

1 workable wholesale market. ERCOT is the nation's best
2 example of where wholesale competition has flourished,
3 and this has led to a healthy retail competition in
4 the ERCOT region.

5 There is a -- there is a different
6 reality for Southeast Texas. The complex interplay of
7 federal regulators and regulatory bodies in other
8 states have left us with a wholesale market that is
9 not yet ready for retail competition. The committee
10 substitute to House Bill 1567 does the following
11 things: It provides rate stability for three years.
12 It provides the PUC with a clear set of rules and
13 guidelines to deal with the development of the
14 wholesale market so retail competition can begin. It
15 provides a streamlined approach for Entergy to begin
16 recovery of costs already incurred complying with
17 Senate Bill 7 and its power purchases necessary to
18 maintain a reliable system. And, most importantly, it
19 provides a path for Entergy to move to competition and
20 removes the uncertainty facing our region of the
21 state.

22 Members, I want to highlight one
23 important provision covered in our bill. The
24 committee substitute to House Bill 1567 specifically
25 prohibits the so-called "double recovery of costs"

1 Entergy may recover through rate riders set in
2 proceedings at the Commission. In regard to
3 transition cost, the PUC will determine if it costs --
4 if costs for transition to competition have been
5 previously recovered by review of the annual earnings
6 report filed by the Company, and you can see Page 5,
7 Line 12 of the committee substitute for that language.

8 The bill also requires Entergy to adjust
9 for load growth, that portion of the base rates
10 already in place to recover its purchased power
11 capacity costs, and the adjusted amount could not be
12 recovered again through a rider. You can find that
13 language on Page 5, Line 24, of the committee
14 substitute.

15 The bill passed the House 144 to nothing
16 and has the support of all the stakeholders involved.
17 My staff and Representative Ritter's staff have worked
18 very hard to bring this bill -- try to strike a
19 balance with this bill, and I feel that the
20 legislation is the right step in the right direction
21 for my region of the state.

22 The committee substitute makes two
23 changes compared to the version that came over from
24 the House. We removed Section 1 of the engrossed
25 version regarding extending competition delay into the

1 SPS territory. That was on Page 1, Line 5 of the
2 engrossed version of the bill, and that's been
3 removed.

4 And also we removed language that would
5 have overlapped PUC administrative authority, as you
6 pointed out, a problem that we had with the House --
7 the engrossed version of the House bill, Chairman
8 Fraser. And this was in Section 39.452(d)(3-5) in the
9 engrossed version, Page 3 and Line 18 of the engrossed
10 version.

11 Mr. Chairman, I have -- I would be glad
12 to try to answer any questions. I think I've probably
13 exhausted my technical knowledge of what's going on
14 here, and there are several witnesses that I think
15 have turned in cards and would be far more capable
16 than I of answering any detailed questions.

17 SEN. FRASER: Thank you, Senator.

18 Members, the -- y'all just came in. This
19 is the Entergy issue that we've been visiting about
20 most of the Session and really since we started
21 competition. And this was what is being represented
22 as a compromise between the parties and the PUC
23 agreeing then to move forward toward competition and
24 the ability of the PUC to address some issues.

25 Any questions of Senator Williams?

1 And I'm -- I haven't asked this question
2 lately, but you have two other senators that are
3 impacted, Ogden and Staples. My understanding is that
4 they're --

5 SEN. WILLIAMS: I think they're okay.
6 Janek is also impacted, and Janek and Staples are both
7 co-authors and we've worked and kept Senator Ogden's
8 office informed. I think everybody -- everyone who
9 has any of the Entergy service area in their district
10 understands what we've done and they're in agreement.

11 SEN. FRASER: Customers, both industrials
12 and residential, appear to be sympathetic with the
13 direction you're going?

14 SEN. WILLIAMS: Yes, sir. We have had
15 the industrial stakeholders involved. We've tried to
16 take care of the residential and also the Cities have
17 had input into this. And I would also point out that
18 the bulk of Entergy's service area and customer base
19 in this state is in my Senate district. So
20 Representative Ritter and I are -- and Deshotel and
21 Ritter and I are really at the heart of where their
22 service area is.

23 SEN. FRASER: Yeah. Members, any other
24 questions of Senator Williams?

25 We do have two of the Commissioners from

1 the PUC that are here. This is an issue that has been
2 before the PUC since we started moving toward
3 competition and the establishment of ERCOT. And if
4 there's any questions -- I may have something in a
5 minute for one of y'all. Members, any questions right
6 now of either Senator Williams or the PUC?

7 UNIDEN. SPEAKER: So there will be --

8 SEN. FRASER: Thank you. I have a card
9 on J. F. Domino. Joe, you said you didn't need to
10 testify, but if you would -- are you available to
11 testify?

12 MR. DOMINO: Yes, sir, I am.

13 SEN. FRASER: Would you please come
14 forward? Good to have you here today.

15 MR. DOMINO: Good to be here.

16 SEN. FRASER: Would you identify
17 yourself, please?

18 MR. DOMINO: My name is Joseph Domino,
19 and I am the President and CEO of Entergy Texas.

20 SEN. FRASER: Good to have you. We
21 appreciate Entergy's being in Texas and supplying
22 power to the good people of the southeast corner of
23 the state.

24 Joe, my understanding is on this that we
25 have an agreement that -- I know that we've been

1 talking about this for several years since we first
2 moved toward competition, and at that time I think it
3 was the intent for y'all to move to competition. We
4 kind of had a balk on that. Y'all agreed to something
5 that probably I think you're attempting to address
6 today, and my understanding is with this we will move
7 forward and attempt to have a rate hearing at the PUC
8 for the people of your area. Is that correct?

9 MR. DOMINO: That is correct.

10 UNIDEN. SPEAKER: This is one of my co --

11 SEN. FRASER: A question that I would ask
12 of the company -- and this comes from people being
13 served in that area -- that there has been some
14 complaints of your company about infrastructure
15 problems within the area and the amount of money
16 that's being invested. One of the things that was
17 said is that if a -- if the rate hearing came through
18 and there was additional revenue, that that revenue
19 would be pledged to infrastructure projects in the
20 southeast part of the state. Is that correct and will
21 some of the money, if the rates do increase for the
22 people in that corner of the state, is it the
23 intention of your company to use a portion of that
24 revenue for infrastructure and addressing some issues
25 that have been brought forward by customers?

1 MR. DOMINO: Yes, Senator. Any increase
2 in rates when we go before the Commission to justify
3 those increases, the expenditures would be reviewed
4 and the only portion that we would be allowed to put
5 in rates in Texas would be for the improvements that
6 benefit Texas.

7 SEN. FRASER: And the focus of this bill
8 is to address moving forward to competition. And by
9 the wording of the bill, is it the intention of the
10 company -- we've had one effort for y'all that it was
11 a balk start and this bill clearly says that y'all
12 will make an effort to move toward competition. Is
13 that the intention of --

14 MR. DOMINO: That's the intent, and in
15 the bill there are filings that we are required to
16 make that will outline our path towards getting to
17 competition.

18 SEN. FRASER: Okay. And in the -- I know
19 the last issue. It's my understanding of the bill
20 that it addressed a request to address the Commission
21 on the recovery of fees from the last move toward
22 competition, the balked attempt, and I understand
23 you're going to go before the Commission to address
24 that issue and this bill gives you the right to do
25 that?

1 MR. DOMINO: This gives us the right to
2 do that, and then the Commission would decide what
3 would be recovered.

4 SEN. FRASER: But you do agree by the
5 legislation that the Commission does have the
6 authority to make that determination?

7 MR. DOMINO: Yes.

8 SEN. FRASER: It is not being mandated by
9 this bill?

10 MR. DOMINO: No, it is not.

11 SEN. FRASER: It's just -- okay.

12 Members, any other questions of Entergy?

13 Mr. Domino, thank you for being here.

14 MR. DOMINO: Thank you, Senator.

15 SEN. FRASER: We have a card on Richard
16 Smith also from Entergy for the bill, does not want
17 wish to testify. We have a card on Rick Levy for the
18 bill, does not wish to testify.

19 Phillip Oldham.

20 MR. OLDHAM: Good morning, Mr. Chairman.

21 SEN. FRASER: Phil, could you identify
22 yourself, please?

23 MR. OLDHAM: I'm Phillip Oldham. I
24 represent the Texas Coalition for Competitive
25 Electricity. We represent the large industrial

1 consumers throughout the state. We were actively
2 involved in this process. We do support this
3 compromise, believe it is a reasonable transition to
4 get this area to competition, which is real important
5 to our members.

6 SEN. FRASER: Thank you. And we
7 appreciate y'all being involved. I know there was --
8 y'all had concerns and it appears it has been solved
9 through this compromise, so y'all are signing off on
10 it?

11 MR. OLDHAM: We are, and I want to thank
12 the great Senator Williams and the East Texas
13 delegation for their leadership on this.

14 SEN. FRASER: Tommy did a good job on
15 this bill. This was -- this wasn't an easy one --

16 SEN. WILLIAMS: -- great staff.

17 SEN. FRASER: Any questions of
18 Mr. Oldham?

19 Thank you.

20 We have a card on Walt Baum for the bill,
21 does not wish to testify from AECT. Eric Craven,
22 Texas Electric Cooperatives, for the bill, does not
23 wish to testify. That is all the cards we have.

24 Does anyone else wish to testify for or
25 against House Bill -- the committee substitute for

1 House Bill 1567? Is there any -- before I close the
2 public testimony, Mr. Chairman, would you come
3 forward? Please identify yourself.

4 CHAIRMAN HUDSON: Paul Hudson with the
5 Public Utility Commission.

6 SEN. FRASER: And a question I would ask
7 would be following up on the questions that I asked
8 Mr. Domino. You are comfortable that the Commission
9 does have the authority to address the issues that
10 we're bringing forward here first to -- a movement to
11 move them toward competition, everything is in place
12 to allow that to happen?

13 CHAIRMAN HUDSON: Yes, sir.

14 SEN. FRASER: The potential request for
15 recovery for costs from the last movement toward
16 competition, you do agree that it is your authority to
17 address that?

18 CHAIRMAN HUDSON: That's correct.

19 SEN. FRASER: Okay.

20 CHAIRMAN HUDSON: Very explicit.

21 SEN. FRASER: Okay. Any concerns we
22 should know about about this bill?

23 CHAIRMAN HUDSON: No, sir.

24 SEN. FRASER: Okay. Thank you very much.
25 Members, any questions?

1 SEN. WILLIAMS: Mr. Chairman, I guess the
2 only other comment I would have is I want to thank
3 Commissioner Hudson and all the people at the PUC for
4 their input, and all the stakeholders, but I
5 especially want to thank my legislative director Damon
6 Withrow. He has countless hours invested in this
7 bill. And while I may get to carry the flag, he was
8 the guy that was really doing all the blocking and
9 tackling that got this bill to where we are today, and
10 I'm forever in his debt for that. This is very
11 important to our region that this bill --

12 SEN. FRASER: And I will add just a
13 little editorial on this. This is -- since we moved
14 to competition -- I was on the Committee, now as
15 chairing the Committee and chairing Oversight -- it
16 continues to be my philosophy if the PUC has authority
17 to allow that authority, the regulatory authority to
18 act, rather than trying to address by statute. We
19 felt like we had a special case here. We've talked a
20 lot about this with Senator Williams. Senator
21 Williams convinced me that this was one case that we
22 need to tweak legislatively and we're allowing that to
23 happen.

24 But I'd also say that there are a number
25 of other delicate electric issues of people that we

1 are continuing to try to address. My intent is to
2 continue, if possible, to allow the authority -- keep
3 it with the PUC. But I would say PUC has been very
4 good to the Legislature about listening to our
5 concerns and that when possible we're going to try to
6 address the regulatory scheme. But I think this is
7 one case we made a -- you know, an exception to that
8 and I think it's a good piece of legislation and
9 should be passed.

10 SEN. WILLIAMS: Well, thank you. We
11 appreciate you listening to our concerns.

12 SEN. FRASER: Sure. Before I close
13 public testimony, Senator Corona, would you lay out
14 the committee substitute for House Bill 1567?

15 SEN. CORONA: The Chair at this time lays
16 out new substitute for House Bill 1567.

17 SEN. FRASER: The committee substitute
18 has been laid out and is before us. All the testimony
19 was on the committee substitute for House Bill 1567.

20 Anyone else wish to testify for or
21 against committee substitute for House Bill 1567?

22 If not, the public testimony is closed
23 and we'll -- we'll get a quorum in a minute and --

24 SEN. WILLIAMS: Thank you. Mr. Chairman,
25 if we could, I'd like to send this bill to the local

1 calendar.

2 SEN. FRASER: That would be good. I'd
3 love to do that. I think that would be a good place
4 to --

5 SEN. WILLIAMS: Yeah. It's where it
6 belongs.

7 SEN. FRASER: Thank you.

8 SEN. WILLIAMS: Thank you.

9 SEN. FRASER: That would be the intent.
10 Senator Seliger, since we're on electric issues, would
11 you like to address House Bill -- is 989 ready? Is it
12 ready?

13 UNIDEN. SPEAKER: Yeah.

14 SEN. FRASER: I recognize you on House
15 Bill 989.

16 SEN. SELIGER: Thank you, Mr. Chairman
17 and Members. With the expansion of wind energy in a
18 wind-rich area of the state, that being in West Texas,
19 there's increased demand for transmission to
20 accommodate access to that wind energy. There
21 currently exists something of an inequity in current
22 law between ERCOT and nonERCOT electric transmission
23 providers.

24 ERCOT transmission providers have the
25 ability to update their transmission cost of service

1 each year. The goals of this legislation are to
2 authorize the Public Utility Commission to develop a
3 mechanism for timely cost recovery for transmission
4 investment that takes place between rate cases. Very
5 carefully this legislation still maintains the ability
6 of cities or other intervenors to participate in these
7 cases as they do in a regular rate case -- I can go
8 on.

9 SEN. FRASER: If you'll hold one second,
10 we'll (inaudible).

11 (Laughter)

12 Members, questions? Members? I lost my
13 group here, Senator.

14 SEN. SELIGER: I have two resource
15 witnesses if necessary, Eric Woomer and Tom Plaket
16 (phonetic) are both employees of Xcel Energy.

17 SEN. FRASER: Okay. The amendment is --
18 you have an amendment also?

19 SEN. SELIGER: I have been told that
20 there will be --

21 SEN. FRASER: I have an amendment. Do
22 you have an amendment also?

23 SEN. SELIGER: I have been told that
24 there will be two amendments.

25 SEN. FRASER: Okay. Do you --

1 SEN. SELIGER: I guess I do have the one.
2 The amendment that I have --

3 SEN. FRASER: Senator Seliger, would
4 you -- I now lay out the amendment for Amendment No.
5 1, Seliger amendment. Would you please explain the
6 amendment, please?

7 SEN. SELIGER: This is mostly a
8 grammatical one requested by the City of Amarillo and
9 deals with the text on Page 1, Line 12. Technically
10 what it does is I think it simply relates to the
11 City's ability to participate.

12 SEN. FRASER: I will now lay out
13 Amendment No. 2. I think I needed you yesterday for a
14 vote and you're back in here again today, Tuesday?

15 UNIDEN. SPEAKER: I'd be happy to vote.

16 SEN. FRASER: You're the only one I had
17 Tuesday.

18 Members, the Amendment No. 2 that is
19 being laid out is by the Chairman. Amendment No. 2
20 addresses -- the two issues that we're dealing with
21 right now is SWEPCO, which is in the northeast corner
22 in the Panhandle of the state on this issue. We had
23 an appeal by the -- the third area not in ERCOT, which
24 is El Paso area, and this amendment would also insert
25 the Western Electric Coordinating Council into this,

1 and in a second I'm going to have Julie Parsley -- I'm
2 going to ask her a question on that. But that
3 amendment is now laid out, so we have the bill -- are
4 we working off a substitute?

5 (Brief pause in the proceedings)

6 It was not a substitute so we're on the
7 original bill. Any other comments from you on this?

8 UNIDEN. SPEAKER: (Inaudible).

9 SEN. SELIGER: I believe you have copies.

10 SEN. FRASER: Okay. Public testimony is
11 now open. House Bill 989, we have two cards. One
12 from Eric Woome, Xcel Energy, for the bill, does not
13 wish to testify. We have Walt Baum, AECT, for the
14 bill, does not wish to testify.

15 Julie, could you come up, please? Would
16 you identify yourself, please?

17 COMM. PARSLEY: Julie Parsley,
18 Commissioner with the Public Utility Commission.

19 SEN. FRASER: And would you just have a
20 little discussion about the RTOs? Can you explain an
21 RTO, the way it works in all three of these areas?
22 Are they any different in relationship to the RTO?

23 COMM. PARSLEY: The SWEPCO area and the
24 Excel area are in Southwest Power Pool, which is a
25 federally -- FERC-recognized RTO. El Paso is not

1 currently in an RTO. This bill will enable those
2 utilities, Xcel and AEP North -- SWEPCO -- to
3 automatically roll in the transmission costs for
4 transmission that SPP orders them to build for
5 reliability purposes.

6 SEN. FRASER: So SPP has to order the
7 transmission, but if they do, it automatically gives
8 them the authority to roll it into the rate base?

9 COMM. PARSLEY: That was -- that was sort
10 of the genesis, I believe, of the language that we
11 came up with with this language was to allow the
12 out-of-ERCOT RTO utilities the same benefits that the
13 ERCOT RTO utilities have, which is if ERCOT directs
14 you to build transmission, then it can be -- you can
15 do the rate rider every year and then you would true
16 it up later whenever you came in for a rate case.

17 SEN. FRASER: Transmission that
18 potentially would be built would be within the Texas
19 region? Is there any way that transmission will be
20 built out of the area that could be charged to Texas
21 customers?

22 COMM. PARSLEY: Yes. Well, in the SPP
23 area we have come up with a cost allocation
24 methodology for the footprint that has a 33 percent
25 rolled-in rate. So if the transmission is ordered as

1 a base upgrade for the transmission system, 33 percent
2 of the cost will be spread across the footprint and
3 the remaining 66 percent will go to the regions that
4 benefit -- the areas of the RTO that benefit the most
5 from that transmission build out.

6 SEN. FRASER: Okay. I'm going to play a
7 hypothetical here, not thinking it could happen but
8 just a possible. Assuming we get down the road a few
9 years and it looks like that the Panhandle area of the
10 state -- we'll use that as an example -- we were going
11 to bring it into competition, but the Southwest Power
12 Pool had ordered the building of transmissions, the
13 cost of that was being passed in to the ratepayers
14 there. Is there any chance that they could -- well,
15 we could be gamed where they could order the building
16 of a transmission, attach that cost to that area and
17 then when we bring them into transmission -- or into
18 competition -- that that cost would be transferred
19 then to the people of the rest of the state?

20 COMM. PARSLEY: I don't believe so, no,
21 sir. It is -- actually, what this will let Xcel --
22 for instance, if it's in Xcel's territory, what Xcel
23 is worried about is that if they don't have this
24 ability to pass it through on a rate rider, that if
25 there is transmission built in Oklahoma that benefits

1 them, they're not going to be able to pass that
2 through to the ratepayers, so they're going to just
3 have to absorb the cost themselves.

4 SEN. FRASER: Okay.

5 COMM. PARSLEY: And so this just allows
6 them to pass those costs through just like an ERCOT
7 utility would be able to --

8 SEN. FRASER: So somewhat of a fairness
9 issue --

10 COMM. PARSLEY: It's a fairness issue.
11 And it's really a reliability issue because there is a
12 lot of transmission, frankly, that needs to be built
13 in the SPP footprint and it will allow the Xcel area,
14 in particular, to get some -- I hope to get some
15 transmission built.

16 SEN. FRASER: Okay. You know, we're all
17 for the benefit to the people up there and if they're
18 in favor of the transmission being built, which
19 benefits them sharing the cost, and I'm assuming,
20 Senator, you feel like the people there are in favor
21 of that happening from your area? I'm -- since the
22 area that Senator Eltife represents, they understand
23 the same issue, that there is a cost associated, it
24 will go to the ratepayers that they're picking up if
25 there is transmission built?

1 SEN. SELIGER: I believe they do. I
2 think they're accustomed to the nature of cost
3 recovery in all manner of improvements. The areas of
4 interest are a little different in the Texas Panhandle
5 because we're dealing in large part with the
6 proliferation of wind energy. That source -- it's
7 interest in the source as much as anything else.

8 SEN. FRASER: How will wind energy -- one
9 of the issues we talked about is the cost of wind
10 energy in relationship to the cost of the line. Are
11 there plans for tying in the wind energy and will the
12 impact of that cause an adverse effect on the rates in
13 the Panhandle?

14 COMM. PARSLEY: My understanding is
15 actually Xcel is about to hook up 10 percent of their
16 installed capacity in wind because it is, in their
17 estimation, less expensive than running some other --
18 some natural gas plants, for instance.

19 SEN. FRASER: Pretty amazing where we've
20 gotten on that.

21 COMM. PARSLEY: It is. And so -- and I
22 think maybe the Xcel witness will be able to speak to
23 that a little more, but I don't think that there's
24 going to be an increased cost for the wind.

25 SEN. FRASER: Would you now address --

1 the El Paso issue is a little different, isn't it, in
2 relationship to an RTO?

3 COMM. PARSLEY: Yes, sir. There's not
4 really even an RTO on the horizon for the El Paso
5 area.

6 SEN. FRASER: Okay. The ordering of the
7 transmission from -- or the request from SPP,
8 Southwest Power Pool, for the other two areas of the
9 state, that request will come from them for the
10 building and how is this going to work in El Paso?

11 COMM. PARSLEY: Actually I'm not sure. I
12 actually haven't seen the amendment and I'm not
13 positive how it would work.

14 SEN. FRASER: Do you have a --

15 COMM. PARSLEY: I assume that if we
16 ordered them to (inaudible) transmission to take care
17 of the wind -- for any wind energy that that would
18 certainly --

19 SEN. FRASER: Who -- who is going to
20 approve this? If they're not part of an RTO and the
21 bill says it has to be approved -- does the bill say
22 it has to be approved by the RTO?

23 UNIDEN. SPEAKER: (Inaudible).

24 SEN. FRASER: The Commission, but on a
25 request by the RTO. If there's not a request by the

1 RTO, how is that going to work?

2 COMM. PARSLEY: I don't actually know. I
3 guess they would file a proceeding with the Commission
4 and we would authorize it. Well, it looks like maybe
5 the Committee amendment does require a request by
6 the -- by their coordinating council, which is
7 different from an RTO. It's a NERC-related
8 reliability council of -- that states are in in order
9 to provide reliability for the area. So...

10 SEN. FRASER: Does it have a lot of the
11 same characteristics of an RTO?

12 COMM. PARSLEY: It doesn't have the same
13 power as an RTO. An RTO --

14 SEN. FRASER: And the question where I'm
15 headed to, are we comfortable that the decision made
16 by that reliability council would in no way impact
17 anything that we might have to address down the road?
18 It's the same question that I asked about the other
19 two as the potential for them ordering something that
20 puts into the rate base that if we ever came into
21 competition that everyone else would have to pick up.

22 COMM. PARSLEY: No -- no, sir, not right
23 now. There's no -- the only methodology that I'm
24 aware of for the Western Electric Coordinating Council
25 is participant funding -- I mean, is actually funding

1 by the utility itself. So there's no rolled-in rate
2 that is --

3 SEN. FRASER: Is it clear by the
4 amendment what we're doing?

5 COMM. PARSLEY: It looks -- as I'm
6 sitting here it looks like it is. I think -- I'd have
7 to look and see exactly where it goes --

8 SEN. FRASER: Commissioner, here's what
9 I'd ask of you and Paul both. We don't have the
10 Members here to vote on this yet. It is my intention,
11 unless there's concern, to move forward with these two
12 amendments and the bill. I think it's pretty
13 straightforward on the Southwest Power Pool issue
14 because there is an RTO in place and there's a
15 mechanism for coming forward with that through the --
16 I'm a little unclear about the El Paso issue and
17 making sure there's not something there we're missing
18 because it's a very different issue. I know y'all
19 have addressed by rule the concerns out there, but
20 they're asking for the same authority from a fairness
21 issue that would be addressed by these other two
22 outlying areas.

23 COMM. PARSLEY: And I think the -- I
24 think that the concern, to the extent there is a
25 concern, would be that there be somebody else --

1 another body that would be involved in the decision
2 for siting and building of transmission and it
3 wouldn't just be the company themselves. If the
4 language is written that way, then I don't see that
5 there's a problem and I'll certainly visit with people
6 and --

7 SEN. FRASER: Would y'all do that? It's
8 going to be a few minutes before we --

9 COMM. PARSLEY: Okay.

10 SEN. FRASER: And do y'all have a copy of
11 the bill and a copy of the amendment so you can look
12 at it?

13 COMM. PARSLEY: Yes, sir.

14 SEN. FRASER: If y'all -- Oh, I'm sorry,
15 Barry, I didn't see you. We have the third
16 Commissioner. We have our cripple Commissioner here
17 today.

18 COMM. SMITHERMAN: I'm here.

19 SEN. FRASER: Are you better today?

20 COMM. SMITHERMAN: Yes, thank you.

21 SEN. FRASER: I'm sorry, Barry, you were
22 hiding behind the witness. I didn't see you there.

23 COMM. SMITHERMAN: That's all right.

24 SEN. FRASER: If all three of y'all would
25 look at that -- I know that we can't -- I just want to

1 make sure each one of you individually does not have a
2 concern with that and there is the ability to address
3 or -- there's not a chance in any way to game that
4 where it could somehow impact if we move those people
5 into competition in those areas. So if you would look
6 at it.

7 Any other -- from the El Paso standpoint,
8 is there anybody that would like to add anything to
9 the discussion here? And if there's someone from
10 El Paso that's here that would like to add to the
11 discussion to clarify, I would -- or anyone else that
12 would like to comment?

13 MR. OLDHAM: I hadn't planned to,
14 Mr. Chairman --

15 SEN. FRASER: If you have a card --
16 please identify yourself again, Phillip.

17 MR. OLDHAM: Phillip Oldham, Texas
18 Coalition for Competitive Electricity. We are -- just
19 to be clear, we're neutral on this bill, but we did
20 participate in negotiating on it. It has protections
21 in it to address the things that you are concerned
22 about with regard to not having overrecovery. It also
23 is permissive so that -- it is conceivable to us that
24 the Commission could have a process for a
25 FERC-approved RTO like the SPP and potentially a

1 slightly different one for a nonFERC-approved RTO such
2 as --

3 SEN. FRASER: Do you have concerns from
4 AECT? It's pretty clear -- it's straight forward with
5 when an RTO is established. In an area where there's
6 not an RTO that becomes a little different animal.
7 Are you comfortable that we're okay with adding them
8 to this amendment?

9 MR. OLDHAM: From the consumer
10 perspective, I think it's okay. I just -- my comment
11 is I think the Commission has the authority under this
12 language to possibly do a few things differently if
13 there isn't a FERC-approved RTO because of the
14 concerns you've raised. So, yes, I think it's okay.
15 But it is possible in our mind that there would be a
16 slightly different process for El Paso --

17 SEN. FRASER: But you're comfortable that
18 the Commission has the ability to address --

19 MR. OLDHAM: Yes, sir.

20 SEN. FRASER: Okay. We're -- the reason
21 I'm coming forward with this was an appeal made by
22 El Paso of a fairness issue of -- on this issue. I'm
23 sympathetic to move forward with it. We have a little
24 different issue on the energy issue, but as they move
25 forward I think they're going to have the ability to

1 address long-term. So -- anything else? Anyone else
2 wish to testify for or against House Bill 989?

3 Before I close public testimony, Senator,
4 we had -- we had many conversations about this because
5 there's been attempts to -- by statute to address
6 other issues and we've had Commission involvement
7 trying to clarify the intent. I understand by the
8 passage of this this is a vehicle for some of these
9 other issues. It is not your intent to do that and
10 the intent is to keep it narrowed to the issues we
11 addressed today?

12 SEN. SELIGER: Not only is it not my
13 intent, Mr. Chairman, at such time as any
14 amendments -- anyone tries to put any amendments on
15 here or amendments that the Chair finds untenable, the
16 entire bill will be brought down.

17 SEN. FRASER: Thank you. Looks like --
18 Julie, would you like to comment again?

19 COMM. PARSLEY: I think we're all fine
20 with it. I think it does --

21 SEN. FRASER: I'm sorry, you need to
22 identify yourself.

23 COMM. PARSLEY: I'm sorry. Julie Parsley
24 with the Public Utility Commission. I think this
25 language is fine and we have the discretion and we'll

1 just keep an open mind regarding how we're going to
2 handle the different areas. I think we can make that
3 work.

4 SEN. FRASER: Well, it is my intent to
5 move forward with this amendment unless there's
6 concerns. So y'all keep reading it and before we
7 vote -- but it is my intent to -- if the Members
8 agree -- that we will move forward on both the bill
9 and the amendment.

10 Any questions of Senator Seliger?

11 Senator, it's good to have you in the
12 Senate, nice to have you before my committee.

13 SEN. SELIGER: Thank you, Mr. Chairman.

14 SEN. FRASER: Public testimony is now --
15 does anyone wish to testify for or against --

16 UNIDEN. SPEAKER: Give me a translation
17 in Spanish.

18 (Laughter)

19 SEN. FRASER: Anyone to testify for or
20 against House Bill 989? If not, public testimony is
21 closed. It will be left pending waiting for a quorum.

22 (There were other items heard that were
23 not part of the requested transcription excerpt, then
24 the proceedings continued as follows:)

25 SEN. FRASER: Members, we also had a

1 bill, House Bill 989 that addressed transmission
2 investments by the non-ERCOT areas of the state, which
3 are the SWEPCO areas -- the northeast, the
4 Panhandle -- and then there was an amendment
5 addressing the El Paso area. There are two amendments
6 to the bill that we laid out, one by Seliger, one by
7 myself addressing the El Paso issue.

8 Would you make a motion?

9 Senator Corona now moves adoption of
10 Committee Amendment No. 1. Is there objection?

11 Hearing none, so ordered.

12 Let me stop -- are there any questions
13 on -- this is an issue that is an agreed bill and we
14 added an amendment addressing El Paso. The second
15 amendment has to do with adding El Paso to the Seliger
16 bill. Seliger is in agreement, and I laid out the
17 amendment.

18 Senator Corona now moves adoption of
19 Committee Amendment No. 2. Is there objection?

20 Hearing none, so ordered.

21 Senator Corona now moves that the two
22 Committee amendments be rolled into a new Committee
23 substitute. Is there objection to rolling in the
24 amendments?

25 Hearing none, so ordered.

1 Senator Corona now moves the adoption of
2 the committee substitute. Is there objection?

3 So ordered.

4 Senator Corona now asks that House Bill
5 989 by Seliger do not pass, but the new Committee
6 substitute do pass and be printed. Clerk call the
7 roll.

8 THE CLERK: Senator Fraser?

9 SEN. FRASER: Aye.

10 THE CLERK: Senator Averitt?

11 Senator Armbrister?

12 Senator Brimer?

13 Senator Corona?

14 SEN. CORONA: Aye.

15 THE CLERK: Senator Eltife?

16 Senator Estes?

17 SEN. ESTES: Aye.

18 THE CLERK: Senator Lucio?

19 SEN. LUCIO: Aye.

20 THE CLERK: Senator Van De Putte?

21 SEN. VAN DE PUTTE: Aye.

22 THE CLERK: Five "ayes."

23 SEN. FRASER: Five "ayes" no "nays," the
24 Committee substitute for House Bill 989 does pass.

25 Senator Corona now asks that Committee

1 substitute for House Bill 989 be certified for local
2 and consent. Is there objection?

3 Hearing none, that one will go to local.

4 The other electric-related issue that we
5 heard was House Bill 1567 by Williams. Again, this is
6 an agreed bill. All the parties which were public --
7 you know, the Utilities Commission, the Entergy people
8 in the -- Senator Williams put this compromise
9 together. The industrials and the other customers in
10 the area have agreed.

11 This bill addresses two things, one is
12 moving them toward competition. The second one is
13 allowing them to come before a rate case in the
14 Commission, and a request to recover costs incurred.
15 The Commission does have the authority on this issue.

16 Any questions about that those of you
17 that missed that bill? An important bill, a lot of
18 conversation about it, and this is an agreed bill.

19 There is a Committee substitute. Senator
20 Corona now moves adoption of the Committee substitute.
21 Is there objection?

22 There being none, so ordered.

23 Senator Corona now moves that House Bill
24 1567 do not pass, but the Committee substitute in lieu
25 of do pass and be printed.

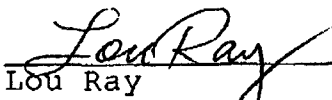
1 THE CLERK: Senator Fraser?
2 SEN. FRASER: Aye.
3 THE CLERK: Senator Averitt?
4 Senator Armbrister?
5 Senator Brimer?
6 Senator Corona?
7 SEN. CORONA: Aye.
8 THE CLERK: Senator Eltife?
9 Senator Estes?
10 SEN. ESTES: Aye.
11 THE CLERK: Senator Lucio?
12 SEN. LUCIO: Aye.
13 THE CLERK: Senator Van De Putte?
14 SEN. VAN DE PUTTE: Aye.
15 THE CLERK: Five "ayes."
16 SEN. FRASER: Five "ayes" no "nays," the
17 Committee substitute for House Bill 1567 does pass.
18 Senator Corona now asks unanimous consent that the
19 Committee substitute for House Bill 1567 be certified
20 for local and consent. Is there objection?
21 Hearing none, so ordered.
22 (End of requested transcription)
23
24
25

C E R T I F I C A T E

STATE OF TEXAS)
COUNTY OF TRAVIS)

I, Lou Ray, Certified Shorthand Reporter
in and for the State of Texas, do hereby certify that
the above-mentioned matter was transcribed by me from
cassette tape recordings delivered to me and labeled
"Duplicate tape of the original tape of the Senate
Business and Commerce Committee on May 12, 2005, 8:57
a.m., Tape 1;" and that the foregoing pages are a
full, true, and correct transcription, to the best of
my ability to hear the tape recording and identify
speakers.

IN WITNESS WHEREOF, I have hereunto set
my hand and seal this 3rd day of February 2006.


Lou Ray
Certified Shorthand Reporter
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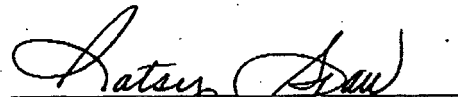
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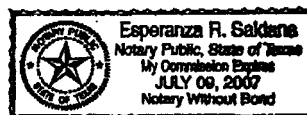
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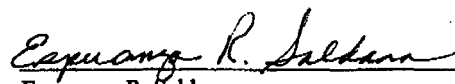
79TH LEGISLATURE

I, Patsy Spaw, Secretary of the Texas Senate and Custodian of the Senate records, certify that this duplicate tape recording is a true duplicate of the original tape of the Senate Business and Commerce Committee on May 12, 2005, 8:57 a.m., Tape 1, and is a true copy of the official record on file in my office and in my custody.


Secretary of the Texas Senate

SUBSCRIBED AND SWORN to by the said Patsy Spaw, this the 28th day of September, 2005, to certify which witness my hand and seal of office.




Esperanza R. Saldana
Notary Public, State of Texas
Commission Expires 7/9/2007

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

VIKKI GATES CUDDY

ON BEHALF OF

ENTERGY GULF STATES, INC.

FEBRUARY 10, 2006

234

R-00234

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 VIKKI GATES CUDDY

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235

R-00235

1 I. INTRODUCTION AND PURPOSE OF TESTIMONY

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Vikki Gates Cuddy. My business address is 2000 West Sam
4 Houston Parkway South, Suite 1600, Houston, Texas 77042.

5

6 Q. ARE YOU THE SAME VIKKI GATES CUDDY WHO FILED DIRECT
7 TESTIMONY IN THIS DOCKET ON AUGUST 24, 2005?

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

10

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12 A. The purpose of my testimony is to rebut certain statements by witnesses
13 for the Office of Public Utility Counsel ("OPC") who argue that EGSI's
14 transition situation is or was similar to that of Southwestern Public Service
15 Company ("SPS"), or that EGSI's request in this docket is inconsistent
16 with SPS's request. I also respond to the testimony of Cities' witness
17 Goins, who argues for rejection of my Cost Estimation Model.

18

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

21 A. No.

1 II. THE CEM IS VALID AND RELIABLE

2 Q. CITIES' WITNESS GOINS TESTIMONY, IN ITS ENTIRETY,
3 CHALLENGES YOUR COST ESTIMATION MODEL. WHAT ASPECTS
4 OF HIS CONCLUSIONS DO YOU REBUT?

5 A. I whole heartedly disagree with Mr. Goins assertions that the Cost
6 Estimation Model ("CEM") is an unproven model that presents an
7 unacceptable global view.

8

9 Q. IS THE COST ESTIMATE MODEL A PROVEN MODEL?

10 A. Yes. Cities' witness Goins claims this model is invalid because it is
11 unproven and has not been used elsewhere. In my previous testimony, I
12 indicated that the presentation framework and many of the cost
13 components are based on ERCOT's Fiscal Year 2004 budget filed with
14 the Public Utility Commission in Docket No. 28832 (See page 28 of my
15 direct testimony). The Commission has accepted the ERCOT model for
16 use in determining the reasonableness of ERCOT's annual revenue
17 requirement and ultimately for setting the ERCOT annual fee. In addition,
18 a similar model has been used in the Pacific Northwest and the Republic
19 of Ireland to estimate the restructuring start-up and operating costs
20 associated with major system implementations. Variations of this model
21 have not only been used elsewhere but, in ERCOT's case, it has been

1 used to assess the reasonableness of that Commission-regulated ISO's
2 revenue requirement.

3

4 Q: IS YOUR COST ESTIMATION MODEL A "GLOBAL" VIEW?

5 A. No. Mr. Goins claims that the CEM is invalid because it takes a "global"
6 view of costs. Quite the contrary, it is a detailed and case-specific model.
7 It takes a "bottom-up" approach to estimating cost, rather than a "top-
8 down" approach, such as comparing EGSI's total costs with those of
9 Southwestern Public Service Company's ("SPS's") costs. The bottom-up
10 approach looks at several components of the Retail Open Access project,
11 including 1) assigning internal labor to the project, 2) purchasing systems,
12 and 3) contracting with outside vendors. It also looks at each stage of the
13 system development lifecycle, including: 1) design, 2) build, 3) test, and 4)
14 pilot operations. The model estimates the costs of those major
15 components over the defined system development lifecycle. This
16 approach is commonly used in estimating the cost of major
17 implementation projects such as Retail Open Access.

18

19 Q. TO WHAT LEVEL OF GRANULARITY DO YOU PRESENT THE COST
20 ESTIMATION MODEL RESULTS?

21 A. In addition to the model's presentation of detailed salary, infrastructure
22 and external labor costs, the detailed estimate is aggregated and

1 presented in a fashion that is consistent with how electric utilities report
2 administrative and general costs, capital investments, and operating
3 expenses as a standard.

4 The level of granularity in the CEM is consistent with how the
5 Federal Energy Regulatory Commission monitors expenditures and
6 investments of the Regional Transmission Organizations under its
7 jurisdiction. The FERC Staff Report on Cost Ranges for the Development
8 and Operation of a Day One Regional Transmission Organization ("FERC
9 RTO Cost Study" - Docket No. PL04-16-000), included with my direct
10 testimony as Exh VGC-6, demonstrates that the level of granularity and
11 cost aggregation in the CEM is consistent with the level of financial
12 reporting that is relied upon to make comparisons of costs between the
13 Regional Transmission Organizations included in the FERC RTO Cost
14 Study. Specifically, Exhibit 3 of the FERC RTO Cost Study (1)
15 summarizes capital investment by system; (2) groups staff headcount by
16 department, and (3) reports infrastructure expenses. This level of
17 granularity is consistent with how the Cost Estimate Model illustrates and
18 reports costs in Workpaper 3, Workpaper 4, and Schedule 1, respectively,
19 as presented in my direct testimony.

20

21 Q. SHOULD YOUR COST ESTIMATE MODEL COMPARE SPECIFIC TTC
22 CLASSES?

1 A. No. A comparison of specific TTC classes is not necessary for the validity
2 and usefulness of the CEM. The Cost Estimate Model includes all of the
3 components that are required to support the categories of "Plan, Develop
4 Rules & Business Support" and the "Design, Build, Test, Pilot & Maintain
5 Systems" shown in the Foundation Chart attached as Exhibit VGC-1 to my
6 direct testimony. This includes components such as numbers of
7 people/FTEs, types of systems (e.g. Load Profiling, Texas SET, etc),
8 roles, and responsibilities. Contrary to Mr. Goins' suggestion, it is not
9 necessary to deconstruct the model further to replicate a particular class
10 for the following reasons:

11

12 (1) The type of class-to-class detailed analysis suggested by Mr.
13 Goins—that is, one that compares a theoretical model to
14 actual, known results—typically increases the subjectivity of the
15 model.

16 (2) If the goal of the Cost Estimate Model were to arrive at
17 convergence on an estimate of costs, a detailed analysis would
18 be useful; however, the purpose of the Cost Estimate Model is
19 to provide an estimate of costs that could be reasonably
20 *expected* to be incurred if a similarly situated utility were to
21 have undergone comparable requirements and implementation

1 timelines. In lieu of no comparable entity existing, the Cost
2 Estimate Model provides a meaningful comparison.

3 (3) Other witnesses in this docket represent and detail the
4 components of his or her respective TTC classes.

5

6 III. SPS AND EGSI WERE ON DIFFERENT ROA TRACKS

7 Q: WITNESSES NORWOOD AND GOINS INDICATE THAT THE EGSI AND
8 SPS TRANSITION EFFORTS WERE ON COMPARABLE TRACKS. DO
9 YOU AGREE?

10 A: No. It is true that ESGI and SPS are similar in terms of organizational
11 characteristics. For example, they are both vertically integrated utilities in
12 Texas. They are comparable in size and in the number of customers.
13 However, these similarities in organizational characteristics fail to
14 demonstrate that their transition efforts were in fact the same.

15

16 Q: HOW WERE THE TRANSITION EFFORTS DIFFERENT?

17 A: It is inappropriate and misleading to compare the costs of these two
18 entities for three principal reasons, that even Messrs. Goins and Norwood
19 acknowledge in their testimony: 1) differences in scope, 2) differences in
20 implementation timelines, and 3) differences in cost recovery legislation.

21 First, while SPS and EGSI had similar transition activities through
22 2000, they were certainly not subject to the same scope. SPS's service

1 territory in the Texas Panhandle was treated as a "competitive
2 development area." For example, SPS, unlike EGSI, was required to file a
3 "transition plan" in December 2000, which it did. But, because of pending
4 legislation in the 2001 Texas Legislative session that would delay ROA in
5 the SPS competitive development area until no earlier than January 1,
6 2007 (referred to as "House Bill 1692"), SPS's transition plan docket was
7 abated in February 2001. Then, in June 2001, with the passage of the
8 SPS delay law, SPS filed to terminate its pilot project, which the
9 Commission agreed to terminate in July 2001. In contrast, EGSI's Texas
10 territory was not described as a "competitive development area" in ROA
11 legislation; EGSI, until June 2005, did not have a separate transition plan
12 that was different from the other IOUs' requirements in Texas; and EGSI's
13 pilot was not terminated until June 2004.

14 Second, after House Bill 1692 was introduced in February 2001 to
15 delay SPS's ROA until at least 2007, SPS was clearly focused on
16 minimizing transition to competition activities: it filed to abate its transition
17 plan docket in that month. In contrast, EGSI continued developing its
18 systems, training its organization, revamping its business processes, and
19 preparing for full retail competition. As stated, SPS's transition plan, which
20 was different from EGSI's from the outset, was abated in February 2001.
21 In contrast, by, through, and after February 2001, EGSI was in full rollout

1 testing and implementation to meet the requirements under Senate Bill 7
2 and Chapter 39 of PURA.

3 Third, SPS decided to recover only limited incremental costs
4 associated with transition to competition. Direct labor and carrying costs
5 are actual costs that should be included in any assessment of project
6 costs. However, SPS's legislation did not expressly allow the recovery of
7 carrying costs, as does ESGI's. The decision not to recover the carrying
8 costs and direct labor should be interpreted as a legislative mandate and
9 business decision, not a basis for determining reasonable costs.

10 For these reasons, the comparison of the ESGI and SPS provides
11 little value in assessing whether Energy's costs are reasonable.

12

13 III. CONCLUSION

14 Q. DO YOU HAVE ANY CHANGES OR REVISIONS TO YOUR DIRECT
15 TESTIMONY?

16 A. No.

17

18 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

19 A. Yes, at this time.

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

CHRIS E. BARRILLEAUX

ON BEHALF OF

ENTERGY GULF STATES, INC.

FEBRUARY 10, 2006

244

R-00244

SOAH DOCKET NO. 473-06-0092

DOCKET NO. 31544

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

REBUTTAL TESTIMONY OF CHRIS E. BARRILLEAUX

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R-00245

1 I. INTRODUCTION AND PURPOSE OF TESTIMONY

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Chris E. Barrilleaux. My business address is 639 Loyola
4 Avenue, New Orleans, LA 70113
5

6 Q. ARE YOU THE SAME CHRIS E. BARRILLEAUX WHO FILED DIRECT
7 TESTIMONY IN THIS DOCKET ON AUGUST 24, 2005?

8 A. Yes. For both my direct and rebuttal testimony, I am testifying on behalf of
9 Entergy Gulf States, Inc. ("EGSI" or the "Company").
10

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12 A. I will address certain capital overheads issues raised by Cities' witnesses
13 Arndt and Pous and OPC witness Szerszen, and a payroll/compensation
14 issue raised by the State's witness Higgins.
15

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

18 A. No.
19

20 II. REBUTTAL TO CITIES' WITNESSES POUS AND ARNDT AND OPC

21 WITNESS SZERSZEN: CAPITAL OVERHEADS

22 Q. CITIES' WITNESS ARNDT ON PAGE 4 AND PAGES 27-29 OF HIS
23 TESTIMONY, CITIES' WITNESS POUS ON PAGES 6-7 OF HIS

1 TESTIMONY, AND OPC WITNESS SZERSZEN ON PAGE 22 OF HER
2 TESTIMONY, ARGUE THAT CAPITAL OVERHEADS SHOULD BE
3 REMOVED FROM THE COMPANY'S TTC REQUEST. WHAT ARE
4 CAPITAL OVERHEADS AND HOW DO YOU RESPOND TO THEIR
5 ASSERTIONS?

6 A. As the Company explained in its response to State of Texas RFI 13-18,
7 capital overheads are costs incurred by the Company that are necessary
8 to make capital expenditures. These costs consist primarily of
9 management and administrative time associated with the creation of
10 capital assets. Major components of capital overhead costs include the
11 cost of accounting for fixed assets and administrative time for engineering
12 personnel that is not specific to a discrete capital project. These are
13 common costs that are allocated to all capital projects.

14 I disagree with Messrs. Arndt and Pous' and Ms. Szerszen's
15 assertions that capital overhead cost should be eliminated from the
16 Company's TTC request. They presume that such costs are already
17 recovered by the Company through its existing base rates, and that these
18 costs not specifically related to TTC activities. First, they are mistaken
19 when they presume that the capital overheads requested in this case are
20 already reflected in base rates. The capital overhead costs requested in
21 this proceeding were incurred on and after June 1, 1999. The Company's
22 current base rates (set in Docket No. 20150, based on a test year ending
23 June 30, 1998), do not include capital additions (including capital

1 overheads) made since July 1, 1998. Thus, Messrs. Arndt and Pous and
2 Ms. Szerszen are wrong in their assertion that capital overheads
3 requested in this filing are included in base rates because current base
4 rates only reflect capital overheads on capital additions completed prior to
5 June 30, 1998.

6 Second, Messrs. Arndt and Pous' claim that capital overheads are
7 not recoverable as TTC costs because such costs are not specific to a
8 project. Their claim is inconsistent with accepted business practices. The
9 Company applies overhead cost to capital projects when it is not feasible
10 to assign such costs directly to a project. Capital overhead cost is a
11 component of the cost of creating an asset just as there are overheads
12 associated with providing a service to a customer. For example, overhead
13 cost is certainly an inherent component of the hourly rate structure used
14 by consultants to bill their clients for services provided. While overhead
15 costs such as administrative support, rent, insurance, utilities, etc. are not
16 specific to a particular project, these costs are certainly associated with
17 the services provided to the client. With this in mind, Messrs. Arndt and
18 Pous' conclusions with regard to capital overhead costs would be similar
19 to them arguing that the overhead component contained within their hourly
20 rate charged to Cities for work in this TTC proceeding is not associated
21 with their work on this project and thus not a reimbursable TTC cost.

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III. REBUTTAL TO STATE'S WITNESS HIGGINS:

PAYROLL AND INCENTIVE COMPENSATION

Q. STATE'S WITNESS HIGGINS AT PAGES 23-24 AND 33-35 OF HIS TESTIMONY ASSERTS THAT EGSi'S CLAIMED TTC-RELATED PAYROLL IS \$24 MILLION, AND THAT THE COMPANY WAS UNABLE TO DISAGGREGATE THAT AMOUNT AMONG THE EMPLOYEES WHO BILLED TIME TO THE TTC PROJECT CODES. PLEASE EXPLAIN HOW THE COMPANY HAS ADDRESSED THIS ISSUE.

A. The Company's payroll and accounting records do not contain the detail necessary to enable the Company to disaggregate the data as requested by the State of Texas in their RFIs to EGSi. Although the Company's payroll records provide a salary for each employee, benefits and other labor-related costs are added after the payroll records have been transferred to the accounting and billing systems for further processing. During the accounting and billing process, salaries are aggregated and then the benefit costs and other labor-related costs are added to the aggregate of salaries contained within a project code each month. This is the process that occurs for all projects, whether they are included within the TTC request or not. Because payroll and benefits costs are processed in this manner, it is not possible to disaggregate benefits and other labor-related costs on a per-employee basis.