

1 adequate funds exist to pay the incentives, but not as a performance
2 target except as noted in the previous sentence.

3

4 Q24. WHAT MOTIVATED THE CHANGE IN INCENTIVE COMPENSATION
5 PLAN DESIGN IN 2008?

6 A. The intent of the change was to further re-enforce the link between
7 incentive compensation and the control employees felt they could have
8 over the achievement of certain goals, such as safety, customer service,
9 operational performance and cost control measures. These measures
10 place additional focus on providing safe, cost-effective, and reliable
11 service to customers.

12

13 Q25. DO THE ENTERGY COMPANIES HAVE ANY OTHER INCENTIVE
14 PROGRAMS?

15 A. Yes. The Entergy Recognition Program allows for the reward of an
16 employee with a one-time lump sum for exemplary work on a special
17 project or assignment. The Impact Award is an important part of the
18 Entergy Recognition Program. Impact Awards recognize individual or
19 team members for outstanding achievement. Impact Awards are
20 presented to employees in the form of cash. In general, Impact Awards
21 recognize employees for their participation and contribution on a special
22 project or assignment and recognize significant achievement such as
23 innovation, individual or team accomplishment, sustained high

1 performance, extraordinary effort to resolve a problem, special project, an
2 act of heroism, and community service. Nomination of an employee or a
3 team of employees for an Impact Award is most frequently initiated by the
4 employee's immediate manager. In addition, the Company provides the
5 Power of Thanks recognition program where employees may receive
6 recognition points valued at \$1 per point.

7

8 Q26. IS IT REASONABLE FOR THE ENTERGY COMPANIES TO HAVE
9 THESE PROGRAMS?

10 A. Yes. These programs constitute a valuable personnel practice. The
11 recognition programs, which are generally associated with significant cost
12 savings or improved work processes, help to boost and maintain
13 employee morale and productivity, and also contribute to reducing
14 employee turnover by providing recognition for employee
15 accomplishments. ETI's ratepayers benefit from the programs because
16 they encourage creative activity by employees that results in more cost
17 efficiencies and a more productive and engaged workforce that provides
18 better service to customers.

4. Additional Detail Regarding the Long-Term Incentive Programs

Q27. ARE EQUITY-BASED LONG-TERM INCENTIVE COMPENSATION PLANS COMMONLY USED BY COMPANIES SUCH AS THE ENTERGY COMPANIES?

A. Yes. Equity-based long-term incentive plans are common among publicly traded companies. The following Table 3 shows that the majority of all independently-surveyed publicly-traded companies compensate top managers through an equity-based long-term incentive program, such as the LTIP, and 100% of the Entergy Companies' utility peer group comprising the Philadelphia Electric index provide this type of equity-based executive incentive program. In addition, the table shows that stock options and other types of equity programs, such as restricted stock, continue to be typical retention tools in both the general industry and utility companies. This type of equity-based plan places a greater portion of executive compensation at risk based on corporate performance compared to executive compensation programs that do not have variable pay strategies.

Table 3
Towers Watson's 2011 Long-Term Incentive Plan Survey (as used in the Entergy Companies' 2012 Senior Mgmt Competitive Compensation Analysis)

| LTI Plans Offered | General Industry | Philadelphia Electrics |
|-------------------|------------------|------------------------|
| Stock Options | 61% | 26% |
| Performance Plans | 73% | 100% |
| Restricted Stock | 66% | 79% |

1 Q28. HOW DO THE ENTERGY COMPANIES ENSURE THAT THESE LONG-
2 TERM INCENTIVES ARE AWARDED AT REASONABLE MARKET
3 LEVELS?

4 A. As I explained earlier, our compensation programs, including the
5 long-term incentives, are benchmarked by an independent external
6 consultant to determine their prevalence and ensure they are both
7 competitive and reasonable by comparing them with the utility industry
8 and general industry.

9

10 5. The Test Year Compensation Programs and Costs are
11 Necessary and Reasonable

12 Q29. DURING THE TEST YEAR, WERE THE ENTERGY COMPANIES'
13 COMPENSATION PROGRAMS REASONABLE AND NECESSARY?

14 A. Yes. In order to provide services to ETI's customers, it is necessary to
15 maintain an appropriately compensated workforce. Employees of all
16 industries, including utilities, provide services to companies for pay, most
17 often in the form of base pay and incentive compensation. The Entergy
18 Companies' incentive plans are representative of similar plans that are
19 used widely by utilities, the energy services sector, and all industries as an
20 element of variable compensation programs. Further, the Entergy
21 Companies' compensation levels are reasonable as described below.

1 Q30. IN PREPARING A BENCHMARK COMPARISON OF COMPENSATION
2 LEVELS, HOW SHOULD ONE DEFINE THE "MARKET LEVEL" OF
3 COMPENSATION?

4 A. As discussed above, when using a benchmark analysis to compare
5 companies' levels of compensation, it is advisable to view the market level
6 of compensation as a range (e.g., +/- 15% of a mid-point) rather than a
7 precise, single point. Although benchmarking has its place in
8 compensation analyses, and is used by HR departments and
9 professionals, there are differences in how companies match job
10 responsibilities with job titles and in how companies complete the
11 compensation survey information. These limitations do not invalidate
12 benchmark comparisons of compensation levels, but they do add an
13 element of imprecision to any comparison of compensation by job title.

14 Pay Governance, executive compensation consultant to Entergy's
15 Board of Directors, supports Entergy Companies' approach that a value
16 between 85% and 115% of the median level of compensation is "at
17 market." Pay Governance stated in its 2012 Competitive Compensation
18 Analysis that because of differing job duties, individual characteristics,
19 and experience levels, a company's pay levels are competitive if they fall
20 between 85% and 115% of the marketplace.

1 Q31. WHAT ARE TARGET INCENTIVE COMPENSATION PAYMENTS?

2 A. Target incentive compensation payments are the percentages of base pay
3 that employees would receive if the performance goals being measured
4 under the incentive plan are achieved at target. The compensation the
5 employee receives depends upon whether actual performance fails to
6 meet the targets, meets targets, or exceeds the targets.

7

8 Q32. FOR THE TEST YEAR, DID THE ENTERGY COMPANIES USE
9 REASONABLE TARGETS IN ESTABLISHING TARGET INCENTIVE
10 COMPENSATION PAYMENTS FOR THE ANNUAL INCENTIVE PLANS?

11 A. Yes. The following Table 4 shows the Entergy Companies' 2012 annual
12 incentive targets. The table indicates that the survey target incentive
13 compensation opportunities for employees in the utilities and energy
14 industry as well in general industries for the Administrative and Clerical,
15 Technician & Skilled, Professional, Middle Management, and Top
16 Management employee classifications compare favorably with the targets
17 for the Entergy Companies' employees in similar employee classifications.

1

Table 4
2012 Annual Incentive Target Awards as a Percentage of Base Pay at Median⁸

| Towers Watson 2012 Salary Budget Survey | All For-Profit Industries at <u>Target</u> | Utilities & Energy <u>Industry at Target</u> | Entergy at <u>Target</u> |
|---|--|---|-----------------------------|
| Administrative and Clerical | 5% | 6% | 3.5% |
| Technician & Skilled | 5% | 8% | 3.5% |
| Professional | 10% | 10% | 7% |
| Management | 20% | 18% | 18% |
| Executive | 41% | 40% | 49% |

| Mercer 2012/2013 Salary Budget Survey | All For Profit Industries at Target | Energy Industry at Target | Entergy at Target |
|---|---|---------------------------------|----------------------|
| Administrative and Clerical | 5% | 6% | 3.5% |
| Technician & Skilled | 5% | 6% | 3.5% |
| Professional | 10% | 10% | 7% |
| Management | 20% | 20% | 18% |
| Executive | 40% | 41% | 49% |

⁸ Towers Watson and Mercer Incentive Target Data Reports on 2012-2013 Salary Budget Survey. The "Entergy at Target" data was calculated by averaging the targets of all incumbents in each incentive plan. For Administrative and Clerical employees, this covers participants in the TSIP and TSBP. For Technician & Skilled Non-Exempt employees, this covers participants in the TSIP and the TSBP. For Professional employees, this covers participants in the EXIP. For Management employees, this covers participants in the MIP. Executive includes participants in the EAIP.

| Towers Watson 2012 Executive Database ⁹ | General Industries at Target | Entergy at Target |
|---|------------------------------------|----------------------|
| Middle Management | 25% | 17% |
| Top Management (Directors) | 35% | 32% |
| Executives (Officers) | 51% | 49% |

- 1 Q33. LET'S TURN NOW TO THE RESULTS OF ANNUAL COMPENSATION.
- 2 FOR THE TEST YEAR, WERE THE ENTERGY COMPANIES' ACTUAL
- 3 TOTAL COMPENSATION PAYMENTS FOR BASE PAY AND ANNUAL
- 4 INCENTIVE COMPENSATION REASONABLE?
- 5 A. Yes. For the Test Year, the Entergy Companies' total compensation costs
- 6 for base pay and annual incentive compensation were reasonable, based
- 7 upon my knowledge of the utility industry and the employment market, my
- 8 familiarity with the Entergy Companies, and my experience with

⁹ Developed from Towers Watson's 2012 Executive Compensation Database – General Industry (companies with revenue between \$10 and \$20 billion) and Towers Watson 2012 Executive Compensation Database – Energy Services Industry (companies with revenue greater than \$6 billion). "Entergy at Target" developed by averaging targets for all incumbents in Management Level 6 (Middle Managers), Management Level 5 (Directors) and Management Level 1 thru 4 (Executives).

1 compensation principles. As summarized in the following Table 5, total
2 annual compensation (defined as base salary and payments under annual
3 incentive plans) during the Test Year for the employees taken as a whole
4 was 98% of the market median compensation level.

5 **Table 5**
ESI and ETI Total Annual Compensation Compared to Market Median

| | Number of Employees in ESI and ETI | Total Annual Compensation for the ESI and ETI Employees - Entergy | Total Annual Compensation for the Employees using the Market Median (50th Percentile) | Entergy's % of the Market Median |
|---------------|---|--|---|---|
| Totals | 3053 | \$337,226,492 | \$342,500,861 | 98% |

6 Q34. FOR THE TEST YEAR, FOR THE LONG-TERM INCENTIVES, DID THE
7 ENTERGY COMPANIES USE REASONABLE TARGETS FOR
8 ESTABLISHING TARGET INCENTIVE COMPENSATION PAYMENTS?

9 A. Yes, each year Pay Governance, the nationally recognized compensation
10 consultant, provides an analysis of the expected value of the Entergy
11 Companies' long-term incentives. The benchmarked data on the
12 long-term incentives at market median is presented in the analysis as an
13 expected dollar amount. This expected dollar amount is then converted
14 by Pay Governance into target performance units, stock options and
15 restricted stock. The Board of Directors reviews this data and, for 2011
16 and 2012, approved the recommended targets as the long-term basis for
17 the Entergy Companies' Compensation Model.

1 Q35. WITH REGARD TO THE RESULTS OF THE LONG-TERM INCENTIVES
2 FOR THE TEST YEAR, WERE THE ENTERGY COMPANIES' ACTUAL
3 PERFORMANCE UNIT AWARDS UNDER THE LONG-TERM
4 INCENTIVE PLAN AND STOCK OPTION PLAN REASONABLE?

5 A. Yes. As I discussed earlier, the use of equity-based incentive devices in
6 long-term incentive compensation plans is prevalent among publicly-
7 traded companies. In addition, as I discussed earlier, the Entergy
8 Companies intentionally design the long-term incentive plan to provide
9 compensation at the market median. To that end, and as described
10 above, the Entergy Companies perform an annual analysis of their target
11 grant levels under the long-term incentive plan to ensure that the target
12 levels of grants are set at the market median. Consequently, the Entergy
13 Companies design the long-term incentive compensation plan to be at
14 market. But as I also discussed earlier, when actual performance exceeds
15 the target level of performance, then the actual awards have the potential
16 to exceed the target level of awards. The converse is true as well: when
17 actual performance is less than the target, then there is the potential that
18 the actual awards will be less than the target level of awards. In fact, the
19 performance under the Performance Unit Programs in 2011 and 2012
20 were below target and thus resulted in zero payout for both years.

21 Further, the use of equity-based devices in long-term incentive
22 compensation plans is a wide-spread practice among general industry.
23 Again, as I have noted, the Entergy Companies set target compensation

1 at the market median. As with the performance unit awards, the Entergy
2 Companies perform an annual analysis of the target level of stock options
3 and restricted stock that are available for possible award to ensure that
4 the target level is set at the market median. Thus, by design, the level of
5 the stock option and restricted stock awards is at market. Therefore,
6 given that the Entergy Companies structure the target level of stock option
7 and restricted stock awards to be at market, I conclude that the actual
8 level of stock option and restricted awards for the Test Year is reasonable.

9

10 Q36. WHAT CONCLUSION DO YOU DRAW FROM THIS ANALYSIS OF THE
11 ENTERGY COMPANIES' COMPENSATION VERSUS THE MARKET?

12 A. The Entergy Companies establish compensation targets that reflect the
13 market median for individual components and in the aggregate. The
14 design of the compensation program is reasonable and that design
15 yielded a reasonable combination of base pay, annual incentive
16 compensation, and long-term incentive compensation during the Test
17 Year.

1 6. Commission Precedent Regarding Financially Based Incentive
2 Compensation

3 Q37. ARE YOU AWARE OF COMMISSION PRECEDENT THAT HAS
4 DISALLOWED FINANCIALLY BASED INCENTIVE COMPENSATION?

5 A. Yes. I have been informed by counsel that what the Commission has
6 termed financially based incentive compensation has been disallowed in
7 several recent rate cases in Texas, including ETI's last base rate case,
8 Docket No. 39896.

9
10 Q38. IN THIS CASE, IS THE COMPANY SEEKING TO RECOVER TEST
11 YEAR INCENTIVE COMPENSATION COSTS TIED TO PROFITABILITY
12 AND STOCK PRICE?

13 A. No, an adjustment is presented by Company witness Considine that
14 removes financially based incentive compensation costs consistent with
15 the methodology used by the Commission in Docket No. 39896 to remove
16 those costs from both operating expenses and capital costs. For annual
17 incentive compensation costs, the adjustment is based on the same
18 methodology used by ETI to identify annual incentive pay based on
19 financial measures in PUC Docket Nos. 34800, 37744, and 39896 as
20 shown in Exhibit JAR-4.

21 In addition, consistent with the Commission's decision in Docket
22 No. 39896, Mr. Considine's adjustment removes all of the test year long-

1 term incentive compensation costs including the cost of the LTIP, stock
2 options, and restricted stock programs.

3

4 Q39. HAVE THERE BEEN ANY RECENT DEVELOPMENTS IN COMMISSION
5 PRECEDENT REGARDING INCENTIVE COMPENSATION?

6 A. Yes. In the recent Southwestern Electric Power Company ("SWEPCO")
7 rate case, Docket No. 40443, the ALJs issued a Proposal for Decision
8 ("PFD") recommending that the utility be allowed to recover the cost of its
9 restricted stock incentive compensation programs. On page 84, the PFD
10 explained the basis for its recommendation to allow recovery of the
11 restricted stock costs: "restricted stock units, while generally similar in
12 value to shares of AEP common stock, are awarded based solely on an
13 employee's satisfaction of certain vesting requirements. Restricted stock
14 units have no associated financial performance target and are awards, in
15 the words of SWEPCO's brief, 'paid because an employee sticks around
16 long enough to earn them.'"

17

18 Q40. IS THE ALJS' DESCRIPTION OF SWEPCO'S RESTRICTED STOCK
19 PROGRAM ACCURATE WITH REGARD TO THE ENTERGY
20 COMPANIES' RESTRICTED STOCK PROGRAM?

21 A. Yes, it is correct to say that, for the Entergy Companies, restricted stock
22 units, while generally similar in value to shares of Entergy Corporation
23 common stock, are awarded based solely on an employee's satisfaction of

1 the time-vesting requirements. Restricted stock units have no associated
2 financial performance target and are awards paid because an employee
3 sticks around long enough to earn them.

4

5 Q41. WHAT DOES THE COMPANY REQUEST WITH REGARD TO THE
6 COSTS OF ITS RESTRICTED STOCK PROGRAM?

7 A. If the Commission ultimately allows SWEPCO to recover the costs of its
8 restricted stock program, ETI should similarly be allowed to recover such
9 costs and the adjustment presented by Mr. Considine should be reduced
10 by the appropriate amount. As shown by Mr. Considine, the test year
11 costs for the restricted stock program total \$907,117 in operating
12 expenses and \$151,593 in capital costs.

13

14 C. Benefit Plans

15 1. Description of the Entergy Companies' Benefit Plans

16 Q42. PLEASE DESCRIBE THE BENEFIT PLANS PROVIDED BY THE
17 ENTERGY COMPANIES TO THEIR EMPLOYEES.

18 A. The benefit plans consist of: (1) medical and dental plans; (2) employee
19 long term disability insurance; (3) employee life insurance as well as
20 accidental death and dismemberment insurance; (4) retirement plans,
21 consisting of both a defined benefit pension plan and a 401(k) Savings
22 Plan; and (5) Executive Retirement Benefit Programs.

1 The costs of providing many of these programs are shared between
2 the Entergy Companies and their employees. The cost sharing allows the
3 Entergy Companies to provide competitive benefits programs to
4 employees while maintaining total compensation costs that were
5 comparable with industry medians.

6

7 Q43. YOU HAVE LISTED FIVE CATEGORIES OF BENEFIT PLANS. PLEASE
8 DESCRIBE THOSE PLANS.

9 A. The following summary describes the primary plans offered during the
10 Test Year.¹⁰

11 • Medical and Dental Plans

12 *Medical Plan.* The Entergy Companies use managed doctor and
13 hospital networks, which reduce claims costs. The BenefitsPlus Medical
14 Plan provides employees and their dependents comprehensive medical
15 coverage. The medical plan offers three Preferred Provider Organization
16 ("PPO") plan options. Each plan option has different deductibles, copays
17 and coinsurance levels. All three plans are provided through a network of
18 health service providers managed by Aetna. The Entergy Companies and
19 their employees share premium costs under this plan.

¹⁰ As with my discussion of the compensation programs, although I may describe the benefit plans using the present tense, my testimony describes the offerings and practices during the Test Year.

1 *Dental Plan.* The BenefitsPlus dental plan offers coverage for four
2 types of services: diagnostic and preventive care; basic restorative care;
3 major restorative care; and orthodontics. The plan pays 100% of
4 diagnostic and preventive care, 80% of basic restorative care, and 50% of
5 both major restorative care and orthodontics services. The Entergy
6 Companies and their employees share premium costs under this plan.

7 • Long-Term Disability Benefit Plan

8 The long-term disability program provides a monthly income for
9 eligible employees who become disabled while actively employed by the
10 Entergy Companies. The plan provides either 65% or 40% of the
11 employees' monthly income, depending on the option elected by the
12 employee, and is reduced by any amounts received by the employee from
13 Worker's Compensation, Social Security, and other income benefits. The
14 Entergy Companies provide the 40% coverage option at no cost to
15 employees. Employees who choose the 65% option pay the difference in
16 cost, above the cost of the 40% option, for the higher level of coverage.

17 • Life Insurance Benefit Plans

18 The Entergy Companies offer eligible employees choices in Life
19 Insurance and in Accidental Death and Dismemberment Insurance.
20 Benefit levels range from one times base pay to four times annual base
21 pay. The Entergy Companies pay the premium for the one time annual
22 base pay option. For plans that provide greater benefits, the employee
23 pays the additional premium.

1 In addition to basic employee life coverage, employees may elect
2 Survivor Income Insurance and Dependent Life Insurance. These
3 programs are provided to allow employees to take advantage of group
4 rates. Employees pay 100 percent of the cost for these programs.

5 • Retirement Benefit Plans

6 The Entergy Companies offer a defined benefit retirement program
7 and a defined contribution savings plan (a 401(k) savings plan).

8 The *defined benefit retirement program* provides monthly benefits
9 to retired employees and their contingent annuitants who qualify under the
10 plan(s). The Entergy Companies pay the entire cost of the program.

11 The *401(k) Savings Plan* encourages employees to save regularly
12 for their retirement. During the Test Year, the Entergy Companies
13 matched employee contributions seventy cents per dollar up to the first six
14 percent of eligible earnings.

15 *Other Post-Employment Benefits ("OPEB")* are benefits, excluding
16 the retirement benefit plans mentioned above, offered to retired
17 employees such as medical, dental, vision, and life insurance coverage.
18 Except for life insurance premiums, the Entergy Companies share the
19 costs of these programs with its retired employees. The Company's
20 treatment of OPEB for ratemaking purposes is addressed by Company
21 witness Considine.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22

16
17
18
19
20
21
22

17
18
19
20
21
22

19
20
21
22

21

22

1 which is from August 2011 and based upon 2010 actual experience and
2 estimates for 2011, is provided in Exhibit JAR-5.

3

4 Q45. FOR THE TEST YEAR, WERE THE ENTERGY COMPANIES' BENEFITS
5 PLANS NECESSARY?

6 A. Yes. In order to attract and retain a qualified workforce, it is necessary to
7 incur the cost to provide a competitive benefits package. As indicated by
8 the Towers Watson BenVal Report, the vast majority of companies in the
9 utility industry offer benefit programs.¹¹ For example, 100% of the peer
10 group of utility companies in the survey offered medical benefits, life
11 insurance benefits, defined contribution savings benefits, short-term
12 disability benefits and long-term disability benefits to active employees
13 and 90% offered defined benefit retirement benefits to active employees.
14 For retirees, 75% offered medical benefits and 70% offered life insurance
15 benefits.

16

17 Q46. HAVE THE ENTERGY COMPANIES TAKEN ANY STEPS TO REDUCE
18 THE COST OF THEIR BENEFITS PLANS?

19 A. Yes. The Entergy Companies have taken action to reduce the rate of
20 growth in the cost of their benefit plans. In all likelihood, however, benefits

¹¹ Please see Exhibit JAR-5 for the Towers Watson 2011 BenVal Report showing the prevalence of benefit programs among companies in the utility industry. In addition, non-qualified restoration benefit plans and non-qualified supplement benefit plans are common among general industry as surveyed by Towers Watson.

1 costs will continue to increase,¹² but at a slower rate than would otherwise
2 be the case without these actions.

3 The following list provides several examples of actions taken in
4 recent years to limit the overall cost increases associated with benefits
5 programs:

- 6 • To promote employee welfare, to increase productivity and
7 reduce sick leave, and to reduce the rate of cost increases for
8 medical, disability, and life insurance benefit plans, the Entergy
9 Companies established the Entergy Wellness Program. This
10 Program is designed to improve and maintain employees'
11 physical and psychological health and help employees focus on
12 wellness. The program encourages participation in health
13 screenings as a preventive care measure, encourages
14 employees to get more exercise by increasing physical activity
15 through participation in walking programs, provides resources to
16 help employees eat healthier diets to reduce and maintain
17 weight and provides resources for tobacco cessation. The
18 walking program was expanded in 2013 from the normal six
19 week program to the "CEO 100 Day Challenge," which
20 extended the walking program to 100 days. The walking

¹² For example, benefits consultants have projected continued health and welfare benefits costs increases for the Entergy Companies for 2014 under a "business as usual" scenario. Major drivers of the increases in the health care costs include mandated health care reform changes, an aging workforce, and the general upward trend in health care costs.

1 program was also expanded to allow spouses to participate
2 in 2013.

- 3 • During our annual vendor contract renewals, the Entergy
4 Companies continue to work with our vendors to negotiate and
5 achieve savings whenever possible, such as the Aetna
6 prescription contract renewal.
- 7 • Over the last few years, the Entergy Companies have continued
8 to consolidate medical plan options and to eliminate the higher
9 cost medical plan options for both employees and retirees. In
10 many cases, the Company has also been able to align medical
11 premiums rates for these groups.
- 12 • The Entergy Companies continue to consolidate vendors and
13 streamline services as possible, such as the 2013 vendor
14 change to Aetna for the Employee Assistance Program and the
15 Work Life Balance Program services, which resulted in savings
16 to the Company.

17 In addition, plan costs were monitored on a monthly basis and the
18 costs for providing the various benefit programs were compared against
19 targets in the budget.

1 Q47. DURING THE TEST YEAR, WERE THE ENTERGY COMPANIES'
2 BENEFIT PROGRAMS REASONABLE?

3 A. Yes. This is shown in the 2011 Towers Watson BenVal Report, which
4 compares the Entergy Companies with a peer group of twenty utility
5 companies and with a group of Fortune 500 companies from general
6 industry. These comparisons recognize that the Entergy Companies'
7 employees may pursue employment opportunities in either the utility
8 market or general industry, and therefore benefit levels needs to be
9 competitive with both labor markets. These comparisons assisted
10 management in monitoring benefit costs to ensure that the Entergy
11 Companies' benefit programs were reasonable and competitive with the
12 market.

13

14 Q48. IN COMPARING ONE COMPANY'S BENEFITS VALUES TO THE
15 BENEFITS VALUES PROVIDED BY COMPARABLE COMPANIES, HOW
16 SHOULD ONE DEFINE THE "MARKET LEVEL" OF BENEFITS?

17 A. The market level of benefits values is reasonably viewed as a range of
18 plus or minus 10% of the median benefit values offered by comparable
19 companies. Market pricing of benefits values is an inexact science. Thus,
20 the market value is defined as a range rather than as a single, specific
21 point. One consultant has recommended increasing this range to plus or
22 minus 15% to better reflect market conditions in the future.

1 Q49. HOW DO THE ENTERGY COMPANIES' BENEFIT VALUES COMPARE
2 WITH THE BENEFITS VALUES OFFERED BY THE PEER GROUP OF
3 UTILITY COMPANIES AND WITH GENERAL INDUSTRY (FORTUNE
4 500)?

5 A. Based upon the 2011 BenVal Report, which is the most recently available
6 data, the value of the Entergy Companies' total benefit program was at
7 market when compared with the total value of benefit programs offered by
8 the peer group of utility companies of similar revenue size. As shown on
9 the following Table 6, the Entergy Companies' total benefit value versus
10 the utility peer group was 101% for 2011. The Entergy Companies' total
11 benefit program was slightly higher than market when compared with the
12 total value of benefit programs offered by general industry (Fortune 500).
13 As shown on Table 6, the Entergy Companies' total benefit value versus
14 the Fortune 500 companies was 114% for 2011.

15

1

Table 6

**Entergy Companies
2011 Values of Benefit Plans Compared With
Peer Group of Utility Companies and
General Industry (Fortune 500)**

| <u>Benefit Plans</u> | <u>Entergy Companies Compared With Fortune 500 Companies</u> | <u>Entergy Companies Compared With Peer Group of Utility Companies</u> |
|--|--|--|
| | <u>2011</u> | <u>2011</u> |
| Defined Benefit & Defined Contribution Plans | | |
| Retirement & Savings Plans Combined | 140% | 103% |
| Health & Welfare Plans (Active Only) | | |
| Life Insurance | 84% | 103% |
| Medical | 95% | 93% |
| Dental | 107% | 94% |
| Short & Long Term Disability Combined | 101% | 98% |
| Entire Benefit Program (Active and Retiree Combined) | 114% | 101% |

2 While individual components of their benefits programs may be higher or
3 lower than market median, the Entergy Companies design their programs
4 to be at market median for the overall package of benefits.

D. Other HR Labor-Related Costs

Q50. DO THE ENTERGY COMPANIES PROVIDE THEIR EMPLOYEES WITH
PAID TIME OFF?

A. Yes. All of the utility companies surveyed by the Towers Watson 2011
BenVal Report offered paid time off.¹³

My Exhibit JAR-6 shows a representative group of the Entergy
Companies' policies that provide paid time off to employees. These paid
time off policies are: Absenteeism; Short-term Disability; Military Leaves
of Absence; Holidays; and Vacation. These policies are described in the
following list:

| | |
|------------------------------|--|
| • Absenteeism | Permits 40 hours of paid time off a year for compelling reasons, e.g., employee illness or spouse, child, or parent illness. |
| • Short-term Disability | Permits paid time off, based on years of employee service, for more than 40 consecutive hours of personal illness. |
| • Military Leaves of Absence | Permits pay differential and the continuation of benefits in the case of emergency active duty. |
| • Holidays | Permits 10 paid holidays per year to ESI and ETI employees. |
| • Vacation | Permits vacation, based on years of employment service, up to five weeks per year. |

¹³ Please see Exhibit JAR-5, p. 4, showing the prevalence of paid time off policies.

1 Q51. HOW ARE THE COSTS OF THE ENTERGY COMPANIES' PAID TIME
2 OFF POLICIES REFLECTED IN TEST YEAR COSTS?

3 A. There is no explicit charge for paid time off. Instead, the costs for paid
4 time off are subsumed within base pay.

5

6 Q52. FOR THE TEST YEAR, WERE THE COSTS OF THE PAID TIME OFF
7 POLICIES INCLUDED WITHIN BASE PAY REASONABLE?

8 A. Yes. As I demonstrated earlier, the total annual compensation (base pay
9 plus annual incentive compensation) during the Test Year was
10 reasonable. Given that the costs of paid time off are subsumed within the
11 base pay component of total annual compensation, the costs of the paid
12 time off policies during the Test Year were reasonable as well. In addition,
13 the 2011 BenVal Report shows that the Entergy Companies' vacation and
14 holiday policies are reasonable because they are valued at 90% of the
15 market versus the peer group and at 93% of the market versus the
16 Fortune 500 group (please see Exhibit JAR-5).¹⁴

¹⁴ The value of the Entergy Companies' vacation policy versus the peer group was 93% and for the holiday policy was 85%. The combined value of the vacation and holiday policies was 90%. The value of the Entergy Companies' vacation policy versus the Fortune 500 group was 94% and for the holiday policy was 93%. The combined value of the vacation and holiday policies was 93%.

1 Q53. DO THE ENTERGY COMPANIES HAVE RELOCATION ASSISTANCE
2 POLICIES?

3 A. Yes. In order to be competitive in the employment market, it is necessary
4 to provide relocation assistance to certain categories of employees. The
5 Entergy Companies' relocation policies are summarized in the following
6 Table 7:

7
Table 7
Summary of Relocation Policies

| <u>Policy</u> | <u>Eligibility</u> |
|---|--|
| • Relocation Assistance Policy for Entry-Level New Hires | Offered to newly-hired, entry-level, exempt employees |
| • Relocation Assistance Policy for Mid-Level New Hires | Offered to newly-hired, mid-level, exempt employees |
| • Relocation Assistance Policy for Exempt Internal Transfers & High Level New Hires | Offered to internal exempt employees and newly-hired, high level, exempt employees |

8 Q54. ARE THE ENTERGY COMPANIES' RELOCATION ASSISTANCE
9 POLICIES AND COSTS REASONABLE?

10 A. Yes. Based upon my professional experience and knowledge of
11 recruitment and personnel practices, the Entergy Companies' relocation
12 assistance policies are consistent with general industry practice. Without
13 these programs, the total package of compensation and benefits would be
14 less competitive. In addition, the Entergy Companies' average relocation
15 costs are comparable to the relocation costs for those companies

1 surveyed by the Employee Relocation Council ("ERC"). The 2012 ERC
2 survey provides cost information based upon relocation activity in 2012.
3 The 2012 industry average relocation cost shows that the industry
4 averages for relocation assistance costs per relocated employee ranged
5 from \$23,500 for renters to \$85,850 for homeowners. The Entergy
6 Companies' average relocation assistance amount during the Test Year
7 was \$20,903 for renters and \$72,658 for homeowners.

8
9 E. Affiliate Benefits and Compensation Expenses

10 Q55. IN WHAT CLASS OR CLASSES ARE ESI'S BENEFITS AND
11 COMPENSATION EXPENSES CHARGED TO ETI?

12 A. In general, compensation and benefits costs are reflected in the cost
13 components, such as Payroll & Employee Benefits, of each class of
14 affiliate services that provides ESI labor-related services to ETI. As
15 Company witness Stephanie B. Tumminello explains, the costs of these
16 services are captured in project codes and then allocated and charged to
17 ETI.

18
19 Q56. HOW ARE ESI'S BENEFITS AND COMPENSATION EXPENSES
20 CHARGED TO ETI?

21 A. ESI employees are responsible for recording their time to project codes
22 that are designed to accumulate and reflect the costs of the various
23 specific services being provided. Each ESI project code is assigned one

1 billing method which determines which of the Entergy Companies will be
2 billed for the labor charges. Payroll-related costs such as payroll taxes,
3 employee benefits, certain employee compensation, and paid time off are
4 loaded to the projects that each individual charges so that each project is
5 fully-loaded with both the direct costs assigned to the project as well as
6 ESI's payroll-related overhead costs. Company witness Tumminello
7 discusses the Payroll Loader and Allocation processes in her testimony.

8

9 V. AFFILIATE EXPENSES FOR THE HUMAN RESOURCES CLASS

10 A. Summary of Affiliate Expenses for the HR Class

11 Q57. WHICH AFFILIATE CLASS DO YOU SPONSOR?

12 A. I sponsor the HR Class of affiliate services and expenses.

13

14 Q58. WHERE DOES THE HR CLASS FIT INTO THE OVERALL AFFILIATE
15 STRUCTURE?

16 A. My Exhibit JAR-7 includes diagrams that display the two affiliate families
17 and the functions within each family providing services to ETI as well as
18 the classes within each function. The HR Class is found within the
19 Corporate Support family, under the Human Resources & Administration
20 function.

1 Q59. EARLIER IN YOUR TESTIMONY YOU DISCUSSED THE ENTERGY
2 COMPANIES' BENEFITS AND COMPENSATION PROGRAMS AND
3 COSTS. HOW DOES THAT EARLIER TESTIMONY RELATE TO YOUR
4 DISCUSSION HERE ABOUT THE HR CLASS?

5 A. In this section of my testimony, I discuss the costs specifically associated
6 with the HR Class, described below. Earlier in my testimony (Section IV),
7 I demonstrated that the compensation rates and benefits programs for the
8 Entergy Companies' employees are necessary and the costs of those
9 programs are reasonable.

10

11 Q60. WHAT SERVICES DOES THE HR DEPARTMENT PROVIDE?

12 A. The HR department provides numerous services for the Entergy
13 Companies, including:

- 14 • HR Business Partners;
- 15 • HR Programs (Total Rewards, Labor Relations, Learning and
16 Development, Workforce Planning; and Talent Management);
- 17 • HR Operations (HR Data and Controls, HR Investigation and
18 Management Support, HR Employee Services and Leave, HR Talent
19 Management Operations);
- 20 • HR Strategic Initiatives (Strategic Initiatives, Compliance, and Project
21 Management); and
- 22 • Other Services.

23 These services are described later in my testimony.

1 Q61. ARE THERE ANY COSTS, OTHER THAN THE COSTS ASSOCIATED
2 WITH THE HR SERVICES LISTED ABOVE THAT ARE INCLUDED IN
3 THE HR CLASS?

4 A. Yes. The other costs for the HR Class include the costs (or credits) of
5 pensions, OPEBs, and benefits true-ups.

6

7 Q62. WHAT IS THE TOTAL ETI ADJUSTED AMOUNT FOR THE HR CLASS?

8 A. The total ETI adjusted amount for this class of services is \$2,469,206.

9 Table 8 summarizes the following information for the HR Class:

| | |
|----------------------------------|---|
| Total Billings | Dollar amount of total Test Year billings from ESI to all Entergy companies, plus the dollar amount of all other affiliate charges that originated from any Entergy company. This is the amount from Column (C) of the cost exhibits JAR-A, JAR-B, and JAR-C. |
| Total ETI Adjusted Amount | ETI's adjusted amount for electric cost of service after pro forma adjustments and exclusions. |
| % Direct Billed | The percentage of the ETI adjusted Test Year amount that was billed 100% to ETI. |
| % Allocated | The percentage of the ETI adjusted Test Year amount that was allocated to ETI. |

10

1

Table 8

| Class | Total Billings | Total ETI Adjusted | | |
|-------|----------------|--------------------|-----------------|-------------|
| | | Amount | % Direct Billed | % Allocated |
| HR | \$125,466,069 | \$2,469,206 | 1% | 99% |

2 Q63. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE
3 INFORMATION REFLECTED IN TABLE 8.

4 A. Attached to my testimony are exhibits showing the calculation of the total
5 ETI adjusted amount for the HR Class. In my Exhibit JAR-A, the
6 information is shown broken down by the departments comprising the
7 class. My Exhibit JAR-B shows the same information broken down by
8 project code and the billing method assigned to each project code. My
9 Exhibit JAR-C shows the information by class, department, project code,
10 and billing method. For each exhibit, the amounts in the columns
11 represent the following information:

| | |
|---|---|
| Column (A) – Support | Dollar amount of total Test Year billings and charges from ESI to all Entergy Business Units, plus the dollar amount of all other affiliate charges to ETI that originated from any Entergy Business Unit. |
| Column (B) – Service Company Recipient | Dollar amount that was included in the service company recipient allocation. Service company recipient charges are the cost of services that ESI provides to itself, which in turn are charged to affiliates that receive those services. The service company recipient allocation process is described in the testimony of Company witness Tumminello. |
| Column (C) – Total | Represents the sum of Columns (A) and (B). |
| Column (D) – All Other Business Units | That portion of Column (C) that was billed and charged to Business Units other than ETI. |
| Column (E) – ETI Per Books | Represents the difference between Columns (C) and (D). |
| Column (F) – Exclusions | Represents amounts that are excluded from ETI electric cost of service. The exclusions are described in the testimony of Company witness Tumminello. |
| Column (G) – Pro Forma Amount | Pro Forma Amounts include adjustments for known and measurable changes, and corrections. |
| Column (H) – Total ETI Adjusted | ETI adjusted amount requested for recovery in this case for this class (Column (E) plus Columns (F) and (G)). |

- 1 In her direct testimony, Company witness Tumminello describes the
- 2 calculations that take the dollars of support services in Column A to the
- 3 Total ETI Adjusted numbers shown on Column H.

1 Q64. ARE THERE ANY PRO FORMA ADJUSTMENTS TO THIS CLASS?

2 A. Yes. The pro forma adjustments for the HR Class are shown on
3 Exhibit JAR-D, which also indicates the Company witnesses who sponsor
4 those pro forma adjustments.

5

6 Q65. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES
7 FOR THE HR CLASS?

8 A. As shown on Exhibit JAR-A, the total ETI adjusted amount for the HR
9 Class during the Test Year was \$2,469,206. The major cost components
10 of those charges are as follows:

11 **Table 9**

| Cost Component | \$ | % of Total* |
|---------------------------------------|--------------------|---------------|
| Payroll & Employee Costs | \$2,112,795 | 86% |
| Service Company Recipient | \$128,750 | 5% |
| Outside Services | \$141,450 | 6% |
| Office and Employee Expenses | \$69,122 | 3% |
| Other | <u>\$17,090</u> | <u>1%</u> |
| | <u>\$2,469,206</u> | <u>100.0%</u> |
| *Amounts may not sum due to rounding. | | |

12 Q66. WHAT IS THE SIGNIFICANCE OF THESE COST CATEGORIES?

13 A. Cost components provide a second way of viewing the charges for the HR
14 Class. As Table 9 shows, 86% of the costs are labor-related costs. I have
15 already discussed the reasonableness and necessity of the Entergy

1 Companies' compensation and benefits costs. Other ETI witnesses
2 provide support for the other cost categories in Table 9 and, thus,
3 indirectly help to support the charges for the HR class. In addition to the
4 labor costs, 5% of the costs are service company recipient costs, which
5 are for services that ESI provides to itself, which in turn are billed to the
6 affiliates that receive ESI services. Company witness Tumminello
7 explains the service company recipient billing process. Two other cost
8 components are outside services and office and employee expenses, at
9 6% and 3% respectively.

10
11 Q67. WHAT PORTION OF THE TOTAL ETI ADJUSTED AMOUNT RELATES
12 TO THE HR SERVICES YOU LISTED ABOVE?

13 A. Of the \$2,469,206 that is the Total ETI Adjusted Amount for the HR Class,
14 \$1,284,529 is related to the HR services I listed above. The remainder is
15 related to the other programs I described above that are included in the
16 HR Class, including the pensions, OPEB, and benefits true-ups.

17
18 B. The HR Class Provides Necessary Services

19 Q68. ARE THE HR SERVICES PROVIDED BY THE HR DEPARTMENT
20 NECESSARY?

21 A. Yes. HR services are among the most critical functions in business.
22 Without this function, ETI would be unable to provide service to
23 customers. Unless it has a skilled and motivated workforce, no business

1 can succeed. HR management is the business function that focuses on
2 the effective management, direction, and use of employees. The HR
3 department, along with line management, is responsible for activities such
4 as recruiting, selecting, assigning, motivating, compensating, training,
5 developing, and promoting the employees of the Entergy Companies,
6 including ETI and ESI.

7 The HR department oversees a large number of employment and
8 personnel issues such as:

- 9 • workforce planning;
- 10 • improving productivity;
- 11 • implementing effective compensation and benefits;
- 12 • ensuring employee participation in organizational decision-making;
- 13 • controlling health care costs;
- 14 • developing and retaining employee loyalty to customers and to the
15 Entergy Companies;
- 16 • maintaining and managing a racial, ethnic, and gender diverse
17 workforce; and
- 18 • managing complex legal and regulatory issues related to
19 employment and labor law compliance and litigation.

20

21 Q69. WHAT ARE SOME OF THE SPECIFIC SERVICES THAT THE HR
22 CLASS PROVIDES TO ETI?

23 A. The HR services provided to ETI by these classes can be grouped into
24 major activities. On a daily basis, HR employees are involved in

1 consulting with ETI's and ESI's employees and management on such
2 matters as professional development, investigating and resolving
3 grievances, employee issue resolution, discipline, performance planning
4 and review, policy administration, recruiting, hiring, drug testing, new
5 employee orientation, benefits and salary administration, background
6 investigations, labor negotiations, organization design, managing change,
7 employee relocations, and non-technical training. HR employees interact
8 with vendors, and ETI and ESI employees and retirees, on issues such as
9 retirement, educational reimbursement, the internal job posting process,
10 policy interpretation, and employee assistance programs.

11 Specific services provided by the HR organization to the Entergy
12 Companies, such as ETI and ESI, include:

13 • **HR Business Partners**

14 HR Business Partners are assigned to support the HR needs of the
15 individual business units and functions throughout the Entergy
16 Companies. These groups assist management and employees with
17 implementing and administering all HR policies and programs. This
18 support includes activities such as leadership planning and coaching,
19 acting as liaison between HR and business, identification of key metrics,
20 assisting with Employee Review Boards and Corrective Actions, Executive
21 Recruitment, industry partnering, and providing consulting on various HR
22 issues.

1 • **HR Programs**

2 • Total Rewards

3 The Total Rewards group provides or oversees:

- 4 ➤ compensation plan design: compensation strategies
5 development; pay plans development; incentive plan
6 development;
7 ➤ compensation plan analysis: compensation trends research;
8 compensation and incentive plans comparisons (to other
9 peer companies); compensation issues; internal
10 compensation equity analysis;
11 ➤ plan administration compensation: administration and
12 management of long term incentive programs, annual
13 incentive programs, and merit and incentive processes;
14 market reference data development; interpretation of rules
15 governing compensation plans;
16 ➤ benefit plan design: benefit strategies development; pricing
17 for benefit programs; evaluation of vendor bids; monitoring of
18 compliance of benefits plans with laws and regulations;
19 ➤ benefit plan analysis: evaluation of current plan design
20 against the plans of other employers; benefit trends
21 research; consultation on benefit issues; benefit costs
22 analysis; and

1 ➤ benefit plan administration: administer compliance activities
2 for all benefit programs; interpretation of rules governing
3 benefit programs.

4 • Talent Management

5 Talent Management develops recruitment strategies, conducts
6 benchmarking of similar organizations, develops sourcing programs and
7 channels, manages vendor contracts, and analyzes trends.

8 • Workforce Planning

9 Workforce Planning develops knowledge management solutions
10 and strategies, identifies core jobs and impacted areas, reviews the
11 success of workforce planning and aging workforce strategies, supports
12 education partnerships and grant support contributions, and analyzes
13 trends of future staffing needs.

14 • Learning & Development

15 Learning & Development provides employee and leadership
16 training/development opportunities to most employees within all business
17 units. Employee and leadership training and development activities range
18 from new employee orientation to programs focused on enhancing upper
19 management's leadership skills. In this role, the Learning & Development
20 group works with employees and management throughout the Entergy
21 Companies to analyze and provide training and development solutions.

22 Exhibit JAR-8 includes the lists of formal training programs and
23 computer-based training courses available to all employees for 2012

1 and 2013. I am also providing a copy of the Educational Reimbursement
2 Program policies in place during the Test Year, which outline the eligibility
3 requirements and the process to participate in the Program. See
4 Exhibit JAR-9.

5 In addition, the Learning & Development group provides the design
6 and administration for the Entergy Companies' performance management
7 and succession planning processes.

8 • Labor Relations

9 The Labor Relations group supports the negotiation and
10 administration of labor agreements by providing labor-related consulting,
11 assisting in preparing for and negotiating labor contracts, and managing
12 labor-related grievances from its final step through arbitration.

13 This group also ensures employment policies and practices comply
14 with the applicable labor laws and supports the subsidiaries in ensuring
15 that their employees act within these laws. These activities include:
16 training employees and supervisors regarding applicable federal and state
17 regulations; representing the Entergy Companies during unemployment
18 compensation inquiries and hearings; preparing affirmative action plans
19 and research; participating in Office of Federal Contract Compliance
20 Programs audits; and participating in Equal Employment Opportunity
21 Commission compliance activities.

1 • **HR Operations**

2 HR Operations – Employee Services administers new hire benefits
3 orientation, merit support, mass mailings, computer applications, records
4 management, the interactive voice response system, service awards,
5 benefits billing support, flexible spending account data, and family status
6 changes. In addition, HR Employee Services provides employees and
7 managers with information about the Entergy Companies' HR policies and
8 answers inquiries about those policies. This group processes leave of
9 absence administration and provides employee support.

10 HR Operations – Data and Controls supports the creation, delivery
11 and maintenance of reports, develops metrics, provides support to
12 management review meetings, manages the scorecarding process, and
13 engages in industry partnering and benchmarking.

14 HR Operations – Investigations and Management Support supports
15 discipline, grievances, investigations, issue resolution, corrective actions,
16 performance review analysis, and conflict resolution.

17 HR Operations – Talent Management handles the tactical and
18 operational execution of HR activities including workforce planning, talent
19 sourcing, pre-employment testing, recruiting and staffing, relocation
20 (managed through a third party vendor), onboarding support, execution of
21 the performance management process, and corporate training classes.

1 HR Operations – Employee Services assists the Labor Relations
2 group by serving as the initial contact for employees, both bargaining unit
3 and non-bargaining unit, who have questions concerning collective
4 bargaining agreement language, creating and responding to union-related
5 requests for information, serving as the primary contact during the initial
6 steps of labor grievances, and serving as the conduit for policy questions
7 for which Labor Relations is identified as the policy expert.

8 • **HR Strategic Initiatives**

9 HR Strategic Initiatives – Project Management is responsible for
10 project management of key HR projects, providing assistance in resource
11 planning and project development, communications, development of
12 project management tools, and coaching on project management
13 standards.

14 The Strategic Initiatives group provides support to labor relations
15 for union negotiations, to implementation of annual compensation efforts
16 including annual merit and incentive programs, and to succession
17 planning efforts.

18 The HR Compliance section of HR Initiatives assists HR
19 management and employees with implementing and administering HR risk
20 management activities and process controls. This support includes
21 activities such as: documenting processes; identifying risks and
22 developing effective control mechanisms to minimize them; working with
23 the Entergy Companies' vendors to help them minimize errors and

1 maximize data quality; and managing HR&A's Sarbanes-Oxley
2 certification process.

3 • **Other Services**

4 Inclusion Initiatives provides employee training to support an
5 inclusive work environment. In addition, this group provides support to the
6 various Diversity Councils as well as provides reports and consulting
7 regarding the diversity of the Entergy Companies' workforce. This group
8 also supports management in identifying candidates for leadership
9 positions through the development and administration of the succession
10 planning process.

11 The Human Resources Department is also providing oversight for a
12 workforce management initiative ("Human Capital Management" or
13 "HCM") that is currently ongoing to explore and implement potential
14 opportunities to become more cost-conscious, productive and efficient
15 across all Entergy companies. Company witness Sallie Rainer also
16 discusses this initiative.

17

18 Q70. ARE ANY OF THE HR SERVICES PROVIDED BY THE HR
19 DEPARTMENT DUPLICATED ANYWHERE ELSE IN ESI OR IN ANY
20 OTHER OF THE ENTERGY COMPANIES?

21 A. No. The HR department is organized on the principle of maintaining
22 centralized policies and management over personnel issues throughout
23 the Entergy Companies.

1 Q71. DO ETI RATEPAYERS BENEFIT FROM THE HR SERVICES?

2 A. Yes. ETI ratepayers benefit from the services provided by the HR
3 department because effective HR programs have a direct effect upon
4 ETI's and ESI's ability to obtain and maintain an efficient, productive, and
5 effective workforce. The HR services provided by this class are designed
6 to attract, develop, and retain top-talented and highly productive
7 employees. The HR policies and programs supported by this class are
8 instrumental in achieving this goal.

9

10 Q72. PLEASE DESCRIBE THE PENSIONS, OPEB, AND BENEFIT TRUE-UP
11 COSTS INCLUDED IN THE TOTAL ETI ADJUSTED AMOUNT.

12 A. The Entergy Companies' pensions, OPEB, and benefit programs are
13 described in Section IV.C.1 of my testimony above. The costs included in
14 the HR Class include interest, expected return on plan assets,
15 amortization of transition obligations (OPEB only; completed in 2012),
16 amortization of prior service cost, recognized gains/losses, and benefits
17 true-ups. For the reasons described in Section IV.C.1, the costs of these
18 programs are reasonable and necessary.

19

20 C. The HR Class Provides Necessary Services at a Reasonable Cost

21 Q73. ARE THE COSTS OF THE HR CLASS OF SERVICES REASONABLE?

22 A. Yes. The costs for the HR class of services are reasonable. By having a
23 central HR department establishing and administering key HR policy and

1 management functions while also having field groups that provide more
2 tailored service to the business units, the Entergy Companies are able to
3 operate more efficiently through economies of scale than would otherwise
4 be the case. Charges incurred for administration of the various HR
5 programs are minimized within the Entergy Companies by the creation of
6 one corporate department rather than each legal entity having a separate
7 department, with separate programs. ETI's HR services can be provided
8 with less equivalent employees and without duplication of expertise. ETI
9 also gets the benefit of buying major items, such as its benefit programs,
10 as part of a larger group.

11
12 1. Objective Evidence

13 Q74. IS THERE ANY OBJECTIVE EVIDENCE THAT SUPPORTS YOUR
14 OPINION THAT THE COSTS OF THE HR CLASS IS REASONABLE?

15 A. Yes. The HR department regularly assesses its performance as part of its
16 management and planning processes. The most recent benchmark was
17 produced by the Saratoga Institute and published in 2012 for calendar
18 year 2011. A summary of the results is provided in Exhibit JAR-10. The
19 Saratoga Institute specializes in providing managers with data to assess
20 how personnel and compensation practices contribute to a business's
21 operations.

1 Q75. WHAT IS YOUR CONCLUSION FROM THE SARATOGA INSTITUTE
2 BENCHMARKING STUDY?

3 A. The HR department's costs are reasonable. As demonstrated in
4 Exhibit JAR-10, the Entergy Companies' HR Headcount Ratio, which is
5 the total employee headcount divided by the total HR department
6 employee headcount, is higher than the median (again, median being the
7 50% percentile) for utility companies and for all companies surveyed, and
8 about the same as the median for companies of the Entergy Companies'
9 collective size (10,000 to 25,000 employees). For this survey, a higher
10 number indicates greater efficiency. The Entergy Companies' HR
11 Headcount Ratio is 95, versus Headcount Ratios for the median for utility
12 companies of 85, for all companies surveyed of 88, and for companies of
13 the Entergy Companies' size of 96. Thus, the Entergy Companies' HR
14 Headcount is 11% better than the median of the utility companies, 7%
15 better than the median of all companies surveyed, and about the same as
16 median for companies of the Entergy Companies' size. This indicates that
17 the Entergy Companies' HR department is operating with fewer
18 employees than are other companies.

19 This exhibit also shows that the Entergy Companies' HR cost per
20 employee is reasonable. For 2011, the Entergy Companies' cost per
21 employee is \$1,886 as compared with the median for utility companies of
22 \$2,165, and for all companies surveyed of \$1,610. Therefore, the Entergy

1 Companies' expenditure per employee is between the median of the utility
2 companies and the median for all companies surveyed.

3

4 Q76. IS THERE ANY MORE GENERAL BENCHMARKING SUPPORT IN THE
5 COMPANY'S FILING?

6 A. Yes. Although it does not apply explicitly to my class, Company witnesses
7 Michelle P. Bourg and Stephanie B. Tumminello address benchmarking
8 studies that apply to ETI's costs, which include the cost of HR services.
9 Ms. Bourg addresses benchmarking applicable to ETI total company
10 non-production O&M costs, and Ms. Tumminello addresses benchmarking
11 that applies at the service company (ESI) level.

12

13 2. Budget Planning

14 Q77. DOES THE HR DEPARTMENT HAVE A BUDGETING PROCESS TO
15 CONTROL COSTS?

16 A. Yes. Cost reports are available electronically to department management
17 through various cost reporting systems. Department management
18 reviews actual charges and compares them to the budget. Cost reports
19 compare a department's actual charges to budgeted charges on a monthly
20 and year-to-date basis and provide several ways to review the data,
21 e.g., by project, activity, and resource codes. Each department manager
22 is held accountable for his or her department's budget and must explain

1 variances between actual charges and budgeted amounts. Executive
2 management is also involved in ongoing review of cost reporting.

3

4 Q78. DURING A FISCAL YEAR, DOES THE HR DEPARTMENT MONITOR
5 ITS ACTUAL EXPENDITURES VERSUS ITS BUDGET?

6 A. Yes. Cost reporting allows management at all levels to monitor actual
7 costs in comparison with budget amounts. The controls resulting from
8 detailed budget preparation and cost reporting, combined with ongoing
9 management reviews, ensure that expenses and capital costs are
10 controlled. This control provides assurance that ETI's costs, affiliate and
11 non-affiliate, are reasonable.

12

13 Q79. ARE HR DEPARTMENT EMPLOYEES HELD ACCOUNTABLE FOR
14 DEVIATIONS FROM THE BUDGET?

15 A. Yes. Each department manager is held accountable for his or her
16 department's budget and must explain variances between actual charges
17 and budgeted amounts. Employees' performance objectives include goals
18 for compliance with budgets and control of expenditures.

3. Cost Trends

Q80. PLEASE DISCUSS RECENT TRENDS IN ACTUAL ETI COSTS INCURRED WITHIN THE HR CLASS.

A. Total affiliate O&M charges to ETI for each of the past three calendar years and the Test Year for this class of services are shown in Table 10 below. These charges have been adjusted to remove the MISO and ITC-related costs that the Company is removing from the requested cost of service (as explained by Company witness Considine) as well as the nuclear and gas department codes (as explained by Company witness Tumminello).

Table 10
(Excludes pro forma adjustments except as described above)

| <u>Class</u> | 2010 (\$000s) | 2011 (\$000s) | 2012 (\$000s) | Test Year (\$000s) |
|--------------|------------------|------------------|------------------|-----------------------|
| HR | \$10,043 | \$7,658 | \$8,035 | \$8,383 |

Q81. WHAT EXPLAINS THE VARIATIONS IN THE COSTS FROM YEAR TO YEAR FOR THE HR CLASS?

A. The majority of the costs for these HR Class cost trends are for the long-term incentives, stock options, pension and OPEB. The primary drivers for the cost trend variations are long-term incentives and stock options. These costs are impacted by Entergy Corporation's stock price

1 and total shareholder return, which can fluctuate. It should be noted,
2 however, that the Company is not seeking recovery of the long-term
3 incentives or stock options in this case, and cost trends for just the HR
4 department costs charged to ETI have remained relatively stable since
5 2010 ranging from \$1.2 million in 2010 to \$1.5 million in 2011, \$1.4 million
6 in 2012 and \$1.3 million in the test year.

8 4. Staffing Trends

9 Q82. PLEASE PROVIDE THE STAFFING LEVELS FOR THE HR
10 DEPARTMENT FOR 2010-2012 AND THE TEST YEAR.

11 A. The following table shows, as of December 31st for each of the past three
12 years and as of March 31, 2013 for the Test Year, the staffing levels for
13 the HR Department:

14 **Table 11**

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>Test Year</u> |
|---------|-------------|-------------|-------------|------------------|
| HR Dept | 111 | 149 | 154 | 158 |

15 Q83. WHAT ARE THE REASONS FOR THIS TREND?

16 A. The primary driver in the increased head count for the HR department is
17 the organizational re-assignment of HR employees who were previously in
18 nuclear business units to the ESI HR department. Additionally, over the
19 past several years, the HR department has been adding staff to help with