SOAH DOCKET NO. 473-06-0092
PUC DOCKET NO. 31544

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

REBUTTAL TESTIMONY

OF

THOMAS R. MANASCO

ON BEHALF OF

ENTERGY GULF STATES, INC.

FEBRUARY 10, 2006

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R-00050

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APPLICATION OF
ENTERGY GULF STATES, INC.
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REBUTTAL TESTIMONY OF THOMAS R. MANASCO

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EXHIBITS

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas R. Manasco. My business address is 500 Clinton Center Drive, Clinton, Mississippi, 39056.

Q. ARE YOU THE SAME THOMAS R. MANASCO WHO FILED DIRECT TESTIMONY IN THIS DOCKET ON AUGUST 24, 2005?

A. Yes. For both my direct and rebuttal testimony, I am testifying on behalf of Entergy Gulf States, Inc. ("EGSI" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to testimony filed by State's witness Higgins who asserts that EGSI did not meet its burden of proof with regard to TTC costs, including the TTC costs in my cost classes, and his assertions regarding the contractor invoices that I supplied as work papers to my testimony and exhibits. I also respond to TIEC witness Pollock's request that the Commission disallow a significant portion of the Texas SET and Load Profiling and Data Aggregation Class costs that I sponsor. Finally, I respond to OPC witness Szerszen's request that the Commission disallow cell phones and expenses.

Q. DO YOU SPONSOR ANY EXHIBITS TO YOUR REBUTTAL TESTIMONY?

A. Yes. I sponsor Exhibit TRM-R-1, which is a copy of the Load Serving Entity Agreement (LSE Agreement) between EGSI and ERCOT.

II. RESPONSE TO STATE'S WITNESS HUGH HIGGINS

Q. STATE'S WITNESS HIGGINS, ON PAGES 11 – 15 OF HIS PREFILED TESTIMONY, ASSERTS THAT THERE WAS A LACK OF ORIGINAL DOCUMENTS AND INVOICES, AND COMPLAINS THAT YOU FILED SOME OF YOUR WORKPAPERS LATE. WHAT IS YOUR POSITION ON THESE CLAIMS?

A. My work papers in the form of invoices supporting my cost classes were not filed until November 8, 2005. We discovered that they had not been filed with my testimony during the course of responding to RFIs from the intervenors. However, we did file these additional work papers as soon as we realized that they had not yet been filed or provided to the parties and that filing and service was done over two months before intervenor testimony was due.

Q. STATE'S WITNESS HIGGINS, ON PAGE 13 OF HIS PREFILED TESTIMONY, QUESTIONS WHETHER SOME INVOICES WERE "PERHAPS MORE APPLICABLE TO THE ON-GOING ARKANSAS (EAI) PROCEEDING". IS HIGGINS' PERCEPTION CORRECT?

A. No, it is not. Mr. Higgins is referring to a number of IBM invoices that referred to "EAI" or "EAI consulting" which, in the context of IBM's work on

the market mechanics project, meant "Enterprise Application Integration," not Entergy Arkansas, Inc. Enterprise Application Integration (EAI) is software and technology used by Entergy to facilitate the interface of internal systems, and was used by the project team and its vendors on the Texas market mechanics project.

Q. STATE'S WITNESS HIGGINS, ON PAGES 13 AND 14 OF HIS PREFILED TESTIMONY, SUGGESTS THAT ENTERGY "INTENTIONALLY BLOCKED OUT EXPLANATORY DETAILS" ON SOME INVOICES. IS MR. HIGGINS' SUGGESTION CORRECT?

A. No, it is not. No invoice detail was intentionally omitted or blocked. In the process of scanning several thousand invoices some legal-sized documents such as those referred to by Mr. Higgins did not scan completely. The Company was unaware of this situation until receipt of Mr. Higgins' testimony. The Company would have provided the fully legible copies during the discovery process if this matter had been called to its attention. In any event, I have included complete copies of these invoices in work paper WP/TRM-R-1.

Q. STATE'S WITNESS HIGGINS, ON PAGE 14 OF HIS PREFILED TESTIMONY, NOTES THE DUPLICATION OF SOME INVOICES. CAN YOU CLARIFY?

A. Yes. Duplicate copies of invoices were retained by different groups during the course of the project to support project control processes, and to ensure invoice verification and payment processes. In compiling the invoices for this filing, some invoice copies were erroneously included twice when copied and scanned for production. Duplicate copies of invoices do not mean duplicate charges were included in the TTC costs. I have found no duplicate charges in the TTC costs that I sponsor.

III. RESPONSE TO TIEC'S WITNESS JEFFRY POLLOCK

Q. TIEC WITNESS POLLOCK ON PAGES 21 – 25 OF HIS TESTIMONY ARGUES THAT A SIGNIFICANT PORTION OF YOUR TEXAS SET/LPDA CLASS COSTS SHOULD BE DISALLOWED. HE BASES THAT ARGUMENT ON AN ALLOCATION BASED ON THE NUMBER OF CUSTOMER TRANSACTIONS. DO YOU AGREE WITH HIS APPROACH AND ASSUMPTIONS?

A. No. Mr. Pollock appears to take a high level and over-simplified approach in which he proposes allocating the overall costs of the distribution and retail related SET transactions between distribution (TDSP) and retail (ESAT PTB and POLR REPs and the ERCOT REP) by prorating the combined total costs of the SET transaction information flows based on the relative percentage of the total number of SET transactions attributable to distribution and retail. This approach assumes that (1) all SET transactions are equally complex, (2) the version changes leading up

to Version 2.0 required the same amount of work for each SET transaction, and (3) that each SET transaction required equal amounts of work by a TDSP and retail company. Mr. Pollock's approach thereby ignores the varying complexities of the individual transactions and the work required for implementation.

The Texas SET Implementation Guides posted on ERCOT's website[1] gives a good indication of the varying degrees of complexity of the SET Transactions. For example, the implementation guide (market requirements) for the 650-05 Service Order transaction contains less than 15 pages of instructions and required relatively few changes across the SET versions, whereas the implementation guide for the 867-03 Meter Reading transaction contains over 100 pages of instructions and required numerous changes across the SET Versions. Implementation guides for other transactions range from as few as 20 pages to 70 pages. It was these varying degrees of complexity and revisions of the SET transactions that drove the cost of developing the programs and information systems needed to handle the transactions. It is not a generic cost that applies equally to all types of SET transactions or market participants.

In any event, the Texas SET costs in this TTC case are the actual costs incurred for Texas SET, as such costs were charged to the applicable TTC-related project codes. I explain in detail in my Direct

[1] http://www.ercot.com/mktrules/guides/txset/2.0/index.html

Testimony why those costs are both reasonable and necessary. Mr. Pollock's approach ignores both the actual cost and the nature of the different transactions. He instead constructs an equation, based on the false premises that SET transaction costs are spread relatively equally between the TDSP and the Retail SET transactions' information flows.

IV. RESPONSE TO OPC'S WITNESS CAROL SZERSZEN

Q. ON PAGE 22 OF HER TESTIMONY, OPC WITNESS SZERSZEN RECOMMENDS A DISALLOWANCE OF $25.8 THOUSAND IN TTC COSTS RELATED TO CELL PHONES AND EXPENSES. SOME OF THESE COSTS ARE INCLUDED WITHIN YOUR CLASSES. WHY ARE THESE CHARGES RECOVERABLE TTC COSTS?

A. The distribution market mechanics project encompassed multiple work locations including Entergy's New Orleans and Little Rock offices, vendor locations in several states, and required continuous travel to and from the numerous collaborative meetings in Austin. The use of cell phones and pagers supported the ability of the project team members to be able to attend the various the meetings as they managed the market mechanics project.

The portion of Ms. Szerszen's $25,760.85 disallowance for pagers and cell phones included in my costs is $20,010.13. These costs were primarily distributed among Project Codes TTTCAT (related to Texas SET and Load Profiling and Data Aggregation implementation), DTXPIL

(related to pilot operations), and TS465J (related to reviewing and adapting the distribution business processes for retail open access). These pager and cell phone costs in these projects are part of the costs that I have already supported and justified in my direct testimony.

V. CONCLUSION

Q. DO YOU HAVE ANY CHANGES OR REVISIONS TO YOUR DIRECT TESTIMONY THAT YOU CAN MAKE AT THIS TIME?

A. Yes.

On page 1-418, line 22: change "pages 2 through 4 of Exhibit TRM-6" to "pages 3 through 5 of Exhibit TRM-5".

On page 1-423, line 18: change "41" to "27".

On page 1-425, line 1: change "33" to "27"

On page 1 – 428, line 22: change "31" to "16"

On page 1-442, line 14: change "...approximately five years" to "approximately three years".

On page 1-443, line 24: change "Exhibit TRM-17" to "Exhibit TRM-15".

On page 1-445, line 15: change "Exhibit TRM-14" to "Exhibit TRM -13".

On page 1-447, line 12: change "Exhibit TRM-13" to "Exhibit TRM-14".

On page 1-476, line 10: change "($10,431,259.94)" to "($1,216,209.81)".

At page 1-705, Exhibit TRM-22: The exhibit should have been the "LSE" agreement, rather than the "TDSP" agreement. I have included the correct agreement as my Exhibit TRM-R-1 to this rebuttal testimony.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, at this time.

ERCOT
THE TEXAS CONNECTION

May 25, 2001

L. Barry Howell
Project Manager, Regulatory Affairs - Texas
Entergy Gulf States, Inc.
919 Congress, Suite 840
Austin, TX 78701

Dear Mr. Howell:

On behalf of the Electric Reliability Council of Texas, Inc. (ERCOT), I am pleased to advise that your Application for Registration as a Load Serving Entity (LSE) has been approved.

Enclosed are two copies of the ERCOT Standard Form Load Serving Entity Agreement. Please execute both copies; retain one copy for your files, and return the other copy to the following address within seven (7) days from the date of this letter:

ERCOT
Attention: Market Participant Registration
2705 West Lake Drive
Taylor, Texas 76574

You may receive additional ERCOT Agreements for execution as your registration is completed. For questions about your registration or other transactions with ERCOT, please contact your assigned Client Representative, Brett Hunsucker at (512) 248-6509 or by e-mail at bhunsucker@ercot.com..

Sincerely,

Sam R. Jones
Executive Vice President & Chief Operating Officer
Electric Reliability Council of Texas, Inc.

Enclosures: Standard Form Load Serving Entity Agreement (2)

Austin
7620 Metro Center Drive
Austin, Texas 78744
Tel. 512. 225. 7000 | Fax 512. 225. 7020

Taylor
2705 West Lake Drive
Taylor, Texas 76574
Tel. 512. 248. 3000 | Fax 512. 248. 3095

ERCOT
THE TEXAS CONNECTION

Standard Form Load Serving Entity Agreement
Between
Entergy Gulf States, Inc.
And
Electric Reliability Council of Texas, Inc.

This Load Serving Entity Agreement ("Agreement"), effective as of the twenty-fifth of May, 2001 ("Effective Date"), is entered into by and between Entergy Gulf States, Inc., a Texas corporation ("Participant") and Electric Reliability Council of Texas, Inc., a Texas non-profit corporation ("ERCOT").

Recitals

WHEREAS:

A. Participant is a Load Serving Entity as defined in the ERCOT Protocols that provides or desires to provide electric services to retail customers in the state of Texas;

B. ERCOT is the Independent Organization under PURA §39.151 for the ERCOT Region; and

C. The Parties enter into this Agreement in order to establish the terms and conditions by which ERCOT and Participant will discharge their respective duties and responsibilities under the ERCOT Protocols.

Agreements

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, ERCOT and Participant (the "Parties") hereby agree as follows:

Section 1. Notice:

All notices required to be given under this Agreement shall be in writing, and shall be deemed delivered three days after being deposited in the U.S. mail, first class postage prepaid, registered (or certified) mail, return receipt requested, addressed to the other Party at the address specified in this Agreement or shall be deemed delivered on the day of receipt if sent in another manner requiring a signed receipt, such as courier delivery or Federal Express delivery. Either Party may change its address for such notices by delivering to the other Party a written notice referring specifically to this Agreement. Notices required under the ERCOT Protocols shall be in accordance with the applicable Section of the ERCOT Protocols.

If to ERCOT:

Electric Reliability Council of Texas, Inc.
7620 Metro Center Drive
Austin, Texas 78744
Tel No. (512) 225-7000

If to Participant:
Entergy Gulf States, Inc.
919 Congress, Suite 840
Austin, TX 78701

Section 2. Definitions.

A. Unless herein defined, all definitions, and acronyms found in the ERCOT Protocols shall be incorporated by reference into this Agreement.

B. "ERCOT Protocols" shall mean the document adopted by ERCOT, including any attachments or exhibits referenced in that document, as amended from time to time, that contains the scheduling, operating, planning, reliability, and settlement (including customer registration) policies, rules, guidelines, procedures, standards, and criteria of ERCOT. For the purposes of determining responsibilities and rights at a given time, the ERCOT Protocols, as amended in accordance with the change procedure(s) described in the ERCOT Protocols, in effect at the time of the performance or non-performance of an action, shall govern with respect to that action.

Section 3. Term and Termination.

A. Term. The initial term ("Initial Term") of this Agreement shall commence on the Effective Date and continue until the next March 31, or until March 31, 2002, whichever is later. After the Initial Term, this Agreement shall automatically renew for one-year terms (a "Renewal Term") unless the standard form of this Agreement contained in the ERCOT Protocols has been modified by a change to the ERCOT Protocols. If the standard form of this Agreement has been so modified, then this Agreement will terminate at the end of the Initial Term or Renewal Term in which such modification occurred. This Agreement may also be terminated during the Initial Term or the-then current Renewal Term in accordance with this Agreement.

B. Termination by Participant. Participant may, at its option, terminate this Agreement: (a) immediately upon the failure of ERCOT to continue to be certified by the PUCT as the Independent Organization under PURA §39.151 without the immediate certification of another Independent Organization under PURA §39.151, or (b) for any other reason at any time upon thirty days written notice to ERCOT.

C. Effect of Termination and Survival of Terms. If this Agreement is terminated by a Party pursuant to the terms hereof, the rights and obligations of the Parties hereunder shall terminate, except that the rights and obligations of the Parties that have accrued under this Agreement prior to the date of termination shall survive.

Section 4. Representations, Warranties, and Covenants.

A. Participant represents, warrants, and covenants that:

(1) Participant is duly organized, validly existing and in good standing under the laws of the jurisdiction under which it is organized, and is authorized to do business in Texas;

(2) Participant has full power and authority to enter into this Agreement and perform all of Participant's obligations, representations, warranties, and covenants under this Agreement;

(3) Participant's past, present and future agreements or Participant's organizational charter or bylaws, if any, or any provision of any indenture, mortgage, lien, lease, agreement, order, judgment, or decree to which Participant is a party or by which its assets or properties are bound do not materially affect performance of Participant's obligations under this Agreement;

(4) The execution, delivery and performance of this Agreement by Participant have been duly authorized by all requisite action of its governing body;

(5) Except as set out in an exhibit (if any) to this Agreement, ERCOT has not, within the 24 months preceding the Effective Date, terminated for Default any Prior Agreement with Participant, any company of which Participant is a successor in interest, or any Affiliate of Participant;

(6) If any Defaults are disclosed on any such exhibit mentioned in subsection 4.A(5), either (a) ERCOT has been paid, before execution of this Agreement, all sums due to it in relation to such Prior Agreement, or (b) ERCOT, in its reasonable judgment, has determined that this Agreement is necessary for system reliability, and Participant has made alternate arrangements satisfactory to ERCOT for the resolution of the Default under the Prior Agreement;

(7) Participant has obtained, or will obtain prior to beginning performance under this Agreement, all licenses, registrations, certifications, permits and other authorizations and has taken, or will take prior to beginning performance under this Agreement, all actions required by applicable laws or governmental regulations except licenses, registrations, certifications, permits or other authorizations that do not materially affect performance under this Agreement;

(8) Participant is not in violation of any laws, ordinances, or governmental rules, regulations or order of any Governmental Authority or arbitration board materially affecting performance of this Agreement and to which it is subject;

(9) Participant is not Bankrupt, does not contemplate becoming Bankrupt nor, to its knowledge, will become Bankrupt;

(10) Participant acknowledges that it has received and is familiar with the ERCOT Protocols; and

(11) Participant acknowledges and affirms that the foregoing representations, warranties, and covenants are continuing in nature throughout the term of this Agreement. For purposes of this Section, "materially affecting performance" means resulting in a materially adverse effect on Participant's performance of its obligations under this Agreement.

B. ERCOT represents, warrants, and covenants that:

(1) ERCOT is the Independent Organization certified under PURA §39.151 for the ERCOT Region;

(2) ERCOT is duly organized, validly existing and in good standing under the laws of Texas, and is authorized to do business in Texas;

(3) ERCOT has full power and authority to enter into this Agreement and perform all of ERCOT's obligations, representations, warranties, and covenants under this Agreement;

(4) ERCOT's past, present and future agreements or ERCOT's organizational charter or bylaws, if any, or any provision of any indenture, mortgage, lien, lease, agreement, order, judgment, or decree to which ERCOT is a party or by which its assets or properties are bound do not materially affect performance of ERCOT's obligations under this Agreement;

(5) The execution, delivery and performance of this Agreement by ERCOT have been duly authorized by all requisite action of its governing body;

(6) ERCOT has obtained, or will obtain prior to beginning performance under this Agreement, all licenses, registrations, certifications, permits and other authorizations and has taken, or will take prior to beginning performance under this Agreement, all actions required by applicable laws or governmental regulations except licenses, registrations, certifications, permits or other authorizations that do not materially affect performance under this Agreement;

(7) ERCOT is not in violation of any laws, ordinances, or governmental rules, regulations or order of any Governmental Authority or arbitration board materially affecting performance of this Agreement and to which it is subject;

(8) ERCOT is not Bankrupt, does not contemplate becoming Bankrupt nor, to its knowledge, will become Bankrupt; and

(9) ERCOT acknowledges and affirms that the foregoing representations, warranties, and covenants are continuing in nature throughout the term of this Agreement. For purposes of this Section, "materially affecting performance" means resulting in a materially adverse effect on ERCOT's performance of its obligations under this Agreement.

Section 5. Participant Obligations.

A. Participant shall comply with, and be bound by, all ERCOT Protocols as they pertain to operations as a Load Serving Entity.

B. Participant shall not take any action, without first providing written notice to ERCOT and reasonable time for ERCOT and Market Participants to respond, that would cause a Market Participant within the ERCOT Region that is not a "public utility" under the Federal Power Act or ERCOT itself to become a "public utility" under the Federal Power Act or become subject to the plenary jurisdiction of the Federal Energy Regulatory Commission.

Section 6. ERCOT Obligations.

A. ERCOT shall comply with, and be bound by, all ERCOT Protocols.

B. ERCOT shall not take any action, without first providing written notice to Participant and reasonable time for Participant and other Market Participants to respond, that would cause Participant, if Participant is not a "public utility" under the Federal Power Act, or ERCOT itself to become a "public utility" under the Federal Power Act or become subject to the plenary jurisdiction of the Federal Energy Regulatory Commission. If ERCOT receives any notice similar to that described in Section 5.B. from any Market Participant, ERCOT shall provide notice of same to Participant.

Section 7. Payment.

For the transfer of any funds under this Agreement directly between ERCOT and Participant and pursuant to the Settlement procedures for Ancillary Services described in the ERCOT Protocols, the following shall apply:

A. Participant appoints ERCOT to act as its agent with respect to such funds transferred and authorizes ERCOT to exercise such powers and perform such duties as described in this Agreement or the ERCOT Protocols, together with such powers or duties as are reasonably incidental thereto.

B. ERCOT shall not have any duties, responsibilities to, or fiduciary relationship with Participant and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement except as expressly set forth herein or in the ERCOT Protocols.

Section 8. Default.

A. Event of Default.

(1) Failure to make payment or transfer funds as provided in the ERCOT Protocols shall constitute a material breach and shall constitute an event of default ("Default") unless cured within three (3) Business Days after delivery by the non-breaching Party of written notice of the failure to the breaching Party. Provided further that if such a material breach, regardless of whether such breach is cured within the allotted time after notice of the material breach, occurs more than three (3) times within a rolling 12-month period, the fourth such breach shall constitute a Default by the breaching Party.

(2) For any material breach other than a failure to make payment or transfer funds, the occurrence and continuation of any of the following events shall constitute an event of Default by Participant:

(a) Except as excused under subsection (4) or (5) below, a material breach, other than a failure to make payment or transfer funds, of this Agreement by Participant, including any material failure by Participant to comply with the ERCOT Protocols, unless cured within fourteen (14) Business Days after delivery by ERCOT of written notice of the material breach to Participant. Participant must begin work or other efforts within three (3) Business Days to cure such material breach after delivery by ERCOT of written notice of such material breach by Participant and must prosecute such work or other efforts with reasonable diligence until the breach is cured. Provided further that if a material breach, regardless of whether such breach is cured within the allotted time after notice of the material breach, occurs more than three (3) times within a rolling 12-month period, the fourth such breach shall constitute a Default.

(b) Participant becomes Bankrupt, except for the filing of a petition in involuntary bankruptcy, or similar involuntary proceedings, that is dismissed within 90 days thereafter.

(3) Except as excused under subsection (4) or (5) below, a material breach of this Agreement by ERCOT, including any material failure by ERCOT to comply with the ERCOT Protocols, other than a failure to make payment or transfer funds, shall constitute a Default by ERCOT unless cured within fourteen (14) Business Days after delivery by Participant of written notice of the material breach to ERCOT. ERCOT must begin work or other efforts within three (3) Business Days to cure such material breach after delivery by Participant of written notice of such material breach by ERCOT and must prosecute such work or other efforts with reasonable diligence until the breach is cured. Provided further that if a material breach, regardless of whether such breach is cured within the allotted time after notice of the material breach, occurs more than three (3) times within a rolling 12-month period, the fourth such breach shall constitute a Default.

(4) For any material breach other than a failure to make payment or transfer funds, the breach shall not result in a Default if the breach cannot reasonably be cured within 14 calendar days, prompt written notice is provided by the breaching Party to the other Party, and the breaching Party began work or other efforts to cure the breach within 3 Business Days after delivery of the notice to the breaching Party and prosecutes the curative work or efforts with reasonable diligence until the curative work or efforts are completed.

(5) If, due to a Force Majeure Event, a Party is in breach with respect to any obligation hereunder, such breach shall not result in a Default by that Party.

B. Remedies for Default.

(1) ERCOT's Remedies for Default. In the event of a Default by Participant, ERCOT may pursue any remedies ERCOT has under this Agreement, at law, or in equity, subject to the provisions of Section 10: Dispute Resolution of this Agreement. In the event of a Default by Participant, if the ERCOT Protocols do not specify a remedy for a particular Default, ERCOT may, at its option, upon written notice to Participant, immediately terminate this Agreement, with termination to be effective upon the date of delivery of notice.

(2) Participant's Remedies for Default.

(a) Unless otherwise specified in this Agreement or in the ERCOT Protocols, and subject to the provisions of Section 10: Dispute Resolution of this Agreement, in the event of a Default by ERCOT, Participant's remedies shall be limited to:

(i) Immediate termination of this Agreement upon written notice to ERCOT,

(ii) Monetary recovery in accordance with the Settlement procedures set forth in the ERCOT Protocols, and

(iii) Specific performance.

(b) However, in the event of a material breach by ERCOT of any of its representations, warranties or covenants, Participant's sole remedy shall be immediate termination of this Agreement upon written notice to ERCOT.

(c) If as a final result of any dispute resolution, ERCOT, as the settlement agent, is determined to have over-collected from a Market Participant(s), with the result that refunds are owed by Participant to ERCOT, as the settlement agent, such Market Participant(s) may request ERCOT to allow Market Participant to proceed directly against Participant, in lieu of receiving full payment from ERCOT. In the event of such request, ERCOT, in its sole discretion, may agree to assign to such Market Participant ERCOT's rights to seek refunds from Participant, and Participant shall be deemed to have consented to such assignment. This subsection (c) survives termination of this Agreement.

(3) A Default or breach of this Agreement by a Party shall not relieve either Party of the obligation to comply with the ERCOT Protocols.

C. Force Majeure.

(1) If, due to a Force Majeure Event, either Party is in breach of this Agreement with respect to any obligation hereunder, such Party shall take reasonable steps, consistent with Good Utility Practices, to remedy such breach. If either Party is unable to fulfill any obligation by reason of a Force Majeure Event, it shall give notice and the full particulars of the obligations affected by such Force Majeure Event to the other Party in writing or by telephone (if followed by written notice) as soon as reasonably practicable, but not later than fourteen (14) calendar days, after such Party becomes aware of the event. A failure to give timely notice of the Force Majeure event shall constitute a waiver of the claim of Force Majeure Event. The Party experiencing the Force Majeure Event shall also provide notice, as soon as reasonably practicable, when the Force Majeure Event ends, except that the excuse from Default provided by subsection 8.A(5) above is still effective.

(2) Notwithstanding the foregoing, a Force Majeure Event does not relieve a Party affected by a Force Majeure Event of its obligation to make payments or of any consequences of non-performance pursuant to the ERCOT Protocols or under this Agreement.

D. Duty to Mitigate. Except as expressly provided otherwise herein, each Party shall use commercially reasonable efforts to mitigate any damages it may incur as a result of the other Party's performance or non-performance of this Agreement.

Section 9. Limitation of Damages and Liability and Indemnification.

A. EXCEPT AS EXPRESSLY LIMITED IN THIS AGREEMENT OR THE ERCOT PROTOCOLS, ERCOT OR PARTICIPANT MAY SEEK FROM THE OTHER, THROUGH APPLICABLE DISPUTE RESOLUTION PROCEDURES SET FORTH IN THE ERCOT PROTOCOLS, ANY MONETARY DAMAGES OR OTHER REMEDY OTHERWISE ALLOWABLE UNDER TEXAS LAW, AS DAMAGES FOR DEFAULT OR BREACH OF THE OBLIGATIONS UNDER THIS AGREEMENT; PROVIDED, HOWEVER, THAT NEITHER PARTY IS LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, PUNITIVE OR CONSEQUENTIAL DAMAGES OR INJURY THAT MAY OCCUR, IN WHOLE OR IN PART, AS A RESULT OF A DEFAULT UNDER THIS AGREEMENT, A TORT, OR ANY OTHER CAUSE, WHETHER OR NOT A PARTY HAD KNOWLEDGE OF THE CIRCUMSTANCES THAT RESULTED IN THE SPECIAL, INDIRECT, PUNITIVE OR CONSEQUENTIAL DAMAGES OR INJURY, OR COULD HAVE FORESEEN THAT SUCH DAMAGES OR INJURY WOULD OCCUR.

B. With respect to any dispute regarding a Default or breach by ERCOT of its obligations under this Agreement, ERCOT expressly waives any Limitation of Liability to which it may be entitled under the Charitable Immunity and Liability Act of 1987, Tex. Civ. Prac. & Rem. Code§84.006, or successor statute.

C. The Parties have expressly agreed that, other than subsections A and B of this Section, this Agreement shall not include any other limitations of liability or indemnification provisions, and that such issues shall be governed solely by applicable law, in a manner consistent with the Choice of Law and Venue subsection of this Agreement, regardless of any contrary provisions that may be included in or subsequently added to the ERCOT Protocols (outside of this Agreement).

Section 10. Dispute Resolution.

A. In the event of a dispute, including a dispute regarding a Default, under this Agreement, Parties to this Agreement shall first attempt resolution of the dispute using the applicable dispute resolution procedures set forth in the ERCOT Protocols.

B. In the event of a dispute, including a dispute regarding a Default, under this Agreement, each Party shall bear its own costs and fees, including, but not limited to attorneys' fees, court costs, and its share of any mediation or arbitration fees.

Section 11. Miscellaneous.

A. Choice of Law and Venue. Notwithstanding anything to the contrary in this Agreement, this Agreement shall be deemed entered into and performable solely in Texas and, with the exception of matters governed exclusively by federal law, shall be governed by and construed and interpreted in accordance with the laws of the State of Texas that apply to contracts executed in and performed entirely within the State of Texas, without reference to any rules of conflict of laws. Neither Party waives primary jurisdiction as a defense; provided that any court suits regarding this Agreement shall be brought in a state or federal court located within Travis County, Texas, and the Parties hereby waive any defense of *forum non-conveniens*, except defenses under Tex. Civ. Prac. & Rem. Code §15.002(b).

B. Assignment.

(1) Notwithstanding anything herein to the contrary, a Party shall not assign or otherwise transfer all or any of its rights or obligations under this Agreement without the prior written consent of the other Party, which shall not be unreasonably withheld or delayed, except that a Party may assign or transfer its rights and obligations under this Agreement without the prior written consent of the other Party (if neither the assigning Party or the assignee is then in Default of any Agreement with ERCOT):

(a) where any such assignment or transfer is to an Affiliate of the Party; or

(b) where any such assignment or transfer is to a successor to or transferee of the direct or indirect ownership or operation of all or part of the Party, or its facilities; or

(c) for collateral security purposes to aid in providing financing for itself, provided that the assigning Party will require any secured party, trustee or mortgagee to notify the other Party of any such assignment. Any financing arrangement entered into by either Party pursuant to this Section will provide that prior to or upon the exercise of the secured party's, trustee's or mortgagee's assignment rights pursuant to said arrangement, the secured creditor, the trustee or mortgagee will notify the other Party of the date and particulars of any such exercise of assignment right(s). If requested by the Party making any such collateral assignment to a Financing Person, the other Party shall execute and deliver a consent to such assignment containing customary provisions, including representations as to corporate authorization, enforceability of this Agreement and absence of known Defaults; notices of Default; and an opportunity for the Financing Person to cure Defaults.

(2) An assigning Party shall provide prompt written notice of the assignment to the other Party. Any attempted assignment that violates this Section is void and ineffective. Any assignment under this Agreement shall not relieve either Party of its obligations under this Agreement, nor shall either Party's obligations be enlarged, in whole or in part, by reason thereof.

C. No Third Party Beneficiary. Except with respect to the rights of other Market Participants in Section 8B and the Financing Persons in Section 11B, (1) nothing in this Agreement nor any action taken hereunder shall be construed to create any duty, liability or standard of care to any third party, (2) no third party shall have any rights or interest, direct or indirect, in this Agreement or the services to be provided hereunder and (3) this Agreement is intended solely for the benefit of the Parties, and the Parties expressly disclaim any intent to create any rights in any third party as a third-party beneficiary to this Agreement or the services to be provided hereunder. Nothing in this Agreement shall create a contractual relationship between one Party and the customers of the other Party, nor shall it create a duty of any kind to such customers.

D. No Waiver. Parties shall not be required to give notice to enforce strict adherence to all provisions of this Agreement. No breach or provision of this Agreement shall be deemed waived, modified or excused by a Party unless such waiver, modification or excuse is in writing and signed by an authorized officer of such Party. The failure by or delay of either Party in enforcing or exercising any of its rights under this Agreement shall (1) not be deemed a waiver, modification or excuse of such right or of any breach of the same or different provision of this Agreement, and (2) not prevent a subsequent enforcement or exercise of such right. Each Party shall be entitled to enforce the other Party's covenants and promises contained herein, notwithstanding the existence of any claim or cause of action against the enforcing Party under this Agreement or otherwise.

E. Headings. Titles and headings of paragraphs and sections within this Agreement are provided merely for convenience and shall not be used or relied upon in construing this Agreement or the Parties' intentions with respect thereto.

F. Severability. In the event that any of the provisions, or portions or applications thereof, of this Agreement is finally held to be unenforceable or invalid by any court of competent jurisdiction, that determination shall not affect the enforceability or validity of the remaining portions of this Agreement, and this Agreement shall continue in full force and effect as if it had been executed without the invalid provision; provided, however, if either Party determines, in its sole discretion, that there is a material change in this Agreement by reason thereof, the Parties shall promptly enter into negotiations to replace the unenforceable or invalid provision with a valid and enforceable provision. If the Parties are not able to reach an agreement as the result of such negotiations within fourteen (14) days, either Party shall have the right to terminate this Agreement on three (3) days written notice

G. Entire Agreement. Any Exhibits attached to this Agreement are incorporated into this Agreement by reference and made a part of this Agreement as if repeated verbatim in this Agreement. This Agreement represents the Parties' final and mutual understanding with respect to its subject matter. It replaces and supersedes any prior agreements or understandings, whether written or oral. No representations, inducements, promises, or agreements, oral or otherwise, have been relied upon or made by any Party, or anyone on behalf of a Party, that are not fully expressed in this Agreement. An agreement, statement, or promise not contained in this Agreement is not valid or binding.

H. Amendment. The standard form of this Agreement may only be modified through the procedure for modifying Protocols described in the ERCOT Protocols. Any changes to the terms of the standard form of this Agreement shall not take effect until a new Agreement is executed between the Parties.

I. ERCOT's Right to Audit Participant. Participant shall keep detailed records for a period of three years of all activities under this Agreement giving rise to any information, statement, charge, payment or computation delivered to ERCOT under the ERCOT Protocols. Such records shall be retained and shall be available for audit or examination by ERCOT as hereinafter provided. ERCOT has the right during Business Hours and upon reasonable written notice and for reasonable cause to examine the records of Participant as necessary to verify the accuracy of any such information, statement, charge, payment or computation made under this Agreement. If any such examination reveals any inaccuracy in any information, statement, charge, payment or computation, the necessary adjustments in such information, statement, charge, payment, computation or procedures used in supporting its ongoing accuracy will be promptly made.

J. Participant's Right to Audit ERCOT. Participant's right to data and audit of ERCOT shall be as described in the ERCOT Protocols and shall not exceed the rights described in the ERCOT Protocols.

K. Further Assurances. Each Party agrees that during the term of this Agreement it will take such actions, provide such documents, do such things and provide such further assurances as may reasonably be requested by the other Party to permit performance of this Agreement.

L. Conflicts. This Agreement is subject to applicable federal, state, and local laws, ordinances, rules, regulations, orders of any Governmental Authority and tariffs. Nothing in this Agreement may be construed as a waiver of any right to question or contest any federal, state and local law, ordinance, rule, regulation, order of any Governmental Authority, or tariff. In the event of a conflict between this Agreement and an applicable federal, state, and local law, ordinance, rule, regulation, order of any Governmental Authority or tariff, the applicable federal, state, and local law, ordinance, rule, regulation, order of any Governmental Authority or tariff shall prevail, provided that Participant shall give notice to ERCOT of any such conflict affecting Participant In the event of a conflict between the ERCOT Protocols and this Agreement, the provisions expressly set forth in this Agreement shall control.

M. No Partnership. This Agreement may not be interpreted or construed to create an association, joint venture, or partnership between the Parties or to impose any partnership obligation or liability upon either Party. Neither Party has any right, power, or authority to enter any agreement or undertaking for, or act on behalf of, or to act as or be an agent or representative of, or to otherwise bind, the other Party except as provided in Section 7A.

N. Construction. In this Agreement, the following rules of construction apply, unless expressly provided otherwise or unless the context clearly requires otherwise:

(1) The singular includes the plural, and the plural includes the singular.

(2) The present tense includes the future tense, and the future tense includes the present tense.

(3) Words importing any gender include the other gender.

(4) The word "shall" denotes a duty.

(5) The word "must" denotes a condition precedent or subsequent.

(6) The word "may" denotes a privilege or discretionary power.

(7) The phrase "may not" denotes a prohibition.

(8) References to statutes, tariffs, regulations or ERCOT Protocols include all provisions consolidating, amending, or replacing the statutes, tariffs, regulations or ERCOT Protocols referred to.

(9) References to "writing" include printing, typing, lithography, and other means of reproducing words in a tangible visible form.

(10) The words "including," "includes," and "include" are deemed to be followed by the words "without limitation."

(11) Any reference to a day, week, month or year is to a calendar day, week, month or year unless otherwise indicated.

(12) References to Articles, Sections (or subdivisions of Sections), Exhibits, annexes or schedules are to this Agreement, unless expressly stated otherwise.

(13) Unless expressly stated otherwise, references to agreements, ERCOT Protocols and other contractual instruments include all subsequent amendments and other modifications to the instruments, but only to the extent the amendments and other modifications are not prohibited by this Agreement.

(14) References to persons or entities include their respective successors and permitted assigns and, for governmental entities, entities succeeding to their respective functions and capacities.

(15) References to time are to Central Prevailing Time.

O. Multiple Counterparts. This Agreement may be executed in two or more counterparts, each of which is deemed an original but all constitute one and the same instrument.

SIGNED, ACCEPTED AND AGREED TO by each undersigned signatory who, by signature hereto, represents and warrants that he or she has full power and authority to execute this Agreement.

Electric Reliability Council of Texas, Inc.:

By: _____

Sam R. Jones

Executive Vice President and Chief Operating Officer

Date: 5/25/01

Participant:

By: _____

L. Barry Howell

Project Manager, Regulatory Affairs - Texas

Date: 6/6/01

cc: Jack Blakley (faxed)

ERCOT
THE TEXAS CONNECTION

RECEIVED

JUN 7 2001

PRESIDENT
ENTERGY TEXAS

June 4, 2001

Mr. Joe Domino, President
Entergy Gulf States, Inc. – Texas Operations
P.O. Box 2951
Beaumont, Texas 77704

RE: Letter regarding the Execution of Load Serving Entity Agreement

Dear Mr. Domino:

In regards to an investor-owned electric utility that (1) provides electric service within Texas but not in the ERCOT Region, (2) is subject to the business separation requirements of Section 39.051 of the Public Utility Regulatory Act of Texas, (3) is supplying energy to retail customers in Texas, and (4) shall not be a retail service provider or otherwise supply energy to retail customers after business separation is complete, hereinafter referred to as "Non-ERCOT Utility," ERCOT Staff interprets the current ERCOT Protocols, as effective on June 1, 2001, as follows:

1. A Non-ERCOT Utility must execute a Load Serving Entity Agreement with ERCOT to be effective during the Texas Retail Pilot period, pursuant to the requirements of the Public Utility Commission of Texas and according to the provisions of the ERCOT Protocols, commencing June 1, 2001, and ending upon final switching of all Non-ERCOT Utility retail customers to a Competitive Retailer.
2. A Non-ERCOT Utility does not require scheduling and settlement transactions and, therefore, is not expected to register as nor designate a Qualified Scheduling Entity.
3. Many of the ERCOT Protocols adopted and incorporated in the LSE Agreement are not applicable to a Non-ERCOT Utility in its limited role during the Texas Retail Pilot period. A Non-ERCOT Utility is not bound by such ERCOT Protocols that are not applicable to it in its limited role.

These interpretations of the ERCOT Staff are not legally binding for any purpose and are not intended to induce any conduct on the part of Entergy. Please take notice that the ERCOT Protocols can change at any time and that ERCOT does not undertake any obligation to notify Entergy of any changes to the ERCOT Protocols.

Sincerely,

Mark A. Walker
Senior Corporate Counsel

cc: Kelly Cupero (by facsimile)

Austin
7620 Metro Center Drive
Austin, Texas 78744
Tel. 512. 225. 7000 | Fax 512. 225. 7020

Taylor
2705 West Lake Drive
Taylor, Texas 76574
Tel. 512. 248. 3000 | Fax 512. 248. 3095

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SOAH DOCKET NO. 473-06-0092
PUC DOCKET NO. 31544

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

REBUTTAL TESTIMONY

OF

ANDREW E. QUICK

ON BEHALF OF

ENTERGY GULF STATES, INC.

FEBRUARY 10, 2006

77

R-00077

SOAH DOCKET NO. 473-06-0092

PUC DOCKET NO. 31544

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

REBUTTAL TESTIMONY OF ANDREW E. QUICK

TABLE OF CONTENTS

EXHIBITS

I. WITNESS INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Andrew E. Quick. My business address is 20 Greenway Plaza, Houston, Texas 77046.

Q. ARE YOU THE SAME ANDREW E. QUICK WHO FILED DIRECT TESTIMONY IN THIS DOCKET ON AUGUST 24, 2005?

A. Yes. For both my direct and rebuttal testimony, I am testifying on behalf of Entergy Gulf States, Inc. ("EGSI" or the "Company").

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the positions of certain intervenor and staff witnesses concerning EGSI's request for recovery of Retail Market TTC costs. In particular, I respond to the claims of State of Texas witness Hugh Higgins that external contractor charges included in EGSI's request for recovery of Retail Market TTC costs are insufficiently supported by source documentation. In addition, I rebut the allegations of Cities witness Jacob Pous that EGSI has allocated too large a portion of the Retail Market TTC costs to the ESAT REPs and not enough to the ERCOT REP. I further rebut the recommendations of Mr. Pous and Staff witness Adrianne Brandt that the costs associated with development of the "Billing Expert" system should be disallowed. I

respond to the various contentions of TIEC witness Jeffry Pollock in support of his claim that the Retail Market TTC costs are for the most part the responsibility of the ERCOT REP, rather than the ESAT REPs. I also refute Ms. Brandt's suggested alternative for allocating the costs of the load forecasting and trading & risk management systems between the ESAT and ERCOT REPs. I address certain of the capital cost disallowances proposed by Office of Public Utility Counsel witness Carol Szerszen that fall within the heading of Retail Market TTC costs. Finally, I address a correction to my direct testimony.

Q. DO YOU HAVE ANY REBUTTAL EXHIBITS?

A. Yes, I sponsor the rebuttal exhibits listed in the table of contents to my rebuttal testimony.

II. RESPONSE TO STATE OF TEXAS WITNESS HIGGINS

Q. HAVE YOU REVIEWED THE CLAIMS OF STATE OF TEXAS WITNESS HUGH HIGGINS REGARDING THE SUFFICIENCY OF THE COMPANY'S PROOF IN THIS CASE?

A. Yes, I have. Mr. Higgins makes several broad claims concerning alleged deficiencies in the Company's support for the reasonableness and necessity of the TTC costs that are addressed in the rebuttal testimony of other Company witnesses, primarily Dr. Dennis Thomas, Mr. Phillip R.

May and Mr. Mark Niehaus. My rebuttal to Mr. Higgins will focus on several of his specific claims that call into question the Retail Market TTC costs that I sponsor.

Q. MR. HIGGINS' DIRECT TESTIMONY (PAGES 11–12) LEAVES THE IMPLICATION THAT THE COMPANY PROVIDED RELATIVELY LITTLE INVOICE SUPPORT FOR THE TTC EXPENDITURES AT THE OUTSET OF THE CASE. IS THIS ALLEGATION CORRECT?

A. No, It is not. My pre-filed direct testimony was accompanied by workpapers composed of 266 invoices identifying vendors, services and charges associated with the outside contractor costs that I sponsor. I also provided the Entergy Retail-related portions of multiple additional invoices in response to the State's Requests For Information 26-1 through 26-4 (primarily from SAIC, the external contractor to whom Entergy has out-sourced much of the IT support work for its affiliates, including Entergy Retail). I discuss the SAIC billing process in more detail later in my testimony.

Q. IN HIS DIRECT AND SUPPLEMENTAL DIRECT TESTIMONY, STATE'S WITNESS HIGGINS ARGUES THAT THE COMPANY'S RESPONSES TO SEVERAL OF THE STATE'S REQUESTS FOR INFORMATION SUPPORT THE CONCLUSION THAT EGSI IS UNABLE TO

ADEQUATELY TIE ITS RETAIL MARKET TTC EXPENDITURES TO SOURCE DOCUMENTS SUCH AS CONTRACTOR INVOICES. ARE YOU FAMILIAR WITH THESE REQUESTS FOR INFORMATION?

A. Yes, I am. The requests for information that form the basis of Mr. Higgin's testimony relate to approximately $14 million in external contractor charges that are included in the Retail Market TTC costs that I sponsor. Mr. Higgins' conclusion concerning the significance of these discovery responses is overstated and incorrect.

Q. PLEASE ELABORATE.

A. Two distinct sets of Requests for Information from the State are implicated by this issue. As shown in my Direct Testimony (page 23, Table 2), the total amount of outside contractor charges (or "External-All Other Support Costs") included in the costs that I sponsor is $14,456,688. In its Request For Information 13-14, the State asked for additional "original documentation support items in the Application which best facilitates detailed replication and verification of this specific amount, on the lowest recorded level...." In response to this RFI, the Company referred the State to the Retail Market TTC cost invoices already produced in my workpapers at the outset of the case. In addition, the Company produced a spreadsheet which provided detail from the Company's accounting system which disaggregated the $14,456,688 by detailed records from

within the Company's accounting system. This spreadsheet broke down the costs by categories, such as class, project code, resource code, total charges, ESAT allocated charges, and invoice file name. These categories were further broken down in the spreadsheet according to the month and year that they were entered in the accounting system. As Mr. Higgins agrees (Higgins Direct, page 15, line 9), the accounting detail matches in total to the $14,456,688 in contractor-related charges that I sponsor in my direct testimony.

Subsequently, the State propounded RFIs 26-1 through 26-4 to EGSI. In these RFIs, the State chose 29 individual lines from the spreadsheet that EGSI had provided in response to State's RFI 13-14 and requested that the Company "provide the individual source document support, such as invoices," that corresponded to each line item amount.

Q. WHAT DO THE TWENTY-NINE LINE ITEMS LISTED IN THE STATE'S RFI 26-1 THROUGH 26-4 REPRESENT?

A. Each of the twenty-nine line items represents the sum of a large collection of accounting entries, entered over a period of years, related to costs incurred by the Company for services performed by various third party contractors involved in the development of the retail systems that I sponsor. These line items are simply a sampling of the accounting detail

related to Entergy Retail's outside contractor charges and provided by EGSI in discovery.

Each particular line item highlighted by the State's RFIs would not simply represent a particular contractor invoice charge, but instead an aggregation of multiple invoice charges and other accounting entries and adjustments. These accounting adjustments were made to reflect various required matters, such as billing corrections, addition of taxes and other contractually required adjustments. I discuss this process in more detail below, specifically with regard to charges from vendor SAIC. Moreover, the charges reflected in the line items highlighted in the State's RFIs reflect the allocation of Entergy Retail costs between the ESAT and ERCOT REPs, while the invoices to which they relate instead reflect the total cost charged by the vendor for the work performed.

Q. HOW DID THE COMPANY RESPOND TO THE STATE'S RFIS?

A. The Company supplied an initial response, followed by an addendum response. For the reasons just mentioned, the line items included in State's 26-1 through 26-4 in many cases do not match particular monthly invoice amounts. Nevertheless, in an effort to be responsive to the RFIs, the retail staff person compiling the answers initially pulled contractor invoices that were delivered in the same timeframe as the accounting entries. Unfortunately, on further review, it became apparent that this

approach was insufficient to capture all of the invoices that related to each accounting entry identified in the State's 26-1 through 26-4, particularly with regard to invoices from SAIC. This result occurred because, as I discuss in detail below, the SAIC billing process leads to additional charges and adjustments being reflected in the corporate accounting system that are not reflected in the SAIC invoices, In addition, Entergy Retail used corporate summary invoices for the vendor SAIC in preparing its initial response to the State's RFIs. Unlike most vendors, SAIC invoices the entire Company rather than each individual business unit. As such, the charges on the corporate summary invoices included charges for services performed for other business areas besides Retail. This view of the SAIC charges further hampered efforts to match Entergy Retail-only invoice charges to the entries in the accounting system. After the completion and filing of the initial answers to these RFIs, however, EGSI was able to obtain a source of invoices for Entergy Retail-specific charges from SAIC.

Q. WHAT DID THE COMPANY DO IN LIGHT OF THESE EVENTS?

A. The Company prepared an addendum answer, which, to the extent possible, cross referenced and tied particular invoice charges to the line item amounts in the State's RFIs. The addendum answer included a spreadsheet which referenced each of the 29 line items in the State's RFI.

Under each such line item amount, the spreadsheet broke out the various accounting entries that made up the components of that line item. When possible, the particular invoices that corresponded to these individual components were referenced by name in the spreadsheet and a copy of the corresponding invoice was also provided. In its addendum response, EGSI was able to supply invoices in almost all instances tying to the line item charges related to the contractors whose charges were highlighted by the States' RFIs, except for those associated with one vendor, SAIC. The following table shows examples of this tying. Please note that the invoice charges referenced tie to the total amount of the accounting system entry, prior to the allocation between the ERCOT and ESAT REPs. The line item amounts referenced in State's 26-1 through 26-4, in contrast, show only the portion of the accumulated accounting entries allocated to the ESAT REP and included in EGSI's request in this case.

RFI	Total Line Item Amount in RFI (after ESAT/ERCOT allocation)	Corresponding Amounts (before ESAT/ERCOT allocation) from accounting system	Detailed Charge From Original Invoices	Associated Invoices
26-1	$108,754.43	$69,004.80	$69,004.80	Ascend Analytics Inc (Invoice# 7)
		$21,822.20	$21,822.20	Lodestar Corp (Invoice# INV00442)
		$78,718.36	$78,718.36	Lodestar Corp (Invoice# INV120602)
		$643.45	$643.45	PMO Link (Invoice# 655)
		$2,850.00	$2,850.00	PMO Link (Invoice# 650)
		$26,250.00	$26,250.00	Smith Hanley Consulting Group (Invoice# 1935212)
		$12,883.50	$12,883.50	Smith Hanley Consulting Group(Invoice# 19353012)
		$1,002.54	$1,002.54	Triple I Corp (Invoice# 2006730-IN)
26-4	$197,414.62	$22,736.00	$22,736.00	Accenture LLP (Invoice# 0049332093)
		$107,520.00	$107,520.00	Accenture LLP (Invoice# 0049332358)
		$107,520.00	$107,520.00	Accenture LLP (Invoice# 0049332359)
		$23,487.00	$23,487	PriceWaterhouseCoopers (Invoice# 3289-001607-7)

All of the invoices that EGSI was able to tie to particular accounting system entries are shown in the spreadsheet provided in the Addendum RFI answer to State's 26-1 through 26-4, which is included in my rebuttal workpapers.

Q. IN HIS SUPPLEMENTAL TESTIMONY, MR. HIGGINS DOES NOT DISPUTE THAT EGSI WAS ABLE TO TIE INVOICES TO ACCOUNTING

ENTRIES FOR YOUR TRADING & RISK MANAGEMENT CLASS, BUT HE DOES CONTEND THAT HIS REVIEW OF THE RELATED INVOICES INDICATES THE CHARGES ARE UNREASONABLE (HIGGINS SUPPLEMENTAL DIRECT, PAGE 12). WHAT IS YOUR RESPONSE?

A. In the case of Trading & Risk Management, the work was performed by contractors other than SAIC, so the tying of invoices to accounting system entries did not present the same difficulties present with SAIC invoices (described below). However, Mr. Higgins states that he noticed several invoices that appeared to be duplicate charges for the same work among the invoices related to Trading & Risk Management. In response to the concern raised by Mr. Higgins, I performed an electronic data sort of the entries in the Entergy Accounting system to determine if it contained any duplicate charges related to the Trading & Risk Management class. I discovered that in certain instances, the same vendor charge was booked twice against Entergy Retail's books. Nevertheless, I verified that those duplicate charges were subsequently reversed in the accounting system. In some cases, however, while the reversing transaction appeared on Retail's books and records, the reversing transaction was not carried through to the recovery request included in my testimony. As a result of this investigation, it appears that the request for Trading & Risk Management costs should be reduced by $52,925.52 (the amount of the duplicate charges attributable to the ESAT REPs after applying the

allocation method to divide Trading & Risk Management costs between the ESAT and ERCOT REPs.

In addition, Mr. Higgins argues that these charges are unreasonable because they were incurred, in some instances, after the initial postponement of EGSI's transition to competition in 2001. This argument should be rejected. All of these charges related to the contractors' work to develop IT systems that would have the functionality needed to support the ESAT REPs' trading & risk management functions. As Company witnesses Domino and May have already explained in detail in their direct testimony, the Commission retained a policy of having the Company work toward retail open access and a goal of achieving retail open access in the near term after 2001. In light of this policy, Entergy Retail at various points after 2001 had to ramp back up its efforts to prepare the Trading & Risk Management system, as events developed creating renewed optimism that the transition to competition could occur in the near future.

Q. MR. HIGGINS' SUPPLEMENTAL TESTIMONY (PAGE 16, LINES 17–24) ALSO CRITICIZES AS UNREASONABLE CHARGES TO ENTERGY RETAIL FROM TRUEPRO CONSULTING SERVICES. PLEASE COMMENT.

A. Mr. Higgins' objections to these charges are unjustified. First, Mr. Higgins asserts that the charges are unreasonable based on his claim that the bills were "(i) billed a full year after the reported services or (ii) billed in advance of the chargeable time being incurred." In this instance, the billings from TruePro Consulting were prepaid by the Company. Nevertheless, Truepro performed the work to which the payments related and successfully completed its contract engagement for development of customer service related billing support systems. Moreover, the process of invoicing the Company for services rendered has no bearing on whether or not the costs should be recovered. The TruePro costs, which related to its consulting services in developing a bill delivery system compatible with ROA, are reasonable for the reasons discussed in my direct testimony regarding the customer service class.

Mr. Higgins then goes on to suggest that "these charges relate to a new customer billing system which, logic would indicate, would have been in place long before January 1, 2002...." As has been stated several times throughout my testimony, in order to sustain the ability to launch an ESAT REP in accordance with the direction of the PUCT, Entergy Retail was required to continually modify its systems to satisfy on-going changes to market requirements (also driven by the PUCT and ERCOT). TruePro Consulting, for instance, was engaged to modify our bill delivery system so that it conformed to requirements dictated by customer protection rules.

For example, they assisted with the configuration of a Spanish language bill, a requirement dictated by customer protection rules.

Q. WHY WAS THE COMPANY UNABLE TO TIE SAIC INVOICES TO THE LINE ITEM AMOUNTS IN THE STATE'S RFIS, AS IT DID IN THE CASE OF THE OTHER VENDORS?

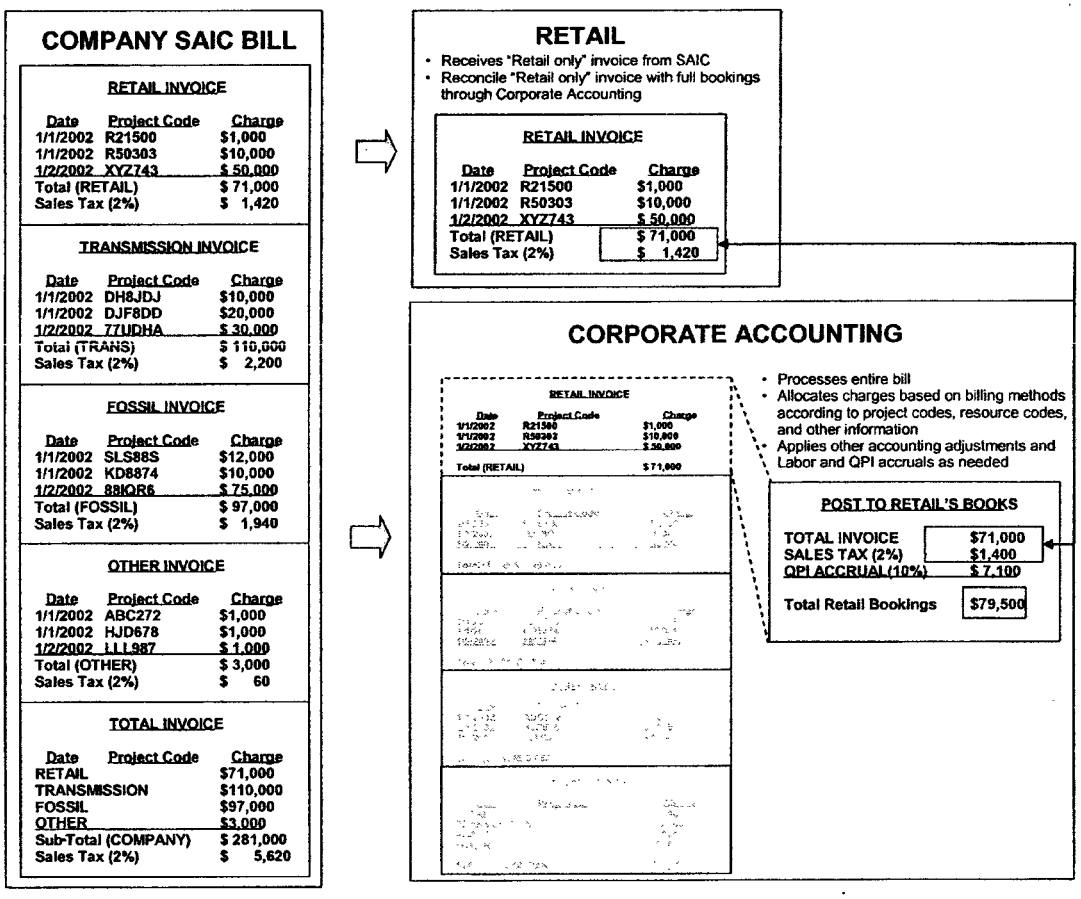
A. As I alluded to previously, the reason is that the SAIC-related entries recorded in the accounting system (the predominant source of the line items in the State's RFIs) include other charges and adjustments that are not reflected in the SAIC invoices. For this reason, the accounting entries related to SAIC rarely tie exactly to the SAIC invoices.

Q. PLEASE EXPLAIN FURTHER.

A. The SAIC billing and accounting process is fundamentally different from that involving the other contractors providing services to Entergy Retail. A number of Different IT-related functions have been outsourced to SAIC and it provides those services to many affiliates within the Entergy family in addition to Entergy Retail. SAIC does not separately invoice every Entergy affiliate to whom it provides IT services. Instead, it provides one master bill that is processed by EGSI's service company, Entergy Services, Inc. (ESI). Entergy Retail, however, receives a copy of the

periodic SAIC invoices that reflect its portion of the SAIC charges reflected in the master bill.

The diagram below summarizes, on an illustrative basis, the SAIC billing process:



Q. WHAT DOES THIS DIAGRAM DEPICT?

A. The box entitled "Company SAIC Bill" is intended to illustrate the fact that the master SAIC bill reflects charges for services to various functional organizations within Entergy (retail, transmission, etc.). In the illustration,

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the SAIC invoice charge to Entergy Retail is $71,000 (shown in the box entitled "Retail"). This is not, however, the total charge that is ultimately entered into the corporate accounting system. Instead, as explained in the diagram box entitled "Corporate Accounting," the amount entered into the system is different from the invoice because it is the product of several necessary accounting adjustments:

- Corporate accounting allocates the SAIC invoice among the various distinct project and resource codes to which the services may relate;
- Corporate accounting applies the Quality Performance Index (QPI) and Target Margin, which are management incentive fees added to total charges based on contractually agreed upon management and incentive fees (these SAIC incentive payments are further addressed in the rebuttal testimony of Company witness Craddock);
- Corporate accounting applies applicable taxes associated with the SAIC charges; and
- Corporate accounting applies other accounting adjustments and accruals as needed. For example, in the event that an error in SAIC's charges was discovered via subsequent review of the charges, it would be necessary for corporate accounting to adjust the error as part of a future accounting entry.

Because of these accounting additions, corrections and adjustments, it should not be surprising that the SAIC-related charges in

the accounting system do not match exactly to the various individual SAIC invoice charges.

Q. SHOULD THIS LESSEN THE COMMISSION'S CONFIDENCE THAT THE CONTRACTOR-RELATED CHARGES IN YOUR RETAIL MARKET TTC COSTS REPRESENT ACTUALLY INCURRED COSTS?

A. Not at all. Although, for the reasons I have explained, the individual monthly invoice amounts from SAIC cannot readily be matched to individual accounting entries, nevertheless, the total amount of SAIC invoices charged to Entergy Retail can be reconciled to the total amount of such charges in the Entergy accounting system.

Q. HOW WERE YOU ABLE TO MAKE THIS DETERMINATION?

A. This reconciliation is shown in the attached Exhibit AEQ-R-1. Based on my review of all SAIC charges (included in my rebuttal workpapers), the total amount of SAIC invoice charges included in the Retail Market TTC costs is $4,873,017.94. The total amount of SAIC related charges reflected in the Entergy accounting system is $6,795,629.11. The variance is explained by two major elements. As shown in Exhibit AEQ-R-1, the SAIC-related charges in the accounting system include ten cost categories which are independent of and added separately from the actual invoice charges. As further shown in Exhibit AEQ-R-1, these

additional SAIC-related costs in the accounting system total $1,354,821.17. Finally, this reconciliation shows that $551,839.90 of the variance represents Retail SET related costs that were initially coded to different projects, but were subsequently transferred to the Entergy Retail project used to capture Retail Set costs—Project Code RMMRET. These two categories of costs (the SAIC related costs added by the accounting system and the costs included in the project code transfer) make up all but $15,950 of the variance between the SAIC invoices and the total SAIC related amount in the accounting system:

SAIC Invoice Charges	+	Accting. Sys. Adjustments	=	Total
$4,873,017.94	+	$1,906,661.17	=	$6,779,679.11

Accting. Sys. Total	-	Reconciled Amount	=	Final Variance
$6,795,629.11	-	$6,779,679.11	=	$15,950

Q. HOW DOES THIS ADDRESS THE STATE'S CONCERN REGARDING THE RELATIONSHIP BETWEEN EGSI'S RETAIL MARKET TTC COSTS AND THE UNDERLYING INVOICES THAT THEY ARE BASED ON?

A. The information provided shows that charges for services performed by SAIC for Entergy Retail were appropriately recorded in Entergy Retail's accounting records. The costs associated with the SAIC invoices are the

same costs pulled from the Entergy accounting system and included in EGSI's Retail Market TTC request.

Q. MR. HIGGINS' SUPPLEMENTAL TESTIMONY CHARACTERIZES THE SAIC BILLINGS AS "PSEUDO INVOICES" (HIGGINS SUPPLEMENTAL DIRECT, PAGE 15-16). WHAT IS YOUR RESPONSE?

A. Mr. Higgins' criticism is unwarranted. Use of electronic invoices is a common and accepted business practice. The charges are no less real because they are transmitted electronically. Use of electronic transmittal of invoices makes the billing process faster and less expensive. The propriety of using electronic invoices is further supported by the rebuttal testimony of Company witness Niehaus.

III.

RESPONSE TO CITIES WITNESS POUS AND STAFF WITNESS BRANDT

Q. HAVE YOU REVIEWED THE TESTIMONY OF CITIES WITNESS JACOB POUS CONCERNING THE ALLOCATION OF RETAIL MARKET TTC COSTS BETWEEN THE ESAT REPS AND THE ERCOT REPS?

A. Yes, I have. Mr. Pous criticizes the methodology developed to allocate the costs of both my Customer Service class and my Retail SET class between the ESAT REPs (who were to be responsible for Price to Beat and Provider of Last Resort service in ESAT upon the commencement of

ROA) and the ERCOT REP (which has been engaged in the competitive retail business in ERCOT). Mr. Pous claims that because the ERCOT REP has continued to use the Customer Service and Retail SET systems beyond the date when the ERCOT REP originally planned to outsource these services, the portion of the overall costs allocated to the ESAT REP is too high. Mr. Pous argues that the costs associated with these two classes should be allocated to the ESAT REPs based on the 30 month period (January 1, 2002 until June 30, 2004) that represents the timeframe when EGSI was initially attempting to bring about ROA. Mr. Pous proposed that this number be divided by the expected useful life of the systems (120 months in the case of Retail SET and 180 months in the case of Customer Service) to establish the percentage of costs to be allocated to the ESAT REPs (25% in the case of Retail SET and 16.7% in the case of Customer Service). (Pous Direct, pages 25-33) Mr. Pous' recommendation and methodology are flawed for multiple reasons.

Q. PLEASE EXPLAIN.

A. Mr. Pous' recommendations are inconsistent with the factors and circumstances that caused these costs to be incurred in the first place. The impetus for the development of the Retail SET and Customer Service systems was the obligation consistent with PURA Chapter 39 to provide Price to Beat Service in ESAT. Had the Company determined to simply

sustain those systems required to serve ESAT customers through a PTB REP, one hundred percent of the costs of developing these systems would have been incurred and would have been the subject of EGSI's request in this case. Indeed, but for the PTB obligation imposed by PURA Chapter 39, it is extremely unlikely that Entergy would have gone into the retail business at all. Certainly investments of the magnitude necessary to support the obligatory PTB service responsibility (that is, operating under the necessary assumption that almost all of EGSI's 360,000 customers would be "switched" to the PTB REP on the date ROA commenced in ESAT) would not have been justified in connection with a start-up competitive retail business.

In light of these facts and circumstances, Mr. Pous has turned the applicable cost causation principles inside out when he erroneously treats these systems as if they were built for the ERCOT REP, but borrowed by the ESAT REPs for a thirty month period. As matters now stand, the ERCOT REP has already shouldered 63% of Entergy Retail's total capital investment in preparing to participate in Texas ROA, and 20% of the capital investment in the systems discussed in my direct testimony. In this manner, the ERCOT REP has greatly lessened the burden on Texas ratepayers, who would otherwise be responsible for a much larger amount of costs devoted to establishing the ability to provide PTB and POLR service as required by PURA Chapter 39.

Q. GIVEN THAT THE ERCOT REP UTILIZED THESE SYSTEMS FOR A PERIOD OF TIME BEYOND THAT INITIALLY ANTICIPATED BY ENTERGY RETAIL, DOES THE ALLOCATION OF COSTS BETWEEN THE ESAT REPS AND THE ERCOT REP THAT YOU PROPOSE OVER-ALLOCATE COSTS TO THE ESAT REP?

A. No, it does not. This cost allocation should be viewed in light of the overall conservatism of EGSI's proposed allocation of total Retail Market TTC costs between the ESAT REPs and the ERCOT REP. As I explained in my direct testimony, the total capital cost that Entergy Retail spent developing all the retail market systems was approximately $42.8 million (Quick Direct Testimony at page 16). Approximately $20.5 million of this total was allocated exclusively to the ERCOT REP, although it is arguable that significant portions of the $20.5 million could be considered as costs properly shared between the ESAT and ERCOT REPs. For example, Entergy Retail invested in a Data Warehouse system to store large volumes of customer and other operational information so that management could review and analyze reports and analytics to run the business. Entergy Retail made this significant investment in new technology in 2003 under the anticipation that the ESAT market would eventually open to competition. Had the Company known at that time that the ESAT market would not in fact be introduced to choice, an investment