

This page has been intentionally left blank.

DOCKET NO. 41791

APPLICATION OF ENTERGY	§	PUBLIC UTILITY COMMISSION
TEXAS, INC. FOR AUTHORITY	§	
TO CHANGE RATES AND	§	OF TEXAS
RECONCILE FUEL COSTS	§	

DIRECT TESTIMONY

OF

MICHAEL P. CONSIDINE

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF MICHAEL P. CONSIDINE
2013 RATE CASE

TABLE OF CONTENTS

	<u>Page</u>
I. Witness Introduction and Qualifications	1
II. Purpose of Testimony	3
III. PURA Sections 36.059, 36.061 AND 36.062	5
A. Section 36.059 – Treatment of Certain Tax Benefits	5
B. Section 36.061 – Allowance of Certain Expenses and Section 36.062 – Consideration of Certain Expenses	6
1. Legislative Advocacy Expenses	6
2. Charitable Contributions	7
3. Outside Services	7
4. Rate Case Expenses	8
5. Civil Penalties and Fines	8
6. Disallowed Payments for Costs of Facilities not Selling Power in the State of Texas	9
7. Costs of Processing Refunds or Credits	9
IV. P.U.C. Substantive Rule 25.231(b)	9
V. Cost of Service	11
A. Schedule A – Overall Cost of Service	11
1. Adjustments	13
a. External ITC Transaction Costs (Adjustment 2)	15
b. Local Franchise Tax Adjustment (Adjustment 7)	15
c. Non-Qualified Pension Adjustment (Adjustment 8)	16
d. Margins Tax (Adjustment 9)	16

e.	Income Taxes (Adjustment 10)	16
f.	Rate Case Expense (Adjustment 11)	18
g.	Trade Association Dues/Legislative Advocacy (Adjustment 12)	19
h.	Depreciation Expense (Adjustment 13A)	19
i.	Transmission and Distribution Reclassification (Adjustment 13B)	20
j.	Credit Facility Fees (Adjustment 14)	20
k.	Hurricane Securitization (Adjustment 15)	20
l.	Miscellaneous Adjustments (Adjustment 16)	21
m.	Interest Synchronization (Adjustment 17)	22
n.	Customer Deposits and ESI Interest Expense (Adjustment 18)	22
o.	SFAS 106 (Adjustment 19)	23
p.	Pension Expense (Adjustment 20)	24
q.	Payroll Expense (Adjustment 22)	24
r.	Renewable Energy Credit Adjustment (Adjustment 23)	25
s.	Incentive Compensation Adjustment (Adjustment 24)	25
t.	Wholesale Adjustment (Adjustment 26)	26
u.	MISO Adjustment (Adjustment 28)	26
v.	Property Insurance Reserve (Adjustment 29)	27
w.	PURA Section 39.4525 Adjustment (Adjustment 30)	27
x.	Prepaid Pension Adjustment (Adjustment 31)	28
2.	Trial Balances, Schedule A-4	28

B.	Schedule B - Rate Base and Return	29
1.	Rate Base Adjustments	29
a.	Cash Working Capital (Adjustment 6)	29
b.	Income Tax (Adjustment 10)	30
2.	Schedules B-1.1 through B-2.1	30
C.	Schedule C – Original Cost of Plant	31
D.	Schedule D – Accumulated Depreciation	33
E.	Schedule E – Short-Term Assets and Inventories	36
F.	Schedule G – Accounting Information	38
1.	Payroll Schedules	38
2.	Pensions and Benefits Schedules	39
3.	Bad Debt Expense Schedule	40
4.	Advertising, Contributions, and Dues Schedules	40
5.	Exclusions from Test Period Schedules	42
6.	Income Tax Schedules	43
7.	Outside Services Schedule	50
8.	Taxes Other Than Income Tax Schedules	51
9.	Factoring Expense Schedule	51
10.	Deferred Expense Information Schedule	51
11.	Below the Line Expenses Schedule	52
12.	Non-Recurring Expense Schedule	53
13.	Rate Case Expense Schedules	53
14.	Monthly O&M Schedules	54
G.	Schedule H – Engineering Information	54
H.	Schedule J – Financial Statements	55

I.	Schedule K – Financial Information	56
J.	Schedule M – Nuclear Plant Decommissioning	58
K.	Schedule P – Class Cost of Service Analysis	59
L.	Schedule S – Test Year Review	59
VI.	Rate Case Expenses	61
VII.	Conclusion	63

EXHIBITS

Exhibit MPC-1	Listing of Rate Filing Packages Schedules Sponsored or Co-Sponsored by Michael P. Considine
Exhibit MPC-2	Proposed Rate Case Expense (RCE-3) Rider

1 I. WITNESS INTRODUCTION AND QUALIFICATIONS

2 Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Michael P. Considine. My business address is 425 West
4 Capitol Avenue, Little Rock, Arkansas 72201. I am employed by Entergy
5 Services, Inc., the service company affiliate of Entergy Texas, Inc. ("ETI"
6 or the "Company") as a Manager in the Regulatory Accounting
7 Department.

8

9 Q2. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

10 A. I am testifying on behalf of Entergy Texas, Inc. ("ETI" or the "Company").

11

12 Q3. DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND
13 PROFESSIONAL EXPERIENCE.

14 A. I received a Bachelor of Science Degree in Professional Accountancy
15 from Louisiana Tech University in 2000. I began my career with Alltel
16 Communications, first as an accountant in the general accounting
17 department and then as a financial analyst in the financial planning
18 department. In October 2001, I accepted a position as an analyst in the
19 Transmission Business Operations department of Entergy Services, Inc.
20 In this regard, I was responsible for Open Access Transmission Tariff
21 ("OATT") monthly billings and the development of enhanced billing
22 processes for OATT customers. I transferred to the Rate Design and
23 Administration Department in September 2003, where I assisted with

1 general regulatory support and with the analysis and development of rate
2 design and external allocation factors for use in cost-of-service analyses
3 for all the Entergy Operating Companies. I also had the responsibility to
4 prepare and file the monthly fuel reports with the Public Utility Commission
5 of Texas ("PUCT"), which includes calculating the monthly over-/under-
6 recovery of fuel expenses. In December 2010, I was promoted to Senior
7 Staff Accountant in the Regulatory Accounting Department of ESI. In that
8 capacity, I was responsible for gathering, preparing, and analyzing
9 accounting data for the Operating Companies for use in preparing rate
10 filings. This includes the preparation and coordination of accounting-
11 related schedules and testimony filed with the various regulatory
12 commissions that have jurisdiction over the Operating Companies. In
13 August 2012, I was promoted to a Manager in the Regulatory Accounting
14 Department.

15
16 Q4. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY
17 COMMISSION?

18 A. Yes. I have provided testimony or filed an affidavit as a witness in interim
19 fuel refund or interim fuel surcharge proceedings before the PUCT in the
20 following: Docket Nos. 34724, 34953, 36127, 36957, 37580 and 38403. I
21 have provided testimony as a witness in a fuel and Incremental Purchased
22 Capacity Rider ("IPCR") reconciliation proceeding before the PUCT in
23 Docket No. 37744. I have provided testimony as a witness on rate design

1 and external allocation factors in Docket No. UD-08-03 before the City
2 Council of New Orleans. I have provided testimony as a witness on
3 regulatory accounting matters before the PUCT in Docket No. 39896 and
4 before the APSC in Docket No. 12-056-U.
5

6 II. PURPOSE OF TESTIMONY

7 Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. The purpose of my testimony is to support the Company's per books test
9 year accounting data, capital structure, and certain pro forma adjustments.
10 In addition, I will present ETI's regulatory treatment of legislative advocacy
11 expenses, advertising expense, donations and contributions, outside
12 services, income taxes, and dues and memberships. I will also address
13 rate case expenses.
14

15 Q6. WHAT TEST YEAR DOES ETI USE IN THIS FILING?

16 A. This filing uses the twelve months ended March 31, 2013.
17

18 Q7. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE
19 RATE FILING PACKAGE ("RFP") THAT HAVE BEEN FILED IN THIS
20 PROCEEDING?

21 A. Yes, I sponsor or co-sponsor several schedules filed in this proceeding.
22 Exhibit MPC-1 indicates the schedules that I am sponsoring or
23 co-sponsoring with other witnesses. In addition, for convenience,

1 Exhibit MPC-1 shows the titles of all the schedules that I discuss in my
2 testimony. Unless otherwise indicated, the schedules were prepared by
3 me or under my direct supervision and control.

4

5 Q8. ON WHAT BASIS WERE THE SCHEDULES THAT YOU JUST
6 MENTIONED PREPARED?

7 A. They were prepared from the books and records of the Company and are
8 accurate summaries of the business records upon which they are based.
9 The schedules have been examined by Deloitte & Touche, our
10 independent auditors. The report of their examination is included in
11 Schedule S of the RFP.

12

13 Q9. ARE THE BOOKS, ACCOUNTS, AND RECORDS OF THE COMPANY
14 MAINTAINED IN A MANNER PRESCRIBED BY THE COMMISSION?

15 A. Yes, they are kept in compliance with the FERC Uniform System of
16 Accounts as prescribed in Section 14.151 of the Public Utility Regulatory
17 Act ("PURA"), and in P.U.C. Subst. R. 25.72(b)(1), (c)(1), and
18 (e) through (g). The records are maintained in New Orleans, Louisiana as
19 approved by this Commission in Docket No. 13017.

1 III. PURA SECTIONS 36.059, 36.061 AND 36.062

2 Q10. SECTIONS 36.059, 36.061 AND 36.062 OF PURA PROVIDE FOR
3 SPECIFIC TREATMENT OR EXCLUSION OF CERTAIN ITEMS FOR
4 RATEMAKING PURPOSES. DOES THE COMPANY'S FILING COMPLY
5 WITH THESE SECTIONS OF PURA?

6 A. Yes. ETI has fully complied with PURA Sections 36.059, 36.061 and
7 36.062. This filing includes only reasonable and necessary costs that are
8 allowed under PURA, and excludes any costs specifically prohibited.

9
10 A. Section 36.059 – Treatment of Certain Tax Benefits

11 Q11. HAS THE COMPANY COMPLIED WITH THE TREATMENT OF TAX
12 BENEFITS AS REQUIRED BY SECTION 36.059?

13 A. Yes. Section 36.059 requires:

14 (a) In determining the allocation of tax savings derived from
15 liberalized depreciation and amortization, the investment tax
16 credit, and the application of similar methods, the regulatory
17 authority shall:

18 (1) balance equitably the interests of present and future
19 customers; and

20
21 (2) apportion accordingly the benefits between
22 consumers and the electric or municipally owned
23 utility.

24
25 (b) If an electric utility or a municipally owned utility retains a
26 portion of the investment tax credit, that portion shall be
27 deducted from the original cost of the facilities or other
28 addition to the rate base to which the credit applied to the
29 extent allowed by the Internal Revenue Code.

ETI has computed its cost of service in compliance with this provision of PURA and has applied the investment tax credit ("ITC") balances to the extent allowed by the Internal Revenue Code ("Code"). RFP Schedule G-7.5, Analysis of ITC, illustrates that the Company is amortizing its ITC no more rapidly than ratably, as required by the Code.

B. Section 36.061 – Allowance of Certain Expenses and Section 36.062 – Consideration of Certain Expenses

1. Legislative Advocacy Expenses

Q12. PURA PROVIDES THAT LEGISLATIVE ADVOCACY EXPENSES ARE NOT TO BE INCLUDED IN A UTILITY'S COST OF SERVICE FOR RATEMAKING PURPOSES. DOES THIS FILING INCLUDE LEGISLATIVE ADVOCACY EXPENSES?

A. No. All expenditures made by ETI for the purposes of advocating the Company's position to the public with respect to referenda, legislation, or ordinances, or for the purpose of advocating its position on such items before public officials, are excluded from cost of service. The excluded expenses include the costs of the Company lobbyists, as well as the portion of the Company's dues to the Edison Electric Institute ("EEI") that are used for legislative advocacy purposes. The legislative expenses associated with EEI and the quantification of the EEI dues excluded are addressed later in my testimony. The expenses, other than the EEI dues

1 described above, are recorded in Account 426.4, which is a non-operating
2 expense account (below the line) that is not included in cost of service.

3

4 Q13. ARE THERE ANY LEGISLATIVE ADVOCACY EXPENSES INCLUDED IN
5 PAYMENTS TO AFFILIATED INTERESTS IN THE COMPANY'S
6 REQUESTED COST OF SERVICE?

7 A. No. Although expenses for legislative advocacy are included in the
8 billings from ESI, such expenses have been excluded from ETI's
9 requested cost of service.

10

11 2. Charitable Contributions

12 Q14. HAS THE COMPANY INCLUDED CHARITABLE CONTRIBUTIONS IN
13 ITS COST OF SERVICE?

14 A. No.

15

16 3. Outside Services

17 Q15. HAS THE COMPANY INCLUDED COSTS FOR OUTSIDE SERVICES IN
18 ITS REQUESTED COST OF SERVICE?

19 A. Yes. Outside services are required for several reasons. Sound business
20 practice and regulatory and legal requirements result in the need for
21 auditing and accounting services. Further, consultants with specialized
22 expertise and outside legal counsel are employed to provide for various
23 specific needs.

4. Rate Case Expenses

2 Q16. IS THE COMPANY REQUESTING THE INCLUSION IN COST OF
3 SERVICE OF RATE CASE EXPENSES RELATED TO THIS FILING?

4 A. No. As will be discussed later in my testimony, the Company is requesting
5 recovery of the rate case expenses associated with this filing in a rider
6 attached as Exhibit MPC-2 to my testimony. ETI is only requesting the
7 return of its expenses and not a return on that investment, consistent with
8 the Commission's decision in Docket No. 40295. Additionally, as was
9 authorized as part of Docket No. 40295, ETI is seeking rate case
0 expenses incurred subsequent to September 30, 2012 related to the
1 Company's last rate case, Docket No. 39896, as well as the expenses
2 associated with this filing. The Company anticipates updating this request
3 as the case proceeds.

5. Civil Penalties and Fines

16 Q17. HAS THE COMPANY INCLUDED IN ITS COST OF SERVICE OR RATE
17 BASE ANY CIVIL PENALTIES OR FINES?

18 A. No. These amounts were recorded in non-operating expense accounts
19 (below the line) and are not included in cost of service.

6. Disallowed Payments for Costs of Facilities not Selling Power in
the State of Texas

Q18. HAS THE COMPANY INCLUDED IN ITS COST OF SERVICE ANY PAYMENTS, EXCEPT THOSE MADE UNDER AN INSURANCE OR RISK-SHARING ARRANGEMENT EXECUTED BEFORE THE DATE OF LOSS, MADE TO COVER COSTS OF AN ACCIDENT, EQUIPMENT FAILURE, OR NEGLIGENCE AT A UTILITY FACILITY OWNED BY A PERSON OR GOVERNMENTAL BODY NOT SELLING POWER INSIDE THE STATE OF TEXAS?

A. No.

7. Costs of Processing Refunds or Credits

Q19. HAS THE COMPANY INCLUDED IN ITS COST OF SERVICE ANY COST OF PROCESSING A REFUND OR CREDIT UNDER SECTION 36.110 OF PURA?

A. No. No such expenses were incurred during the test year.

IV. P.U.C. SUBSTANTIVE RULE 25.231(B)

Q20. ARE ADVERTISING EXPENSES INCLUDED IN THE COST OF SERVICE PROPOSED BY THE COMPANY IN THIS FILING?

A. Yes. They are included as allowed by P.U.C. Subst. R. 25.231(b)(1)(E). However, advertising to promote the increased consumption of electricity

1 is excluded from cost of service as required by P.U.C. Subst.
2 R. 25.231(b)(2).

3

4 Q21. WHAT WERE THE COMPANY'S ADVERTISING COSTS DURING THE
5 TEST YEAR?

6 A. The advertising costs for the test year included in the cost of service total
7 \$934,000 which is approximately .06% of gross revenues. These costs
8 are detailed in Schedule G-4.1.

9

10 Q22. HOW IS THE COMPANY HANDLING CONTRIBUTIONS OR
11 DONATIONS IN THE COST OF SERVICE?

12 A. Schedule G-4.2 shows the details of the contributions and donations that
13 have been excluded from the cost of service, including contributions and
14 donations from the Company's affiliates.

15

16 Q23. PLEASE DESCRIBE THE DUES AND MEMBERSHIPS THAT ARE
17 INCLUDED IN ETI'S COST OF SERVICE.

18 A. Industry and professional association dues are included in the filing only to
19 the extent they comply with the Commission's Substantive Rules. The
20 total advertising, dues, and memberships expense included in the cost of
21 service is less than .1% of gross revenues, which is within the allowable
22 range under P.U.C. Subst. R. 25.231(b)(1)(E).

1 Q24. YOU STATED EARLIER THAT ETI HAS EXCLUDED LEGISLATIVE
2 ADVOCACY EXPENSES INCLUDED IN EEI DUES. WHAT IS THE
3 BASIS FOR THE EXCLUSION?

4 A. The Company's EEI dues have been reduced to exclude the portion of
5 EEI expenditures classified and reported as lobbying expense in
6 accordance with the expenditure categories agreed to by EEI and the
7 National Association of Regulatory Utility Commissioners, and as
8 expanded by the PUC staff in recent dockets before the Commission. The
9 exclusion is based on EEI's 2013 estimate of such expenditures.

10

11 V. COST OF SERVICE

12 A. Schedule A – Overall Cost of Service

13 Q25. BRIEFLY DESCRIBE RFP SCHEDULE A.

14 A. Schedule A summarizes ETI's cost of service with adjustments to the test
15 year. Schedule A includes all of the adjustments requested by the
16 Company in Schedule A-3.

17

18 Q26. ARE THE EXPENSES REFLECTED ON SCHEDULE A AND INCLUDED
19 IN THE COMPANY'S COST OF SERVICE REASONABLE AND
20 NECESSARY?

21 A. Yes. The testimony filed in this docket demonstrates that the expenses
22 included in this RFP constitute expenses for items that are reasonable and

1 necessary for the Company to provide service to the public and fulfill its
2 utility obligations.

3
4 Q27. WHAT CONTROLS ARE IN PLACE TO ENSURE THAT ONLY THOSE
5 EXPENDITURES THAT ARE REASONABLE AND NECESSARY ARE
6 INCLUDED IN ETI'S COST OF SERVICE?

7 A. The Company and ESI maintain a system of internal accounting controls
8 that require review and authorization to determine the propriety of
9 expenditures. This review and authorization is performed by individuals
10 having managerial responsibility in their respective areas of expertise.
11 Responsible personnel are accountable for expenditures within their
12 regions, divisions or departments and sufficient cross checks are in place
13 to assure that the procedures operate effectively. The system of internal
14 accounting controls is designed to provide reasonable assurance that
15 transactions are executed in accordance with management's authorization
16 and that assets are properly safeguarded and accounted for. Various
17 Company witnesses have filed testimony that reflects the necessity and
18 reasonableness of expenditures included in the cost of service.
19 Additionally, Deloitte & Touche performed the required test year review to
20 provide reasonable assurance that the Company prepared this filing in
21 compliance with the rules and procedures established by the Commission.

1 Q28. PLEASE DESCRIBE SCHEDULE A-1.

2 A. Schedule A-1, sponsored by Company witness Heather G. LeBlanc, sets
3 forth the Company's overall cost of service.
4

5 Q29. PLEASE DESCRIBE SCHEDULE A-2.

6 A. This schedule shows the detail of cost of service in the form prescribed by
7 the PUC's RFP instructions. Column (1) of Schedule A-2 provides the
8 description of amounts included in cost of service, rate base, revenue
9 information, and various ratios. Column (2) reflects the actual test year
10 activity, balance, or factor, for the particular item in Column (1).
11 Column (3) represents the adjustments to the per book amounts in
12 Column (2). Column (4) reflects the same information on an as-requested
13 basis. This schedule is sponsored by Company witness LeBlanc.
14

15 Q30. PLEASE DESCRIBE SCHEDULE A-3.

16 A. Schedule A-3 provides a brief description and all necessary calculations to
17 support each adjustment appearing on Schedule A.
18

19 1. Adjustments

20 Q31. PLEASE GENERALLY DESCRIBE THE ADJUSTMENTS INCLUDED IN
21 SCHEDULE A-3.

22 A. Generally, the adjustments bring expenses and revenues to a test
23 year-end level or include or exclude from cost of service expenses or

1 revenues that are not reflected in the Company's operations as of the
2 close of the test year, but which are known and measurable at the time of
3 filing, and which will occur either before or during the time that any
4 modified rates will be ordered into effect, expected to be in April 2014.
5 The 12-month period following the effective date when rates are first
6 expected to be ordered into effect is referred to as the "Rate Year." In this
7 filing, the Rate Year is April 1, 2014 through March 31, 2015. The
8 resulting adjusted expenses and revenues are those that, if used as the
9 basis for setting rates for the prospective period following the effective
10 date of the rates, will give ETI a reasonable opportunity to recover its
11 reasonable and necessary expenses and earn a reasonable return on
12 investment, as is required by PURA Section 36.051.

13
14 Q32. YOU STATED THAT ADJUSTMENTS WERE MADE FOR KNOWN AND
15 MEASURABLE CHANGES. ON WHAT AUTHORITY DO YOU RELY TO
16 DETERMINE WHAT IS KNOWN AND MEASURABLE?

17 A. P.U.C. Subst. R. 25.231(a) and (b) state:

18 (a) **Components of cost of service.** Except as
19 provided for in subsection (c)(2) of this section,
20 relating to Invested capital; rate base, and
21 §23.23(b) [sic] of this title, (relating to Rate Design),
22 rates are to be based upon an electric utility's cost
23 of rendering service to the public during a historical
24 test year, adjusted for known and measurable
25 changes. The two components of cost of service
26 are allowable expenses and return on invested
27 capital.

1 (b) **Allowable expenses.** Only those expenses which
2 are reasonable and necessary to provide service to
3 the public shall be included in allowable expenses.
4 In computing an electric utility's allowable
5 expenses, only the electric utility's historical test
6 year expenses as adjusted for known and
7 measurable changes will be considered, except as
8 provided for in any section of these rules dealing
9 with fuel expenses.

10 The adjustments included in Schedules A-3 and B-1 meet the above
11 criteria for known and measurable changes to historical test year data.
12

13 Q33. WHO IS SPONSORING THE ADJUSTMENTS INCLUDED IN
14 SCHEDULE A-3?

15 A. I am sponsoring the adjustments discussed below, except where
16 otherwise noted.
17

18 a. External ITC Transaction Costs (Adjustment 2)

19 Q34. PLEASE EXPLAIN THE EXTERNAL ITC TRANSACTION
20 ADJUSTMENT?

21 A. This adjustment removes the external costs incurred by the Company
22 related to the ITC transaction.
23

24 b. Local Franchise Tax Adjustment (Adjustment 7)

25 Q35. PLEASE DESCRIBE THE LOCAL FRANCHISE TAX ADJUSTMENT.

26 A. This adjustment removes the incremental local franchise tax and street
27 rental tax from taxes other than income tax expense. These taxes are

1 recovered in a separate rate rider approved by individual municipalities
2 and charged within the corporate limits of those municipalities.

3

4 c. Non-Qualified Pension Adjustment (Adjustment 8)

5 Q36. PLEASE EXPLAIN THE ADJUSTMENT TO NON-QUALIFIED
6 SUPPLEMENTAL PENSION EXPENSE.

7 A. The adjustment eliminates the test year non-qualified supplemental
8 pension expense consistent with the Commission decision in the Final
9 Order in Docket No. 39896.

10

11 d. Margins Tax (Adjustment 9)

12 Q37. PLEASE DESCRIBE THE STATE FRANCHISE TAX EXPENSE
13 ADJUSTMENT.

14 A. The Company increased taxes other than income tax expense to reflect
15 the margins tax calculation of state franchise taxes.

16

17 e. Income Taxes (Adjustment 10)

18 Q38. PLEASE DESCRIBE THE INCOME TAX ADJUSTMENT.

19 A. The income tax adjustment removes prior year amounts from the test
20 year, adjusts some items to the correct test year levels, and eliminates
21 adjustments to taxable income and deferred income taxes for items which
22 are normalized in other adjustments. The current and deferred income tax
23 effects of net operating losses are also eliminated along with the deferred

1 income taxes related to the Statement of Financial Accounting Standards
2 ("SFAS") No. 109, Accounting for Income Taxes.

3

4 Q39. WHY ARE PRIOR YEAR AMOUNTS RECORDED IN THE TEST YEAR?

5 A. The tax return for 2011 was not completed and filed until September 2012.
6 Differences between amounts recorded on the books for current and
7 deferred income taxes and the amounts ultimately used in the filed tax
8 return were recorded on the books in the month of November 2012. Since
9 these amounts do not relate to the expenses incurred during the test year,
10 they must be eliminated from the test year.

11

12 Q40. WHY DID YOU MAKE THE ADJUSTMENTS TO THE TEST YEAR
13 LEVELS OF CURRENT AND DEFERRED INCOME TAXES?

14 A. Corrections were recorded during the test year to current and deferred
15 income tax amounts that were originally recorded in periods prior to the
16 test year. These adjustments were either eliminated or the test year
17 amount was adjusted to an amount consistent with test year operating
18 expenses.

1 Q41. PLEASE EXPLAIN THE ADJUSTMENT TO TAXABLE INCOME AND
2 DEFERRED INCOME TAXES FOR ITEMS THAT ARE NORMALIZED IN
3 OTHER ADJUSTMENTS.

4 A. Current and deferred income taxes related to items that are eliminated in
5 their entirety, or where the test year amount is substantially changed in
6 other adjustments, are eliminated or adjusted in the income tax
7 adjustment. This is to ensure that the correct ending current and deferred
8 income tax effects match and correspond to the items of revenue and
9 expense in the cost of service.

10

11 Q42. WHY HAVE YOU ELIMINATED DEFERRED INCOME TAXES RELATED
12 TO SFAS NO. 109?

13 A. The regulated effect of SFAS No. 109 results in recording accumulated
14 deferred income taxes that subsequently will be collected from or paid to
15 customers and are offset by corresponding regulatory assets and
16 liabilities. SFAS No. 109 should have no effect on net operating income or
17 rate base from a regulatory standpoint and this adjustment accomplishes
18 the required net operating income neutral effect.

19

20 f. Rate Case Expense (Adjustment 11)

21 Q43. PLEASE DESCRIBE THE ADJUSTMENT FOR RATE CASE EXPENSES.

22 A. The rate case expense adjustment eliminates actual expenses incurred in
23 preparing this rate filing package. There were no costs incurred directly

1 by ETI prior to the end of the test year. Only affiliate costs were incurred
2 and they are removed as part of Adjustment 21. The Company is
3 proposing to recover these expenses as well as the remaining expenses
4 in a separate rider over a three-year period, which I discuss later in my
5 testimony.

6
7 g. Trade Association Dues/Legislative Advocacy (Adjustment 12)

8 Q44. PLEASE EXPLAIN THIS ADJUSTMENT.

9 A. Earlier, I stated that I removed the Company's EEI dues related to
10 lobbying from cost of service. Adjustment 12 presents this elimination.

11
12 h. Depreciation Expense (Adjustment 13A)

13 Q45. PLEASE DESCRIBE THE DEPRECIATION EXPENSE ADJUSTMENT.

14 A. This adjustment shows the decrease in depreciation expense resulting
15 from the application of depreciation rates approved in Docket No. 39896 to
16 the test year end depreciable plant in service balances. Test year actual
17 depreciation expense is subtracted from this pro forma amount to arrive at
18 the adjustment of \$1,029,428. Deferred income taxes are also adjusted to
19 reflect the impact of the approved depreciation rates as are Service
20 Schedule MSS-4 revenues. Adjustments to affiliate depreciation expense
21 are included in Schedule G-6.2 and Adjustment 21.

1 i. Transmission and Distribution Reclassification (Adjustment 13B)

2 Q46. PLEASE DESCRIBE THIS ADJUSTMENT.

3 A. Common Substation Equipment accounted for in FERC transmission plant
4 accounts (350-352) that served a distribution function were reclassified to
5 FERC distribution plant accounts (360-362). Common Substation
6 Equipment accounted for in FERC distribution plant accounts (360-362)
7 that served a transmission function were reclassified to FERC transmission
8 plant accounts (350-353).

9

10 j. Credit Facility Fees (Adjustment 14)

11 Q47. PLEASE DESCRIBE THIS ADJUSTMENT.

12 A. This adjustment reclassifies credit facility fees from interest expense to
13 A&G expense. This adjustment is similar to the reclassification of ESI and
14 customer deposit interest expense found in Adjustment AJ18 below.

15

16 k. Hurricane Securitization (Adjustment 15)

17 Q48. PLEASE DESCRIBE THIS ADJUSTMENT FOR HURRICANE COST.

18 A. This adjustment is to include the appropriate level of hurricane regulatory
19 asset in rate base as was approved in Docket No. 39896, and to include
20 the associated amortization.

I. Miscellaneous Adjustments (Adjustment 16)

Q49. PLEASE DESCRIBE THE MISCELLANEOUS ADJUSTMENTS.

A. This pro forma includes the following adjustments:

- 1) An adjustment was made to both expense and rate base to remove the impact in the cost of service of the asset retirement obligation and related accretion expense recorded as result of implementing SFAS No. 143. SFAS No. 143 should have no effect on net operating income or rate base from a regulatory standpoint.
- 2) This adjustment includes the latest River Bend nuclear decommissioning revenue requirement in the cost of service. See Rate Filing Package (RFP) Schedule M-1 and M-2.
- 3) Regulatory debits and credits that are not properly included in the cost of service are eliminated in this adjustment.
- 4) Provisions for rate refunds are eliminated in this adjustment. These amounts should have no impact on this case.
- 5) This adjustment removes certain expenses from the cost of service that are not allowed under P.U.C. Subst. R. 25.231(b)(2).
- 6) An adjustment was made to eliminate the SFAS No. 158 regulatory asset offset to the unfunded pension liability balance.
- 7) An adjustment was made to separate facilities revenue by function.
- 8) This adjustment eliminates the test year ETI direct costs for the 2011 (Docket No. 39896) rate case.
- 9) This adjustment eliminates energy efficiency costs, which are recovered in a rider.
- 10) This adjustment adds to rate base plant held for future use that is in service or expected to be in service in the next ten years.
- 11) This adjustment eliminates prepaid balances, which are not recoverable in base rates.
- 12) This adjustment removes \$4,466,008 of test year MISO transition expenses and includes \$8,924,000 as the level of expense that will be incurred between April 2011 and December 2013. This level has been reduced by the MISO transition expense level estimated

1 to have been collected in base rates, which is \$2,800,000
2 (\$1,600,000 times 21 months (July 1, 2012 through April 1, 2014)
3 as ordered in Docket No. 39896. The Company is proposing to
4 amortize this amount over a three-year period, which results in an
5 annual requirement of \$2,974,667. Alternatively, if the Commission
6 does not allow this proposed amortization, the Company proposes
7 instead to recover the test year level of transition expense through
8 base rates.

9 13) This adjustment eliminates expenses that were not incurred during
10 the test year.

11
12 m. Interest Synchronization (Adjustment 17)

13 Q50. PLEASE DESCRIBE THE INTEREST SYNCHRONIZATION
14 ADJUSTMENT.

15 A. Per book interest expense in the tax calculation is replaced with the
16 interest expense calculated by multiplying the weighted cost of debt in the
17 requested cost of capital by adjusted rate base.

18
19 n. Customer Deposits and ESI Interest Expense (Adjustment 18)

20 Q51. PLEASE DESCRIBE THE ADJUSTMENT FOR INTEREST ON
21 CUSTOMER DEPOSITS.

22 A. This adjustment is made to increase test year cost of service to reflect an
23 annualized amount for interest on active customer deposits. This
24 adjustment is made using a rate of 0.12%, the rate currently in effect
25 under the P.U.C. Subst. R. 25.24(g). This rate was applied to the amount
26 of active customer deposits at the end of the test year. The total amount
27 of deposits is reflected as a reduction from rate base as required by

1 P.U.C. Subst. R. 25.231(c)(2)(C)(v). The amount of customers' deposits
2 is \$36,577,612, which results in interest expense of \$43,882.

3

4 Q52. DESCRIBE THE ADJUSTMENT FOR ESI INTEREST.

5 A. The adjustment reclassifies ESI interest expense recorded below the line
6 in the test year to Account 923. The Company is not requesting a return
7 on assets owned by ESI, but is requesting recovery of actual interest costs
8 paid to ESI.

9

10 o. SFAS 106 (Adjustment 19)

11 Q53. PLEASE DESCRIBE THE SFAS 106 ADJUSTMENT.

12 A. In December 1990, the Financial Accounting Standards Board ("FASB")
13 issued SFAS 106, which was effective for fiscal years beginning after
14 December 15, 1992. Under SFAS 106, a business must account for
15 benefits other than pensions to be provided to retirees during retirement
16 on an accrual basis during the periods that the employees render service.

17 The Commission approved recovery of these costs by ETI on an
18 accrual basis in Docket No. 16705. Adjustment 19 reflects the actuarially
19 estimated 2014 SFAS 106 accrual in the cost of service.

1 p. Pension Expense (Adjustment 20)

2 Q54. PLEASE EXPLAIN THE PENSION EXPENSE ADJUSTMENT.

3 A. The actuarially estimated amount of pension expense for 2014 is included
4 in the cost of service. This amount on an electric operation and
5 maintenance ("O&M") expense was \$6,331,000 compared to the per
6 books amount of \$6,148,000.) The adjustment is an increase of \$183,000
7 to the overall pension expense included in cost of service.

8

9 q. Payroll Expense (Adjustment 22)

10 Q55. PLEASE EXPLAIN THE PAYROLL EXPENSE ADJUSTMENT.

11 A. Payroll expense has been adjusted to reflect the decrease in the number
12 of ETI employees during the test year. The effective number of
13 employees who left during the test year is calculated and an average
14 salary for employees who left the Company during the test year is used to
15 calculate a total Company adjustment to decrease payroll expense. This
16 has the effect of annualizing the payroll impact of the employees who left
17 during the test year. This amount is then factored down to an electric
18 O&M amount, to which payroll taxes and benefits are added, resulting in a
19 total expense reduction of \$241,584. This reduction is offset by payroll
20 increases for non-bargaining employees, effective March 31, 2012 and
21 April 1, 2013, and increases for bargaining employees, which were
22 effective August 7, 2012 and August 7, 2013. The increase in expense

1 (including benefits and payroll taxes) is \$941,088 for a net increase to
2 expense of \$699,505.

3

4 Q56. WAS A SIMILAR ADJUSTMENT MADE FOR ESI EMPLOYEES?

5 A. Yes. The number of employees and wage increases were considered in a
6 similar fashion for ESI employees. The net ESI adjustment was a
7 decrease in payroll expense of \$268,602.

8

9 r. Renewable Energy Credit Adjustment (Adjustment 23)

10 Q57. PLEASE DESCRIBE THIS ADJUSTMENT.

11 A. This adjustment reflects the 2012 requirement level of renewable energy
12 credit expense.

13

14 s. Incentive Compensation Adjustment (Adjustment 24)

15 Q58. PLEASE DESCRIBE ADJUSTMENT 24.

16 A. This adjustment removes certain incentive compensation from the
17 Company's cost of service. Specifically, all expense and capital (as
18 defined by the Final Order in Docket No. 39896) for the Equity Ownership
19 Plan, Long Term Incentive Plan, Equity Awards Program, Restricted
20 Share Program and the Restricted Stock Program. The financially based
21 expense and capital of the Executive Annual Incentive Plan has been
22 removed. The associated accumulated provision for depreciation and
23 depreciation expense associated with the removed capital has also been

1 adjusted accordingly. The Company has appealed certain issues in the
2 Docket No. 39896 Final Order, including the disallowance of these types
3 of incentive compensation-related costs. The Company is not waiving its
4 right to collect costs disallowed in Docket No. 39896 if it prevails on
5 appeal.

6
7 t. Wholesale Adjustment (Adjustment 26)

8 Q59. PLEASE DESCRIBE ADJUSTMENT 26.

9 A. This adjustment removes a specific project's cost because the amounts
10 relate to wholesale customers in Texas. East Texas Electric Cooperative
11 will no longer be a wholesale requirements customer of ETI and there are
12 no other wholesale customers of ETI, it is appropriate to remove these
13 costs.

14
15 u. MISO Adjustment (Adjustment 28)

16 Q60. PLEASE DESCRIBE ADJUSTMENT 28.

17 A. Adjustment 28 reflects, as further explained by Company witness Lewis
18 and Company witness Mark F. McCulla for the test year levels removed:
19 (1) a decrease in expense for the elimination of Independent Coordinator
20 of Transmission ("ICT"), (2) a reduction in revenue for the elimination of
21 Entergy's Open Access Transmission Tariff ("OATT") revenues, (3) an
22 increase in expense related to letter of credit fees that are necessary for
23 the Company to operate in MISO, (4) the addition of anticipated revenues

1 from Schedule O of the MISO OATT as a replacement to Entergy's OATT
2 revenues described above, and (5) the addition of MISO RTO
3 administrative costs as a replacement to ICT expense described above.
4 In addition, Adjustment 28 reflects an increase in expense for additional
5 personnel in the System Planning and Operations organization ("SPO") of
6 ESI to support MISO operations that is described further in the direct
7 testimony of Company witness Patrick J. Cicio.

8
9 v. Property Insurance Reserve (Adjustment 29)

10 Q61. PLEASE EXPLAIN THE ADJUSTMENT TO THE PROPERTY
11 INSURANCE RESERVE ACCRUAL.

12 A. This adjustment reflects an annual property insurance accrual of
13 \$8,542,000 as supported by the direct testimony of Company witness
14 Gregory S. Wilson. This reserve is part of the Company's self-insurance
15 plan.

16
17 w. PURA Section 39.4525 Adjustment (Adjustment 30)

18 Q62. PLEASE DESCRIBE ADJUSTMENT 30.

19 A. Adjustment 30 removes from the cost of service amounts charged to the
20 Company pursuant to PURA Section 39.4525 ("Hiring Assistance for
21 Federal Proceedings"). The Company will seek recovery of these costs
22 through a rider at a later date, as permitted in Section 39.4525.

1 x. Prepaid Pension Adjustment (Adjustment 31)

2 Q63. PLEASE DESCRIBE ADJUSTMENT 31.

3 A. Consistent with the decision in the Final Order in Docket No. 39896, the
4 Company has removed from the prepaid pension asset the amount that is
5 deemed to be associated with capital. The Company is requesting a full
6 return on the remaining balance, while it will continue to accrue AFUDC on
7 the portion deemed to be capital related. The Company has also included
8 in rate base the AFUDC it will accrue subsequent to March 31, 2013
9 through the point in time new rates become effective as a result of this
10 proceeding.

11

12 2. Trial Balances, Schedule A-4

13 Q64. PLEASE DESCRIBE SCHEDULE A-4.

14 A. Schedule A-4 provides a detailed test year-end trial balance by major
15 FERC account. The amounts shown on this trial balance are referenced
16 to, or reconciled with, test year-end numbers appearing on Schedule A-2.
17 Column (1) lists the FERC Account Number for all amounts included on
18 Schedule A-2. Column (2) describes the account. Column (3) presents
19 the amount shown for each account in the detailed trial balance.
20 Column (4) presents the Schedule A-2 line number reference. Column (5)
21 shows the reconciliation reference.

1 B. Schedule B - Rate Base and Return

2 Q65. PLEASE DESCRIBE SCHEDULE B-1.

3 A. Schedule B-1 summarizes ETI's total Company net original cost rate base,
4 the requested adjustments to rate base, and the requested rate of return.
5 Column (1) of Schedule B-1 describes the components of rate base.
6 Column (2) reflects the total Company per book amounts for each
7 component of rate base. Column (3) shows the adjustments to total
8 Company amounts necessary to develop the per book total electric
9 amounts in column (4). Column (5) shows the necessary adjustments to
10 total electric per book amounts for each component of rate base.
11 Column (6) is the total requested rate base by component and the
12 requested rate of return. Schedule B-1 is co-sponsored by Company
13 witness LeBlanc.

14

15 1. Rate Base Adjustments

16 a. Cash Working Capital (Adjustment 6)

17 Q66. PLEASE DESCRIBE HOW THE CASH WORKING CAPITAL
18 ALLOWANCE IS CALCULATED.

19 A. Schedule E-4 contains the calculation of the cash working capital
20 allowance for O&M expenses obtained from the lead-lag study. P.U.C.
21 Subst. R. 25.231(c)(2)(B)(iii)(IV) and (V) require that a lead-lag study be
22 performed to determine the reasonableness of a cash working capital
23 allowance. A lead-lag study is a detailed analysis of the Company's

1 normal day-to-day business activities performed to assist in determining
2 the amount of investment that is necessary to fund these activities before
3 the Company is reimbursed by its customers. Company witness Jay
4 Joyce discusses the lead-lag study in his direct testimony.

5
6 b. Income Tax (Adjustment 10)

7 Q67. PLEASE DESCRIBE THE RATE BASE EFFECTS OF THE INCOME TAX
8 ADJUSTMENT.

9 A. As described earlier in my testimony, all ADIT effects of SFAS 109 are
10 eliminated from the test year. ADIT associated with items removed from
11 the case are eliminated in the adjustment.

12
13 2. Schedules B-1.1 through B-2.1

14 Q68. PLEASE DESCRIBE SCHEDULE B-1.1.

15 A. Schedule B-1.1 reflects the Company's allocation of rate base to the
16 Texas Retail jurisdiction. As discussed earlier in my testimony regarding
17 Adjustment 26, ETI will no longer have wholesale customers, therefore
18 Schedule B-1.1 is not currently applicable to the Company.

19
20 Q69. PLEASE DESCRIBE SCHEDULE B-1.2.

21 A. This schedule is not applicable to the Company because the Company's
22 requested plant in service is not less than 100% of original prudent cost.

1 Q70. PLEASE DESCRIBE SCHEDULE B-1.3.

2 A. Schedule B-1.3 reports that there are no penalties or fines included in the
3 Company's requested plant in service on Schedule B-1.

4

5 Q71. PLEASE EXPLAIN SCHEDULE B-1.4.

6 A. Schedule B-1.4 quantifies and describes all attendant impacts of any post-
7 test year adjustments to rate base.

8

9 Q72. PLEASE DESCRIBE SCHEDULE B-2.

10 A. Schedule B-2 reports the monthly balance of each accumulated provision
11 account, the amount accrued each month, and the amount charged off
12 each month during the test year. The same information is provided in total
13 for each of the calendar years 2009 through 2012.

14

15 Q73. PLEASE DESCRIBE SCHEDULE B-2.1.

16 A. Schedule B-2.1 provides an explanation of the Company's policy
17 regarding accumulated provision accounts and the benefits these
18 accounts provide to customers.

19

20 C. Schedule C – Original Cost of Plant

21 Q74. PLEASE DESCRIBE SCHEDULE C-1.

22 A. This schedule summarizes the original cost of utility plant as of the
23 beginning of the test year, shows additions, retirements and transfers, and

1 provides the balances at the end of the test year. Adjustments made to
2 the book balances for requested plant amounts are also included in this
3 schedule.

4

5 Q75. PLEASE DESCRIBE SCHEDULE C-2.

6 A. This schedule presents the data shown in Schedule C-1, detailed by each
7 of the major plant accounts.

8

9 Q76. PLEASE DESCRIBE SCHEDULE C-3.

10 A. Schedule C-3 is a monthly presentation of plant balances by primary or
11 functional classification by primary plant account as well as any requested
12 adjustments to the balances.

13

14 Q77. PLEASE DESCRIBE SCHEDULE C-4.1.

15 A. This schedule lists items of \$100,000 or more by functional group included
16 in Construction Work in Progress ("CWIP") with details concerning the
17 items.

18

19 Q78. PLEASE DESCRIBE SCHEDULE C-4.2, CWIP ALLOWED IN RATE
20 BASE.

21 A. The schedule shows that no CWIP was requested in rate base in Docket
22 Nos. 37744 or 39896, the Company's two most recent base rate

1 proceedings. In this filing, the Company is not requesting CWIP in rate
2 base.

3

4 Q79. PLEASE DESCRIBE SCHEDULE C-5, ALLOWANCE FOR FUNDS USED
5 DURING CONSTRUCTION ("AFUDC") AND CONSTRUCTION
6 OVERHEADS.

7 A. This schedule details the methods, procedures, and calculations in
8 capitalizing AFUDC. Also shown are the capitalization rates for each of
9 the five years ended December 31, 2008 through 2012 along with the test
10 year, and the amounts of AFUDC generated and transferred to plant in
11 service.

12

13 Q80. PLEASE DISCUSS SCHEDULES C-6 THROUGH C-10.

14 A. Theses schedules are not applicable to ETI, which has no nuclear fuel.

15

16 D. Schedule D – Accumulated Depreciation

17 Q81. PLEASE DESCRIBE SCHEDULE D.

18 A. Schedule D is a narrative description of computer programs, diskettes,
19 schedules, and file names associated with Schedules D-1, D-3, D-4, D-6,
20 D-7, and D-8.

1 Q82. PLEASE DESCRIBE SCHEDULE D-1.

2 A. Schedule D-1 shows the reserve for depreciation and amortization at the
3 beginning of the test year, provisions, salvage, cost of properties retired,
4 cost of removal, other additions and/or reductions, and the reserve for
5 depreciation and amortization at the end of the test year. Adjustments
6 and the as-adjusted amounts are also shown.

7

8 Q83. PLEASE DESCRIBE SCHEDULE D-2.

9 A. Schedule D-2 is a narrative description of the methods and procedures
10 followed in booking depreciation and plant retirements and
11 abandonments.

12

13 Q84. PLEASE DESCRIBE SCHEDULE D-3.

14 A. Schedule D-3 details plant held for future use ("PHFU"). Based on
15 engineering analysis, the PHFU shown on Schedule D-3 will be in service
16 within ten years.

17

18 Q85. PLEASE DESCRIBE SCHEDULE D-4.

19 A. This schedule shows depreciable plant, the depreciation rate for the test
20 year, and test year depreciation. The requested depreciable plant and
21 existing depreciation rates are shown, requested depreciation expense is
22 computed, and the adjustment to depreciation expense requested is
23 presented in the last column.

1 Q86. PLEASE DESCRIBE SCHEDULE D-5.

2 A. The depreciation study prepared by Company witness Dane Watson in
3 Docket No. 39896 is referenced in Schedule D-5. Given the short amount
4 of time since the Commission reviewed that study and set new
5 depreciation rates, the Company continues to rely on the same
6 depreciation study.

7

8 Q87. PLEASE DESCRIBE SCHEDULE D-6.

9 A. This schedule provides projected retirement dates for the Company's
10 generating units. Company witness Robert R. Cooper co-sponsors this
11 schedule with me.

12

13 Q88. PLEASE DESCRIBE SCHEDULE D-7.

14 A. This schedule provides summary data for cost of removal, salvage, and
15 net salvage, and is provided by functional classification.

16

17 Q89. PLEASE DESCRIBE SCHEDULE D-8.

18 A. This schedule provides the average service life of each group of assets
19 and the Iowa Curves used to determine the lives, which is the same data
20 recently approved by the Commission in ETI's last base rate case, Docket
21 No. 39896.

1 E. Schedule E – Short-Term Assets and Inventories

2 Q90. PLEASE DESCRIBE SCHEDULE E-1.

3 A. Schedule E-1 lists each short-term asset requested in rate base (*e.g.*,
4 materials and supplies, prepayments, and fuel inventory). The schedule
5 includes book balances for the month end before the test year begins and
6 each of the twelve months of the test year in order to arrive at a 13 month
7 average.

8

9 Q91. PLEASE DESCRIBE SCHEDULE E-1.1.

10 A. Schedule E-1.1 details the monthly per book balances by category
11 included in Schedule E-1.

12

13 Q92. PLEASE DESCRIBE SCHEDULE E-1.2.

14 A. Schedule E-1.2 explains the Company's policies related to obsolete,
15 damaged, or no-longer-used inventory.

16

17 Q93. PLEASE DESCRIBE SCHEDULE E-1.3.

18 A. Schedule E-1.3 indicates there have been no changes in accounting
19 policy for the book balances (started capitalizing, quit keeping item on
20 hand, change in write-off procedures, etc.) for items included in
21 Schedule E-1.

1 Q94. PLEASE DESCRIBE SCHEDULE E-2.2

2 A. Schedule E-2.2 details the optimal coal inventory level for the Company.

3

4 Q95. PLEASE DESCRIBE SCHEDULE E-2.3.

5 A. Schedule E-2.3 presents a detailed analysis of fossil fuel inventories on
6 hand at the end of the test year.

7

8 Q96. PLEASE DESCRIBE SCHEDULE E-2.4.

9 A. Schedule E-2.4 presents ETI's monthly fossil fuel inventory levels for the
10 test year.

11

12 Q97. PLEASE DESCRIBE SCHEDULE E-4.

13 A. Schedule E-4 details the application of the lead-lag study to calculate the
14 rate base effect of the lead lag study. This schedule is co-sponsored by
15 Company witness Joyce.

16

17 Q98. PLEASE DESCRIBE SCHEDULES E-5 AND E-6.

18 A. Schedule E-5 presents the amount of prepayment and materials and
19 supplies charged to O&M expense by month during the test year.

20 Schedule E-6 contains information about customer deposits at the end of
21 the test year.

F. Schedule G – Accounting Information

1. Payroll Schedules

Q99. PLEASE DESCRIBE SCHEDULE G-1.

A. Schedule G-1 provides a narrative of the payroll practices of the Company. Schedules G-1.6 and G-2.1 described below are co-sponsored by Company witness Jennifer A. Raeder.

Q100. PLEASE DESCRIBE SCHEDULE G-1.1.

A. Schedule G-1.1 provides annual gross payroll information for each year of the three-year period ending December 31, 2012, as well as for each month of the test year. The information is categorized by regular payroll, overtime payroll, other, and total payroll.

Q101. PLEASE DESCRIBE SCHEDULE G-1.2.

A. Schedule G-1.2 provides annual gross regular payroll information for each year of the three-year period ending December 31, 2012, as well as for each month of the test year. The information is categorized by union payroll, non-union payroll, and total payroll.

Q102. PLEASE DESCRIBE SCHEDULE G-1.3.

A. Schedule G-1.3 provides annual gross payroll information for each year of the three-year period ending December 31, 2012, as well as for each

1 month of the test year. The information is categorized by payroll
2 expensed, payroll capitalized, other payroll, and total payroll.

3

4 Q103. PLEASE DESCRIBE SCHEDULE G-1.4.

5 A. Schedule G-1.4 provides the amount of payroll charged to joint owners of
6 certain power plants operated by ETI for each year of the three-year
7 period ending December 31, 2012, as well as for each month of the test
8 year. This schedule presents information for units in which there are joint
9 owners, ETI is the operator, and the joint owner reimburses ETI for the
10 payroll as part of the billing for O&M costs.

11

12 Q104. PLEASE DESCRIBE SCHEDULE G-1.6.

13 A. Schedule G-1.6 reports all payments other than standard pay or overtime
14 pay made to ETI employees for each year of the three-year period ended
15 December 31, 2012, as well as for each month of the test year.

16

17 2. Pensions and Benefits Schedules

18 Q105. PLEASE DESCRIBE SCHEDULE G-2.1.

19 A. A summary of ETI's pension fund activity is included in Schedule G-2.1.
20 The schedule includes pension expense pursuant to SFAS No. 87, actual
21 pension payments to the fund, actuarial minimums and actuarial
22 maximum, along with supporting documentation.

1 Q106. PLEASE DESCRIBE SCHEDULE G-2.2.

2 A. Schedule G-2.2 provides details concerning SFAS 106 expense incurred
3 during the test year and as requested in cost of service.
4

5 3. Bad Debt Expense Schedule

6 Q107. PLEASE DESCRIBE SCHEDULE G-3.

7 A. Schedule G-3 contains information concerning bad debt expense including
8 the methodology of calculating monthly expense and the amount of write-
9 offs.
10

11 4. Advertising, Contributions, and Dues Schedules

12 Q108. PLEASE DESCRIBE SCHEDULE G-4.

13 A. This schedule presents a summary of advertising, contributions, and
14 donations, and organization memberships and dues expenses subject to
15 the 0.3% of revenue limitation. The schedule includes the FERC account
16 charged, category, schedule number that details the expense, and test
17 year expense.
18

19 Q109. PLEASE DESCRIBE SCHEDULES G-4.1 THROUGH G-4.1c.

20 A. Schedule G-4.1 provides a summary of advertising expense categorized
21 by: FERC account, category schedule number, and test year amount.

22 Schedules G-4.1a through G-4.1c provide a summary of expense for

1 informational/instructional advertising, promoting and retaining usage, and
2 general advertising expense, respectively.

3

4 Q110. PLEASE DESCRIBE SCHEDULE G-4.1d.

5 A. Schedule G-4.1d provides detail regarding capitalized advertising costs.

6

7 Q111. PLEASE DESCRIBE SCHEDULES G-4.2 THROUGH G-4.2c.

8 A. Schedule G-4.2 provides a summary of contribution and donation
9 expenses in the following categories: educational; community service; and
10 economic development. The schedule includes the FERC account
11 charged, the description of the contribution, the schedule number that
12 details the expense, and the test year amount. Schedules G-4.2a through
13 G-4.2c detail educational, community service, and economic development
14 contribution and donations expense, respectively.

15

16 Q112. PLEASE DESCRIBE SCHEDULES G-4.3 THROUGH G-4.3e.

17 A. Schedule G-4.3 provides a summary of membership dues or support
18 expenses categorized by: industry organizations; business/economic
19 organizations; professional organizations; social/recreational/religious
20 organizations; and political organizations. The schedule includes the
21 FERC account charged, the category, the schedule number that details
22 the expense, and the test year amount. Also included are certain amounts
23 that ETI has excluded from its requested cost of service. Schedules G-

1 4.3a through G-4.3e provide: a summary of electric industry organization
2 dues; business and economic dues; professional dues; social,
3 recreational, fraternal or religious expenses; and political organization
4 expenses, respectively.

5
6 5. Exclusions from Test Period Schedules

7 Q113. PLEASE DESCRIBE SCHEDULES G-5 THROUGH G-5.1b.

8 A. Schedule G-5 presents a summary of all test year expenditures in the
9 categories of: legislative advocacy expenses; penalties and fines; other
10 exclusions; social/recreational/religious; and political. The schedule
11 includes a description of the expenditure, the schedule number that details
12 the expenditure, and the test year amount. Schedules G-5.1 through G-
13 5.1b summarize legislative advocacy expense, payments made to
14 individuals registered to lobby on behalf of the utility during the test year,
15 and payments made to individuals or firms who monitored legislation for
16 the utility during the test year, respectively. The Company is not
17 requesting lobbying expenses in the cost of service in accordance with
18 PURA Section 36.062.

19
20 Q114. PLEASE DESCRIBE SCHEDULE G-5.2.

21 A. Schedule G-5.2 requires a summary of all penalties and fines included in
22 the test year expense. ETI is not, however, requesting recovery of any
23 fines or penalties in its cost of service.

1 Q115. PLEASE DESCRIBE SCHEDULE G-5.3.

2 A. Schedule G-5.3 presents a summary of all test year expenditures referred
3 to in P.U.C. Subst. R. 25.231(b)(2), but not shown in Schedules G-4.3d,
4 G-4.3e, G-5.1, and G-5.2.

5

6 Q116. PLEASE DESCRIBE SCHEDULE G-5.4.

7 A. Schedule G-5.4 provides amounts that were excluded from cost of service
8 by the PUCT in the Company's most recent rate case not resolved by
9 settlement, if any, in the last five years.

10

11 Q117. PLEASE DESCRIBE SCHEDULE G-5.5.

12 A. Schedule G-5.5 lists payments made during the test year and included in
13 cost of service for activities or services similar to those excluded from
14 either of the two most recent rate cases not resolved by settlement.

15

16 6. Income Tax Schedules

17 Q118. PLEASE DESCRIBE SCHEDULE G-7.1.

18 A. Schedule G-7.1 is the reconciliation of book net income to taxable net
19 income for the test year and for the most recently filed tax return. The
20 workpapers for Schedule G-7.1 contain explanations of all items in the
21 reconciliation along with an explanation of items that appeared in the tax
22 return that have not been considered in the test year calculation. This
23 schedule is co-sponsored by Company witness Rory L. Roberts.

1 Q119. ARE YOU FILING SCHEDULE G-7.2, PLANT ADJUSTMENTS?

2 A. Yes. This schedule, however, is not applicable to ETI in this rate case
3 because ETI has not purchased or constructed any new generating unit
4 since the Company's last rate case.
5

6 Q120. PLEASE EXPLAIN SCHEDULE G-7.4, ACCUMULATED DEFERRED
7 FEDERAL INCOME TAXES ("ADFIT").

8 A. This schedule shows the balance sheet amount of ADFIT for the twelve
9 months of the test year, as well as requested adjustments to the balances.
10 The deferrals are segregated by specific items giving rise to the deferral.
11 This schedule also shows the additional deferred taxes that were recorded
12 as a result of adopting SFAS 109. SFAS 109 has no effect on rate base
13 compared to the prior standard for accounting for income taxes,
14 Accounting Principles Board No. 11. As stated earlier in my testimony,
15 recording income taxes in accordance with SFAS 109 is revenue neutral.
16 Schedules G-7.4 through G-7.4d are co-sponsored by Company witness
17 Roberts.
18

19 Q121. PLEASE DESCRIBE SCHEDULE G-7.4b, ADJUSTMENTS TO ADFIT.

20 A. Adjustments to balance sheet amounts are detailed on this schedule. The
21 reasons for these adjustments are shown and supporting calculations are
22 included. A description of the adjustments is provided in the discussion of
23 the income tax pro forma (Adjustment 10).