**Table 4**
**Affiliate Regulatory Services Provided to ETI**
**(Excludes pro forma adjustments except as described above)**

| In $ | 2010 | 2011 | 2012 | Test Year |
|---|---|---|---|---|
| Total O&M | $2,813,664 | $2,935,308 | $2,509,185 | $1,926,714 |

Q24. PLEASE SUMMARIZE THE CHANGES FROM 2010 TO 2012.

A. There has been a decrease of over $886,000 in the amount charged to ETI from 2010 to the test year; or a decrease of over 31%.

Q25. SEPARATE FROM THE BUDGETING PROCESS, DOES REGULATORY SERVICES UNDERTAKE OTHER MEASURES OR INITIATIVES TO CONTROL COSTS OR IMPROVE ITS SERVICES?

A. Yes. Regulatory Services workload has continued to grow over the past several years. Therefore, Regulatory Services continues to focus on continuous improvement efforts to allocate resources as efficiently as possible. For example, the Regulatory Strategy group was created in 2003 from existing department staff to perform critical planning and research functions. This has allowed the rest of the staff to focus on the core System Regulatory Planning and Support work. We also reorganized the System Regulatory Planning and Support group internally to shift more staff to the regulatory filings development work. This includes the creation of a Fuel and Special Riders group created in 2010 from existing departmental staff so that this group could focus on improving the consistency and efficiency of these filings. In addition we have initiated a number of continuous improvement projects focusing on our regulatory processes. This has been undertaken in an effort to improve the efficiency of the regulatory activities such that the increased level of activities can be performed with the existing staffing levels.

Q26. ARE THE SERVICES PROVIDED IN THE REGULATORY SERVICES CLASS DUPLICATED BY ETI OR OTHER ESI ORGANIZATIONS?

A. No. There is no duplication of the services I describe by ETI or any other ESI organization.

### 4. Benchmarking

Q27. IS THERE INFORMATION AVAILABLE UPON WHICH TO BENCHMARK THE REASONABLENESS OF REGULATORY SERVICES TEST YEAR COSTS?

A. Yes. I have reviewed a number of recent regulatory filings at the Commission submitted by other electric utilities to undertake a comparison, or "benchmarking" study for ETI for this Regulatory Services class. The other utility filings that I reviewed included regulatory-related expenses for several utilities. The other utilities and their dockets were: Southwestern Public Service Company, Docket No. 40824; CenterPoint Energy, Docket No. 38339; American Electric Power ("AEP") (TCC/TNC), Docket Nos. 33309 and 33310; Texas New Mexico Power ("TNP"), Docket

No. 38480; and Southwestern Electric Power Company ("SWEPCO"), Docket No. 40443.

Q28. WHAT DOES THAT INFORMATION SHOW?

A. The information shows that ETI's charges for Regulatory Services compare favorably to other utilities in Texas and, therefore, are reasonable. The \$1.4 million figure in the table below is the ETI adjusted amount for the Regulatory Services Class.

| | \$Millions |
|---|---|
| Southwestern Public Service Co. | \$4.4* |
| CenterPoint Energy | \$4.4 |
| AEP Texas (TCC/TNC combined) | \$3.5 |
| Texas New Mexico Power | \$0.7[3] |
| Southwestern Electric Power Company | \$3.0 |
| ETI | \$1.4 |

*Includes regulatory and government affairs

Q29. HAS THIS APPROACH TO BENCHMARKING BEEN USED BEFORE?

A. Yes. I understand that AEP used this methodology and comparable amounts in Docket No. 33309; that TNP used this methodology and

[3] Docket No. 38480, TNP witness Stacy R. Whitehurst stated "it appears these utilities are staffed to pursue rate cases more completely in house than TNMP." Whitehurst Direct at 42, bates page 1186.

comparable amounts in Docket No. 38480; and that SWEPCO used this methodology and comparable amounts in Docket No. 40443. In addition ETI used this methodology in Docket Nos. 37744 and 39896.

Q30. IS THERE ANY MORE GENERAL BENCHMARKING SUPPORT IN THE COMPANY'S FILING?

A. Yes. Although it does not apply explicitly to my class, Company witnesses Michelle V. Bourg and Tumminello address benchmarking studies that apply to ETI's costs, including the costs of the support provided by the Regulatory Services Class. Ms. Bourg addresses benchmarking applicable to ETI total company costs, and Ms. Tumminello addresses benchmarking that applies at the service company (ESI) level.

E. The No-Higher Than and Actual Cost Standards

Q31. HOW DO YOU ENSURE THAT THE PRICE FOR REGULATORY SERVICES BILLED TO ETI IS NO HIGHER THAN THE PRICE CHARGED TO OTHER AFFILIATES AND REPRESENTS THE ACTUAL COST OF SUCH SERVICES?

A. As an initial matter, all Regulatory Services provided by ESI to ETI and all outside services billed by ESI to ETI are billed at cost, just as such services are billed to all other regulated companies. As a result, all regulated companies are paying ESI for services based on the same "price," *i.e.*, the actual cost of such service to ESI. The unit prices for amounts directly billed and for amounts allocated to ETI for services in the Regulatory Services Class are no higher than the unit prices for amounts directly billed and for amounts allocated to other affiliates for the same or similar service. Each project code has only one billing method to allocate project costs to legal entities. All charges made to a project code are billed on the same billing method, regardless of which legal entity is billed for some or all of the costs. The billing method for a project code does not vary depending upon the legal entity that is billed for the costs. This approach ensures that the per unit amount billed to ETI for a service is no higher than the per unit amount charged to other affiliates for the same or similar services. Again, this price also represents the actual cost of service.

### F. Billing Allocation Methodology

Q32. HOW DOES ESI DETERMINE WHETHER TO DIRECT BILL OR ALLOCATE REGULATORY SERVICES COSTS TO ETI?

A. Whenever appropriate, costs are directly billed to ETI and other affiliates. Only when costs are incurred that benefit more than one of the Entergy companies is such cost billed through an allocation.

Q33. PLEASE DESCRIBE THE TEST YEAR REGULATORY SERVICES COSTS THAT WERE DIRECTLY BILLED TO ETI.

A. In the test year, ETI was directly billed $419,431 for Regulatory Services, which represents 29.5% of the Total ETI Adjusted amount for this class in this case. Directly billing ETI for these services was appropriate because the services were rendered in connection with projects that were undertaken solely on behalf of ETI. Examples of such services include fuel factor activities, development of the annual earnings report, administration of tariffs, the securitization tariff updates, management of various ETI specific dockets, and the amortization of the rate case expenses for this filing.

Q34. ON WHAT BASIS ARE REGULATORY SERVICES COSTS ALLOCATED TO ETI?

A. The Regulatory Services Class of costs is made up of numerous project codes. As Company witness Tumminello explains, only one billing method is assigned to each project code. Several organizations may bill to a single project code, but the billing method for that project code remains the same.

Q35. WHAT ARE THE PREDOMINANT BILLING METHODS USED FOR THIS CLASS OF SERVICES?

A. As noted, 29.3% of the billings of the Regulatory Services Class is directly assigned to ETI using the billing method DIRECTTX.

Of the remaining 70.7% in Total ETI Adjusted costs (that is, those that are allocated rather than direct billed), the following billing methods account for all but 8% of the allocated costs:

| | | |
|---|---|---|
| LOADOPCO | (23.3%) | Responsibility Ratios |
| CUSTEGOP | (15.8%) | Average number of electric and gas customers in Entergy's service area |
| LBRUTOPN | (13.7%) | Labor billings from ESI utility operations departments |
| CUSEOPCO | (10.0%) | Average number of electric customers in Entergy's service area |

Other than the direct assignment billing methods, the predominant billing methods utilized by the Regulatory Services Class are those that rely on customer count, load data, and labor billings. These methods are selected because they most reasonably reflect the factors that drive the costs incurred by the Regulatory Services Class. Work effort is driven by activities required to serve customers and their loads in the various jurisdictions and, as such, the number of customers represents a reasonable proxy for the factors which drive a significant portion of the costs in the Regulatory Services Class.

Q36. WHY WAS BILLING METHOD LOADOPCO SELECTED FOR THE PROJECTS TO WHICH IT IS ASSIGNED?

A. For the project codes assigned this billing method, the cost driver is based on the load responsibility of the regulated companies. For example, Project Code F3PCE01601 captures costs associated with the Entergy OATT at FERC. The primary activities associated with this project code include, but are not limited to: preparation of filings, testimony and other documents; response to requests for information in regulatory proceedings; and work regarding the Entergy OATT calculations. What drives the cost of this project code are labor, employee expenses, consultants and other general operating expenses incurred for the benefit of Entergy and its regulated customers at the System level. Therefore, a billing method based on load responsibility is appropriate for this type of project code. The billing method that reflects this cost driver is "LOADOPCO." For these project codes, the unit price charged to ETI as a result of the application of this billing method is no higher than the unit price charged to other affiliates for the same or similar service and represents the actual cost of the services.

Q37. SPECIFICALLY, WHY WAS BILLING METHOD CUSTEGOP SELECTED FOR THE PROJECTS TO WHICH IT IS ASSIGNED?

A. The cost driver for the project codes to which this billing method is assigned is based on the average number of electric and gas customers across the Entergy System. For example, Project Code F3PCSYSRAS captures costs associated with general regulatory support work that is applicable across all of the jurisdictions. The primary activities associated in this project code include but are not limited to: special project work associated with system-wide regulatory matters, analysis of emerging state or national regulatory and accounting issues affecting the Entergy System, and internal process improvement work. What drives the cost of this project code is the average number of both electric and gas customers served because all such customers benefit from these services provided by ESI to ETI. The billing method that reflects this cost driver is "CUSTEGOP." For these project codes, the unit price charged to ETI as a result of the application of this billing method is no higher than the unit price charged to other affiliates for the same or similar service and represents the actual cost of the services.

Q38. SPECIFICALLY, WHY WAS BILLING METHOD LBRUTOPN SELECTED FOR THE PROJECT TO WHICH IT IS ASSIGNED?

A. The cost driver for Project Code F5PCZUDEPT to which this billing method is assigned is based on the distribution of labor billings from ESI utility operations departments to the various business units that it supports. Project Code F5PCZUDEPT captures certain utility indirect overhead costs associated with secretarial/clerical labor, general administrative meetings, general office supplies, along with rent and repair of office furniture and is applicable across all of the jurisdictions. What drives the cost of this project code is work performed by utility operations staff that is administrative in nature, and not specific to any one jurisdiction. Each business unit receiving services from utility operations should be assigned the cost of these indirect overhead costs. The billing method that reflects this cost driver is "LBROTOPN." For this project code, the unit price charged to ETI as a result of the application of this billing method is no higher than the unit price charged to other affiliates for the same or similar service and represents the actual cost of the services.

Q39. SPECIFICALLY, WHY WAS BILLING METHOD CUSEOPCO SELECTED FOR THE PROJECTS TO WHICH IT IS ASSIGNED?

A. The cost driver for the project codes to which this billing method is assigned is based on the average number of electric customers across the Entergy System. For example, Project Code F3PCSYSAGR captures costs associated with regulatory support work associated with the Entergy System Agreement and is applicable across all of the jurisdictions. The primary activities associated with this project code include, but are not limited to: preparation of filings, testimony and other documents; response to requests for information in regulatory proceedings; and work regarding the System Agreement calculations. What drives the cost of this project code is the average number of electric customers served because the Entergy System Agreement is related to electric service for all EOCs. The billing method that reflects this cost driver is "CUSEOPCO." For this project code, the unit price charged to ETI as a result of the application of this billing method is no higher than the unit price charged to other affiliates for the same or similar service and represents the actual cost of the services.

Q40. HAVE YOU DETERMINED THAT THE REMAINING 8% OF COSTS ASSOCIATED WITH THIS CLASS HAVE BEEN APPROPRIATELY BILLED?

A. Yes. I have reviewed each of the project codes and billing methods used to bill the remaining 8% of the costs of this class. The cost drivers reflected in the billing methods are consistent with and reflect the cost drivers of the services captured in each respective project code. Therefore, the costs billed to ETI reasonably reflect the cost of service received by ETI and are no higher than the cost billed to other affiliates for the same or similar types of service. The applicable project codes (and billing methods) for these projects, and all project codes and billing methods applicable to the Regulatory Services Class, are shown on Exhibits JAL-B and JAL-C. Company witness Tumminello includes an exhibit with her testimony that includes a copy of all ESI Project Summaries that explain the specific project codes (and the billing method applied to them) in more detail.

## G. Affiliate Capital Additions

Q41. WHAT CAPITAL ADDITIONS APPLICABLE TO THE REGULATORY SERVICES CLASS DO YOU SPONSOR?

A. I sponsor a total amount of $251,752 in capital additions for the Regulatory Services Class that are identified in Exhibit JAL-3. These capital projects were closed to plant in service between July 1, 2011 and March 31, 2013. The amounts I sponsor are comprised of reasonable and necessary costs incurred for projects that are used and useful in providing electric service.

Q42. PLEASE DESCRIBE THE INFORMATION PROVIDED ON EXHIBIT JAL-3.

A. This Exhibit includes the following information:

| | |
|---|---|
| Column A | Project Code Number |
| Column B | Project Code Description |
| Column C | Asset Class |
| Column D | In-service Date |
| Column E | Asset Location Description |
| Column F | State Location |

| | |
|---|---|
| Column G | Business Unit ("BU") |
| Column H | Non-Affiliate Charges Excluding Capital Suspense and Reimbursements |
| Column I | Reimbursements |
| Column J | Represents capital suspense overhead costs associated with administrators, engineers and supervisors to the capital projects for which they provide services. Each function charges their capital suspense to a "Capital Suspense" project, which is then allocated out to the appropriate capital projects. Capital Suspense costs and the subsequent allocation is separated by BU and function combination to more accurately match such costs on the actual projects worked on for each function within a BU. |
| Column K | Represents the portion of capital suspense overhead costs (in Column J) from an affiliate. |
| Column L | Represents the portion of capital suspense overhead costs (in Column J) that are charged to the project by ETI employees. |
| Column M | Represents charges incurred by the ESI service company and allocated out to the appropriate BUs based on the ESI billing method assigned to the project plus loaned resource charges incurred at one BU and charged to another BU for services rendered on behalf of that BU. |
| Column N | Represents the total affiliate portion of the charges included in Column O, and is the total of Columns K and M. |
| Column O | Represents the total amount of capital additions closed to plant in service. |

Q43. DESCRIBE THE CAPITAL PROJECTS THAT YOU SPONSOR AS PART OF THE REGULATORY SERVICES CLASS.

A. Project Code C1PPFI3001, shown on Exhibit JAL-3, is associated with certain reporting enhancements implemented to improve our regulatory processes as discussed in Sections III.C and III.D.3 of this testimony.

The regulatory reporting enhancement project identified improvements to the regulatory reporting and rate case preparation processes along with formalized development of source accounting data and automated data feeds between book data, pro forma adjustments, and the cost of service model. The rate case cost of service utilized in this rate case filing has been developed utilizing these new systems and processes. Employee labor, contract work, consulting fees and related goods and services were incurred to support the changes necessary for implementing the needed regulatory reporting enhancements. The costs captured in this activity relate to regulated Electric and Gas Customers and therefore the billing method utilized for this cost was CUSTEGOP, which allocates costs based on the average number of electric and gas customers.

Project Code C1PPF12167 is associated with automating the Fuel Adjustment process. This project developed an enhanced regulatory application that can be used for monthly/quarterly/annual fuel adjustment filings. Employee labor, contract work, consulting fees and related goods and services were incurred to support the changes necessary for implementing the needed regulatory reporting enhancements. The costs captured in this activity relate to regulated electric and gas customers and therefore the billing method utilized for this cost was CUSTEGOP, which allocates costs based on the average number of electric and gas customers.

Q44. WHAT TYPES OF COSTS ARE INCURRED FOR THESE CAPITAL PROJECTS?

A. Costs incurred as part of a capital project include equipment, software, materials, supplies, and any labor required to complete the project. All costs are subject to the budget and cost control processes I describe above, and the ESI labor costs are billed to ETI pursuant to the same principles and practices that I discuss earlier in this Section III. The ESI labor costs are generally similar to those incurred as O&M expense except that the labor is directly related to the capital project, and the cost is capitalized as part of the total project cost.

### H. Summary of Affiliate Costs

Q45. WHAT IS YOUR OVERALL CONCLUSION REGARDING THE TOTAL ETI ADJUSTED COSTS THAT YOU SPONSOR IN THE REGULATORY SERVICES CLASS OF AFFILIATE COSTS, INCLUDING AFFILIATE CAPITAL ADDITIONS?

A. Based on my testimony regarding the Regulatory Services affiliate class as set out above, I conclude that the Total ETI Adjusted costs for this class, as well as the capital additions that I sponsor that include affiliate costs, are necessary, reasonable, and not higher than charges billed by the affiliates to other entities, and that these costs represent the actual costs of providing such services.

## IV. MISO-RELATED COSTS AND REVENUES INCLUDED IN BASE RATES

Q46. HAS ETI'S TRANSITION TO MISO BEEN APPROVED?

A. Yes. The Commission has conditionally approved ETI's application to transfer operational control of its transmission assets to MISO in Docket No. 40346. The Commission issued its conditional order of approval, determining that the transfer is in the public interest, on October 26, 2012. The Commission's order determined, among other things, that: (1) the Signatories to the Non-Unanimous Settlement agreed that joining MISO would result in some level of net benefits to ETI customers (FoF 38); (2) MISO market mechanisms support efficient use of available transmission capacity (FoF 47); and (3) subject to the terms and conditions of its order, joining MISO is a "better alternative" than the status quo (FoF 46). At this point in time, ETI anticipates that it will complete the transfer of operational control to MISO as approved by the Commission by December 19, 2013. Accordingly, ETI proposes to adjust its rates at this time, so that the cost/credits associated with operating in MISO under the MISO Tariff will be reflected in ETI's rates at the same time the benefits of MISO participation (primarily reflected through ETI's fuel rates) are realized.

The Company acknowledges that some of the costs detailed below are not historical costs. But because ETI was not in MISO during the test year, the Company's historical costs are no more reflective of the rate year costs than are the requested costs. The adjustments sought by the Company are based on detailed and reasonable analysis of the costs as described below. Consistent with the Commission findings in its order conditionally approving the move to MISO, customers are expected to begin to see energy cost savings when ETI joins MISO, which will be several months before the rates in this case would go into effect. Accordingly, it is appropriate that the rates set in this case reflect those areas of costs that will increase when ETI joins MISO and for which this adjustment is sought.

Q47. WHAT ADJUSTMENTS TO THIS RATE CASE ARE NECESSARY TO RECOGNIZE ETI'S MOVE TO MISO?

A. Several adjustments are necessary. First, in the test year and at the date this case was filed, ETI was subject to the Entergy Open Access Transmission Tariff ("OATT"), which is a FERC-approved tariff governing the provision of wholesale transmission service. ETI received revenues during the test year by operation of the Entergy OATT. However, due to the transfer of operational control to MISO, the Entergy OATT will no longer be in effect when new rates are established in this case and ETI will receive no revenues from the operation of that tariff. Instead, ETI will be subject to the MISO Tariff and will incur charges and receive revenues under that tariff after MISO integration. Accordingly, ETI's rate filing includes an adjustment that removes per book Entergy OATT revenues received by ETI under Entergy's current OATT. Company witness Considine provides a further explanation of this item. This item results in the removal of approximately $24.5 million in revenue.

Although ETI will no longer receive Entergy OATT revenue upon integration into MISO, ETI will receive OATT revenue under the MISO Tariff upon integration into MISO. To address this situation, my testimony explains a second adjustment to reflect a reduction to ETI's revenue requirement based on the receipt of MISO Tariff Schedule 7, 8, and 9 revenues. MISO Tariff Schedule 7 and 8 revenues are collected by MISO from point-to-point transmission service ("PTP") customers and distributed by MISO to Transmission Owners. MISO Tariff Schedule 9 revenues are collected by MISO from network integration transmission service ("NITS") customers who do not make use of the Bundled Load Exemption and distributed by MISO to Transmission Owners. As a Transmission Owner in MISO, ETI will receive Schedule 7, 8, and 9 transmission revenues. I provide further details of this item below. This item results in the inclusion of approximately $17.5 million in revenues that offset the Company's cost of serving ETI's retail customers.

The third adjustment removes the Independent Coordinator of Transmission ("ICT") costs currently being charged to ETI because the ICT arrangement ends when ETI joins MISO. Company witness Considine provides further explanation of this item. This item results in a decrease of approximately $2.8 million in expenses.

A fourth adjustment reflects assessments for Schedules 10, 16, and 17 of the MISO Tariff that ETI will incur as a result of its participation in MISO. Schedules 10, 16, and 17 are used by MISO to recover the costs it incurs to provide transmission service and administer the MISO Day 2 Market. I will provide further details of this item below. This item results in the inclusion of approximately $6.5 million in expenses.

The fifth adjustment is to the charges to ETI by ESI, reflecting costs for ETI to operate as a member of MISO. Company witness Considine provides further details of this item. This item results in an approximate increase to expenses of $0.6 million.

Lastly, an adjustment is made to reflect an annual Letter of Credit fee required by MISO. Company witness Considine provides further details of this item. This item results in an approximate $0.7 million increase in expenses.

A. Schedule 7, 8, and 9 Revenue Credit

Q48. HOW ARE SCHEDULE 7 AND 8 CHARGES ASSESSED UNDER THE MISO TARIFF?

A. Customers with PTP reservations are assessed a Schedule 7 (firm) or Schedule 8 (non-firm) charge based on the size and duration of the transmission reservation. The vast majority of PTP transmission reservations sink outside of MISO, and each such reservation is charged the same Schedule 7 or 8 rates. These rates are based on the combined revenue requirements of facilities throughout MISO that were planned prior to MISO integration and the cost of other facilities planned after MISO integration that are not eligible for regional sharing via Schedule 26 of the MISO Tariff. The Schedule 7 and 8 rates are based on information about the costs of applicable facilities included in Transmission Owners' Attachment O filings made at FERC and calculated using a typical revenue requirements methodology that is specified in Attachment O of the MISO Tariff.

In many ways, the calculation of the rates for firm and non-firm PTP service under the MISO Tariff is similar to the calculation of the firm and non-firm PTP service under the Entergy OATT. One important difference is that the Schedule 7 and 8 rates calculated pursuant to the MISO Tariff are based on the combined revenue requirements of transmission facilities throughout MISO, whereas the PTP rates calculated pursuant to the Entergy OATT are based on the combined revenue requirements of facilities that comprise the Entergy Transmission System.

Q49. HOW ARE SCHEDULE 7 AND 8 REVENUES DISTRIBUTED?

A. Schedule 7 and 8 revenues collected by MISO from customers with PTP reservations that sink outside the MISO footprint are distributed by MISO to a single Transmission Owner in each Transmission Pricing Zone ("TPZ") using a 50/50 sharing formula. ETI is the Transmission Owner that will receive such revenues in its TPZ. The 50/50 sharing formula allocates 50% of Schedule 7 and 8 revenues among TPZs on the basis of gross transmission plant and 50% on the basis of power flows associated with the PTP reservations. When a TPZ includes multiple Transmission Owners, the Transmission Owner that receives Schedule 7 and 8 transmission revenue from MISO is responsible for the allocation of that revenue among the Transmission Owners in the TPZ pursuant to the terms of a bilateral agreement among the Transmission Owners within the TPZ.

Q50. PLEASE SUMMARIZE THE PRINCIPAL DIFFERENCES BETWEEN THE APPROACH USED TO ALLOCATE PTP REVENUES TO ETI TODAY AND THE APPROACH THAT WILL BE USED TO ALLOCATE SCHEDULE 7 AND 8 REVENUES UPON INTEGRATION INTO MISO.

A. Under the Entergy OATT, the aggregate amount of PTP revenue to be allocated to the Entergy Operating Companies is based on the transmission service provided at a rate based on the cost of facilities that comprise the Entergy Transmission System, whereas the aggregate amount of PTP revenue to be allocated to the Companies once in MISO will be determined based on the transmission service provided under the MISO Tariff at a rate based on the cost of facilities throughout MISO. Additionally, whereas the revenue is allocated today among the Entergy Operating Companies based on Responsibility Ratio, in MISO it will be allocated among TPZs throughout MISO using a 50/50 sharing formula and subsequently allocated among the transmission owners in each TPZ pursuant to the terms of a bilateral agreement approved by FERC.

Q51. HOW ARE THE COSTS OF TRANSMISSION FACILITIES ASSOCIATED WITH SCHEDULE 9 REVENUES DETERMINED AND ALLOCATED?

A. The cost of facilities planned prior to MISO integration and the cost of other facilities planned after MISO integration that are not eligible for regional sharing via Schedule 26 of the MISO Tariff are included in the Schedule 9 rate of the TPZ in which the facilities are located. The

Schedule 9 rates are based on information about the costs of applicable facilities included in Transmission Owners' Attachment O filings made at FERC and calculated using a typical revenue requirements methodology that is specified in Attachment O of the MISO Tariff.

As in the case of Schedule 7 and 8, in many ways, the calculation of the rates for NITS under the MISO Tariff is similar to the calculation of the NITS rate under the Entergy OATT. One important difference is that the Schedule 9 rates for each TPZ in MISO are based on the revenue requirements of facilities in that TPZ, whereas the Schedule 9 rate of the Entergy OATT is calculated based on the combined revenue requirements of facilities that comprise the Entergy Transmission System.

Each NITS customer is charged the Schedule 9 rate for the TPZ in which its load is located unless the customer makes use of the Bundled Load Exemption ("BLE"). The BLE is a provision in the MISO Tariff that exempts certain transmission customers that are also transmission owners from the obligation to pay MISO the rate for Schedule 9 under the MISO Tariff. As a Transmission Owner in MISO, ETI will make use of the BLE, which means that ETI will not pay MISO for the network service it uses to serve its retail load. However, other NITS customers such as ETEC will not qualify for the BLE, which means that they will pay for NITS.

Q52. HOW ARE SCHEDULE 9 REVENUES ALLOCATED?

A. Schedule 9 charges paid by NITS customers within a TPZ are collected and distributed by MISO to a single Transmission Owner for that TPZ. That Transmission Owner is responsible for allocation of Schedule 9 revenues among the Transmission Owners in the TPZ pursuant to the terms of a bilateral agreement among the Transmission Owners within the TPZ.

Q53. PLEASE SUMMARIZE THE MAIN DIFFERENCES BETWEEN THE APPROACH USED TO ALLOCATE NITS REVENUE TO ETI TODAY AND THE APPROACH THAT WILL BE USED TO ALLOCATE SCHEDULE 9 REVENUE UPON INTEGRATION INTO MISO.

A. Under the Entergy OATT, the aggregate amount of NITS revenue to be allocated to ETI is based on the NITS provided at a rate based on the cost of facilities that comprise the Entergy Transmission System, whereas the aggregate amount of NITS revenue to be allocated to ETI once in MISO will be determined based on the NITS provided to customers located in the Texas TPZ at a rate based on the cost of facilities within the Texas TPZ. Additionally, whereas the revenue is allocated today among the Entergy Operating Companies based on Responsibility Ratio, in MISO it will be allocated among the transmission owners in the Texas TPZ pursuant to the terms of a bilateral agreement.

Q54. HOW DID ETI DETERMINE SCHEDULE 7 AND 8 REVENUES?

A. ETI used as a starting point actual historical 2011 Schedule 7 and 8 revenues collected by Entergy pursuant to the Entergy OATT and by MISO pursuant to the MISO Tariff. Certain adjustments further described below were made to these actual historical values to arrive at the total anticipated Schedule 7 and 8 revenues to be collected by MISO in the Texas TPZ in 2014. The 50/50 sharing formula prescribed by the MISO Tariff was then applied to obtain the ultimate rate year amount of Schedule 7 and 8 revenues.

Q55. HOW DID ETI ADJUST HISTORICAL INFORMATION TO OBTAIN ITS PROPOSED LEVEL OF SCHEDULE 7 AND 8 REVENUES?

A. First, the actual 2011 PTP reservations under the Entergy OATT were reviewed and those reservations that were unlikely to continue after MISO integration were removed. This adjustment, in particular, applied to reservations with source and sink pairs within the existing Entergy footprint or within the combined Entergy-MISO footprint. Upon integration into MISO, internal PTP service is unnecessary and redundant, and it is reasonable to expect that these types of reservations will no longer be made. In addition, historical revenues were adjusted to reflect the expected 2014 MISO PTP rate for through-and-out service.

Q56. HOW DID ETI DETERMINE SCHEDULE 9 REVENUES?

A. NITS customers will be charged rates that reflect the currently approved MISO default return of equity ("ROE") available to all transmission owners. In order to calculate the NITS customers' Schedule 9 charges, an analysis was performed to determine the total revenue requirement due within the Texas TPZ assuming all customers were under MISO Tariff assumptions, from which the Schedule 9 charges to NITS customers could be calculated based on their load ratio share. These MISO Tariff assumptions included a 12.38% ROE, ETI's debt capital structure, and the estimates for the cost of debt within the Texas TPZ. The transmission revenue requirement analysis represents the best available information available for the transmission revenue requirements assuming all customers did not qualify for the BLE and were charged under the MISO Tariff.

In order to determine the portion of Schedule 9 charges allocable to NITS customers, the total revenue requirement for all customers under MISO Tariff assumptions was reduced by the PTP revenues from PTP customers described above, and adjusted by the load ratio share of NITS customers.

B. MISO Administrative Costs

Q57. WHAT RATE SCHEDULES DOES MISO USE TO RECOVER ITS ADMINISTRATIVE COSTS?

A. MISO recovers the majority of its administrative costs through Schedules 10, 16, and 17.

Q58. WHAT COSTS DO MISO SCHEDULES 10, 16, AND 17 RECOVER?

A. MISO Schedule 10 is the ISO Cost Recovery Adder schedule and includes the cost of activities that are not directly related to operation of the Day 2 Market. MISO Schedule 16 is the Financial Transmission Rights Administration ("FTR") Service Cost Recovery Adder and includes the cost of activities related to the FTR market. MISO Schedule 17 is the Energy and Operating Reserve Markets Support Administration Service Cost Recovery Adder and includes the cost of non-FTR market-related activities.

Q59. HOW WERE THE MISO ADMINISTRATION FEES OF APPROXIMATELY $6.5 MILLION FOR MISO SCHEDULES 10, 16, AND 17 DEVELOPED?

A. For each of these MISO Schedules, MISO publishes an anticipated rate on its webpage. The anticipated rates for 2014 from the MISO webpage, which incorporates Entergy within MISO, were multiplied by the applicable 2014 billing determinants developed by ETI, including load and generation, to determine these fees from MISO to ETI.

Q60. HAVE YOU COMPARED PRIOR FORECASTED SCHEDULE 10, 16, AND 17 RATES TO THE RATES ACTUALLY CHARGED BY MISO TO DETERMINE THEIR REASONABLENESS?

A. Yes. The weighted-average of the forecasted calendar year 2011 rates for Schedules 10, 16, and 17 made by MISO using information prepared for the MISO Board of Directors in December 2010 was 3.2% higher than the actual weighted-average for calendar year 2011. Similarly, the weighted-average forecast prepared by MISO in December 2011 for calendar year 2012 was 5.3% higher than the actual weighted-average in calendar year 2012. This comparison provides a good indication that the MISO forecasts for Schedules 10, 16, and 17 that were relied upon by ETI to determine the charges to be incurred by ETI in 2014 are reasonable.

## C. MISO Transition Costs

Q61. ARE THERE ANY OTHER MISO-RELATED EXPENSES ADDRESSED IN THE COMPANY'S RATE REQUEST?

A. Yes, there are. Company witness Considine sponsors a pro forma for the purpose of including in rates an appropriate level for ETI's O&M expenses incurred to transition to membership in MISO. As described in more detail by Mr. Considine, the starting point for determining the pro-formed annual level of MISO transition expenses is the total amount of expenses ETI expects to incur between April 2011 and December 2013. Mr. Considine explains the methodology and adjustments used to develop the pro forma amount requested. My testimony is intended to further support the overall amount of MISO transition expenses upon which the pro forma is based.

Q62. WHAT TYPES OF EXPENSES IS ETI SEEKING TO RECOVER IN CONNECTION WITH THE TRANSITION TO MISO MEMBERSHIP?

A. These expenses include, but are not limited to, internal and third-party expenses related to: retaining outside consultants and legal counsel; obtaining necessary regulatory approvals; negotiating, drafting and consummating required contractual and commercial agreements; planning and scoping activities; communicating with stakeholders; integrating Entergy systems into the MISO RTO framework; tracking implementation progress and its financial impact on the Company; deploying and testing new software and systems; modifying existing settlement systems; testing RTO procedures; training; and hiring new employees.

Q63. HOW IS THE MISO TRANSITION MANAGED?

A. A Project Management Office ("PMO") has been formed to provide the structure and resources needed to complete the planned transition by December 2013. The PMO organization consists of multiple work teams, each of which is focused on one of the following specific functional areas:

1. Regulatory – Regulatory Coordination;
2. Operational – Generation Planning, Generation Operations, Transmission Operations, Local Balancing Authority, Meter

Data Management Agent and Meter Data Quality (collectively, "LMM"), Embedded Entities, Information Technology Systems/Infrastructure, Mid-Office, Back Office, Compliance;

3. Transactional – Commercial and Legal Agreements, RTO Interface; and

4. Support – Change Management, Human Resources, Communications, and Special Issues.

The Regulatory Team coordinates the PMO's activities with the Entergy Operating Companies' regulatory groups in conjunction with the filings and related regulatory activities associated with the MISO transition. The Regulatory Coordination Team also works with the ESI federal regulatory affairs group to coordinate the filings and related regulatory activities with FERC.

The Operations Team works on the development of new business processes and systems and determines the new roles, responsibilities, and qualifications required to handle generation, transmission, information technology, mid-office, back office, local balancing authority duties, meter data management interface with embedded entities, and compliance operations in MISO.

The Transactional Team oversees the evaluation and potential modification of any commercial and legal agreements that might be affected by the transition to membership in MISO and will manage the interaction between Company personnel and MISO staff in order to promote a consistent, accurate, and timely flow of information between parties.

The Support Team: (1) provides the HR support necessary for a successful transition; (2) promotes the organizational change necessary for a successful transition; (3) designs the training and engagement elements necessary to ensure a successful transition; and (4) focuses on any high-impact issues that may be identified during the transition process.

Q64. WHAT ARE THE TOTAL ESTIMATED O&M EXPENSES FOR ETI TO COMPLETE THE TRANSITION?

A. Excluding capital expenditures, the total project O&M expense budget, for the period April 2011 to December 2013, is approximately $14.7 million. As referenced in the testimony of Company witness Considine, ETI's request for recovery in this case focuses on this same project timeframe, but includes a smaller overall level of costs due to adjustments made by Mr. Considine for ratemaking purposes.

The total amount of MISO transition expense for the period April 2011 to December 2013 consists of the $12.6 million in actual expense through July 2013, plus an additional $2.1 million estimated through December 2013, for a total of $14.7 million. This split between historical and future costs shows that as of the end of July 2013, 86% of

ETI's expected costs of transitioning to MISO have already been incurred. Based on the management process I described above and reasonable budget to actual performance, I believe that the MISO transition expenses that form the basis of ETI's pro forma are reasonable and necessary.

## V. MODIFIED TRANSMISSION COST RECOVERY FACTOR (TCRF)

Q65. WHAT IS THE STATUS OF ETI'S PROPOSAL TO TRANSFER ITS TRANSMISSION ASSETS TO ITC HOLDINGS CORP., ET AL.?

A. By order issued on August 15, 2013 in Docket No. 41223, the Commission granted ETI's and ITC's joint request to withdraw their application to transfer ETI transmission assets to ITC. That order granted the withdrawal of the application without prejudice to the Applicants' re-filing their Application.

When the Application is re-filed, I expect that it would include updated evidence regarding the benefits of the proposed transfer, as well as updated concessions, in the form of rate mitigation, that were not in the record in Docket No. 41223. That is, the Company (and ITC) would propose to "mitigate" the rate impact of the ITC Transaction through specified retail rate concessions. Such rate mitigation concessions have also been proposed in several of the other Entergy Operating Company jurisdictions that are also addressing the ITC Transaction.

Q66. IS ETI PROPOSING A MODIFIED TRANSMISSION COST RECOVERY FACTOR IN THIS DOCKET TO RECOVER ITC-RELATED COSTS?

A. Yes. ETI is filing its request in this docket so that the proposed TCRF ("Rider TCRF") can be reviewed and processed in the context of a full base rate case when the ITC Application is re-filed at the Commission.

Q67. HOW WILL THE ITC TRANSACTION AFFECT THE COMPANY'S RATE STRUCTURE?

A. When the ITC Transaction closes, the Company will no longer have the current level of transmission rate base and will not incur the same level of expenses for owned transmission assets. The Company will instead obtain transmission service from ITC pursuant to the terms of the MISO Tariff and pay the appropriate transmission service charges. In addition, ETI and ITC have proposed certain rate mitigation in connection with the ITC Transaction that will be passed through to customers. As such, there will be a need to adjust the Company's transmission revenue requirement to reflect these changes so that rates charged to customers recover the actual transmission costs incurred by the Company and pass through applicable rate mitigation.

Q68. HOW DOES THE COMPANY PROPOSE TO ADJUST ITS TRANSMISSION REVENUE REQUIREMENT?

A. The Company proposes to implement a TCRF, modified so that ETI will: 1) be authorized to defer on an ongoing basis the difference between costs for transmission service incurred under the MISO Tariff and costs recovered by the TCRF or base rates (including carrying costs), and 2) subsequently include such amounts in the calculation of the TCRF rate.

Q69. PLEASE EXPLAIN THE COMPANY'S PROPOSAL FOR RIDER TCRF IN GREATER DETAIL.

A. The Company proposes to recover its incremental transmission costs through a rider that is periodically trued-up to capture the deferral of actual costs incurred. Rider TCRF is proposed to be in effect indefinitely, and would continue to operate between rate cases; it is not an interim measure (or rider) that would terminate upon the effective date of rates in the Company's rate case following this rate case although the baseline for the transmission revenue requirement in base rates would be reset in future rate cases.

The Company proposes that this rider will be populated with the net difference among (1) projected transmission charges, based on MISO's fees and charges including ITC's FERC-approved transmission rate applicable to the Company and projected system usage data (as well as deferred amounts not recovered through the Rider or base rates), less

(2) applicable rate mitigation provided by ETI and ITC, and less (3) the transmission revenue requirement included in base rates. These incremental transmission charges will be allocated to customer classes based on the same allocation mechanisms currently used by the Company in allocating transmission revenue requirements in base rates. The difference between transmission costs incurred by ETI under the MISO Tariff, applicable rate mitigation from ETI and ITC, and transmission costs recovered through base rates or Rider TCRF would be deferred on an ongoing basis, with carrying costs on the net-of-tax deferred balance at ETI's then-effective before-tax weighted average cost of capital ("WACC"), and trued-up in a subsequent adjustment of Rider TCRF.

The rider would be updated annually to reflect the most current rates under the MISO tariff and projected system usage data, rate mitigation provided in connection with the ITC transaction, and deferred cost balance.

Q70. WHY DOES ETI PROPOSE TO UTILIZE A MODIFIED TCRF TO RECOVER THE INCREMENTAL COSTS BILLED FOR TRANSMISSION SERVICE?

A. A modified TCRF would be efficient and would best match the costs for transmission service under the MISO Tariff to the recovery of those costs. Base rate recovery of these incremental costs is not appropriate because such recovery would almost certainly over- or under-recover those costs.

By using a rider with a deferral mechanism that will periodically true-up to actual costs incurred by ETI and actual rate mitigation provided by ETI and ITC, and which will address any over- or under-recovery of costs, customers will never pay more than the actual costs paid by the Company for transmission service. A rider would recognize yearly changes to the charges and rate mitigation credits associated with the ITC Transaction. A rider also will avoid the need for ongoing, serial base rate filings that correspond to ITC's own annual rate formula filings and charges. In addition, transmission service costs will be paid to a third-party (MISO) and will be beyond the control of the Company. Rather than treating the costs of transmission service like other base rate costs that are managed by ETI, the rider will permit ETI to more efficiently recover costs actually incurred through third-party billings for transmission service.

Finally, the transmission rider, by including the MISO implementation deferral amortization in the net transmission revenue requirement and in a separate line item, allows for rates to be reduced once the MISO implementation three-year amortization is completed by reducing the line item to zero. The MISO deferral and amortization are otherwise described by Company witness Considine.

In sum, Rider TCRF is the appropriate cost recovery mechanism because the costs incurred for transmission service will be determined pursuant to a FERC-approved tariff that will be adjusted annually and, in turn, will be included in the Company's rates at cost. A rider will help ensure that retail customers pay the correct level of costs associated with transmission service – no more, no less.

Q71. UNDER WHAT AUTHORITY IS THE COMPANY SEEKING APPROVAL OF RIDER TCRF?

A. The Commission has broad authority to approve the rider, including PURA § 36.209, which provides:

> **Sec. 36.209. RECOVERY BY CERTAIN NON-ERCOT UTILITIES OF CERTAIN TRANSMISSION COSTS.**
>
> (a) This section applies only to an electric utility that operates solely outside of ERCOT in areas of this state included in the Southeastern Electric Reliability Council, the Southwest Power Pool or the Western Electricity Coordinating Council and that owns or operates transmission facilities.
> (b) The commission, after notice and hearing, may allow an electric utility to recover on an annual basis its reasonable and necessary expenditures for transmission infrastructure improvement costs and changes in wholesale transmission charges to the electric utility under a tariff approved by a federal regulatory authority to the extent that the costs or charges have not otherwise been recovered. The commission may allow the electric utility to recover only the costs allocable to retail customers in the state and may not allow the electric utility to over-recover costs.

PURA § 36.209 is applicable to ETI because the Company will continue to own and operate transmission facilities, albeit a limited amount, following the ITC Transaction. Further, ETI will continue to operate solely outside of ERCOT and, even after joining the MISO, will participate in the Southeastern Electric Reliability Council.

The rider is consistent with PURA § 36.209 in that it will allow ETI, after notice and opportunity for hearing, to recover "changes in wholesale transmission charges . . . under a tariff approved by a federal regulatory authority to the extent that the costs or charges have not otherwise been recovered." Also, the rider will not allow ETI to over-recover costs. I understand that PURA §§ 14.001 and 32.001 also provide the Commission with broad authority over the Company's rates and services.

Q72. PLEASE EXPLAIN IN GREATER DETAIL THE PURPOSE OF THE COMPANY'S DEFERRAL REQUEST IN CONJUNCTION WITH RIDER TCRF.

A. Assuming the ITC Transaction closes prior to the time rates set in this docket become effective, there would be a period of time, between the closing of the ITC Transaction and the implementation of new base rates following ETI's next base rate case, during which the Company will be incurring charges under the MISO Tariff reflecting ITC ownership of transmission assets, but collecting base rates based on ETI ownership of those assets. During this period, the deferral within Rider TCCR will capture any differences between the transmission charges actually incurred by the Company after closing the ITC Transaction and before new base rates take effect, the rate mitigation provided by ETI and ITC, and the transmission costs currently reflected in base rates.

Absent such a deferral mechanism upon the ITC Transaction close, the Company would either realize financial benefits or incur financial harm (that is, either over-recover or under-recover) as a result of variances between billings under the MISO Tariff, rate mitigation provided by ETI and ITC, and transmission costs being recovered through base rates. Instead, any such variances should be returned to or recovered from retail customers, who will benefit from ITC ownership of the transmission system. Implementing Rider TCRF will ensure that outcome.

Between TCRF settings, the deferral will also capture the difference between charges to ETI under the MISO tariff, rate mitigation provided by ETI and ITC, and transmission costs reflected in the Company's rates. Each year ITC's charges under the MISO tariff will be adjusted in accordance with its FERC-approved formula rate, creating a difference between charges incurred by ETI under the MISO tariff and costs recovered by the Company through Rider TCRF and base rates. That cost difference, along with applicable rate mitigation, will be deferred by ETI and trued up the next time its TCRF is reset.

The need for a deferral to carry out a provision of PURA is further detailed in Section VI below.

Q73. PLEASE DESCRIBE THE INDIVIDUAL COMPONENTS OF THE RIDER TCRF REVENUE REQUIREMENTS THAT THE COMPANY IS SEEKING.

A. The Company is proposing that the initial Rider TCRF rates be based on the revenue requirements associated with the following items:

- Projected net MISO charges or credits for the twelve months ended December 31, 2014;
- Amortization of and carrying charges on the net ITC Rate Differential Deferral (described more fully below) for the twelve months ended December 31, 2014;
- Incremental cost associated with Local Balancing Authority ("LBA") activities as approved by the PUC;
- ETI rate mitigation associated with the ITC Transaction established in the PUC docket that approves the transfer of control of ETI transmission assets to ITC;
- Transmission-related facility charge revenues received for the twelve months ended December 31, 2014.

Q74. PLEASE DESCRIBE THESE COSTS IN GREATER DETAIL.

A. The projected net MISO Charges or Credits are those listed in Attachment B of the TCRF Rider (Exhibit JAL-4) and charged to ETI, including MISO administration costs, as well as charges or credits for Long-Term and Short-Term Firm PTP Service, Non-Firm PTP Service and

NITS in the Texas TPZ, and revenues from Wholesale Distribution Services received under Grandfathered Agreement contracts.

The ITC Rate Differential Deferral costs, as reflected in Rider TCRF, represent the difference between the net MISO Charges and Credits that will be billed to and incurred by the Company after the ITC Transaction is consummated and the costs currently embedded in base rates for the period of time, if any, between when the ITC Transaction is consummated and Rider TCRF becomes effective. These ITC Rate Differential Deferral costs do not include the transaction costs incurred by the Company to consummate the ITC Transaction. The ITC Rate Differential Deferral costs would be recovered over a one-year amortization period, and the Company would earn a return on these deferred assets using the then-effective WACC, based on ETI's approved capitalization structure, as the carrying charge rate for the deferral.

Costs associated with LBA activities will continue to be incurred by ETI even after the ITC Transaction closes and so ETI proposes that Rider TCRF allow the Company to recover those costs.

Rate mitigation will include both credits received from ITC and ETI's rate mitigation committed to in connection with approval of the ITC Transaction.

Finally, there will be a credit for transmission-related facility charge revenue recorded in FERC Account 456.

Q75. WHAT IS THE AMOUNT OF THE INCREMENTAL REVENUE REQUIREMENT INCLUDED IN THE PROPOSED RIDER TCRF?

A. As shown on Exhibit JAL-4, the Company is requesting that approximately a negative $8.7 million in 2014 transmission revenue requirement initially be included in the Rider TCRF. This requested amount reflects the anticipated rate mitigation from both ITC and ETI, which I referenced earlier in my testimony.

Q76. WHY IS RIDER TCRF BASED ON PROJECTED COSTS?

A. The Commission's TCRF rule, P.U.C. SUBST. R. 25.239(b)(1), provides for recovery of approved transmission charges (ATC), defined as wholesale transmission charges approved by a federal regulatory authority that are not being recovered through the electric utility's other rates, but does not prohibit the use of projected costs. The use of projected costs in Rider TCRF is reasonable because Rider TCRF is intended to pass through charges billed under the FERC-approved MISO Tariff, which is based on forecasted, rather than historical, costs. Therefore, to match the MISO charges, Rider TCRF should also be based on those same projected charges. Without use of projected costs, Rider TCRF would perpetually lag the costs incurred by ETI under the MISO Tariff. Absent such a recovery mechanism upon the ITC Transaction close, the Company would either realize financial benefits or incur financial harm from variances between billings under the MISO Tariff and transmission costs being recovered in base rates. Accordingly, the Company proposes that it be allowed to use projected costs together with the proposed true-up mechanism to ensure there is no over- or under-recovery of actual costs.

Q77. TO THE EXTENT NECESSARY, DOES ETI REQUEST A GOOD CAUSE EXCEPTION PURSUANT TO P.U.C. SUBSTANTIVE RULE 25.3(B)?

A. Yes. Rider TCRF is an effective and efficient way to establish ETI's charges for transmission service and to implement rate mitigation credits after the ITC Transaction closes. ETI requests a good cause exception to the Commission's rules to the extent necessary to implement the rider.

Q78. DOES THE RIDER TCRF REVENUE REQUIREMENT YOU DESCRIBED ABOVE REFLECT ANY ANTICIPATED CHANGES AS COMPARED TO THE TRANSMISSION COSTS CURRENTLY IN ETI'S BASE RATES?

A. Yes. The Company anticipates several revenue requirement changes that will occur once the ITC Transaction closes. Initially, the Company expects to experience changes to its revenue requirement related to the WACC utilized by ITC in determining its return component of the revenue requirement for the transmission assets. The Company anticipates that the WACC for those assets no longer will be calculated using the ROE for ETI authorized by the Commission, but will instead use the FERC-authorized ROE for ITC, which is the MISO-based ROE (12.38%) available to all transmission owners in MISO. In addition, the Company anticipates the WACC calculation also will include a more favorable cost for debt issuances by ITC.

Another change affecting the WACC calculation will be ITC's capital structure, which has also been approved for ITC at FERC. The capital structure approved for ITC is 60% equity and 40% debt, consistent with the capital structure of its other operating subsidiaries, compared to the approximate 49% equity and 51% debt for ETI.

Another likely change in revenue requirements is expected to occur as a result of changes in "transmission equalization" payments. The Company is a party to the Entergy System Agreement, which is a FERC-approved tariff under which the EOCs operate as a single, integrated electric system. Service Schedule MSS-2 is the "transmission equalization" rate schedule under the System Agreement that prescribes the method for equalizing the ownership costs associated with certain transmission systems facilities owned and operated by each Operating Company. Specifically, Service Schedule MSS-2 defines the method for calculating the amount that each Operating Company should pay or receive each month in order to achieve the prescribed transmission cost imbalance equalization. Upon close of the ITC Transaction, the MSS-2 rate schedule no longer would apply because the EOCs no longer would own transmission assets that are subject to cost equalization. As a result, transmission cost equalization payments no longer would be made among the EOCs pursuant to Service Schedule MSS-2. At that time, the revenue requirements of those EOCs that make MSS-2 payments would decrease, and the revenue requirements of those EOCs that receive MSS-2 payments would increase.

Lastly, the TCRF rider will reflect any rate mitigation from ITC and ETI.

Q79. HOW WILL THE LEVEL OF TRANSMISSION COSTS REFLECTED IN CURRENT RATES BE DETERMINED IN ORDER TO IMPLEMENT THE RIDER?

A. As a result of this rate case, and future rate cases, the Commission will establish the Company's then current base rates, which final decision can be used to develop a revenue requirement for the transmission function that will serve as a baseline value to calculate the transmission costs reflected in current rates. Rider TCRF will determine the level of transmission costs recovered in current rates by computing the percentage of transmission revenue requirement to total non-fuel revenue requirement authorized in this, or any future rate case, and then applying that percentage to billed non-fuel revenues. This is shown on page 4 of Attachment B to Rider TCRF in my Exhibit JAL-4.

Q80. WHAT IS THE COMPANY'S PROPOSED ANNUAL FILING DATE UNDER THE RIDER TCRF?

A. The Company proposes to make the annual filing of Rider TCRF each October 1, starting in 2014 (that is, the 2014 "filing year"). In 2013, the Company proposes that this filing will constitute the initial filing of the Rider TCRF.

Q81. WHEN WILL THE NEW RATES BECOME EFFECTIVE UNDER THE RIDER?

A. The initial rates would be effective along with base rates set in this case. The annually updated rates would in general become effective for bills rendered on and after the first billing cycle of January of the calendar year immediately following the filing year, or if a hearing is requested, on and after the first billing cycle immediately following the Commission order. If there are disputes regarding the annual filing, they will be addressed pursuant to Section II.E of the rider.

Q82. WHAT IS THE PROPOSED TERM OF THE RIDER?

A. The rider will continue in effect following the next rate case after the ITC Transaction closes with no change needed. In the next rate case, the amount included in base rates will simply change to the ITC level of cost approved by the Commission for base rate recovery. The Company is proposing that Rider TCRF remain in effect until otherwise terminated by the Commission after three months advance notice of termination following notice and hearing. If Rider TCRF is terminated by a future order of the Commission, the then-existing Rider TCRF rates would continue to be in effect until new base rates reflecting the then-existing Rider TCRF rates are approved and implemented.

Q83. WILL THE RIDER BE SUBJECT TO AUDIT BY THE COMMISSION ON A PERIODIC BASIS?

A. Yes. In the annual filings, the Company will make available all billings for transmission services received by the Companies and will confirm that the rider recovers only actual expenses incurred, no more and no less.

Q84. WILL THE COMMISSION HAVE ACCESS TO INFORMATION THAT WILL EXPLAIN WHAT IS INCLUDED IN THE TRANSMISSION CHARGES ASSESSED TO THE COMPANY BY ITC AND RECOVERED THROUGH THIS TCRF RIDER?

A. Yes. First, such charges by ITC will be assessed in accordance with a FERC-approved formula rate. Second, ITC makes its proposed rate calculations available for review before the new formula rate inputs are effective. Third, retail regulators will be actively involved in MISO, and ITC's transmission planning will be subject to review in the MISO stakeholder process. Currently, ITC itself hosts stakeholder processes specifically designed to solicit input from retail regulators regarding ITC's transmission plans and proposed rates. Finally, related to such review via MISO, ITC's current transmission planning protocols are transparent and go beyond even MISO's proposed protocols.

## VI. ALTERNATIVE DEFERRAL REQUEST

Q85. DOES THE COMPANY HAVE AN ALTERNATIVE TO ITS RIDER TCRF PROPOSAL?

A. Yes. If the Commission does not approve the Company's proposed Rider TCRF, the Company proposes in the alternative an ongoing deferral of these cost differences net of any rate mitigation and ultimate recovery of these deferrals, including a return on these deferrals, in future base rate or transmission cost recovery proceedings.

Q86. HOW WOULD THE DEFERRAL AMOUNTS BE DEFINED?

A. Similar to the Rider TCRF discussion above, the deferral amounts will be equal to the difference between the actual billings from the MISO Tariff, including MISO administrative fees, compared to the transmission revenues included in base rates, less any rate mitigation from ITC along with any rate mitigation from ETI, excluding any recovery of prior deferred amounts.

Q87. HOW WOULD THESE DEFERRED AMOUNTS BE REFLECTED IN FUTURE RATE CASES?

A. A future rate case would include a request for amortization of the deferred amounts along with carrying costs.

Q88. PLEASE DESCRIBE THE PROPOSED CARRYING COST ACCRUAL IN MORE DETAIL.

A. Carrying cost would be accrued monthly at the WACC based on the cumulative deferred amount for a given month. The cumulative deferred amount would be the sum of the prior month cumulative deferred amount plus that month's deferred amount less any amortization of prior deferrals realized in that month.

Q89. OVER WHAT PERIOD WOULD THESE DEFERRED COSTS BE AMORTIZED IN FUTURE RATE PROCEEDINGS?

A. The Company proposes to amortize these deferrals, along with carrying costs, in future rate proceeding over three years. This three-year period assumes the average period between rate cases is three years.

Q90. IS THE DEFERRAL OF COSTS ETI SEEKS IN THIS PROCEEDING NECESSARY TO CARRY OUT A PROVISION OF PURA? IF SO, WHICH PURA PROVISIONS AND HOW DOES THE DEFERRAL OF COSTS ACCOMPLISH CARRYING OUT SUCH PROVISIONS?

A. Yes, deferral of costs is necessary to ensure that PURA §§ 36.003 and 36.051 are carried out. Section 36.003 provides that the regulatory authority shall ensure that rates are just and reasonable, while Section 36.051 provides that the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.

After the ITC Transaction closes, ETI's transmission costs will be realigned such that actual transmission costs incurred by ETI are expected to exceed levels that are currently reflected in base rates for transmission costs. The realignment of transmission costs is a change from a structure in which most of the Company's transmission costs reflect Company-owned assets to a structure in which most of the Company's transmission costs reflect FERC-approved transmission charges. While nearly all costs will fluctuate to some degree over time, the Company has more control over costs that reflect its own assets and operations than will be the case for the transmission charges after the ITC Transaction closes.