in such new technology would have never occurred. Arguably, the Company has the right to seek recovery for part of this investment as the decision to make the investment was driven by the Company's anticipation of competition in ESAT. However, the Company has allocated 100% of these costs the ERCOT REP. A total of $7.8 million was invested in Retail's data warehouse system, $0 of which is being requested as part of EGSI's TTC recovery. Moreover, the ERCOT REP has been exclusively responsible for the ongoing operation and maintenance of these systems, although they were built primarily for the purpose of providing PTB service in ESAT. The annual O&M costs have averaged approximately $29.2 million per year (2002-2004). In light of the overall allocation of Retail Market TTC costs between the ERCOT and ESAT REPs, the amount of Retail SET and Customer Service costs included in EGSI's TTC request is fair and reasonable.

Q. HAS THE ERCOT REP BEEN SUCCESSFUL IN RECOVERING ITS SHARE OF THE RETAIL MARKET TTC COSTS?

A. No. On January 19, 2006, Entergy Corporation announced its intent to pursue a sale of the competitive retail business. In connection with this decision, Entergy Retail wrote off approximately $39.8 million in outstanding un-recovered capital costs. The fact that, in the absence of the commencement of ROA in ESAT, the ERCOT REP has been unable

100

to recover these costs further underscores that the magnitude of the retail-related investment in ROA was scaled to and dependent on the PTB service obligation.

Q. APART FROM THEIR FLAWED PREMISES, ARE THE ASSUMPTIONS INCLUDED IN MR. POUS' ALLOCATION METHODOLOGY REASONABLE?

A. No. In light of the determination to sell the competitive retail business, Entergy Retail has terminated its outsourcing contract with ADS for the provision of Retail SET and Customer Service services. Entergy Retail currently has targeted the first quarter of 2006 for the sale of the business. Although these systems may continue in use for a few more months to support the transition of data to the buyer, they will certainly not be used for their full useful lives. If, for example, the Retail SET and Customer Services are completely shut down as of June 2006, the total months that the ERCOT REP would have the use of these systems would be 53 months. Applying EGSI's allocation method (which develops allocation percentages based on the period of use by the ERCOT REP, compared to the expected life of the assets) to this longer period of use, the amount for each system allocated to the ESAT REPs would be as follows:

- Retail SET $ 2.15 million
- Customer Service $ 6.1 million

Q. DOES MR. POUS ADDRESS ANY OTHER ELEMENT OF THE RETAIL MARKET TTC COSTS?

A. Yes. Mr. Pous also recommends disallowance of 100% of the costs associated with the Billing Expert system. The costs associated with the Billing Expert system are included in my Customer Service class. This system was developed for purposes of facilitating the billing of large commercial and industrial customers in ESAT who use Interval Data Recorder (IDR) meters (Quick Direct at page 34, lines 10-11 and Exhibit AEQ-1, page 3 of 3). Mr. Pous claims that because the ERCOT REP considered Billing Expert to be cost prohibitive, the system should be viewed as similarly cost prohibitive from the perspective of the ESAT PTB REP because, as matters turned out, ROA did not commence and the PTB REP accordingly acquired no customers to be served using the Billing Expert system (Pous Direct, pages 33-38).

Q. DOES STAFF WITNESS BRANDT ALSO RECOMMEND DISALLOWANCE OF THE BILLING EXPERT SYSTEM?

A. Yes she does. Ms. Brandt contends that it is "counter-intuitive" to conclude that the PTB REP would have a more extensive obligation to serve IDR customers in ESAT than would the ERCOT REP. On that basis, she concludes that if the ERCOT REP did not need the Billing

Expert System, then the ESAT REPs did not need it either. (Brandt Direct, page 6, lines 6-10).

Q. WHAT IS YOUR RESPONSE TO MR. POUS' AND MS. BRANDT'S POSITION?

A. Their position is incorrect. The Billing Expert system was needed from the outset for the anticipated ESAT PTB business, but not for the ERCOT REP's business. As Entergy Retail prepared for ROA, it was not known whether the ESAT PTB REP would have to continue billing IDR customers using their regulated rate structures. In order to be prepared to bill using the more complex regulated rate structures, Billing Expert was required. Neither the CCS customer service system developed for ROA, nor Excel software, had the capability to handle the multiple variables involved in billing IDR customers at regulated rates. The ERCOT REP's customers, on the other hand, were not billed using such complex rates, since their service could be competitively priced. As a result, the manipulation of interval data (15 minute consumption information) was not required to be processed to produce a bill.

Q. MR. POUS SAYS THAT ENTERGY RETAIL SHOULD HAVE KNOWN THAT IT WOULD HAVE NO ESAT IDR CUSTOMERS, AND THEREFORE NO NEED FOR THE BILLING EXPERT SYSTEM, DUE TO

THE LACK OF CUSTOMER PARTICIPATION IN THE PILOT PROJECT (PAGE 37, LINES 1-12). WHAT IS YOUR RESPONSE?

A. I disagree. The Billing Expert system was developed in the 2000-2001 timeframe, well within the time period during which EGSI anticipated that ROA was forthcoming. In his direct testimony, Company witness Joseph Domino has already addressed the Commission's expectations in the 2002-2004 time period regarding the commencement of ROA in ESAT. Mr. Domino's testimony shows that into 2004, the Commission adhered to a policy designed to bring about ROA in ESAT in the near term. Mr. Pous is essentially arguing that the Company should have sought to second guess that policy based on the lack of participation in the pilot project. Entergy Retail was not at liberty to ignore the Commission's policy directives and the development of the Billing Expert was an important element of Entergy Retail's readiness for ROA in ESAT. Unlike the ERCOT REP, there was no reasonably expected scenario wherein, if ROA occurred, the PTB REP would not need the Billing Expert system.

Q. WHAT ABOUT MS. BRANDT'S VIEW THAT THE PTB REP AND THE ERCOT REP WERE SIMILARLY SITUATED REGARDING THE SERVICE OF IDR CUSTOMERS?

A. Contrary to Ms. Brandt's view, if ROA commenced in ESAT, the ESAT REP would at once inherit all the IDR customers in EGSI's service area

that did not immediately switch to a competitive provider. In 2001, as ROA was approaching, EGSI had over 400 Texas IDR customers. On the other hand, when the ERCOT market opened, the ERCOT REP acquired IDR customers organically, beginning with zero such customers, with its degree of success in this effort an unknown at the outset. These circumstances additionally distinguish the PTB REP's need for the Billing Expert System from that of the ERCOT REP.

IV.

RESPONSE TO TIEC WITNESS POLLOCK AND STAFF WITNESS BRANDT

Q. HAVE YOU REVIEWED THE DISCUSSION AND RECOMMENDATIONS OF TIEC WITNESS JEFFRY POLLOCK CONCERNING THE RETAIL MARKET TTC COSTS?

A. Yes. Mr. Pollock proposed disallowance of virtually all of the Retail Market TTC costs that I sponsor; 100% of Trading & Risk Management, 100% of Retail SET, 100% of Load Forecasting and approximately 77% of Customer Service. The only Retail Market TTC costs he does not disallow are the costs ($1,986,349) included in the pro forma for the Retail CCS/Market Mechanics interface that I co-sponsor with Company witness Craddock (Quick Direct, pages 45-46). Overall, Mr. Pollock's testimony seems to be based on an unsupported and erroneous assumption that the retail information systems I discussed in my direct testimony were

developed for use by the ERCOT REP and that Entergy Retail was not justified in developing retail systems for use by the ESAT REP in providing PTB and POLR service.

Q. MR. POLLOCK STATES (PAGE 19, LINE 16–PAGE 20, LINE 2) THAT THE INVESTMENT IN THESE NEW SYSTEMS WAS TRIGGERED BY THE DECISION TO PARTICIPATE IN COMPETITIVE MARKETS. WHAT IS YOUR RESPONSE?

A. Mr. Pollock points to no factual or documentary basis for this opinion and it is erroneous. The development of each of the systems I have described was driven and necessitated by the obligation to provide PTB and/or POLR service in ESAT. As I discussed in my response to Mr. Pous' recommendations, absent the PTB obligation, investment in the retail systems I support in my direct testimony would not have been justified.

Q. REGARDING THE LOAD FORECASTING AND CUSTOMER SERVICE SYSTEMS, MR. POLLOCK CLAIMS THAT EGSI'S EXISTING SYSTEMS WERE SUFFICIENT AND THAT THESE SYSTEMS ACCORDINGLY WERE NOT NEEDED FOR ESAT REP SERVICE. DO YOU AGREE?

A. No. There are multiple flaws in Mr. Pollock's claim, which is made without any reference to supporting facts or documents. First, Mr. Pollock's claim fails to take into account the requirements of the Commission's rule

governing the code of conduct for utilities and their affiliates (P.U.C. SUBST. R. 25.272) and EGSI's Commission-approved Code of Conduct Compliance Plan. Substantive Rule 25.272(d)(2) prevents the sharing of facilities and resources among utilities and their competitive affiliates unless the utility can prove to the Commission that such sharing will not compromise the public interest. This section further indicates that any sharing of facilities and resources may only be accomplished in a manner that precludes "employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. " Section 25.272(g). The rule greatly limits the situations in which a utility can release individual customer information to any other entity. Entergy Retail's development of separate customer service and load forecasting systems for the REP business was consistent with these requirements.

Q. WOULD THE ESAT PTB AND POLR REPS BE "COMPETITIVE AFFILIATES" WITHIN THE MEANING OF THE RULE?

A. Yes, a "competitive affiliate" is defined in the rule to include "an affiliate of a utility that provides services or sells products in a competitive

energy-related market in this state...." Section 25.272(c). If Retail Open Access had commenced in ESAT, the PTB and POLR REPs would have met this definition.

Q. DID EGSI ADDRESS THE SHARING OF INFORMATION SYSTEMS IN ITS OWN CODE OF CONDUCT COMPLIANCE PLAN?

A. Yes. Exhibit AEQ-R-2 attached is a true and correct copy of the section of the EGSI Code of Conduct Compliance Plan that addresses the sharing of information systems. The Compliance Plan was approved by the Commission in its May 29, 2001 interim order in Docket No. 22356 (pages 11-12).

Q. HOW DOES THE COMPLIANCE PLAN ADDRESS THE SHARING OF CUSTOMER SERVICE AND LOAD FORECASTING SYSTEMS?

A. The Compliance Plan identifies two general approaches to preventing the sharing of confidential information between EGSI and competitive affiliates in the area of information systems: 1) develop separate copies of applicable systems with appropriate segmentation of data; and 2) creation of firewalls within a single application to prevent inappropriate access to data. Compliance Plan at 30. Although load forecasting systems are not expressly addressed in the Plan, in the area of "energy management systems," the Compliance Plan determines that separate systems should

be utilized and existing data appropriately separated. Compliance Plan at 35-36. Sharing load forecasting systems between the utility and competitive REPs raises similar concerns. Accordingly, it was necessary, and consistent with the Compliance Plan, to implement a separate load forecasting system for the PTB and POLR REPs.

In the area of Customer Service, the Compliance Plan pointed out that the then-existing customer information system was reaching the end of its useful life and that it was not economical to modify it for ROA. The Compliance Plan concludes: "consequently, Entergy is procuring a new customer system that will be implemented prior to June 1, 2001 using the internal security within the product to totally separate access for EGSI distribution and retail employees just as if they were employees of any two separate companies."

Q. DO THE LOAD FORECASTING AND CUSTOMER SERVICE SYSTEMS DESCRIBED IN YOUR TESTIMONY COMPLY WITH THESE REQUIREMENTS?

A. Yes, the load forecasting system is a separate, stand-alone system accessible only by Entergy Retail employees and their contractors. Consistent with Code of Conduct requirements, this setup ensures that Entergy Retail employees will not have access to customer information used by EGSI in the development of its load forecasts. In addition, the

CCS system is a separate, stand-alone system accessible only by Entergy Retail employees and their contractors. The regulated utility has its own stand-alone system which is not accessible by Entergy Retail employees.

Q. WHAT IS YOUR RESPONSE TO MR. POLLOCK'S CLAIM (PAGES 29-30) THAT PURA CHAPTER 39 DID NOT REQUIRE THE DEVELOPMENT OF LOAD FORECASTING SYSTEMS?

A. While PURA Chapter 39 did not explicitly call for the ESAT REPs (or any REP for that matter) to build new automated systems to provide load forecasting capabilities, under SB 7, the ESAT REP would be responsible for submitting a balanced schedule (power consumption schedule) to another market entity (*e.g.*, the independent entity responsible for managing the ESAT market) so that the load was properly managed within the power region. In order to provide such a schedule, essential to basic retail operations, the ESAT REP would have to forecast the load requirements of its customers, without regard to the operations of the ERCOT REP.

Q. MR. POLLOCK FURTHER ALLEGES THAT IF THE DECISION HAD NOT BEEN MADE TO COMPETE IN THE ERCOT MARKET, THEN CERTAIN FUNCTIONS INCLUDED IN THE LOAD FORECASTING SYSTEM WOULD NOT HAVE BEEN REQUIRED. WHAT IS YOUR RESPONSE?

A. Mr. Pollock is incorrect. I will reference each function highlighted by Mr. Pollock and explain for each why his position is erroneous.

- "forecasting consumption based on weather coefficients and weather adjustment methodology"—All IDR loads require use of weather-related adjustments to forecast consumption, as well as the ability to change load forecasts based on changing weather forecasts. Although the weather-related coefficients (the actual values) would be different in ESAT than ERCOT, the weather forecasting capability is needed independently in both areas and the model to make such forecasts would be the same in both areas.
- "utilizing ERCOT load profiles in addition to the ESAT load profiles"—Although the load profiles were never finalized for ESAT, it is likely that the profiles used by ERCOT would be the same used for ESAT customers. Therefore, the investment made in these forecasting capabilities would have served both ESAT and ERCOT customers. It should also be noted that if the ESAT REP had become a POLR to any other ERCOT REP, Entergy Retail would still have been required to utilize the ERCOT load profiles to serve this load.
- "managing feedback on block load additions/deletion/maintenance from large C&I customers"—Although this is in general a desirable function of a load forecasting system (and was therefore included in the general description of load forecasting in my direct testimony) this capability is not

indispensable to load forecasting and is not included in the load forecasting system at issue in this proceeding. Likewise, no costs associated with developing this capability are included in the costs that I sponsor. Entergy Retail sought to reduce the costs associated with developing the load forecasting system by not building this capability until it had more certainty regarding the opening of the ESAT markets and the ultimate characteristics of that market.

- "incorporating transmission and distribution losses for all TDSPs in ERCOT"—The model to forecast losses in EGSI would probably be similar to forecasting losses in ERCOT, albeit based upon EGSI system load. Although the coefficients and weather to calculate the losses would have been different in EGSI than in ERCOT, the methodologies to forecast such losses are the same. Again, if the POLR REP had to serve any ERCOT customers, this requirement still would have existed.

Q. YOU PREVIOUSLY ADDRESSED THE REASONS WHY AFFILIATE CODE OF CONDUCT CONSIDERATIONS PREVENTED ENTERGY RETAIL FROM SIMPLY USING THE EXISTING EGSI CUSTOMER INFORMATION SYSTEM TO PROVIDE CUSTOMER SERVICE AND BILLING FUNCTIONS. ARE THERE ADDITIONAL REASONS WHY THIS SUGGESTION IS ERRONEOUS?

A. Yes. Mr. Pollock's claims concerning the use of the existing customer service and billing system are erroneous because EGSI's existing customer information system was configured to support a bundled utility serving regulated EGSI Texas customers. In addition, the existing customer information system was approaching technological obsolescence.[1] Due to that technological obsolescence, Entergy planned to replace the existing customer information system with the new customer care system. Thus, at the same time that Entergy was designing and implementing the new customer care system for bundled utility operations, Entergy also needed to ensure that the new customer care system would have the functionality to be used for the expected unbundled market in Texas. Consequently, Entergy Retail would not have used the existing customer information system to support unbundled operations. Moreover, even if Entergy Retail had wanted to use the existing customer information system, Entergy Retail would have been unable to do so because the customer information system could not have supported unbundled market operations. SB7 defines a market structure that involves multiple market participants, each with different roles, governed by unique electronic commerce rules and customer protection rules. The existing mainframe system would have had to be re-configured to support retail operations. As a result of these types of issues, the entire

[1] Direct Testimony of William T. Craddock at page 11, lines 15 – 23.

113

system would have had to be converted in order to support operations in a competitive market.

Q. IN CONNECTION WITH BOTH THE CUSTOMER SERVICE AND RETAIL SET SYSTEMS, MR. POLLOCK CRITICIZES THE MANNER IN WHICH EGSI PROPOSED TO ALLOCATE THE ASSOCIATED COSTS BETWEEN THE ESAT AND ERCOT REPS (PAGE 19). WHAT IS YOUR REACTION TO MR. POLLOCK'S POSITION?

A. Mr. Pollock states that the cost allocation method associated with the number of months a particular system is used is not sufficient because "it fails to recognize the long-term nature of the investments required to participate in competitive ROA markets." The meaning of this statement is not clear to me. What is clear, however, is that the "long-term" reasoning for developing these systems was for the support of the PTB business in ESAT. Entergy Retail would not have invested in the Customer Service and Retail SET systems at all except for the anticipation that they would be used to support PTB service in ESAT. Accordingly, it is appropriate to consider 100% of these costs to be TTC costs. The benefit to the ERCOT REP of these systems, however, was temporary, and an appropriate way to measure the benefit was to use the expected period of time when the ERCOT REP would use the systems. I discuss the propriety of the

allocation more above in connection with the testimony of Cities witness Pous.

Q. MR. POLLOCK FURTHER ARGUES (FOR EXAMPLE, PAGE 26, LINES 9-16) THAT THE ULTIMATE DECISION TO OUTSOURCE THE CUSTOMER SERVICE AND RETAIL SET FUNCTIONS IN AND OF ITSELF COMPELS THE CONCLUSION THAT THE RETAIL SET AND CUSTOMER SERVICE SYSTEMS ARE NOT COMPETITIVELY PRICED AND THAT THEIR COSTS ARE NOT REASONABLE. IS THIS CORRECT?

A. No. Mr. Pollock has overlooked the fact that the analysis of whether to outsource these services was made primarily from the perspective of the ERCOT REP. That determination does not support the conclusion that, from the distinct and unique perspective of providing PTB and POLR service in ESAT, the systems and their costs were unreasonable.

Q. PLEASE EXPLAIN.

A. Although Entergy Retail investigated the possibility of outsourcing prior to and during the development of the Retail systems, the outsourcing market for information systems suitable to support ROA was virtually non-existent. Outsourcing customer operations was not viable at that time, as the market was immature. As time went by, and uncertainty continued as to

115

the viability of ROA in ESAT, Entergy Retail further investigated outsourcing as a means of cost containment, particularly given that the ERCOT REP was on its own bearing the costs associated with systems designed to support large volumes of ESAT PTB customers originally expected to be served by the ESAT REPs beginning on January 1st, 2002. Entergy Retail sought outsourcing as a method to reduce its expenses associated with maintaining its customer operations systems.

Q. MR. POLLOCK CONTENDS (PAGES 30, 32) THAT THE META GROUP ANALYSIS YOU INCLUDED IN YOUR DIRECT TESTIMONY SHOULD DEFINE THE UPPER LIMIT OF THE REASONABLE COSTS ASSOCIATED WITH THE LOAD FORECASTING AND TRADING & RISK MANAGEMENT SYSTEMS. WHAT IS YOUR RESPONSE?

A. The Meta Group study provides a benchmark of the expected costs of providing these capabilities on behalf of the ERCOT REP. In the case of the ESAT REP, the costs associated with similar load forecasting systems should be expected to be greater because the forecasting requirements to serve the needs of the ESAT REP are more complex than that of the ERCOT REP. To properly forecast those needs, the ESAT PTB REP would need to store and analyze historical usage patterns against weather patterns and other changes in customer behavior. This analysis would require a much more extensive Database System to store all the individual

customer needs. The ESAT REP would also need to know the history of some of our larger customers, *i.e.* plant outages, expansion, etc. to properly model their load. It would also be responsible for forecasting the ESAT load as a whole. The ESAT PTB REP would also have to forecast the level of customer switches away from PTB and the level of customers returning to the PTB, since it would have an obligation to serve them while under the PTB and all customers could return to the PTB if they choose.

Trading & Risk Management functions for the ESAT PTB and POLR REPs were also more substantial and complex than those of the ERCOT REP. The PTB REP must manage its trading and risk management functions over a much larger volume of retail customers, while the POLR REP must manage these functions without knowing when it will acquire customers or what its load obligation and associated risks will be. The ERCOT REP's risk management, however, is simplified by its ability to drop customers to the POLR (as authorized by PUCT rules) and, on proper notice, to increase or lower its rates. On the wholesale side, trading and risk management is made more complex for the PTB REP because the PTB is based on a natural gas index, which requires the PTB REP to have a trading organization capable of trading in non-power markets, including natural gas. The ERCOT REP, in contrast, only needs a trading organization capable of operating in the power market. The more complex operations of the PTB REP in turn create additional

pressure on its internal infrastructure and a greater demand for financial collateral or guarantees. These are simply some examples of the factors that make the establishment of the Trading & Risk Management systems more costly for the ESAT REPs.

The Meta Group benchmark study supports the reasonableness of EGSI's request because that request is less than what could legitimately be incurred simply to provide load forecasting and trading & risk management capability in the less demanding ERCOT market.

Q. MR. POLLOCK CONTENDS THAT PURA CHAPTER 39 DID NOT REQUIRE THE DEVELOPMENT OF TRADING & RISK MANAGEMENT FUNCTIONS FOR THE ESAT MARKET. IS THIS CORRECT?

A. No, my response is essentially the same as in the case of the load forecasting system. Independent of any action taken by the ERCOT REP, the PTB and POLR REPs would also have to acquire energy and capacity to serve their customers and, accordingly, needed the capability to manage the trading required to purchase those resources and the credit and counterparty risks associated with those purchases. The ESAT REPS needed the trading & risk management functionality to manage risks such as: 1) uncertainty in demand caused by factors such as weather and unpredictable customer behavior; 2) uncertainty in the cost of energy; 3) credit risks created by defaulting retail customers; and

4) uncertainties regarding the REPs' cash flow created by factors such as changes in customers and changes over time in the costs created by the settlement process in the wholesale market. These are simply examples of the risks to be managed by the ESAT REPs with the help of the system developed by Entergy Retail.

Q. MR. POLLOCK CONTENDS (POLLOCK DIRECT PAGES 31-32, 35-36) THAT THE ALLOCATION OF LOAD FORECASTING AND TRADING & RISK MANAGEMENT COSTS BETWEEN THE ESAT AND ERCOT REPS IS FLAWED BECAUSE IT DOES NOT PROPERLY ACCOUNT FOR THE VOLUME OF CUSTOMERS TO BE SERVED BY THE ERCOT REP. IS THIS CORRECT?

A. No, it is not. To the contrary, the allocation method is beneficial to the ESAT REPs and, therefore, to EGSI customers. These costs were allocated based on the relative percentage of actual EGSI customers at the time (360,000) versus the expected level of the customers of the ERCOT REP (336,052). This led to an allocation of 51.02% of the load forecasting and trading & risk management costs to the ESAT REPs. Had the Company instead used the ERCOT REP's actual customer count (130,000), the amount allocated to the ESAT REPs would have been 72%, a much greater amount.

Q. STAFF WITNESS BRANDT ALSO CRITICIZES THE ALLOCATION OF LOAD FORECASTING AND TRADING & RISK MANAGEMENT COSTS BETWEEN THE ERCOT AND ESAT REPS (BRANDT DIRECT, PAGES 6–8). WHAT IS YOUR RESPONSE?

A. Ms. Brandt contends that the costs of these systems should be allocated such that the cost estimated by the Meta Group of providing these systems for use solely in ERCOT should be borne by the ERCOT REP, and only costs above that level should be allocated to the ESAT REPs. I disagree. Ms. Brandt's recommendation, like Mr. Pollock's, is based on the incorrect assumption that the costs in question are primarily the responsibility of, and primarily for the benefit of, the ERCOT REP. (Brandt Direct, page 7, lines 1-11). As I have already explained, the driver of the costs incurred to develop these systems was the need to support ROA in ESAT. While Ms. Brandt claims that her proposed allocation is needed to prevent subsidization of the competitive ERCOT business by EGSI ratepayers (Brandt Direct, page 7, lines 9-11), in fact the opposite is true. It is the ERCOT business that has instead greatly lessened the burden on EGSI ratepayers associated with costs incurred to support ROA in ESAT. The allocation methodology EGSI proposes is consistent with those facts and should be adopted.

Q. MR. POLLOCK CONTENDS (PAGES 21-26) THAT THE AMOUNT OF COST EXPENDED BY EGSI'S DISTRIBUTION ORGANIZATION ON COMPLIANCE WITH TEXAS SET REQUIREMENTS IS OUT OF PROPORTION TO THE AMOUNT EXPENDED BY ENTERGY RETAIL ON RETAIL SET SYSTEMS. CAN YOU COMMENT?

A. Yes. Most fundamentally, Mr. Pollock is mistaken in concluding that one can simply unitize the costs of developing these systems by assuming an average cost per electronic transaction, based on the number of the transaction information flows involved in each transaction. Though a particular SET transaction may have had multiple uses (information flows), Entergy Retail developed the programming to support a particular electronic transaction once, in a manner sufficient to accommodate all necessary information flows. In the case of the development of these systems, programming complexity drives the costs. Each transaction comes with its own unique level of complexity. Programming complexity, in turn, is not driven by the number of information flows associated with a transaction, as Mr. Pollock wrongly assumes. Instead, it comes into play as a result of the requirements for processing the information that comes with the information flow. For example, to process a response to a switch request from a REP, the TDSP must be able to tap into its meter data acquisition systems to extract meter data in order to provide usage history to the REP. The REP, on the other hand, simply accepts the data sent by

the TDSP. In this example, from the perspective of the TDSP, integration with legacy IT systems is required, and thus more complexity, programming, and costs should be expected. All transactions are not equal in their complexity and therefore cannot be considered equal from a cost perspective. For these reasons, Mr. Pollock's methodology is fundamentally flawed.

In addition, Mr. Pollock is incorrect in claiming that the Retail SET systems cost only $3.9 million to develop. The Retail SET development costs are composed of 1) the total costs incurred by Entergy Retail to develop these systems (approximately $3.9 million, exclusive of AFUDC) and 2) all of the costs included in Mr. May's Default Service Provider class other than costs devoted to load forecasting systems (approximately $8.4 million, exclusive of AFUDC).[2] Thus, the total cost of developing these systems was approximately $12.3 million, compared to the EGSI Distribution organization's approximate cost of $23 million to develop Texas SET.

Q. THROUGHOUT HIS TESTIMONY, MR. POLLOCK REPEATS THE STATEMENT THAT ONLY THE ERCOT REP, NOT EGSI RATEPAYERS,

[2] This amount can be identified from the discussion of the Default Service Provider class in Mr. May's Rebuttal Testimony.

122

BENEFITED FROM THE DEVELOPMENT OF THE RETAIL SYSTEMS YOU DISCUSS. WHAT IS YOUR REACTION TO THIS STATEMENT?

A. I agree that, despite Entergy Retail's and EGSI's best efforts, retail open access could not be commenced in ESAT. Nevertheless, for the reasons I have described throughout my direct and rebuttal testimony, the Retail Market TTC costs included in EGSI's request for recovery in this case are reasonable and necessary to comply with Chapter 39. Obviously, if success in launching ROA in ESAT were part of the test for recovery of TTC costs, this proceeding would not be going on at all. Moreover, to the extent that the retail systems I sponsor were beneficial to the ERCOT REP, that benefit has been more than captured by the fact that of the $42.8 million in total capital costs invested by Entergy Retail (exclusive of the Retail CCS/market mechanics pro forma), $28.4 million, or 63%, have been made solely the responsibility of the ERCOT REP.

V. RESPONSE TO OPC WITNESS SZERSZEN

Q. DOES OPC WITNESS SZERSZEN RECOMMEND DISALLOWANCE OF ANY CAPITAL COSTS THAT YOU SPONSOR?

A. Yes, a portion of the capital costs Ms. Szerszen proposes to disallow for the categories "Pagers/Cellular Phones," "Balance Sheet Default," and "Other Employee Expenses" (Szerszen Testimony at 25) are already included in the costs that I address in my direct testimony.

Q. IS MS. SZERSZEN'S PROPOSAL TO DISALLOW PAGER AND CELL PHONE COSTS INCLUDED IN THE RETAIL MARKET TTC COSTS YOU SPONSOR JUSTIFIED?

A. No. The portion of Ms. Szerszen's $25,760.85 disallowance for pagers and cell phones included in my costs is $1,469.87. These costs were distributed among Project Nos. R20500 (related to load forecasting), R21530 (related to customer service program management), R21750 (related to customer service—retail CCS testing) and RMMRET (related to retail SET). All of the costs in these projects are part of the costs that I have already supported and justified in my direct testimony. (Quick Direct Testimony Exhibit AEQ-A lists my TTC costs by project). For large system development projects, it is sometimes necessary to purchase cell phones and pagers for team members. Given the scale of the TTC program, the Company needed cell phones and pagers to keep communications channels open with employees and contractors, especially during non-business hours and when team members were not in the office but needed to be accessible. Also, the TTC effort encompassed multiple work locations including: Entergy's headquarters, other Entergy offices, vendor office locations, and in Austin at the stakeholder and Commission rulemaking proceedings. Without the cell phones and pagers, we would not have been able to locate readily the personnel involved in TTC-related

projects, and, on the out-of-office projects, they would have had to rely on pay phones, when available, to contact us.

Q. WHAT ABOUT MS. SZERSZEN'S PROPOSAL TO DISALLOW RETAIL-RELATED "OTHER EMPLOYEE EXPENSES"?

A. This proposal is likewise unjustified. The portion of Ms. Szerszen's proposed disallowance for other employee expenses included in my costs is $4,449.97. These costs were distributed among Project Nos. R20500, R21530, R21750, RMMRET (referenced above in the discussion of cell phones/pagers), and R25111 (related to Customer Service—Billing Expert). The modest amount of employee labor justified in my direct testimony (Quick Direct at 37-38, 52-53, 63-64 and 73-74) necessarily leads to the modest incidental employee expenses captured by the other employee expense category.

Q. WHAT IS YOUR RESPONSE TO DR. SZERSZEN'S RECOMMENDATION TO DISALLOW THE RETAIL-RELATED PORTION OF DOLLARS RECORDED AS "BALANCE SHEET DEFAULT"?

A. This recommendation should likewise be rejected. The portion of Ms. Szerszen's proposed disallowance for balance sheet default included in my costs is $1,948,126. Once assigned to a project code, these costs were distributed among Project Nos. FB3617 (related to customer

service—customer care replacement system, *i.e.*, CCS), FB3618 (related to customer service—EDS operator cost)[3], FB3715 (related to customer service—Bill Delivery) and RMMCRT (related to Retail SET). All of these costs are amply supported by my direct testimony, as the costs associated with all of these projects are covered by that testimony.[4]

VI. CONCLUSION

Q. DO YOU HAVE ANY CHANGES TO MAKE TO YOUR DIRECT TESTIMONY?

A. Yes, I have several.

- At page 1, lines 5–6, my business address should be changed to my current address, 20 Greenway Plaza, Houston, Texas 77046.
- At page 32, Table 5, the amount allocated to the ESAT REP should be changed to $6,341,183 and the amount allocated to the ERCOT REP should be changed to $1,200,317. This conforms Table 5 to the correct corresponding amounts shown on page 25, Table 3.
- At page 57, Table 10, the total amount of EGSI's TTC request for the Trading & Risk Management class should be reduced by $52,925.52, to a total of $1,812,193.24.

[3] EDS is the vendor that hosts the CCS system.

[4] The distribution of the cell phone/pager, employee expense and balance sheet default costs among the various projects I have referenced is provided in my workpapers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, at this time.

Project Code	SAIC Bills	Accounting System	Variance
FIAP12	$ -	$ 8,644.03	$ 8,644.03
FIAPL4	$ -	$ 1,190.83	$ 1,190.83
R20500	$ 3,986,299.57	$ 3,979,757.46	$ (6,542.11)
R21520	$ 216,269.13	$ 568,789.37	$ 352,520.24
R21530	$ 354,049.78	$ 325,149.32	$ (28,900.46)
R21750	$ 143,087.35	$ 150,912.14	$ 7,824.79
R25111	$ 7,787.78	$ 770,515.70	$ 762,727.92
RMMRET	$ 165,524.34	$ 990,670.26	$ 825,145.92
TOTALS	$ 4,873,017.94	$ 6,795,629.11	$ 1,922,611.17

The following charges are not included on the bill, but are rather processed through corporate:

Resource Code	Description	Amount
432	*Quality Perf Index-Outsourcing*	$ 280,712.89
433	SAIC Outsourcing Accrual	$ 224,499.16
601	Outsourcing QPI Accrual	$ 43,999.10
609	Outsourcing - Labor Accrual	$ (984.70)
613	Unix Server Alloc-Outsourcing	$ 1,153.97
639	Svc Co Offset - Outsourcing	$ (0.00)
644	Outsource Allocation Offset	$ 770,830.52
645	Risk Reward	$ 22,961.97
879	Sales Taxes - Outsourcing	$ 11,778.68
882	Salestax Outsourcing (Actuals)	$ (130.42)
	Total	$ 1,354,821.17

The following charges first accrued to another project code, and then were encapsulated into project code RMMRET

Project Code	Description	Amount
RMMTEX	Retail Market Mechanics	$ 411,886.67
RTTCTX	Retail Market Mechanics	$ 139,953.29
	Total	$ 551,839.96

Total of items either (1) processed through corporate or (2) originally accrued to a different project code than used in testimony.	$	1,905,661.13

Remaining Unexplained Variance	$	(15,950.04)

128

service affiliates – ESI and EOI. Should a need arise that would necessitate the sharing of employees, facilities, or other resources other than as allowed by P.U.C. SUBST. R. 25.272(d)(3), (4), (5), or (7), the Company shall make a filing with the Commission prior to such sharing to demonstrate that such sharing would not compromise the public interest.

3. Sharing of officers and directors, property, equipment, computer systems, information systems, and corporate support systems

3(A). Sharing of officers and directors

P.U.C. SUBST. R. 25.272(d)(3) (partial)

A utility and a competitive affiliate may share common officers and directors, . . . if the utility implements safeguards that the commission determines are adequate to preclude employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates.

EGSI Compliance Discussion

Common Officers and Directors. The Company plans to share officers and directors with competitive affiliates. Each such officer and director is bound by the Internal Code and shall provide annual affidavits of compliance.

3(B). Sharing of property and equipment (excluding office space, computer systems and information systems)

P.U.C. SUBST. R. 25.272(d)(3) (partial)

A utility and a competitive affiliate may share . . . property, equipment, . . . if the utility implements safeguards that the commission determines are adequate to preclude employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates.

EGSI Compliance Discussion

Refer to the discussion at Section II.D.5. below for safeguards on sharing of office space. Refer to a later discussion in this Section II.D.3 for safeguards on sharing of computer systems and information systems. The immediately following discussion addresses other property and equipment.

EGSI and competitive affiliates shall not directly share property and equipment. Property and equipment assigned to the areas occupied by EGSI, such as copy machines, facsimile machines, furniture, and conference room equipment (furniture, overhead equipment, phones, etc.) will, by their physical location within a secured access area, be separate from the equipment assigned to competitive affiliates and from the equipment assigned to the shared corporate support service providers. Access will be controlled so that employees of the competitive affiliates

will not have access to the property and equipment utilized by EGSI. As discussed further at Section II.D.5. below, for those offices that are housed in shared multi-story facilities, access will be secured by use of separate floors with secured access or by solid walls and separate secured access doors for separation if the same floor is used. For offices located in single story buildings, separation would be achieved by solid walls and separate secured access doors to preclude cross utilization of equipment or other resources at these sites.

The only types of property and equipment that could be considered shared will be those necessary to provide shared corporate support services, such as mail room equipment, corporate copy center equipment and central conference room facilities. The types of services that the shared corporate support service groups will provide to EGSI and its competitive affiliates will necessitate sharing some of the property and equipment used by these groups. The use of property and equipment in such central or shared areas will be under the direct control of the corporate service providers or third party providers who will be required to adhere to the Internal Code and this Compliance Plan in making these services and resources available to the EGSI and its competitive affiliates. For example, conference room facilities in common areas shall be inspected and cleared after each use to make sure confidential materials or information is not left behind for possible discovery by employees or

contractors of a competitive affiliate. Property and equipment used to provide shared corporate support services shall not be controlled by the competitive affiliates, but shall be used to provide corporate support services to them..

3(C). Sharing of information technology systems (i.e., computer systems and information systems)

P.U.C. SUBST. R. 25.272(d)(3) (partial)

A utility and a competitive affiliate may share . . . computer systems, information systems, . . . if the utility implements safeguards that the commission determines are adequate to preclude employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates.

EGSI Compliance Discussion

Governance/Delivery Model. Most of the shared information technology ("IT") systems (i.e., computer systems and information systems) within the Entergy system are centralized and are provided to all business units through ESI. On October 1, 1999, virtually all of the service delivery function for the Entergy IT system was outsourced to Science Applications International Corporation ("SAIC"). While a small portion of the service delivery staff remain ESI employees, most are SAIC employees, and all are managed by SAIC management. ESI has retained a small corporate staff to manage the outsourcing relationship

and to provide strategic direction for the system. In addition, an IT governance model has been structured such that each current business unit has its own head of IT to direct the IT initiatives of their business units and to coordinate the delivery of IT services with SAIC and other external service providers. In some cases, business units also have a small staff of business analysts and IT professionals to support specific operational systems. No significant changes are needed in the IT governance structure or in the manner in which IT services are provided within the Entergy system to ensure compliance with the Internal Code. The corporate support services IT function will continue to set strategic technology direction for the Entergy system, and the individual business units will continue to receive IT services from SAIC and other external service providers. All IT staff, both Company employees and contractor staff, shall be trained and required to comply with the Internal Code and shall not serve as a conduit for prohibited information transfers.

Security Mechanisms. Entergy already employs a wide variety of security mechanisms to ensure the security of its information system assets and to prevent inappropriate external and/or internal access to information. To begin, the Entergy IT network itself is controlled by firewalls and intrusion detection and prevention tools. In this context, the term "firewall" has both a broad general meaning and a specific technical meaning. In the general sense, the term "firewall" refers to any security

mechanism used to provide secure access to information system resources. As a specific technical term, a "firewall" refers to a specific type of hardware device, together with the appropriate software for that device, that is used to provide secure access to an information systems network.

Entergy uses firewalls, in the technical sense, to secure access to the Entergy System's internal information network. An individual must have an authorized user ID and password in order to gain access. Within the network, Entergy also uses the security systems built into the desktop, server, and mainframe operating systems to secure access to those resources and to the individual applications that run on them. Once within the network, that same user ID is used to control access to individual application systems. Individuals are authorized to access only those application systems required in the performance of their job responsibilities.

In addition, many individual application systems contain further internal controls that limit access to specific information within the application system based on the user ID. For such applications, users must authenticate themselves in order to access any information within that application and the extent of the users' access to information is determined by the permissions granted to their user ID. This latter type of control is used extensively, for example, in the human resources and

financial application systems. In those systems, individual staff employees can only see their own information, and managers can only see the information for their own organization and any organizations subordinate to them.

Changes will be required for a number of currently shared systems so that adequate safeguards are in place to ensure compliance with the Internal Code. The above described controls are the same types of control mechanisms that will be used to effect the separation of information systems required by the Internal Code and the Texas Affiliate Rules. In particular, where changes are required to shared systems so that adequate safeguards are in place, there are two primary approaches to achieve the safeguards. One is to create separate copies of the application system with appropriate segmentation of the data. A second approach, which can be more economical, is to modify the single application program instructions to create barriers (so called "firewalls") at appropriate points within the system to prevent inappropriate access to information. In this case, careful analysis is required to ensure that the modifications are made in all the proper locations within the application program instructions.

Entergy's IT systems. Entergy's IT systems can be grouped into two categories: operational systems that support the generation, transmission, distribution, metering, and customer service functions, and

corporate systems that support the operation of the Company and the Entergy System as a business. Descriptions of the operational systems follow.

- Customer information system. The customer information system contains customer name and address, type(s) of service being provided, payment history, meter information, distribution network configuration, etc. The system is used by Retail and EGSI call center agents, customer service representatives, customer billing, credit, and collection staff, meter readers, service restoration staff, etc.

- Energy management systems. The energy management system is used to manage the power grid and the economic dispatch of power plants. The system is used by operational and support staff from Transmission and Generation.

- Transmission, distribution, and power plant maintenance management systems. These systems contain information regarding the physical components installed in the power plants, transmission, and distribution systems. They are used to record and schedule maintenance activities of these components. The systems are used by engineers responsible for maintaining the physical components of the power plants, transmission and distribution systems.

- Power quality systems. The power quality system contains parameters used to analyze specific power quality measurements. The power quality system is used by power quality engineers for specific engineering analyses.

- Two-way field radio system. The two-way radio system does not contain any data of its own; rather it is used for communications to coordinate and monitor the status of field crews performing service installation and restoration work. The two-way radio system is used by field service personnel from Distribution, Transmission, and Retail Customer Service in the performance and monitoring of their service installation and restoration work.

Descriptions of the corporate systems follow.

136

- Human resources. The human resources system contains employee information, including salary, benefits, dependants, employment history, education, etc. The human resources system is used by the staff of the human resources function and by management throughout the company; employees also have access to their individual benefit information.

- Finance and accounting. The financial systems contain information regarding budget, spending, procurement, accounts payable, treasury, general ledger, accounting, etc. information. The finance systems are available to the staff in the financial support groups (*e.g.* Accounting, Treasury, etc.). In addition, management throughout the company has access to the financial information for their own unit and those subordinate to them.

- E-mail. The e-mail system, like the two-way radio system, does not contain any data of its own; rather it is used for general communications between employees and with external parties. The e-mail system is available to all Entergy employees.

- Intranet. The Entergy system Intranet contains a variety of information about organizational units, corporate policies, etc. The Intranet system is available to all Entergy employees.

- Network file servers. The network file servers contain electronic documents, typically created using Microsoft Office products, of each organizational unit. All employees have access to personal storage space on a network file server. They also typically have access to shared storage for their workgroup and for any specific project teams they might be working on.

- Telephone systems. The telephone system, like the two-way radio and e-mail systems, does not contain any data of its own; rather it is used for general communications between employees and with external parties. The telephone system is available to all Entergy employees.

- Voice response units. Entergy utilizes voice response units to provide enhanced call handling at the customer call centers. The voice response units are used to support the activities of the call center agents.

- Tools used by the IT organization to develop applications and to manage IT operations. IT development tools do not contain

information, but are used to develop new applications for the Entergy system and for individual business units. IT operations management tools also contain performance and availability information about the IT systems at Entergy. The IT tools are used by the IT development and operations support staff under the direction of SAIC management

A assessment was made of the above IT systems, giving consideration to the role of each system, the manner in which it is being used within the business process, the type of information contained in the system, and the manner in which it is shared within the application. Based on this review, a determination was made whether the application, as shared, offered preferential access to information and, thus, compromised the Company's objective of maintaining a fair market and full compliance with Texas Affiliate Rules and the Internal Code.

Additional safeguards for competitive energy services. The results of the assessment found that only a single IT application was found to be used by the Company directly in support of a service that the Commission considers to be a competitive energy service beginning September 1, 2000. That application is a power quality system that is part of Entergy's power quality lab. The lab supports power quality services, including power quality notification services based on devices located on the customers' premises. Findings from the power quality lab can be accessed via the Entergy Intranet. In addition, currently the staff of the power quality lab are not excluded from access to the customer, distribution, and transmission information systems. In order to ensure

compliance with the Internal Code, a separate power quality lab, with the associated power quality system, will be established to support the competitive energy service. The website containing the findings from the power quality lab that will continue to serve the regulated jurisdictions will be password protected, so that representatives from the competitive energy services group will not be able to access that information. Similarly, all employees of the competitive energy services group will be denied access to the customer, distribution, and transmission information systems by removing their user ID's from the respective systems' lists of authorized users. These changes will be implemented by September 1, 2000.

Additional safeguards for retail choice. For purposes of the market to be created January 1, 2002 (June 1, 2001 for pilot participants), other IT applications were found to be used in support of a service that will be competitive in that market. Thus, appropriate safeguards must be installed. As noted previously, there are two primary approaches to achieve the safeguards - create separate copies of the application system with appropriate segmentation of the data, or modify the application program instructions to create firewalls at appropriate points within the system to prevent inappropriate access to information. In determining which of these approached to follow, the Company considers the following criteria:

- The primary criterion in determining whether a system needed to be separated or could continue to be shared with firewalls installed was the requirement that the approach had to meet the requirements of the Texas Affiliate Rules and the Internal Code.

- The next consideration is the amount of time required to effect the changes necessary to meet the primary criterion. The Company is committed to having the necessary separation in place in time to meet the start of the pilot program on June 1, 2001.

- The third consideration is the cost of implementation and on-going operations for the alternative approaches, since the Company is intent on providing service at the lowest reasonable cost. Generally, the lowest cost of on-going operations is achieved by utilizing a single shared copy of an application since hardware and operational support costs to install, maintain, and operate are minimized. Software licensing costs are also reduced. But, to operate a single shared copy of an application requires sufficient internal security capabilities within the application to ensure that access to information is properly controlled. In those cases where such controls already exist within a single shared copy, the decision to continue to share the application is an easy one. In the instances where those controls do not exist or are insufficient, the cost and time required for implementing the necessary internal security controls must be compared against the cost and time required to create separate copies of the information system and to appropriately segregate the data.

Regardless of the safeguard approach chosen, the Company, as described earlier, has outsourced the delivery of IT services to a third party, SAIC. As a result, employees responsible for the technical implementation of the safeguards will be managed by a third party, who will be trained and expected to comply with the Internal Code.

It was determined that the "separate copy" approach was the best to be used for the energy management system, the two-way field radio system, the telephone systems at larger locations housing multiple

business units, the transmission, distribution and power plant maintenance management systems, and the voice response units. In order to achieve this safeguard, the following actions will be taken:

- Separate systems will be utilized and the existing data will be appropriately separated for the energy management system.[1]

- Separate systems will be utilized and the existing data will be appropriately separated for the transmission, distribution and power plant maintenance management systems.

- Separate frequencies will be assigned to the separate organizations that use the two-way radio system.

- At those locations that have multiple business units and where the installed telephone switch is large enough to be composed of multiple internal units that can easily and economically be separated, the switch will be partitioned into separate units for each business unit. (While the Company does not believe that its internal phone switches represent any greater risk of inappropriate information sharing than if using the local phone company's switch, the Company will take this added step where practical.)

- The Retail call center function will have its own voice response unit, separate from those used by the EGSI distribution call centers.

The specific details for implementing the identified approach for each of the applications are still being analyzed. Consequently, a specific timetable by application system is not available at this time. However, the work for all the applications will be completed by June 1, 2001.

It was determined that the "shared copy with firewalls" approach was the best to be used for the customer information system, the human

resources system, the e-mail system, the Intranet system, and finance/accounting system, network file servers, and the IT tools. At smaller locations with multiple business units, the telephone switch will be shared as well. In most cases, the Company employs security mechanisms that already exist within the applications. In particular, the following actions will be taken:

- In the case of the customer system, the existing system is in the final stages of its useful life. Modifying the system to accommodate retail open access is not economically appropriate and could not be accomplished within the time available. Consequently, Entergy is procuring a new customer system that will be implemented prior to June 1, 2001 using the internal security within the product to totally separate access for EGSI distribution and Retail employees just as if they were employees of any two separate companies. Retail employees attempting to access distribution data will be unable to do so. And similarly, EGSI distribution employees will be blocked from having access to Retail customer information.

- Security is already in place for the human resources system to limit access to information to an individual's own specific organizational unit and any units subordinate to that one. Whether those units are part of a single, vertically integrated company or are parts of separated business units, the mechanisms to prevent individuals in one organization unit from viewing information in another already meet the requirements of the Internal Code.

- E-mail, like normal mail and telephone conversations, does not in itself share information beyond what one individual provides to another. While no technology can completely, within practical cost constraints, limit the content of an e-mail message or phone conversation, explicit limits on information sharing by any means is covered by the Internal Code and this Compliance Plan. Employees will be trained on and required to adhere to the provisions of the Company's Internal Code.

[1] The energy management system currently has safeguards in place to ensure that employees in the wholesale merchant function do not have preferential access to transmission information.

142

- For Entergy's Intranet, security mechanisms (password protection) are already in place for separating information for the existing non-regulated affiliates. These mechanisms will be extended to the newly separated business units' web sites.

- Security is already in place for the financial/accounting system to limit access to information to an individual's own specific organizational unit and any units subordinate to that one. Whether those units are part of a single, vertically integrated company or are parts of separated business units, the mechanisms to prevent individuals in one organization unit from viewing information in another already meet the requirements of the Internal Code. In addition, sharing of financial data at the corporate level is required to be able to manage within Entergy's holding company structure.

- For the network file servers, to the extent it does not already exist under today's configuration, individual user and workgroup data will be moved so that servers and data can be separately secured for each of the separate business units. Standard operating system security is already in place to ensure that individual employees' access to information on file servers is limited to their own personal information and to corporate information on a specifically authorized, need to know basis.

- The tools used by the IT organization do not contain information, but are used to develop applications and to manage IT operations. As indicated earlier, all IT staff with access to these tools will be managed by a third party (SAIC) and will be required to comply with the Internal Code and the Compliance Plan.

- At smaller locations with multiple business units, the telephone switch will be shared as well. The Company does not believe that its internal phone switches represent any greater risk of inappropriate information sharing than if using the local phone company's switch.

3(D). Sharing of corporate support services

P.U.C. SUBST. R. 25.272(d)(3) (partial)

A utility and a competitive affiliate may share . . . corporate support services, if the utility implements safeguards that the commission

143

determines are adequate to preclude employees of a competitive affiliate from gaining access to information in a manner that would allow or provide a means to transfer confidential information from a utility to an affiliate, create an opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates.

EGSI Compliance Discussion

The definition of corporate support services are joint corporate oversight, governance, support systems, and personnel services shared by a utility, its parent holding company, or a separate affiliate created to perform corporate support services, with its affiliates. Under the Texas Affiliate Rules, some services may be shared as corporate support services between EGSI and a competitive affiliate, but other services are expressly prohibited from being so shared. The types of services that may be shared by EGSI and competitive affiliates as corporate support services under the explicit wording of the Texas Affiliate Rules are human resources, procurement, information technology, regulatory services, administrative services, real estate services, legal services, accounting, environmental services, research and development unrelated to marketing activity and/or business development for the competitive affiliate regarding its services and products, internal audit, community relations, corporate communications, financial services, financial planning and management support, corporate services, corporate secretary, lobbying, and corporate planning. The types of services that the Texas Affiliate Rules prohibit from being shared by EGSI and competitive affiliates are engineering,

purchasing of electric transmission facilities and service, transmission and distribution system operations, and marketing (collectively, "Restricted Services"). However, Restricted Services may be provided by EGSI, or a separate affiliate created to perform such services, exclusively to affiliated regulated utilities and only for the provision of regulated utility services. EGSI interprets the Texas Affiliate Rules to permit a service company affiliate to provide both corporate support services and Restricted Services to EGSI, so long as the Restricted Services are provided by a separate division of the service company affiliate and are not shared with competitive affiliates. Further, EGSI interprets the Texas Affiliate Rules to permit a separate service company to provide Restricted Services to EGSI and to a competitive affiliate, so long as the Restricted Services are provided by separate divisions of the service company affiliate to EGSI and the competitive affiliate. ESI, EOI, and EEI are the three primary service companies in the Entergy system providing corporate support services. ESI provides corporate support services to Entergy's Operating Companies and various unregulated companies. EOI provides nuclear services to Entergy's nuclear plants serving Entergy's regulated retail operations. EEI provides services to Entergy's non-regulated affiliates.

EGSI will share corporate support services with competitive affiliates. Until retail choice begins on January 1, 2002, corporate support services will be provided to EGSI by ESI and EOI. After January 1, 2002,

145

EGSI will continue to receive corporate support services from ESI, but EOI will cease to provide corporate support services to EGSI since EGSI will no longer own generation assets at that point.

Prior to retail choice, Restricted Services will be provided by ESI (generation, transmission and distribution support services) and EOI (nuclear support services) in accordance with the discussion at P.U.C. SUBST. R. 25.272(c)(4) above. To the extent the Restricted Services do not fall within the notices provided pursuant to P.U.C. SUBST. R. 25.272(b)(3), the services shall not be shared by EGSI and its competitive affiliates. Following retail choice and operation by the independent transmission organization, EGSI will continue to receive Restricted Service (distribution support services) from ESI, but such services will not be shared with competitive affiliates. EOI will cease to provide Restricted Services to EGSI as of January 1, 2002.

In order to prevent the sharing of Restricted Services, ESI will be organized into several divisions providing the following distinct services:

- Corporate support services provided to both EGSI and competitive affiliates.
- Restricted Services (such as distribution support services) provided to EGSI and Entergy Operating Companies
- Restricted services (such as engineering for competitive generation companies) provided to competitive affiliates.

Additional steps shall be taken to ensure that safeguards consistent with the Texas Affiliate Rules are established for these divisions, such as use

of separate employees, information and access controls, and separate cost tracking.

Employees providing corporate support services and Restricted Services will be subject to the Internal Code and the Compliance Plan processes. The safeguards discussed elsewhere herein on shared services shall be followed. It is the responsibility of corporate support services management to incorporate the Internal Code into the operating standards. Training shall be provided to these employees on the Texas Affiliate Rules, including possible disciplinary actions for violations. Director level employees and above involved in providing corporate support services to both EGSI and its competitive affiliates will also be required to furnish an affidavit of compliance.

4. Employee transfers and temporary assignments

P.U.C. SUBST. R. 25.272(d)(4)

A utility shall not assign, for less than one year, utility employees engaged in transmission or distribution system operations to a competitive affiliate unless the employee does not have knowledge of confidential information. Utility employees engaged in transmission or distribution system operations, including persons employed by a service company affiliated with the utility who are engaged in transmission system operations on a day-to-day basis or have knowledge of transmission or distribution system operations and are transferred to a competitive affiliate, shall not remove or otherwise provide or use confidential property or information gained from the utility or affiliated service company in a discriminatory or exclusive fashion, to the benefit of the competitive affiliate or to the detriment of non-affiliated electric suppliers. Movement of an employee engaged in transmission or distribution system operations, including a person employed by a service company affiliated with the utility who is

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

WILLIAM T. CRADDOCK

ON BEHALF OF

ENTERGY GULF STATES, INC.

FEBRUARY 10, 2006

148

R-00148

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 WILLIAM T. CRADDOCK

TABLE OF CONTENTS

EXHIBIT

149

R-00149