costs that either were (1) billed directly from ESI to EGSI, (approximately 65%); or (2) allocated by ESI to EGSI and other ESI affiliates (approximately 35%). Exhibit CEB-8 shows this differentiation in more detail. Please refer to Company witness Quick's testimony for a discussion of the billings from the Energy Retail Organization to EGSI.

Q. PLEASE DESCRIBE THE PROCESS USED BY ESI TO CHARGE AFFILIATES FOR SERVICES PROVIDED.

A. ESI uses a project billing mechanism to bill affiliates for services rendered. Project billings are transactions billed to affiliates for services rendered using "project codes" to determine how costs should be billed to affiliates. A project code (or "PC") is an alpha-numeric attribute assigned to ESI costs when recorded in order to capture costs incurred by ESI in performing a particular service or task for its affiliates. When a project code is established, a "scope statement" is also developed for that project code. The scope statement sets out, in narrative form, the type of work that will be performed under the associated project code. Specifically, the PC scope statement: describes the project purpose and activities, the primary deliverables that will result from the services provided, and the rationale for the billing method that is assigned to that PC. Exhibit CEB-6 includes a more detailed discussion of the ESI affiliate billing process.

Q. PLEASE EXPLAIN HOW THE ESI AFFILIATE CHARGES ARE RECORDED ON EGSI'S BOOKS.

A. As described in Exhibit CEB-6 and the related attachments, the company (*e.g.*, EGSI) billed by its affiliate (*e.g.*, ESI) books its affiliate transactions to the appropriate FERC accounts, and records a corresponding payable for the amount due to the service provider (*e.g.*, ESI). The TTC costs transferred to EGSI from the Entergy Retail Organization are accounted for in a similar manner.

Q. PLEASE SUMMARIZE THE CONTROLS THAT HAVE BEEN ESTABLISHED TO HELP ENSURE THAT ESI BILLINGS TO AFFILIATES PROPERLY REFLECT THE ACTUAL COST OF AN ITEM OR SERVICE.

A. There are several controls in place to help ensure that ESI billings to affiliates represent the actual costs of items or services provided to such affiliates. These process controls are:

- Multiple Approvals of Project Codes (PCs)
- Approval of Source Documentation
- Budget Process Activities

- Monthly Variance Analysis and Routine Testing of Billing Results
- Authorization Required to Access Corporate Applications
- Billing Analysis Review Team ("BART") Monthly Reviews of ESI Billings
- Employee Training
- Internal Reviews of Affiliate Transactions and Processes
- External Reviews and Audits of Affiliate Transactions and Processes

Each of the controls is an integral part of a multi-faceted process that is designed to bill the appropriate share of reasonable and necessary costs to the Operating Companies. Please refer to Exhibit CEB-6 for a more detailed description of these affiliate billing controls.

VI. ESI SERVICE BILLINGS

A. Overview of the ESI Billing Process

Q. DESCRIBE THE ESI BILLING PROCESS.

A. As discussed in Exhibit CEB-6, ESI's costs of rendering services, including overheads such as ESI's own tax obligations and accounting, interest and corporate costs, are captured in PCs and subsequently billed to affiliates through a project code. Accounting for ESI charges is performed in accordance with the FERC Uniform System of Accounts ("FERC USOA").[2]

[2] The SEC letter approving ESI's use of the FERC USOA is attached as Exhibit CEB-9.

A breakdown of ESI's billings by project code for TTC costs is shown in Exhibit CEB-7.[3]

Q. HOW DOES THE ESI AFFILIATE BILLING PROCESS ENSURE THAT THE COSTS CHARGED BY ESI TO EGSI ARE NO HIGHER THAN THE COSTS CHARGED TO OTHER AFFILIATES FOR THE SAME ACTIVITIES AND SERVICES?

A. The following features of the ESI billing process help ensure that ESI does not charge a higher cost to EGSI than to other affiliates for the same activities and services:

1) ESI always bills its services to regulated companies at cost, with no profit added; therefore, there is no incentive for ESI to bill different affiliates using different profit margins;

2) ESI uses "billing methods" to allocate the cost of its services among the affiliates receiving those services. By billing method, I mean the allocation factor that determines how much of the cost of a particular service performed on a centralized basis is assigned to each of the affiliates receiving that service. The billing method is selected based on the principle of cost causation to ensure that every affiliate that receives the service, and thus causes the cost in the project code, is appropriately included in the allocation of costs. For example, if the level of service provided is dependent on the number of employees receiving the service at each Entergy Operating Company, then the billing method used would allocate costs based on the number of employees for each such affiliate; and

3) only one billing method is assigned to each PC; all affiliates that receive the service are charged at the same unit rate for a given

[3] Exhibit CEB-8 provides direct vs. allocated ESI billings for TTC costs during the transition cost period. This exhibit shows that direct billings accounted for 65% of the ESI affiliate TTC charges.

PC; therefore, the cost for a given unit of service is equal for all affiliates receiving the service.

Q. HOW DOES THE ESI AFFILIATE BILLING PROCESS ENSURE THAT THE PRICE CHARGED BY ESI TO EGSI REASONABLY APPROXIMATES THE ACTUAL COST OF SERVICES?

A. With respect to direct billings (that is, billings from ESI for services provided directly to a single affiliate), because ESI charges no more than actual costs for services provided to regulated companies, the price charged to EGSI represents the actual costs. With respect to allocated costs, because ESI charges the regulated companies at cost and utilizes the principle of cost causation in identifying a billing method, the unit price charged to EGSI represents the actual cost of the level of services that EGSI receives.

Q. DOES YOUR TESTIMONY INCLUDE A SUMMARY OF CONTROLS TO ENSURE THE ACCURACY OF THE ESI AFFILIATE BILLINGS?

A. Yes, those controls are generally summarized in the ESI Affiliate Billing Process section of my testimony. In addition, those are discussed in more detail in Exhibit CEB-6.

Q. ARE THERE ANY REVIEWS OF THE CONTROLS OVER THE ACTIVITIES AND SERVICES, AND THE RELATED COSTS THAT ESI PROVIDES?

A. Yes. ESI's internal audit organization, referred to as Risk Management Services, reviews the controls and performs tests of transactions and balances related to affiliate billings on a periodic basis. In May of 2002, Internal Audit completed a review of ESI's billing process.[4] The review checked the controls in place with regard to the ESI billing process. The audit included a review of the establishment of a PC, including the associated scope statements and billing methods, as well as the automated billing process. Although some suggestions for specific controls were offered, the general findings were that adequate controls are in place to ensure that costs incurred and billed to regulated and non-regulated companies are allocated accurately, completely, and timely.

In addition, external reviews and audits of affiliate transactions and processes are conducted routinely for Entergy. For instance, Deloitte & Touche LLP performs certain agreed upon procedures annually at the request of Entergy to satisfy a requirement included in an October 1992 Settlement Agreement between certain regulators and Entergy. Deloitte & Touche LLP selects several intercompany transactions billed to Entergy Enterprises by Entergy affiliates to ensure that they were billed in accordance with PUHCA affiliate billing requirements. Deloitte & Touche LLP's "Report of Independent Accountant on Applying Agreed-Upon

[4] W/P CEB-3 is a copy of the Risk Management Report on the Intra-System Billing Process.

Procedures" for the year ended December 31, 2004, is included as Attachment 4 to Exhibit CEB-6.

In addition, the annual external audit of Entergy and its subsidiaries' financial statements performed by Deloitte & Touche LLP helps to detect whether the inter-company accounts and billing processes are producing any material misstatements in the financial statements.

Further, the SEC periodically conducts audits of service companies which include an examination of the service company books, records, accounts, billing procedures, and billing methods. During the course of these audits, the SEC, among other tasks, reviews transactions to test for compliance with the "at cost" requirements under PUHCA and to evaluate the appropriateness of the allocation of the transaction costs. The SEC does not have a defined schedule for performing service company audits. However, these audits are generally conducted about every five years. The most recent SEC audit of ESI covered calendar years 1999, 2000, and the first six months of 2001. The SEC staff conducted this latest audit in the fall of 2001. Based on its evaluation of ESI's overall accounting system, internal controls, and methods of allocation, the SEC Examination Staff concluded, subject to several qualifications, that ESI is in compliance with applicable sections of PUHCA.[5]

[5] Exhibit CEB-5 includes an excerpt from the SEC Examination Staff's November 29, 2001 audit report. The SEC's findings and ESI's responses in connection with the audit are included in W/P CEB-4.

Q. DO YOU HAVE ANY INDEPENDENT VERIFICATION THAT THE ESI AFFILIATE BILLING PROCESS FUNCTIONED PROPERLY DURING THE TTC COST PERIOD OF JUNE 1, 1999 THROUGH JUNE 17, 2005?

A. Yes. The public accounting firm of PricewaterhouseCoopers LLP (PwC) reviewed affiliate service charges billed to EGSI for TTC projects during the cost period June 1, 1999 through March 31, 2005. PwC also performed a review of the PC scope statements associated with the TTC project codes. Company witness Mark W. Niehaus of PwC addresses this review in his testimony. The PwC findings are consistent with those it made in 2004 with regard to the Company's filing in Docket No. 30123, and the findings of Deloitte Touche in 2001 in Docket No. 22356, and in 1998 in Docket No. 20150, in which it was concluded that the procedures and methods used by ESI were appropriate.

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF PWC'S CONCLUSIONS RELATING TO ITS REVIEW OF ESI SERVICE CHARGES FOR TTC COSTS.

A. PwC concluded that the cost assignment process results in billings to affiliates that reasonably reflect the actual cost of the services provided and that the existing control procedures and cost assignments were consistently applied. PwC also concluded that prices paid by EGSI for affiliate services were no higher than unit prices paid by other affiliates for similar services. In addition, PwC observed that the project billing method assignments appeared to be appropriate in relation to the nature of the services provided and their recipients. Further, PwC identified, reviewed, and tested internal controls related to the billing process including the accumulation and distribution of affiliate costs. PwC did not identify any exceptions during this review. Please refer to the Direct Testimony of Company witness Niehaus for more information regarding this PwC review.

Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF PWC'S CONCLUSIONS ABOUT ITS REVIEW OF THE TTC PROJECT CODE SCOPE STATEMENTS.

A. PwC concluded that the PC scope statements adequately describe the project purpose, activities, primary products, and rationale for billing method assignment. Based on its review, in addition to its findings discussed above with regard to the appropriateness of the billing methods assignments, PwC also concluded that the billing methods used to allocate affiliate costs to EGSI, as reflected on the PC scope statements, on a cost causative basis were reasonable and proper and result in charges to affiliates that reasonably approximate the actual costs of services provided. PwC also found that cost assignment procedures were consistently applied. PwC did not identify any exceptions during this review.

B. ESI Billing Methods

1. Billing Method Overview

Q. HOW DOES THE ESI BILLING METHOD CHOSEN FOR A PROJECT CODE ENSURE THAT EGSI IS BILLED ONLY THOSE COSTS ATTRIBUTABLE TO IT?

A. Project codes are established by authorized ESI employees. When a new PC is set up, the preparer of the request determines how the PC should bill the costs associated with it. This is done by either selecting a billing method that directly bills a single affiliate based upon an SEC-approved method (if only one affiliate will receive services), or selecting a billing method that allocates costs based on an SEC-approved formula. Billing methods that allocate costs are often referred to as "allocation methods." The preparer assigns a billing method to the PC based on the driver of the cost (*e.g.*, number of customers, or number of employees, or amount of labor dollars billed during a year) and the services received by the legal entities.

As described in Exhibit CEB-6, after the preparer of a PC request selects a billing method, it is reviewed for reasonableness by both the intermediate approver of the PC and ESI's Intra-system Affiliate Billing department. If the billing method selected does not appear to reflect cost-causation, the reviewer (*i.e.*, the individual who is responsible for reviewing and approving/disapproving a PC request) may contact the preparer for clarification on why the billing method was chosen, or he or she may reject the request until the billing method is adequately justified or another billing method is selected to ensure that the billing method is appropriate for the services provided under the PC. Attachment 2 to Exhibit CEB-6 contains ESI's guidelines for preparing project code scope statements including the selection and justification of a cost-causative billing method.

Q. DOES ESI EVER USE MORE THAN ONE BILLING METHOD FOR A GIVEN PC?

A. No. Because each PC captures a specific service, each PC has only one billing method assigned to it, and the billing method is selected to ensure that every affiliate receiving the service also receives an appropriate allocation. Therefore, the costs related to all services performed under a PC are allocated among affiliates using the same criterion (such as number of accounts payable transactions or number of customers). The use of a single billing method ensures that all affiliates causing costs to be incurred and receiving the service pay an appropriate proportion of the costs. This also ensures that the affiliates are, in total, charged no more and no less than 100% of the costs for services provided under the PC. Also, the use of a single billing method, which is assigned based on cost causation principles, ensures that each affiliate is paying the same per unit price for the same service, and that the prices charged to EGSI are no higher than the prices charged by ESI to the other affiliates for similar services.

Q. ARE THERE ANY INSTANCES IN WHICH THE BILLING METHOD ASSIGNED TO A PROJECT CODE IS CHANGED?

A. Yes. Although the billing method generally remains the same, there are instances in which a billing method assigned to a PC is changed. In the course of internal and external reviews, it may be determined that there is a more appropriate billing method than the one assigned to a given PC. For example, a change in the nature of the services provided under a PC might suggest that the assigned billing method be re-evaluated for appropriateness. This occurred when Arkansas suspended efforts to move toward retail open access. When Arkansas did so, the TTC-related project codes were reviewed to identify those codes with billing method "TTC," which billed costs to EAI and EGSI. Because of Arkansas's decision, the TTC-related project codes that had been assigned billing method "TTC" were revised prospectively to reflect a billing method that billed costs captured under these project codes 100% to EGSI. Thus, a billing method might change because of the request and approval of a billing method that became necessary as a result of changing business activities.