DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

RYAN S. TRUSHENSKI

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF RYAN S. TRUSHENSKI
2013 RATE CASE

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Exhibit RST-2 Rail Routes to Nelson

Exhibit RST-3 Southern Gulf Railway Detail Map

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND BUSINESS AFFILIATION.

A. My name is Ryan S. Trushenski. I am Manager of the Solid Fuel Supply group of Entergy Services, Inc. ("ESI"), the service company affiliate of Entergy Texas, Inc. ("ETI" or the "Company"). My business address is 10055 Grogan's Mill Road, Parkwood II Building, Suite 300, The Woodlands, Texas, 77380.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I hold a Masters of Business Administration degree from Carnegie Mellon University and a Bachelor of Business Administration degree from the University of Houston. From 2001 through July 2006, I was employed as a financial analyst and capital budget advisor for ExxonMobil. In August 2006, I joined the Solid Fuel Supply group as an associate responsible for special projects and analysis. In January 2008, I became project manager, Solid Fuel Operations primarily responsible for daily operations and planning activities related to coal transportation. In February 2010, I became Manager, Solid Fuel Supply, responsible for all activities handled by the Solid Fuel Supply organization, including the acquisition and transportation of coal supplies and the management of coal inventories.

Q3. WHAT ARE THE RESPONSIBILITIES OF THE SOLID FUELS GROUP?

A. The Solid Fuel Supply group reports to the Director, Commercial Operations in System Planning and Operations ("SPO"), and is responsible for purchasing coal, securing the transportation of coal, managing coal inventory, managing the operations of Southern Gulf Railway Company ("SGR"), and maintaining the railcar fleets for the Entergy operating companies, including ETI.

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is two-fold. First, I discuss reconcilable fuel costs incurred during the Reconciliation Period of July 2011 through March 2013. This includes discussions of all reconcilable fuel costs for both Roy S. Nelson Station, Unit 6 ("Nelson 6") and Big Cajun II, Unit 3 ("BCII, U3"), of which plants ETI is a co-owner. Second, I sponsor the non-reconcilable coal costs incurred to operate these plants during the Test Year (April 1, 2012 – March 31, 2013). I conclude that the Company acted prudently and that the costs incurred during the Reconciliation Period and Test Year are reasonable.

Q5. HOW DOES YOUR DIRECT TESTIMONY RELATE TO THE OVERALL FUEL ACQUISITION PROCESS?

A. Company witness Michelle H. Thiry provides an overview of the SPO Group. In Figure MHT-2 of Ms. Thiry's Direct Testimony, she presents an

overview of the ETI Fuel Acquisition and Reconciliation Process. The Solid Fuel Supply group provides the information related to "Coal Supply," which is an input to the fuel acquisition and reconciliation processes. My Direct Testimony provides additional detail on the Solid Fuel Supply group's functions.

II. OVERVIEW

Q6. WHAT IS THE OBJECTIVE OF THE ENTERGY SYSTEM'S COAL PURCHASE AND DELIVERY PROCESS?

A. The objective of the coal purchase and delivery process is to meet the Entergy System's (including ETI's) projected coal demand at a reasonable cost with a high degree of service reliability, consistent with known and reasonably anticipated System conditions (*e.g.*, expected System loads and generating unit operations), market conditions (*e.g.*, the price and availability of coal and other fuels) and transportation conditions (*e.g.*, expected cycle-times of delivery, availability of railcars and other factors affecting transportation).

Q7. PLEASE DESCRIBE THE COMPANY'S COAL-FIRED GENERATING RESOURCES.

A. ETI is one of the co-owners of Nelson 6, a nominal 550 megawatt ("MW") coal-fired unit located in Westlake, Louisiana. Entergy Gulf States Louisiana, L.L.C. ("EGSL") is the majority owner and operator of this unit

pursuant to a Joint Ownership and Operating Agreement ("JOPOA") signed with the other co-owners of Nelson 6. ETI has a 29.75 percent ownership interest in Nelson 6, or 164 MW; EGSL has a 40.25 percent ownership interest in Nelson 6, or 221 MW, the other co-owners' combined ownership equals the remaining 30 percent interest, or 165 MW. Pursuant to the JOPOA, EGSL is responsible for the supply and delivery of coal to Nelson 6.

ETI also owns a 17.85 percent interest, or 105 MW, in BCII, U3, a nominal 588 MW coal-fired unit that is part of the Big Cajun II plant located in New Roads, Louisiana. The co-owners of BCII, U3 operate under a JOPOA. Louisiana Generating, LLC ("LaGen"), a wholesale power generation company, is a co-owner and the operator of the BCII plant, and is therefore responsible for the acquisition and delivery of coal to BCII, U3.

III. RECONCILABLE COAL COSTS

Q8. WHAT ARE THE COMPONENTS OF ETI'S COAL AND COAL-RELATED COSTS FOR THE RECONCILIATION PERIOD?

A. The reconcilable coal cost is comprised of coal commodity costs, coal transportation costs, and Louisiana sales/use tax on boiler fuel. These costs are enumerated and quantified for each of the coal plants on an "as-purchased" basis in Highly Sensitive Schedule I-17.1, and on an "as-burned" basis in Highly Sensitive Schedule I-16. The total eligible coal costs that I am supporting are summarized in Figure MHT-1 of Ms. Thiry's

testimony, for the amounts under the "Coal" section. These costs represent the cost of coal "as-burned" from inventory.

A. Roy S. Nelson Station, Unit 6

Q9. HOW ARE THE COAL SUPPLY AND TRANSPORTATION CONTRACTS MANAGED AT NELSON 6?

A. A coal inventory forecast is used to ensure compliance with both transportation and coal supply contract requirements as well as to meet inventory targets required by the Coal Inventory Policy. This forecast includes an estimate of the number of trains in service each month, cycle-times (as a way to forecast deliveries), and plant burn. On the basis of this forecast, a monthly coal nomination is made with the supply mines and the railroad. After the close of each month, the forecast for the remainder of the year is adjusted to reflect actual year-to-date delivery and burn data and, to the extent necessary, adjustments are made to the number of trainsets in service in order to meet the monthly nominated tonnage. In the event forecasted inventory levels fall below the minimum target of 36 days, the Company would consider alternative coal supplies, alternative delivery modes, and the potential for additional trainsets in service as options to assist in inventory recovery.

Q10. PLEASE SUMMARIZE THE COAL DELIVERIES TO NELSON 6 DURING THE RECONCILIATION PERIOD.

A. During the Reconciliation Period, total coal deliveries to Nelson 6 were 3,736,061 tons. All coal was sourced from mines located in the southern portion of the Powder River Coal Basin ("PRB") in Wyoming. Of this amount, BNSF Railway ("BNSF") provided transportation for 1,063,630 tons of coal delivered to Nelson 6 and Union Pacific and Kansas City Southern ("UP/KCS") railroads provided transportation for the remaining 3,736,061.

Q11. PLEASE DESCRIBE THE SOUTHERN POWDER RIVER COAL BASIN SOURCES USED BY NELSON 6 DURING THE RECONCILIATION PERIOD.

A. During the Reconciliation Period, coal was purchased from five sources:

1. Antelope Mine;
2. Cordero Rojo and Caballo Rojo Complex;
3. Black Thunder, East Thunder and West Thunder Complex.

Approximately 98% of all PRB coal was purchased under long-term agreements with Cloud Peak Energy Resources, LLC and Arch Coal Sales Company from, the Antelope, Cordero Rojo Complex, and Black Thunder Complex mines, while the remaining 2% was purchased on a short-term basis from various PRB mines. Please refer to Exhibit RST-1 for a map detailing the location of these mines within the PRB, as well as

Schedule I-16.2 and Schedule I-16.3 for a more detailed break-down of the annual purchases.

Q12. DID ANY TERM COAL SUPPLY CONTRACTS EXPIRE DURING THIS RECONCILIATION PERIOD?

A. Yes. Cloud Peak Energy #1844 contract, which was executed on May 10, 2010, expired on December 31, 2012. In addition, Arch Coal Sales #2945, which was executed on November 24, 2008, expired on December 31, 2011 and Arch Coal Sales #3053, which was executed on July 16, 2009, expired on December 31, 2012.

Q13. WERE ANY NEW TERM COAL SUPPLY CONTRACTS SELECTED DURING THIS RECONCILIATION PERIOD?

A. Yes. Cloud Peak Energy #2016 contract, executed on November 9, 2011, was a selection from the Company's 2011 request for proposals ("RFP"). ARCH 3930, executed on December 20, 2012, was a selection from the Company's 2012 RFP. Please refer to Highly Sensitive workpapers to Schedule I-15 for an analysis of bids received in response to the Company's RFPs. Summaries of these contracts, as well as copies of the contracts themselves, have been provided in Highly Sensitive Schedule I-4 and/or associated Highly Sensitive workpapers.

Q14. WHAT TYPES OF COSTS ARE INCLUDED IN THE RAIL TRANSPORTATION COSTS?

A. The transportation costs included all costs to operate trains from the mine or terminal to the plant and back to the mine or terminal. These costs include crews, locomotives, fuel, right-of-way, switching, storage, maintenance of railroad-controlled track and train handling expenses at the plant.

Q15. WERE THERE ANY TRANSPORTATION CONTRACTS ENTERED INTO DURING THE RECONCILIATION PERIOD?

A. Yes. The Company entered into UP-C-54561, a new long-term transportation contract, effective January 1, 2012, with UP/KCS. This contract replaced the contract with BNSF that expired at the end of 2011. In addition, the Company entered into UP-C-54695, a short-term transportation contract with UP/KCS effective October 24, 2011 through December 31, 2011.

Q16. PLEASE DESCRIBE THE PROCESS FOR ENTERING INTO THE NEW LONG-TERM TRANSPORTATION AGREEMENT IN 2012.

A. In April 2011, EGSL initiated an RFP to replace its transportation agreements and ultimately entered into a new five-year transportation agreement. The 2012 agreement with UP/KCS provided for transportation

from the PRB, which would be effective January 1, 2012 through December 31, 2016.

Q17. PLEASE DESCRIBE THE COMPETITIVE PROCESS USED TO SELECT THE NEW 2012 BNSF TRANSPORTATION AGREEMENT.

A. The plant has the ability to receive deliveries from three different railroads: BNSF, Kansas City Southern Railroad ("KCS"), and the Union Pacific Railroad ("UP"). In addition, there are two possible railroads that can originate coal from the PRB: BNSF and UP. Therefore, there are four potential routes that can deliver coal from the PRB to the plant: BNSF direct, UP direct, BNSF interchange with KCS, and UP interchange with KCS. Exhibit RST-2 depicts the general routes from origin to destination. In order to compare competitive options, the RFP was sent to the three railroads, requesting proposals to for each of these routes.

Q18. WHAT WAS THE RESULT OF EGSL'S RFP?

A. EGSL received three proposals for terms of three or five years: 1) BNSF direct service, 2) UP direct service, and 3) UP/KCS interconnect service. BNSF did not provide an interconnect proposal with KCS. EGSL selected the UP/KCS interconnect proposal as the best economic option and chose a term of five years as it resulted in a significantly lower rate. For a complete bid evaluation of the transportation RFP see the Highly Sensitive Workpapers to Schedule I-15.

Q19. PLEASE DESCRIBE THE PROCESS FOR ENTERING INTO THE NEW SHORT-TERM TRANSPORTATION AGREEMENT IN 2011.

A. The new short-term agreement with UP/KCS was in effect from October 24, 2011 through the end of 2011 and was the result of EGSL's efforts to build inventory at the Nelson 6 plant in response to less than optimal delivery performance by BNSF as a result of significant flooding issues and congestion on their system. A competitive process was not used for this specific agreement; however, it was negotiated as simply accelerating the start date of the new long-term transportation agreement with UP/KCS. Since EGSL had just completed the RFP process for that agreement and had negotiated all substantial terms, EGSL was able to enter into a separate agreement with UP/KCS with the same pricing and terms for a shorter period of time. Approximately 300,000 tons of coal were delivered by UP/KCS under this agreement. Further discussion of the events leading to this short-term transportation agreement will be given in Section VII of my testimony.

Q20. HOW ARE THE SUPPLY AND TRANSPORTATION COSTS SHARED AMONG THE NELSON 6 CO-OWNERS?

A. The costs of the supply and transportation agreements were allocated among all the co-owners. The transportation and supply costs are charged to the stockpile each month and expensed as the coal is consumed.

Q21. DOES A PUBLISHED INDEX EXIST THAT COMPARES COAL TRANSPORTATION EXPENSE AMONG UTILITIES?

A. No. Transportation agreements with the railroads have confidentiality provisions that prevent a utility from disclosing certain terms, including pricing of the transportation agreements. Therefore, the information needed to develop a commodity price index is unavailable.

Q22. DOES A PUBLISHED INDEX EXIST THAT COMPARES DELIVERED COAL PRICES AMONG UTILITIES?

A. No. Utility coal costs include short and long-term contract pricing. A daily market for coal exists, but is not relevant to the term contracts noted above.

Q23. ARE THE COSTS THE COMPANY INCURRED FOR FUEL EXPENSES AT NELSON 6 REASONABLE?

A. Yes. The PRB coal commodity and coal transportation were acquired under competitive bidding processes pursuant to RFPs.

B. Big Cajun II, Unit 3

Q24. PLEASE DESCRIBE ETI'S MANAGEMENT OVERSIGHT OF ITS OWNERSHIP SHARE OF BCII, UNIT 3.

A. LaGen is the majority owner and project manager of the unit. The BCII, U3 JOPOA established the Management Advisory Committee ("MAC").

MAC is a forum for the exchange of operational information and issue resolution between ETI and LaGen, the project manager. A representative from the Company serves on the MAC for BCII, U3.

Q25. PLEASE DESCRIBE ETI'S PARTICIPATION IN THE MANAGEMENT ADVISORY COMMITTEE.

A. On a quarterly basis, one or more representatives of the Solid Fuel Supply group, as well as representatives from other Company groups, attends the MAC meeting. Each meeting follows an agenda prepared by the Company representative on the MAC and is intended to provide ETI with pertinent and timely information on BCII, U3 operations. In addition, representatives of the Company routinely consult with and advise LaGen management on a variety of operations and maintenance issues.

Q26. HOW DOES THE COMPANY MANAGE THE COAL SUPPLY AND TRANSPORTATION CONTRACTS AT BCII, U3?

A. ETI is a minority owner of BCII, U3 and does not directly manage the coal supply or transportation for BCII, U3. Those functions are performed by LaGen, the co-owner/project manager of BCII, U3.

Q27. WHAT WAS THE SOURCE OF COAL FOR BCII, U3 DURING THE RECONCILIATION PERIOD?

A. During the Reconciliation Period, BCII, U3 obtained coal from several different mines in Campbell County, Wyoming located in the Southern Powder River Basin. These coal supplier locations are shown in Schedule I-18. See also Exhibit RST-1 for a map of mine locations within the PRB.

Q28. DID LAGEN ACQUIRE COAL SOURCED FROM LOCATIONS OTHER THAN THE PRB REGION?

A. No.

Q29. HOW IS COAL TRANSPORTED FROM THE DELIVERY POINT TO BCII, U3?

A. Coal supply for BCII, U3 is shipped by rail from mines in the PRB to Hall Street Terminal in St. Louis, Missouri, where it is transferred from railcar to river barge and transported down the Mississippi River to the Big Cajun II Station. A single transportation agreement between BNSF, American Commercial Barge Line, LLC ("ACBL") and LaGen governs the movement of coal from mines in the PRB to BCII, U3.

Q30. WHAT HAS THE COMPANY DONE TO ENSURE THAT LAGEN PROPERLY CHARGES FOR COAL AND TRANSPORTATION EXPENSE?

A. Due to confidentiality agreements that LaGen has in place with its suppliers, the Solid Fuel Supply group is not permitted to review the coal supply and transportation agreements. However, the Company's Risk Management Group has access to and periodically reviews the invoices and contracts to determine the accuracy of LaGen's billing.

Q31. DID THE COMPANY INCUR ANY DISPUTED CHARGES FROM LAGEN DURING THE RECONCILIATION PERIOD?

A. Yes. In June 2012, LaGen billed the Company approximately $69,000 to cancel a portion of the Company's 2012 deliveries in order to avoid exceeding a certain inventory level at the Big Cajun II plant site, asserting that the Company was carrying excess inventory. The Company made the payment under protest and engaged its internal auditors to review the nature and accuracy of these charges. At present, the Company continues discussions with LaGen and the matter remains pending. A final audit report has not yet been issued.

Q32. HAVE THESE COSTS BEEN CHARGED TO ETI CUSTOMERS?

A. The payment in question has been charged to inventory. It is charged to fuel expense, and included in reconcilable fuel costs, as coal is burned out

of the stockpile. If these charges are deemed inappropriate and LaGen reimburses the funds, a credit will be made to the inventory account.

Q33. ARE THE COSTS THE COMPANY INCURRED FOR FUEL EXPENSES AT BCII, U3 REASONABLE?

A. Yes. The Company incurs fuel costs associated with BCII, U3 under the JOPOA. The Company takes reasonable steps to ensure that LaGen properly charges for coal and transportation expenses. The Commission has previously reviewed and approved this same arrangement in past fuel reconciliations.

C. Proper Invoicing of Coal Costs

Q34. HOW DOES THE COMPANY ENSURE THAT NELSON 6 COAL COSTS ARE PROPERLY INVOICED?

A. Each train shipment of coal is assigned to the proper coal supply and transportation contract in the Railcar & Coal Management System ("RCMS") database. Each invoice rendered by a vendor is verified by comparing the contract identification number, tons shipped, price per ton invoiced and total invoice amount to the information contained in RCMS for the same time period covered by the invoice. The RCMS data is obtained electronically from the mine at the time of loading. Both the mine and railroads use this information for billing purposes. The relevant coal

supply contracts require that the mine have a scale certification performed twice a year using a State of Wyoming certified scale test.

The monthly quality adjustments for Btu and SO_2 are also verified. The average monthly Btu and SO_2 content is compared to the value in a database for Nelson 6 and the current allowance price is verified by an index publication.

D. Sales/Use Tax on Boiler Fuel

Q35. WHAT IS THE SALES/USE TAX ON BOILER FUEL?

A. Currently a sales/use tax of 1% is imposed by the State of Louisiana on boiler fuels. Both Nelson 6 and BCII, U3 are located in Louisiana and are assessed this tax.

Q36. HOW IS THIS TAX IMPOSED?

A. A sales/use tax is assessed on boiler fuel based on a percentage of its commodity cost at the time of consumption.

E. Conclusion

Q37. ARE ETI'S RECONCILABLE FUEL COSTS NECESSARY AND REASONABLE?

A. Yes. Fuel expenses are incurred when the plants are dispatched and represent a reasonable cost to serve the Company's customers. All coal supply purchases and transportation arrangements made during the

Reconciliation Period were competitively bid or obtained through Over the Counter ("OTC") solicitations. State law requires that the Company pay a sales/use tax on boiler fuel. Thus, the Company's reconcilable coal expenses for the Reconciliation Period are both reasonable and necessary.

IV. INELIGIBLE COAL COSTS

A. Type of Costs Incurred

Q38. WHAT ARE THE INELIGIBLE COAL-RELATED COSTS FOR NELSON 6 DURING THE TEST YEAR?

A. Ineligible coal-related costs for Nelson 6 include ash handling costs, coal handling costs, railcar maintenance costs, taxes paid on railcars resulting from ownership and usage, maintenance on SGR's rail spur track and railcar lease payments. Incurrence of these costs is necessary to operate the coal plant and to support the rail delivery of coal.

Q39. HOW DOES THE COMPANY INCUR INELIGIBLE EXPENSES?

A. Ineligible costs are charged to the stockpile each month and expensed on a per ton basis as the coal is consumed. Similar to reconcilable expense, ineligible expense is associated with fuel consumption.

Q40. WHAT ARE THE INELIGIBLE COAL-RELATED COSTS FOR BCII, U3?

The ineligible costs for BCII, U3 are handling charges, coal ash proceeds, rail lease charges, and some minimal charges associated with railcar ownership, maintenance and brokerage fees. These latter charges are expenses incurred for railcar capacity to move coal to serve BCII, U3. As with Nelson 6, the railcar lease payments for BCII, U3 were recovered through ETI's base rates during the Test Year.

Q41. WHAT ARE THE TEST YEAR TOTAL INELIGIBLE COAL RELATED COSTS?

A. The Test Year ineligible coal-related costs for Nelson 6 are approximately $1.7 million, and for BCII, U3 approximately $1.1 million.[1]

Q42. PLEASE DESCRIBE IN MORE DETAIL THE ORIGIN OF THE COSTS THAT ARE INCLUDED IN THE COMPANY'S INELIGIBLE COAL COSTS.

A. The following discussion describes the ineligible coal-related costs incurred during the Test Year for the operation of Nelson 6. A similar discussion follows with respect to BCII, U3.

[1] See Highly Sensitive Schedule I-1.2.

B. Roy S. Nelson Station, Unit 6

1. Ash Handling

Q43. HOW WERE THE COAL RESIDUALS FROM NELSON 6 DISPOSED OF DURING THE TEST YEAR?

A. An Ash Marketing Agreement, which contains provisions for removal of ash at no cost to Nelson 6, was entered into in October of 1986, with Gifford Hill and Company. In September of 2000, Gifford Hill sold its fly ash marketing and disposal services business to Industrial Services Group ("ISG"), assigning the existing Ash Marketing Agreement to ISG. ISG subsequently merged with Headwaters Resources, Inc. ("Headwaters"). Headwaters has provided the ash removal services at Nelson 6 since that time. Headwaters furnishes all labor and equipment to remove residual coal ash from the plant's ash storage silo.

Q44. IS THIS A REASONABLE MEANS TO DISPOSE OF COAL RESIDUALS FROM NELSON 6?

A. Yes. Ash is a waste product from burning coal. As a waste product, it must be disposed of in some fashion. The Ash Marketing Agreement provides for the disposal of the ash by-product at no cost to ETI and provides for a sharing of any revenue generated from the sale of ash. If the Ash Marketing Agreement were not in place, ETI would have incurred additional expense to remove and dispose of the ash product generated by the unit instead of generating income from the sale of ash.

2. Coal Handling

Q45. WHAT ARE THE COAL HANDLING COSTS AT NELSON 6?

A. Coal handling costs consist of expenses such as labor costs, material costs, diesel fuel expense and equipment rents incurred while unloading railcars, maintaining the stockpile, and maintaining conveyors.

Q46. WHAT IS THE TEST YEAR LEVEL OF COAL HANDLING EXPENSE AT NELSON 6?

A. As shown in Highly Sensitive Schedule I-1.2, the total Test Year expense for coal handling at Nelson 6 is approximately $506,000.

Q47. ARE THESE EXPENSES REASONABLE AND NECESSARY?

A. Yes. If the coal is not unloaded from the railcars, stored and delivered to the boiler when needed, energy from Nelson 6 would not be available to the Company, and replacement energy would be required. Thus, the incurrence of costs to accomplish these tasks is necessary. The Company is not aware of any public information available to compare power plant coal handling costs. However, the cost of coal handling at Nelson 6 represents less than 1% of the Nelson 6 energy cost.

3. Railcar Lease Payments

Q48. WHY ARE RAILCAR LEASE PAYMENTS INCURRED FOR NELSON 6?

A. Under EGSL's coal transportation agreements, railcars must be provided to the railroads to carry coal transported by rail from Wyoming to Nelson 6. The majority of EGSL's railcar fleet were leased through PNC Leasing (512 railcars) and the remainder of the fleet, 242 railcars through September 30, 2012 and then 145 railcars thereafter, were under an operating lease with WL Ross-Greenbrier Rail LLC ("WL Ross").

Q49. PLEASE DESCRIBE EGSL'S LONG-TERM LEASES IN MORE DETAIL.

A. EGSL initially leased 512 railcars (approximately four trainsets) from two financial firms. The agreements with Key Equipment Financing and PNC Leasing agreements were equivalent to a seven-year bank loan with a fixed principal payment and a variable interest payment applied to the remaining book balance. The actual lease payments are paid quarterly. The initial term for the EGSL aluminum railcar lease with Key Equipment Leasing and PNC Leasing expired on March 29, 2009. At that time, EGSL extended the lease for another five years at the same terms. Effective June 7, 2010, Key Equipment Financing assigned its rights and responsibilities under the lease agreement to PNC Leasing. EGSL also leased 242 railcars (approximately two trainsets) from WL Ross through September 2012. Based on the shorter route and improved cycle time performance under the new coal transportation agreement with UP/KCS, it

was determined that only five trainsets would be needed to meet EGSL's coal delivery requirements. Therefore, upon expiration of the operating lease agreement with WL Ross in September 2012, only 145 railcars were renewed for a two-year term and the remaining 97 were returned to the lessor. Each of the lease agreements is included in the confidential workpapers to Schedule I-4.

Q50. WHAT IS THE TEST YEAR LEVEL OF RAILCAR LEASE PAYMENTS FOR NELSON 6?

A. As shown in Highly Sensitive Schedule I-1.2, the Test Year total railcar lease expense for Nelson 6 is approximately $526,000.

Q51. ARE THE EXPENSES FOR RAILCAR LEASES REASONABLE AND NECESSARY?

A. Yes. The lease expense is necessary because the railcars are necessary to economically transport the coal requirements for Nelson 6. If coal is not delivered to Nelson 6, the energy from Nelson 6 will not be available and the Company would have to replace the power from other sources. The lease expenses are reasonable because they represent the most economic option for providing railcars to transport coal.

4. Taxes on Railcars

Q52. WHAT ARE THE TAXES ASSOCIATED WITH RAILCAR OWNERSHIP AND OPERATION?

A. Taxes such as ad valorem and coal car taxes are assessed to the effective owner of rolling railroad equipment by the state in which equipment is operated. Because EGSL leases these railcars as an operating lease net of any assessed fees or taxes, it is responsible for payment of the taxes, which are then allocated to the co-owners.

Q53. WHAT IS THE TEST YEAR LEVEL OF TAXES ASSOCIATED WITH OWNERSHIP AND OPERATION OF RAILCARS?

A. As shown in Highly Sensitive Schedule I-1.2, the Test Year total tax assessed to Nelson 6 and charged as expense is approximately $12,000.

Q54. IS THE TAX EXPENSE FOR RAILCAR OWNERSHIP AND OPERATION REASONABLE AND NECESSARY?

A. Yes. The taxes are state-imposed ad valorem or mileage-based taxes assessed on all railcars traveling within state boundaries. Payment of these taxes is necessary to utilize the railways. Payment of the taxes is reasonable because that is the amount legally assessed by the taxing entities.

5. Railcar Maintenance

Q55. HOW ARE RAILCAR MAINTENANCE COSTS INCURRED?

A. Railcar maintenance costs are incurred either as running repairs made by the railroad while trainsets are in railroad custody, or are incurred as repairs made by Watco Companies, L.L.C. ("WATCO") as part of a preventative railcar maintenance program.

Q56. PLEASE EXPLAIN WHY THE RAILROADS PERFORM RAILCAR MAINTENANCE.

A. While trainsets and railcars are in railroad custody, the railroads are required to perform safety inspections on all railcars at specific travel increments. If the railroad identifies an item that requires repair per the Association of American Railroads ("AAR") railcar safety requirements, the railroad can make the repair at rates prescribed by the AAR and bill the owner of the railcar for maintenance required to keep the railcar in running service.

Q57. WHY DOES WATCO PERFORM SOME OF THE MAINTENANCE?

A. WATCO charges labor and repair rates that are significantly lower than those that the railroads are allowed to charge railcar owners per AAR rules. A trainset is periodically placed in a WATCO repair shop in order for WATCO to perform a detailed inspection of the railcars and perform any required maintenance. By repairing railcars at a WATCO shop,

repairs are made at a much lower rate than if the repairs were performed by the railroad.

Q58. DURING THE TEST YEAR, WAS A FORMAL MAINTENANCE PROGRAM IN PLACE FOR RAILCARS?

A. Yes. WATCO inspected and repaired railcars during the Test Year. Railcar repair data is maintained in a database managed by Quality Transportation Service through December 31, 2011, and now managed by FreightCar Rail Services beginning January 1, 2012. Solid Fuel Supply employees manage the railcar maintenance process by monitoring dates when trainsets were last released from maintenance and scheduling the trainsets for maintenance that have gone the longest time since their last maintenance. Typically, maintenance will be scheduled on all trainsets twice a year.

Q59. WAS THE RAILCAR FLEET EFFICIENTLY MAINTAINED AND OPERATED DURING THE TEST YEAR?

A. Yes. The railcar fleet was operated and maintained in compliance with AAR rules and Federal Railroad Administration ("FRA") regulations. All railcar repairs on any railcar operated in the United States are governed by the AAR Rules. There was no instance during the Test Year when coal could not be delivered because railcars were unavailable.

Q60. WHAT IS THE TEST YEAR LEVEL OF RAILCAR MAINTENANCE EXPENSE?

A. As shown in Highly Sensitive Schedule I-1.2, the Test Year total railcar maintenance expense is approximately $804,000.

Q61. WHY IS THE INCURRENCE OF RAILCAR MAINTENANCE EXPENSE REASONABLE AND NECESSARY?

A. AAR Rules and the FRA regulations are the standard of repair for all railcars operating on United States railroads. If railcars are not maintained to these standards, the FRA can impound the railcar, or the AAR can restrict the use of the railcar.

C. Big Cajun II, Unit 3

1. Coal Handling

Q62. WHAT IS CONTAINED IN THE COAL HANDLING CHARGES FOR BCII, U3?

A. Coal handling charges consist of all LaGen expenses incurred to unload coal, store coal, maintain coal handling equipment and handle ash disposal at BCII, U3. These costs are provided in Highly Sensitive Schedule I-1.2.

Q63. IS THIS AMOUNT REASONABLE AND NECESSARY?

A. Yes. If the coal is not unloaded, stored and delivered to the boiler when needed, energy from BCII, U3 would not be available to the Company, and replacement energy would be required.

2. Ash Proceeds

Q64. DURING THE TEST YEAR, HOW WERE THE COAL RESIDUALS DISPOSED OF FROM BCII, U3?

A. Similar to Nelson 6, LaGen has an ash disposal contract. The ash disposal contract provides an efficient and cost-effective means of disposal of ash generated by BCII, U3. The revenues related to ash disposal are provided in Highly Sensitive Schedule I-1.2.

Q65. IS THIS A REASONABLE MEANS TO DISPOSE OF COAL RESIDUALS FROM BCII, U3?

A. Yes. Ash is a waste product from burning coal. As a waste product, it must be disposed of in some fashion. This ash disposal contract provides for the disposal of the ash by-product at no cost to ETI and provides for a sharing of any revenue generated from the sale of ash. In the absence of an ash removal contract, costs of removal and disposal of the ash product generated by the unit would have been incurred and shared by the co-owners.

3. Railcar Related Lease Expense

Q66. DOES LAGEN LEASE ITS RAILCARS?

A. Yes. LaGen incurs expenses to lease their railcars. These costs are provided in Highly Sensitive Schedule I-1.2.

Q67. ARE RAILCAR-RELATED LEASE EXPENSES REASONABLE AND NECESSARY?

A. Yes. These expenses are necessary because LaGen needs railcars to transport the coal requirements of BCII, U3. These expenses are reasonable because if coal is not delivered to BCII, U3, the energy from BCII, U3 will not be available and the Company would not receive power from this plant.

V. COAL INVENTORY MEASUREMENT

Q68. ARE PERIODIC PHYSICAL MEASUREMENTS CONDUCTED OF COAL INVENTORY AT NELSON 6?

A. Yes. Twice a year a physical measurement of coal inventory is performed at Nelson 6.

Q69. WHAT IS THE PURPOSE OF THESE MEASUREMENTS?

A. Physical measurements of coal inventory are taken to reconcile variances between the physical coal inventory as measured and the accounting record (book) inventory. Book inventory is based on a beginning inventory

amount plus the amount of coal purchased less the amount of coal burned as adjusted for burn measurements and receipt measurements. The actual physical inventory of coal changes over time, as explained below. Therefore, periodic reconciliations are necessary.

Q70. WHAT METHOD IS EMPLOYED TO PERFORM INVENTORY RECONCILIATIONS AT NELSON 6?

A. An independent contractor, MIKON Corporation ("MIKON"), surveys and determines the volume of the coal inventory stockpile. In addition to the survey, MIKON also cores or samples the stockpile to determine density and Btu content. With the three values determined (volume, density, and Btu), MIKON converts the volume of the stockpile to tons using the density measurements and converts the tons to MMBtus using the Btu content. Once MIKON determines the amount of physical stockpile, it submits a coal inventory report to the Solid Fuels Supply group.

Because MIKON determines the total amount of coal in inventory, it includes any quantity of coal that has been capitalized (*i.e.*, coal that forms part of a permanent base layer which is not useable). Capitalized coal is removed from the physical measurement results prepared by MIKON and those results are compared to the book inventory maintained by the RCMS database. Any difference between the adjusted physical measurement and book inventory is determined, and the book inventory is adjusted by that difference.

Q71. WHAT CAUSES VARIANCES BETWEEN BOOK AND PHYSICAL MEASUREMENT INVENTORIES?

A. Variances between the book and physical measurement of inventory are caused by differences in scale calibration, sampling accuracy, equipment performance, and core sampling accuracy, each of which can affect the density and Btu content calculations.

Q72. WERE THERE ANY ADJUSTMENTS TO INVENTORY AS A RESULT OF INVENTORY SURVEYS PERFORMED BY MIKON DURING THE RECONCILIATION PERIOD?

A. Yes. The table below summarizes the inventory adjustments which resulted from MIKON physical measurements during the Reconciliation Period.

Date	Tons
Nov 3, 2011	(10,137)
Apr 20, 2012	36,057
Oct 23, 2012	(27,296)

Q73. WERE THERE ANY PHYSICAL MEASUREMENTS PERFORMED AT BCII, U3 DURING THE RECONCILIATION PERIOD?

A. Yes. A contractor for LaGen performed multiple physical inventory measurements during the Reconciliation Period. These physical

measurements resulted in the following adjustments to ETI's inventory at BCII, U3:

Fly-over Date	Tons
Aug 31, 2011	19,208
Oct 31, 2011	16,798

VI. COAL INVENTORY POLICY

Q74. COULD YOU SUMMARIZE THE COAL INVENTORY POLICY APPLICABLE TO NELSON 6?

A. The Coal Inventory Policy applicable to Nelson 6 provides for inventory target levels to help mitigate transportation and unit operating risks. The primary elements of the policy are that it provides for: (1) a base target of 36 days of inventory; (2) an end-of-year 12-month average inventory target of 43 days; and (3) a twice year review/analysis to determine if alternative coals will be purchased.

Q75. WHAT IS THE COAL INVENTORY PROCESS FOR BCII, U3?

A. Because the Company is not the operator of the BCII, U3 plant, it does not have ultimate control over the coal inventory levels at BCII, U3. Under the JOPOA for BCII, U3, the Company each year must nominate for the next calendar year the level of coal to be delivered for its account at BCII, U3. The Company's nomination process is targeted to achieve an end-of-year inventory target of approximately 43 days.

Q76. DO YOU HAVE AN OPINION REGARDING THE TEST YEAR INVENTORY LEVELS FOR NELSON 6 and BCII, U3?

A. Yes. The test year solid fuel inventory levels for the Nelson 6 and BCII, U3 were reasonable and the costs incurred to maintain those levels were reasonable.

VII. SIGNIFICANT ATYPICAL EVENTS

Q77. DID NELSON 6 EXPERIENCE ANY SIGNIFICANT COAL DELIVERY DISRUPTIONS DURING THE RECONCILIATION PERIOD?

A. Yes. In June 2011, BNSF declared a force majeure event when railroad tracks were damaged due to severe flooding in the midwestern United States. Although the flooding did not directly involve the rail corridor used by Nelson trains, they were heavily impacted by other rail traffic being detoured around the flooded area. The increased traffic resulted in increased congestion along the route followed by the Nelson trains, causing railroad cycle times to deteriorate significantly. In order to meet the typical annual burn at Nelson 6 of approximately 2.3 million tons, five dedicated trains in Nelson 6 service must move at an average cycle time of approximately 250 hours. "Cycle time" is the total time required for a train to load with coal, make the trip from the Wyoming supply mines to Nelson 6, unload at the plant, and return to the Wyoming supply mines.

Q78. HOW WERE CYCLE TIMES AFFECTED BY THE FLOODING?

A. During the first six months of 2011, the average cycle time was 242 hours. However, during the force majeure event, cycle times were as high as 402 hours and averaged 285 hours. In addition to deteriorating cycle times, BNSF also removed one of EGSL's trainsets from service to help alleviate some congestion on its system, further compounding the issue and leaving the plant with a delivery rate that was significantly lower than the pace of burn. Although the actual period of the force majeure was June 6 – September 13, 2011, average cycle times continued to be higher than normal for the remainder of the year. During the period that the force majeure was in place the average cycle time was 285 hours. Although there was some improvement following the force majeure period, average cycle time for the remainder of the year was 261 hours, still above the 250 hour cycle time necessary to maintain or build inventory at the plant.

Q79. WHAT STEPS WERE TAKEN TO MITIGATE THE IMPACT ON PLANT OPERATIONS?

A. Over the course of the force majeure period and the months that followed, the Company took several steps to either avoid or diminish the effect on plant operations. These steps included: (1) pursuing with BNSF the possibility of placing additional trains in service for Nelson 6; (2) discussions with UP/KCS to start the new contract early; and

(3) implementing a coal conservation program to help manage coal stockpiles during the delivery disruptions.

Q80. PLEASE DESCRIBE THE COMPANY'S EFFORTS TO PLACE ADDITIONAL TRAINS IN BNSF SERVICE.

A. Although the force majeure began June 6, significant deterioration in cycle times to Nelson 6 did not occur until July at which time the Company requested that BNSF place an additional train in Nelson 6 service. Although BNSF initially agreed to place an additional train in service on July 22, BNSF continued to defer the additional train citing increasing congestion. On August 16, BNSF actually removed one of the trains from service due to continuing problems stemming from the congestion. This train was not placed back into service by BNSF until September 29, and despite further requests, BNSF indicated it would not add the sixth trainset into service.

Q81. WHAT OTHER EFFORTS DID THE COMPANY UNDERTAKE TO SECURE ADDITIONAL COAL FOR THE NELSON 6 PLANT?

A. The BNSF contract was set to expire at the end of 2011, and the Company was in the process of negotiating a new long-term transportation contract with UP/KCS that was to commence at the beginning of 2012. Although the Company continued to press BNSF to place additional trains in service, the railroad insisted that this would merely exacerbate the

problem by increasing congestion and causing a further deterioration in cycle times. In late August, the Company approached UP/KCS regarding the possibility of delivering coal under the contract prior to 2012. Ultimately, the Company was successful in executing a short-term transportation agreement with UP/KCS on October 26, placing a train in UP/KCS service on November 7.

Q82. PLEASE DESCRIBE THE COAL CONSERVATION PROGRAM UNDERTAKEN BY THE COMPANY.

A. In conjunction with the Energy Management Organization ("EMO") group within SPO and the Fossil organization, the Solid Fuel Supply Group helped develop a Fuel Conservation Program to prevent further deterioration of the coal inventory. Across the peak hours, the unit was operated at normal loading; however, during off-peak periods, the coal unit was held to approximately half load (200 – 250MW). The Company continued to cycle the unit in this fashion from approximately mid-October through mid-November.

Q83. HOW DID THE COMPANY'S COAL CONSERVATION EFFORTS AFFECT INVENTORY LEVELS?

A. Over the period during which the coal conservation efforts were in effect, approximately five days of burn were saved compared to estimated burn rates when operated at full load.

Q84. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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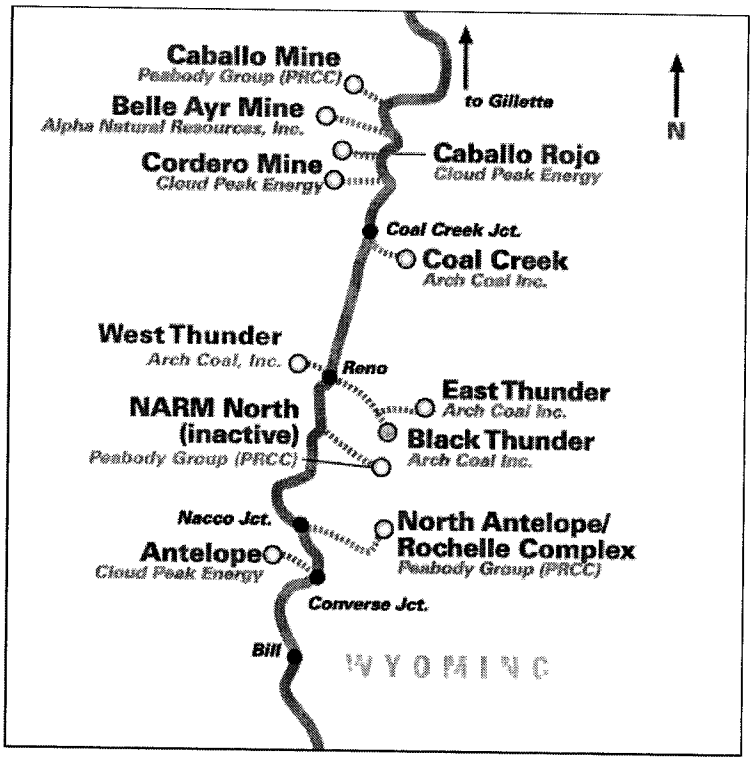

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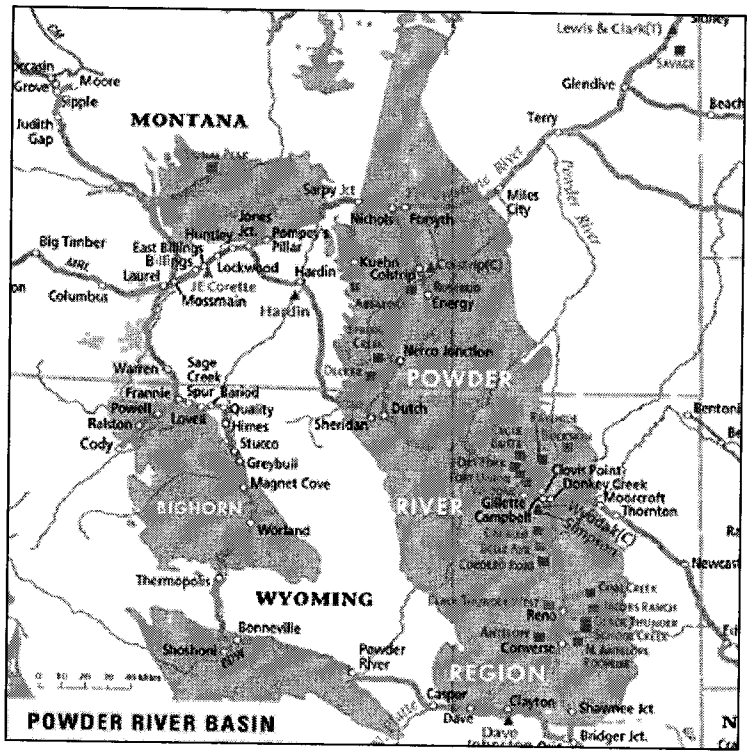

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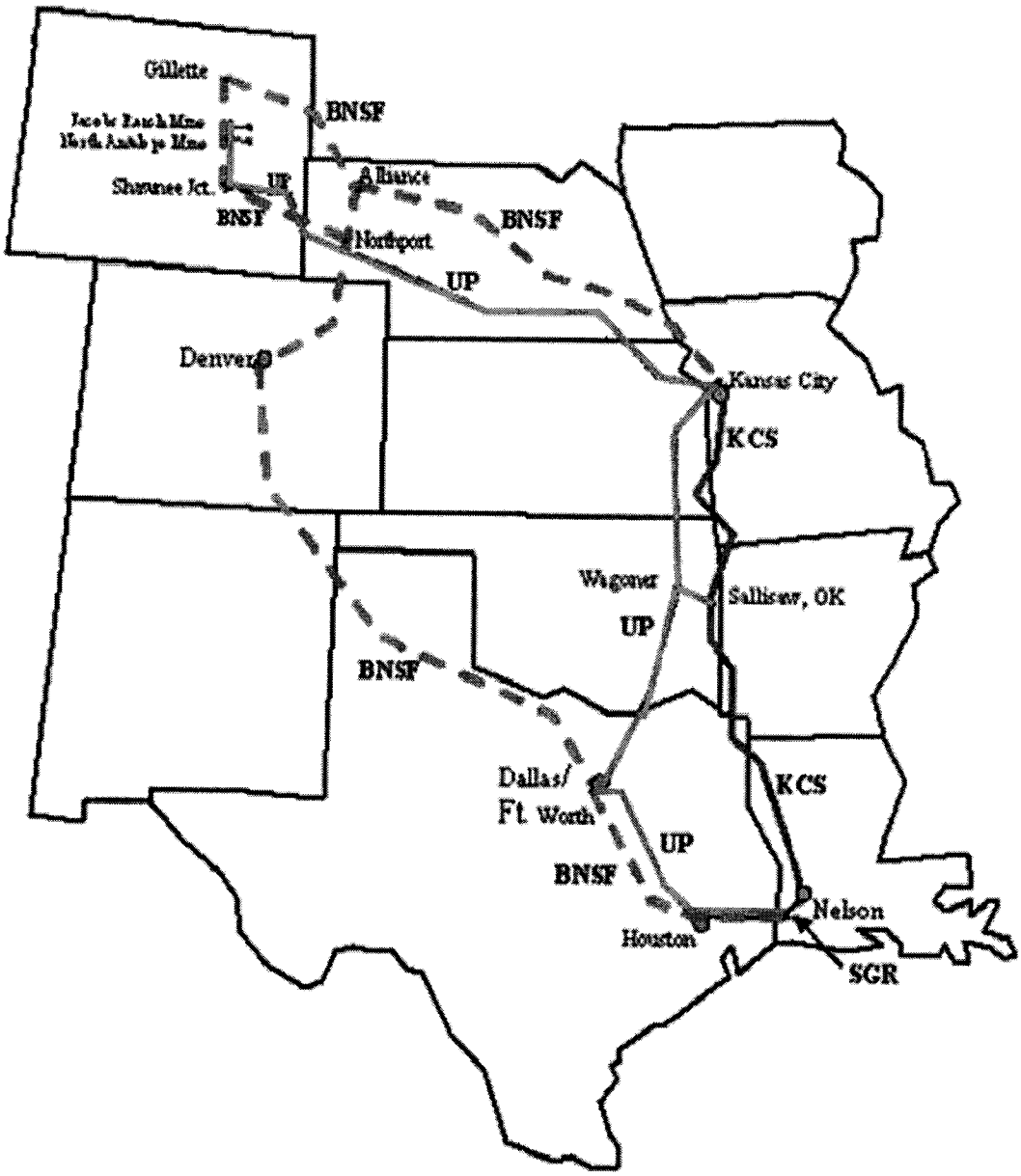
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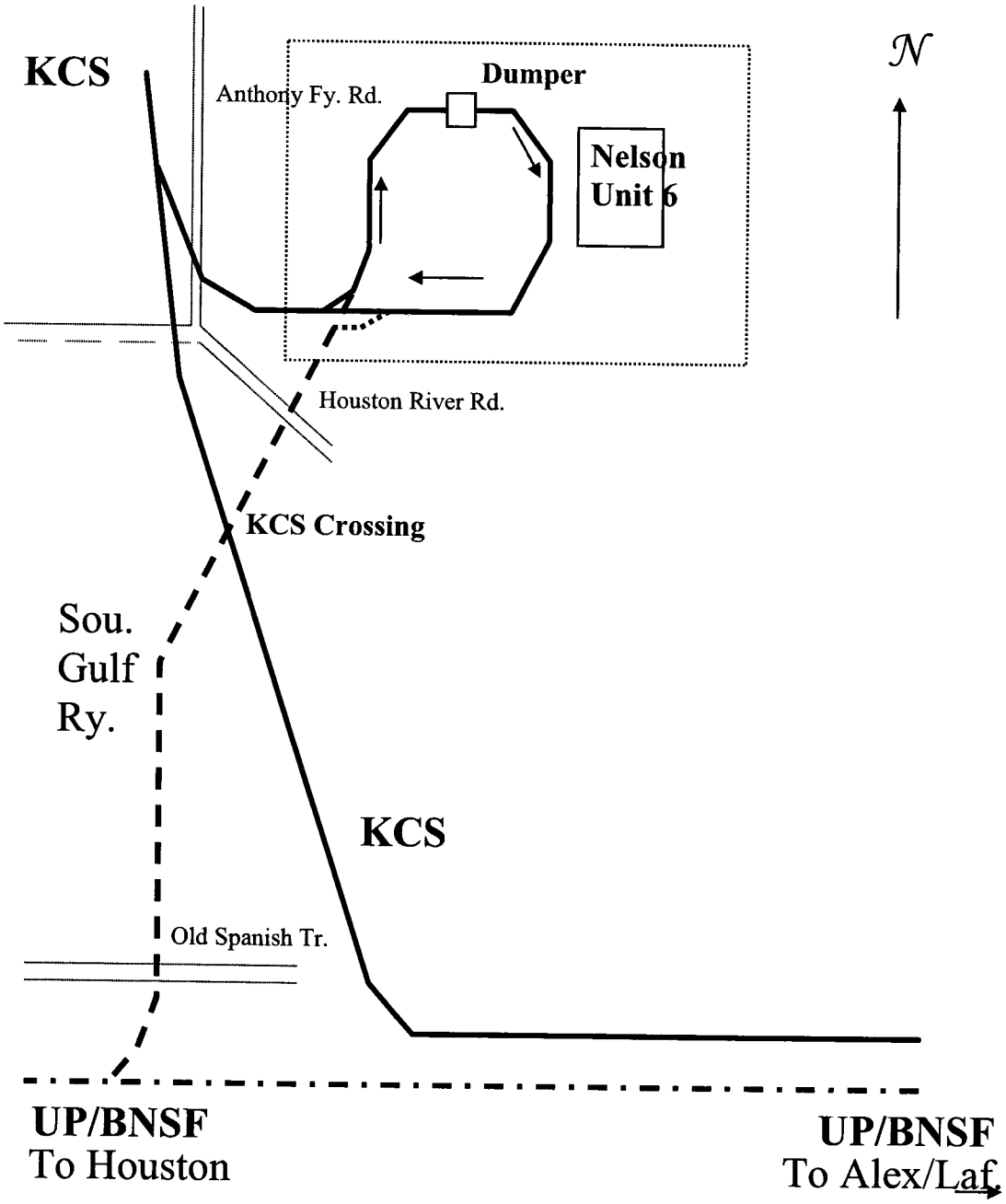
Southern Gulf Railway Co.
Detail Map



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DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

GREGORY S. WILSON

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF GREGORY S. WILSON
2013 RATE CASE

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EXHIBITS

Exhibit GSW-1	Gregory S. Wilson Resume
Exhibit GSW-2	Calculation of Recommended Accrual
Exhibit GSW-3	Texas Major Storm Damage Adjusted to Current Cost Level
Exhibit GSW-4	Example of Loss Trending Methodology
Exhibit GSW-5	Calculation of Recommended Accrual with $500,000 Threshold
Exhibit GSW-6	Calculation of O&M Amounts Charged to Expense with $500,000 Threshold

I. INTRODUCTION AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME, OCCUPATION, BUSINESS AFFILIATION, AND BUSINESS ADDRESS.

A. My name is Gregory S. Wilson. I am a consulting actuary specializing in the area of property-casualty actuarial matters. I am a Vice President and Principal at Lewis & Ellis, Inc. ("L&E"). My business address is 2929 N. Central Expressway, Suite 200, Richardson, Texas 75080.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I received a Bachelor of Science degree in applied mathematics from the University of Rhode Island in 1976.

In 1992, I became a Fellow of the Casualty Actuarial Society ("FCAS"), having attained that designation by completing all of the required examinations. I am also a member of the American Academy of Actuaries.

I was employed by Amica Mutual Insurance Company until 1994. Most recently, I was a vice president, serving as chief actuary and supervising the actuarial department.

In 1994, I joined PricewaterhouseCoopers, LLP, where I provided actuarial consulting services to a wide variety of clients including insurance companies, state insurance regulators, self-insured entities, and non-insurance corporations.

I joined L&E in 2001, where I continue to provide actuarial consulting services to a wide variety of clients. I have testified before the Public Utility Commission of Texas ("Commission") in Docket Nos. 16705, 33309, 33310, 37695 and 39896, and submitted written testimony in Docket Nos. 20150, 22356, 30123, 34800, 37744, and 37364. I have also testified on self-insurance issues before the Missouri Public Service Commission in conjunction with a utility rate filing. My resume is attached as Exhibit GSW-1.

Q3. WHAT IS AN ACTUARY?

A. This term can be defined in terms of required education and in terms of the functions an actuary usually performs. The highest designation a property-casualty actuary can have is FCAS. This designation is obtained through a rigorous process involving separate examinations on topics such as mathematics, probability and statistics, theory of credibility, theory of risk and insurance, economics, insurance coverages, ratemaking, loss reserving, insurance accounting and regulation, and individual risk rating.

An actuary estimates the financial implications of future contingent events. In this particular case, my analysis of the future financial consequences is performed in accordance with the Actuarial Standards of Practice, as well as the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves adopted by the Casualty Actuarial Society.