compliance with the electric reliability standards, directing the department budgets, and establishing and implementing the overall risk management policy for transactions in the power and fuel markets.

Q4. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from Texas A&M University in 1981 with a Bachelor of Business Administration degree in Finance. I am a Certified Public Accountant in the State of Texas, Certificate Number 49910.

I joined Gulf States Utilities Company (subsequently, Entergy Gulf States, Inc. ("EGSI")) in June 1981 as an accountant and worked the next decade in various regulatory-related roles. In January 1994, I joined ESI as Manager, Regulations where I was responsible for coordinating merger-related human resource issues, ensuring the timely and consistent implementation of related policies, and overseeing all merger-related proceedings. In May 1996, I became a Senior Lead Analyst in the Plant Operations Business Support group where I was responsible for preparing financial analyses and performing other business support functions for the Plant Operations organization.

In January 1997, I moved to the SPO, with positions of increasing management responsibility. During my tenure in the SPO thus far, I have been responsible for production costing studies and load and energy forecasts for the Entergy Operating Companies, preparing the

Intra-System Bill and the settlement of gas, oil and power transactions for all Entergy Operating Companies, managing information technology, ensuring compliance with electric reliability standards, coordinating regulatory activities, preparing long-term requests for proposals, negotiating long-term purchased power contracts and power plant acquisitions, and supervising SPO's budget. I assumed my current role in March 2013.

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony presents the Energy and Fuel Management Class of affiliate costs that were billed to ETI during the Test Year by demonstrating:

- that costs included in the Energy and Fuel Management Class of affiliate costs that were billed to ETI during the Test Year were necessary and reasonable;
- that the price charged to ETI for these affiliate services is not higher than the prices charged by ESI for the same item or class of items to other affiliates or non-affiliates; and
- that these costs represent the actual cost of these services, and these services are not duplicated by other entities.

Additionally, I address the organizational and process changes that have occurred and will occur within the SPO organization as the Entergy Operating Companies integrate the functional control of their transmission system into Midcontinent Independent System Operator ("MISO") and

begin participating in the Day 2 market that MISO operates within its footprint. I describe the new processes and functions that the SPO will perform to manage the resource needs of the Companies' customers, as well as changes that will occur in existing processes. I conclude that these changes support an additional 19 full time employees ("FTEs") within SPO at an incremental cost of $3.5 million in ESI affiliate costs over and above the Test Year level of Energy and Fuel Management costs. The ETI portion of these incremental costs is approximately $582,000 for the year for which rates are set in this case (April 2014 through March 2015 – "Rate Year"). Company witness Michael P. Considine also addresses and supports a pro forma adjustment for this incremental amount.

II. THE ENERGY AND FUEL MANAGEMENT CLASS OF COSTS

Q6. WHAT IS THE RELATIONSHIP BETWEEN THE SPO ORGANIZATION AND THE ENERGY AND FUEL MANAGEMENT CLASS OF SERVICES THAT YOU SPONSOR?

A. Exhibits PJC-1 and PJC-2 show the division of affiliate classes. The Generation Function is one of the Functions in the Operations Family of affiliate services (Exhibit PJC-1) and the Energy and Fuel Management Class falls within the Generation Function (Exhibit PJC-2). Within ESI's organizational structure, all of the Test Year expenses relating to the Energy and Fuel Management Class of services relate to tasks performed

by the SPO organization. Furthermore, the SPO is the only organization within ESI or Entergy that performs the services included in this class.

Q7. DO YOU SPONSOR ANY OF ETI'S NON-AFFILIATE COSTS?

A. No. The services I describe, the personnel performing those services, and the associated costs are entirely associated with ESI. ETI does not provide or contract on its own for any of the services I describe; rather, ETI and the other EOCs received these services solely from ESI and, more specifically, from the SPO organization.

Q8. WILL YOU BE ADDRESSING THE COSTS OF THE FUEL, ENERGY AND CAPACITY PRODUCTS PROCURED BY THE SPO ORGANIZATION ON BEHALF OF ETI?

A. No. My testimony addresses only the services provided by SPO for ETI, including the procurement of energy, fuel, and capacity products for the EOCs (including ETI). The reasonableness of the costs for such energy, fuel, and capacity products is addressed by other witnesses.

Q9. PLEASE EXPLAIN HOW THE REMAINING PARTS OF SECTION II ARE ORGANIZED.

A. Section II.A provides a brief description of the SPO organization in place during the majority of the Test Year. In Section II.B, I summarize the total Test Year O&M affiliate charges for the Energy and Fuel Management

Class. In Section II.C, I explain why the costs in this class are necessary. Section II.D explains why these affiliate costs are reasonable, why they meet the "not higher than" standard, and why they represent the actual cost of providing these services. Finally, Section II.E explains how SPO costs are billed to ETI.

Q10. YOU MENTIONED THAT THE ORGANIZATION DESCRIBED IN SECTION II.A BELOW WAS IN PLACE FOR THE MAJORITY OF THE TEST YEAR. PLEASE EXPLAIN.

A. The EOCs, including ETI, will be integrating into MISO on December 19, 2013. The anticipated transition to MISO has required and will require certain organizational, functional, and process changes within the SPO organization, as compared to the Test Year. Certain of the organizational changes – reflected in SPO's current organization – occurred during March 2013, the last month of the test year. My discussion in Section II.A discusses the SPO organization for the first eleven months of the Test Year (sometimes referred to as the organization "during the Test Year"), *prior to* any of the MISO-related changes reflected in the current organization. In Section III, I discuss the current SPO organization (as of the date of the Company's filing), including a description of the MISO-related changes, as well as additional functionalities that will be required. The changes discussed will be in place during the Rate Year. As noted, these changes support an

additional 19 FTEs within SPO, and associated costs, required for the Operating Companies' integration into MISO.

A. The SPO Organization during the Test Year

Q11. WHERE DOES THE SPO FIT INTO ENTERGY'S UTILITY GROUP OPERATIONS?

A. System Planning & Operations is one of several operating departments that compose the Utility Operations Group. During the Test Year, the SPO, led by the Vice President, System Planning and Operations, was staffed by an average of 114 ESI employees who provided services to the EOCs.

Q12. PLEASE PROVIDE AN OVERVIEW OF THE PURPOSE AND ORGANIZATION OF THE SPO DURING THE TEST YEAR.

A. All employees of the SPO organization, which provides the services associated with the Energy and Fuel Management Class of services, are employed to accomplish three distinct, but interrelated tasks.

First, the SPO acquires fuel and fuel transportation services for the EOCs' fossil-fueled generating units. The SPO also procures wholesale purchased power for the EOCs. The fuel purchasing task is one that any utility which operates generating facilities must perform—someone must negotiate for and buy fuel and then arrange for its delivery to the power plants. The SPO performs that function for the Entergy System. Similarly,

every utility has the choice of generating power for itself or buying it from others, and if the choice is to purchase power, someone must negotiate the terms and conditions of power contracts and arrange for the delivery of the purchased power. The SPO performs these functions as agent for the EOCs. Related to these very broad tasks are a variety of complex sub-tasks such as selling excess power when available and ensuring that invoices for power sales are issued and invoices for fuel and power purchases are paid and that contract terms and conditions are fulfilled. The SPO performs these tasks as well.

Second, the SPO dispatches the generation in the Entergy Control Area.[3] Every utility system is required by the North American Electric Reliability Council ("NERC") operating guidelines to either operate a Control Area or make arrangements to be included in a Control Area or a regional transmission organization. The Entergy System currently operates its own Control Area that consists of the service areas of all of the EOCs. The task of dispatching the generation (nuclear and non-nuclear) within Entergy's Control Area is performed by the SPO.

Third, the SPO plans for the future resource requirements of the Entergy System, and manages the procurement of limited and long-term resources pursuant to those plans. Every utility must consider future

[3] The control area is defined to be the geographic area over which the responsible agent is required to match supply to total electric demand at every instant of time, within a tolerance set by the NERC.

system requirements and determine the kinds of resources that it will need in order to meet its prospective obligation to provide reliable and economic power to its customers, and then must procure the supplemental resources identified in the plan. Additionally, regulators and other governmental organizations frequently require electrical utility systems to provide detailed information about their future plans. Someone must develop and implement resource plans and then prepare the documentation, supporting studies and related regulatory filings that are required. The SPO also performs these functions for the EOCs. All three tasks are distinct, but highly interrelated.

In order to accomplish these tasks, during the Test Year, the SPO was divided into seven groups, which are indicated in the organizational chart presented in Exhibit PJC-3. The individuals in charge of each of these groups reported directly to the Vice President in charge of the SPO. The seven groups within the SPO, and a brief description of the services performed by each, are:

(1) Energy Management Organization ("EMO"), which is responsible for planning for and procurement of short-term fuel and purchased power resources to meet Entergy System needs, and the dispatch of the entire Entergy Control Area generation fleet to provide reliable, economic electric service;

(2) Asset Operations group, which is responsible for the procurement of limited- and long-term supply resources to meet the electric utility

needs of the Entergy System and the responsibility for coal commodity and transportation contracts for the System's coal plants;

(3) Planning Analysis group, which is responsible for long-term planning and analysis in support of additional resources required to provide reliable and economic electric service to the EOCs' customers;

(4) Regulatory Affairs and Energy Settlements group, which is responsible for providing business, compliance and regulatory support services to the SPO, developing and managing SPO's budget and cost control initiatives, ensuring that SPO's activities are compliant with the Sarbanes-Oxley Act, and administering the Intra-System Bill associated with the Entergy System Agreement;

(5) Project and Performance Management group, which is responsible for coordinating the development of SPO's business plan and key performance measures, managing the Entergy Continuous Improvement initiative for SPO, overseeing internal approval processes for major SPO projects, and performing special projects as needed;

(6) Strategic Initiatives group, which is primarily responsible for activities associated with SPO's evaluation of future operating environments, including the benefits of participating in an RTO and

now, membership in and the transition of the Entergy System to MISO; and

(7) Power Delivery and Technical Services group which is responsible for managing the SPO's evaluation of transmission deliverability associated with existing or new generating facilities, and managing the SPO's transmission service agreements.

A more detailed description of the services provided by each of these groups and their necessity to ETI's responsibilities as a bundled electric utility are further described below.

B. Overview of Costs – Energy and Fuel Management Class

Q13. WHAT ARE THE TOTAL ETI ADJUSTED TEST YEAR CHARGES FOR THE ENERGY AND FUEL MANAGEMENT CLASS THAT YOU SPONSOR?

A. As shown in Table 1 below, the total affiliate charges for the Energy and Fuel Management Class that I sponsor are $4,084,919. The table shows the following information:

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 PJC-A, PJC -B, and PJC -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.

Table 1: Total ETI Affiliate Charges for the Energy and Fuel Management Class for April 1, 2012 - March 30, 2013

		Total ETI Adjusted		
Class	Total Billings	Amount	% Direct Billed	% Allocated
Energy and Fuel Management Class	$25,790,120	$4,084,919	16%	84%

Q14. WHAT ARE THE MAJOR COST COMPONENTS OF THE CHARGES FOR THE ENERGY AND FUEL MANAGEMENT CLASS?

A. The major cost components are reflected in Table 2 below.

Table 2: Major Components of ETI Affiliate Charges for the Energy and Fuel Management Class for April 1, 2012 – March 30, 2013

Cost Component	Total ETI Adjusted	% of Total
Payroll and Employee Costs	$2,960,058	72%
Outside Services	$604,503	15%
Office & Employee Expenses	$257,135	6%
Service Company Recipient	$269,668	7%
Other	$($6,445)	0%
Total	$4,084,919	100%

Q15. WHAT IS THE PURPOSE OF THIS TABLE AND ITS COST CATEGORIES?

A. I directly sponsor the costs shown in this table because they comprise the Total ETI Adjusted amount for the Energy and Fuel Management Class for

the Test Year. This breakout of costs provides an additional "view" of the components of this class. I also identify other witnesses in this case who also support these costs because they address the corporate structures and practices that underlie these costs. For example, the table demonstrates that 72% of the costs in the Energy and Fuel Management Class are labor-related costs (Payroll and Employee Costs). Company witness Jennifer A. Raeder discusses ESI's overall payroll and benefits-related structure and practices. "Outside Services" reflect the services provided by non-Entergy employees and firms, such as the independent monitors overseeing resource procurement processes. "Office and Employee Expenses" includes: office and general expenses (*e.g.*, paper, postage, and other general office expenses); employee expenses (*e.g.*, car mileage, local travel expenses, training and business travel airfare); moving and relocation expenses (*e.g.*, costs to relocate new and/or existing employees to new job locations); telecommunications expenses (*e.g.*, long distance telephone charges, conference calls, and cellular phone expenses); and rent expenses for ETI. These types of costs are addressed in more detail by Company witness Thomas C. Plauché. Finally, the costs for "Service Company Recipient," which are services that ESI provides to itself, are in turn spread to all affiliates that receive ESI services. Company witness Stephanie B. Tumminello explains this service company recipient process. Other miscellaneous costs and credits are included in the "Other" cost components. My

testimony addresses the necessity and reasonableness of the amounts for these costs.

Q16. PLEASE DESCRIBE THE EXHIBITS THAT SUPPORT THE INFORMATION INCLUDED IN TABLE 1 HEREIN.

A. Attached to my direct testimony are exhibits showing the calculation of the Total ETI Adjusted amount for the Energy and Fuel Management Class. In Exhibit PJC-A, the information is shown broken down by the departments comprising the class. Exhibit PJC-B shows the same information broken down by project code and by the billing method assigned to each project code. Exhibit PJC-C shows the information by class, department and project code. For each exhibit, the amounts in the columns 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)).

In her direct testimony, Ms. Tumminello describes the calculations that take the dollars of support services in Column (E) to the Total ETI Adjusted Numbers shown in Column (H).

Q17. PLEASE DESCRIBE THE "EXCLUSIONS" COLUMN SHOWN IN YOUR EXHIBITS PJC -A, PJC -B, and PJC -C.

A. This column includes items charged to capital accounts, below the line accounts, and other balance sheet accounts. These excluded amounts are discussed in the direct testimony of Company witness Tumminello.

Q18. ARE THERE ANY PRO FORMA ADJUSTMENTS APPLICABLE TO THIS AFFILIATE CLASS?

A. Yes. Pro Formas and their sponsoring witnesses are shown in Exhibit PJC-D.

Q19. PLEASE DESCRIBE THE TYPES OF SERVICES PROVIDED BY THE SPO AND INCLUDED IN THE ENERGY AND FUEL MANAGEMENT CLASS OF SERVICES.

A. Generally, the SPO provides services related to making, accounting for, and defending decisions regarding the procurement of new generation, decisions regarding which System generating units are to be committed and operated, how those units are operated, and how much wholesale energy and fuel is purchased.

As previously discussed, seven major groups comprise the SPO: EMO; Asset Operations; Planning Analysis; Regulatory Affairs and Energy Settlements; Power Delivery and Technical Services; Project and Performance Management; and Strategic Initiatives.

C. Necessity of Services

Q20. WHAT DOES THE EMO DO?

A. The EMO is responsible for planning for and procuring short-term resources to meet customers' needs, and the dispatch of the entire

Entergy Control Area generation fleet to provide reliable, economic electric service. The EMO includes the following major sections and functions:

- The Operations Planning section, which is responsible for the development of monthly, weekly and daily energy plans, as well as the development of generating unit commitment plans, and maintenance schedules, to ensure that reliable and economic supplies of energy are available to the System on a daily basis.
- The Gas, Oil, and Wholesale Power sections, which deal with gas and oil procurement and ensures that the utility's gas and fuel oil supply and transportation agreements are administered in an effective and efficient manner. This section purchases natural gas and fuel oil for delivery to the Entergy System's generating plants that consume natural gas and/or fuel oil. During the Test Year, the Gas and Oil Supply section procured 71.4 million MMBtus of natural gas for ETI's generating plants.[4]

The Wholesale Power section also continuously monitors bulk power markets in order to purchase short term energy when such power is available at a lower cost than the cost of self-generation and to seek opportunities to sell energy off-system for all time periods other than the current 24 hours, which is the responsibility of the Generation Dispatch and Current Day

[4] *See* Schedule I-16.2.

Marketing function. During the Test Year, the Power Marketing section supported the procurement of over 17.6 million MWh of wholesale power on behalf of ETI.[5]

- The Power Transactions & Dispatch section, which is responsible for meeting projected electric demand reliably and at the lowest reasonable cost. Specifically, this section dispatches available generation capacity and other resources to meet the Entergy System's real-time electric demand. This section is also responsible for marketing of excess generation and purchasing additional resources on a real-time basis.

  During the Test Year, the Power Transactions & Dispatch section was responsible for the commitment and dispatch of approximately 4,000 MW of ETI-owned or ETI-allocated capacity on a coordinated basis with the capacity owned by the other EOCs.

- The Operations Support section, which provides support of various planning and regulatory issues that affect real-time dispatch and operations.

Q21. ARE THE SERVICES PROVIDED BY THE EMO NECESSARY?

A. Yes. It is common practice for those utilities that operate a Control Area or procure electric energy from wholesale resources to employ a short

[5] *See* Schedule H-12.4a-g.

term planning function, a dispatch function and a power marketing function in order to achieve the goal of meeting such utility's projected electric demand reliably and at the lowest reasonable cost. Furthermore, it is also common practice for those utilities that operate gas- and oil-fired power plants to have a gas and oil supply function in order to meet their projected gas and oil demand and to ensure that such utility's gas and fuel oil supply and transportation agreements are administered in an effective and efficient manner.

Q22. WHAT DOES THE ASSET OPERATIONS GROUP DO?

A. This group is responsible for the procurement of limited- and long-term fuel and generation resources to meet the electric utility needs of the Entergy System. The Asset Operations group is responsible for the formal Requests for Proposals ("RFP") process by which the Entergy System solicits proposals for purchased power agreements or acquires new or existing power plants. This group also negotiates bi-lateral purchased power agreements when such opportunities arise. Finally, the group also has the responsibility for dealing with issues under the fuel provisions of the Joint Ownership and Operating Agreement governing the Big Cajun II, Unit 3 generating unit.

The Asset Operations group is also responsible for the procurement of coal for the EOCs' coal-fired power plants, administering coal supply contracts and managing the maintenance of the rail car fleet

leased by EGSL and EAI, including the transportation of coal to the Roy S. Nelson Power Plant near Lake Charles, Louisiana (in which ETI is a co-owner), and to the two other coal-fired power plants on the System – the Independence Steam Electric Station and the White Bluff Steam Electric Station in Arkansas.

During the Test Year, this group procured the coal supply and arranged the transportation of approximately 1.8 million tons of coal that were delivered to the Roy S. Nelson plant.[6] Comparably, it also received approximately 810,000 tons of coal during the Test Year for ETI's share of the output of Big Cajun II, Unit 3.[7]

Q23. ARE THESE SERVICES NECESSARY?

A. Yes. Integrated utilities procure limited- and long-term resources to meet the electric utility needs of their customers. It is common practice for utilities to utilize a competitive solicitation process when procuring purchased power or acquiring new or existing power plants to facilitate the utility's procurement of the resource at a reasonable price. It is also common practice for those utilities that operate coal-fired power plants to have a coal supply function in order to meet their projected coal demand and to ensure that such utility's coal supply, railcar maintenance, and coal

[6] *See* Schedule I-16.1.

[7] *See* Schedule I-16.1.

transportation agreements are administered in an effective and efficient manner.

Q24. WHAT DOES THE PLANNING ANALYSIS GROUP DO?

A. The Planning Analysis group is responsible for planning for the long-term resource requirements necessary to provide reliable and economic electric service to the EOCs' customers. That group ensures that the utility's generation and wholesale transactions resources are planned pursuant to consistent and accepted planning criteria. Specifically, this group is responsible for the development of long-term Strategic Resource Plans, which result in the matching of the Entergy System's long-term projected load and resources. In addition to the analysis of potential resource acquisitions, the Planning Analysis group performs long-term fuels planning and analysis, peak load forecasting, and production cost forecasting.

During the Test Year, the Planning Analysis group developed capacity and energy plans that support ETI's objective to achieve the lowest reasonable energy costs for its customers consistent with the Entergy System Agreement and known and reasonably anticipated System conditions.

Q25. ARE THE SERVICES PROVIDED BY THE PLANNING ANALYSIS GROUP NECESSARY?

A. Yes. It is common practice for those utilities that have an obligation to provide reliable generation supplies to customers to employ a long-term planning and analysis function in order to achieve the goal of meeting such utility's projected electric demand at a reasonable cost and to ensure that such utility's generation and wholesale transactions resources are planned pursuant to consistent and accepted planning criteria.

Q26. WHAT DOES THE REGULATORY AFFAIRS AND ENERGY SETTLEMENTS GROUP DO?

A. The Regulatory Affairs and Energy Settlements group is responsible for providing business and regulatory support services to the SPO, and, in turn, for the EOCs. These services include bulk power energy accounting, administering the Intra-System Bill associated with the Entergy System Agreement and the administration and accounting related to wholesale energy and fuel invoices.

During the Test Year, fuel and electricity-related invoices totaling approximately $1.9 billion, were verified and processed by the Energy Analysis and Reporting section to ensure proper payment and/or billing. The group prepared numerous reports required by federal and state administrative agencies and assisted in the preparation of monthly estimated and actual accounting entries for ETI. These services provide

benefits to ETI's customers by providing to internal and external groups accurate and timely fuel and energy data and invoice processing in a cost effective manner.

The Regulatory Affairs and Energy Settlements group also supports the filing requirements of various state and federal regulators, develops and manages SPO's budget, including the monitoring of related activities and costs, and identifies and implements cost control initiatives. Lastly, the Regulatory Affairs and Energy Settlements group monitors compliance with the electric reliability standards for SPO and ensures that SPO's activities are compliant with the Sarbanes-Oxley Act.

Q27. ARE THE SERVICES PROVIDED BY THE REGULATORY AFFAIRS AND ENERGY SETTLEMENTS GROUP NECESSARY?

A. Yes. It is common practice for those utilities that operate power plants, buy and sell electricity, and operate in a multi-jurisdictional and multi-utility environment as part of a larger combined system concept, to maintain an organization to provide: (1) business and regulatory support services; (2) bulk power energy accounting; (3) administration of billing associated with the combined system; (4) administration and accounting related to wholesale energy and fuel invoices, for the purpose of enhancing the efficiency and effectiveness of the other fuel, energy and dispatch related functions; and (5) a compliance function to ensure compliance with the electric reliability standards.

As part of the overall management of SPO's fuel and energy management activities the budgeting and cost control measures provided by the SPO Regulatory Affairs and Energy Settlements group helps ensure the reasonableness and necessity of the costs incurred and that such expenditures are managed within the approved budget.

Q28. WHAT DOES THE PROJECT AND PERFORMANCE MANAGEMENT GROUP DO?

A. The Project and Performance Management group is responsible for:

- coordination of the development of SPO's business plan and key performance measures; and
- oversight of the internal approval processes for major SPO projects and performing special projects as needed.

This group is also responsible for overseeing the Entergy Continuous Improvement ("ECI") initiative for SPO that I discuss later in my testimony.

Q29. ARE THESE SERVICES NECESSARY?

A. Yes. The efficient and cost effective performance of the necessary fuel and energy management activities enumerated earlier in my testimony requires attention to the performance measures provided by the SPO Project and Performance Management group.

Q30. WHAT DOES THE STRATEGIC INITIATIVES GROUP DO?

A. This group was formed for the purpose of focusing on and supporting several key initiatives facing the regulated Operating Companies, primarily the activities related to the evaluation of future operating environments, including the benefits of participating in an RTO, and now, membership in and the transition of the Entergy System to MISO.

Q31. ARE THESE SERVICES NECESSARY?

A. Yes. The System's decision to join an RTO – specifically, MISO – has far-reaching implications for how the Operating Companies will plan and operate their generation systems. The Strategic Initiatives group is responsible for evaluating issues and situations that will affect future operations, and the Strategic Initiatives group will play a key role in ensuring ETI's future operations are consistent with reliable and economic service.

Q32. WHAT DOES THE POWER DELIVERY AND TECHNICAL SERVICES DO?

A. The Power Delivery and Technical Services group is responsible for managing the SPO's evaluation of transmission deliverability associated with existing or new generating facilities, and managing the SPO's transmission service agreements.

Q33. ARE THESE SERVICES NECESSARY?

A. Yes. The separation of the merchant and transmission functions directed by the FERC requires that the SPO have the ability to study and manage transmission service associated with the System's existing and proposed generating resources.

D. Reasonableness of Energy and Fuel Management Charges

Q34. PLEASE DESCRIBE THE STAFFING LEVELS ASSOCIATED WITH THE ENERGY AND FUEL MANAGEMENT CLASS OVER THE PERIOD 2008 THROUGH THE TEST YEAR.

A. SPO's staffing levels for 2010, 2011, 2012 and the Test Year is reflected in Table 3 below.

Table 3: SPO Headcount

2010	2011	2012	Test Year
116	117	115	114

Q35. HAS SPO PERFORMED ANY BENCHMARKING TO SUPPORT THE REASONABLENESS OF ITS COSTS?

A. No, but as discussed by Company witness Michelle P. Bourg, the Company has provided benchmarking analysis of total Company non-production O&M costs, including A&G costs, which include SPO costs. Company witness Tumminello also addresses benchmarking that applies

at the service Company (ESI) level. These analyses further support the reasonableness of costs in the Energy and Fuel Management Class.

Q36. WHAT WERE THE ACTUAL COST TRENDS FOR THE ENERGY AND FUEL MANAGEMENT CLASS FOR THE LAST THREE YEARS AS COMPARED TO THE TEST YEAR?

A. Table 4 below presents the total affiliate O&M costs allocated to ETI for the class as a whole for the last three years and the Test Year. These charges have been adjusted to remove the MISO and ITC-related affiliate 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 4: Energy and Fuel Management Cost Trends (Excludes pro forma adjustments except as described above)

2010	2011	2012	Test Year
$3,310,212	$4,475,271	$4,617,675	$4,434,176

Q37. WHAT DO THESE COST TRENDS REFLECT?

A. These cost trends reflect a reasonable change in overall costs for the class from 2011 through the Test Year. The year-to-year variances during these periods largely reflect changes in payroll due to the number of employees on board at any one point in time and vacancies year over

year. As mentioned earlier, SPO's expenses (~72%) are largely driven by payroll and employee benefit expenses.

The change between 2010 and 2011 was due to the following. Beginning in 2011, SPO engaged in a request for proposals and negotiated contracts dedicated to ETI's resource needs. Outside service expenses (for legal and RFP monitor expenses) and SPO payroll allocated to ETI increased by approximately $758,000. In addition, in 2010, SPO maintained its own information technology group which was then made a part of a centralized IT group outside of SPO in 2011. For 2010, almost $91,000 of SPO expenses were adjusted out of SPO and placed in the Information Technology function. The combined increase of the dedicated SPO payroll and outside services and the IT expenses constitutes 73% of the variance between 2010 and 2011. The remainder of the difference is other payroll increases and compliance expenditures.

Q38. PLEASE DESCRIBE THE WORKLOAD FACED BY THE SPO.

A. SPO workload continues to increase significantly and is appropriate to consider when evaluating the reasonableness of its overall costs. Efforts continue with respect to the transformation of the EOCs' generation portfolios and the procurement of additional resources. Since the last rate case, SPO's focus has been primarily on the impending move to MISO as well as the additional complexities related to the planned exit of EAI and EMI from the System Agreement, effective 2013 and 2015. Both of these

events require SPO's planning teams to consider and plan for a wider array of possible outcomes while the overall SPO organization prepares to incorporate new structures and processes. Finally, as is the case with other similarly situated utilities, SPO continues to face and respond to increases in regulatory compliance requirements. This increasing workload further supports the reasonableness of costs in this class.

Q39. DOES THE SPO HAVE IN PLACE A BUDGETING PROCESS TO CONTROL COSTS?

A. Yes. The SPO undergoes an extensive annual budget preparation and review process. Within this process, a proposed budget is finalized for the following year. As an input to the budget, the SPO is allocated a certain percentage increase in wages for the organization's employees. This allows for the flexibility to reward individual performance in any given year, but also ensures that total labor costs continue to track labor market conditions. Further, non-labor costs are reviewed for necessity and cost effectiveness. Annual budgets are prepared within SPO, approved by SPO executive management, corporate management and, ultimately, the board of directors of Entergy Corporation.

Q40. IS COMPLIANCE WITH THE BUDGET MONITORED?

A. Yes. SPO management continually monitors incurred expenses against budget, and frequently approves expenses prior to expenses being

incurred. For example, the SPO management generally pre-approves employee training (*e.g.*, seminars, travel) prior to an employee's registration for such training. Likewise, most employee business travel is also discussed and approved by SPO management prior to travel costs being incurred. Additionally, on a monthly basis, the SPO expenditures are reviewed by executive management to ensure that they are on track with the annual budget. To the extent that there are deviations within the budget year, discretionary projects may either be advanced or postponed, with the approval of the SPO executive management, to ensure that the SPO expenditures are reasonable.

Q41. ARE SPO EMPLOYEES HELD ACCOUNTABLE FOR DEVIATIONS FROM BUDGET?

A. Most employee expenses are pre-approved by the appropriate level of SPO management. Any significant unbudgeted cost must be pre-approved by the Vice President, System Planning and Operations. Adherence to budget is a priority for all SPO staff. Compliance with approved budgets is also included in the performance goals of the employees.

Q42. HAS SPO UNDERTAKEN OTHER MEASURES OR INITIATIVES TO ENSURE THAT ITS COSTS ARE REASONABLE?

A. SPO, on an ongoing basis, actively seeks to discover new ways to improve processes within the organization through the ECI initiative, a process which also is overseen by the Project and Performance Management group and which encourages employees to seek out areas where practices, processes and procedures related to their organizations can be improved upon to enhance effectiveness and efficiency. Improvements identified through the ECI process often result in reduced costs.

E. Billing of Energy and Fuel Management Charges

Q43. HOW ARE SPO'S COSTS BILLED TO ETI?

A. Please refer to Exhibits PJC-B and PJC-C. These exhibits show all the costs included in the Energy and Fuel Management Class by project code and reflect the ESI billing method assigned to each project code.

The affiliate billing process is explained by Company witness Tumminello. Where appropriate, costs are billed directly to ETI and other affiliates. Costs that are billed directly to ETI reflect the fact that certain Energy and Fuel Management Class activities are for the specific benefit of ETI. Only when incurred costs benefit more than one of the EOCs are such costs billed through an allocation. With respect to the Energy and Fuel Management Class, some costs are billed to ETI through an

allocation, which reflects the fact that more than one of the EOCs benefited from the services delivered. Therefore, ESI costs are billed to ETI both directly and through various allocation methods.

Q44. ON WHAT BASIS ARE COSTS OF THESE ENERGY AND FUEL MANAGEMENT SERVICES BILLED?

A. Each ESI affiliate class of service, including the Energy and Fuel Management Class, uses one or more project codes. As Company witness Tumminello explains, only one billing method is assigned to each project code. Several organizations may bill to a single project code. However, the billing method for each project code remains the same, regardless of which organization charges to that project code. A billing method is selected based on cost causation. This procedure ensures that the price charged to ETI for the services is no higher than the price charged to other affiliates for the same or similar services, and represents the actual cost of the services.

Q45. PLEASE EXPLAIN WHAT IS REFERRED TO BY COSTS BEING "BILLED DIRECTLY" OR "ALLOCATED?"

A. Affiliate charges are incurred by ETI when ESI employees or employees of other affiliate companies provide services to ETI. Affiliate costs are charged to ETI through one of two methods. The costs are either billed directly to ETI or the costs are allocated to ETI based on the primary cost

driver of the activity or project. The SPO function has consolidated, on a system-wide basis, those activities that are common to all EOCs for which scale and scope efficiencies can be realized. I will use the example of Planning Analysis to explain whether an ESI charge will be billed directly to ETI or allocated to ETI. If a Planning Analysis employee is working on a specific ETI project, such as a Texas fuel reconciliation, then ETI is the only EOC that benefits from this regulatory activity and all of the resulting costs will be billed directly to ETI. Conversely, if the same Planning Analysis employee was working on the Integrated Resource Plan for the Entergy System, all EOCs would benefit and the resulting costs would be allocated based on the primary cost driver – in this case, the load responsibility ratio. These rules apply to all of the work performed by SPO employees.

Q46. HOW DID SPO DETERMINE WHICH ENTITY SHOULD BE BILLED?

A. As a necessary part of accurately apportioning costs to the various Entergy affiliates, a billing method is assigned to each project code that first identifies the entities to which the cost is to be apportioned. When a project code is established, a billing method is selected by SPO based on the factors driving SPO to incur the expense; these factors are frequently referred to as "cost drivers." The billing method that is initially assigned by the staff member is reviewed for appropriateness by SPO management. In addition, billing methods assigned to project codes also are reviewed

periodically by budget coordinators and SPO management for appropriateness. Each SPO project code has only one billing method assigned to it and the billing method is selected to ensure that every affiliate receiving service receives the appropriate allocation. Therefore, the costs of all services performed under a project code are allocated among the EOCs using the same criteria, at cost without profit or markup. The use of a single billing method for each project code ensures that all EOCs causing costs to be incurred and benefiting from the service pay an appropriate proportion of the costs. It also ensures that the EOCs are, in total, charged no more and no less than one hundred percent of the costs for services provided under the project code. Finally, the use of a single billing method, which is assigned based on cost causation principles, ensures that each EOC is paying the same price for the same service, and, that the prices charged to ETI are no higher than the prices charged by ESI to the other EOCs for similar services.

Q47. PLEASE DESCRIBE THE PREDOMINANT BILLING METHODS EMPLOYED IN THE ENERGY AND FUEL MANAGEMENT CLASS OF SERVICES.

A. The predominant billing methods for the Energy and Fuel Management Class are "LOADOPCO" (allocated on Responsibility Ratio) and "DIRECTTX" (100% direct billed to ETI). These billing methods make up

92% of the billings to ETI for the Energy and Fuel Management Class. "LOADOPCO" makes up 76%, and "DIRECTTX" makes up 16%.

Q48. WHY IS BILLING METHOD "LOADOPCO" APPROPRIATE FOR CERTAIN ENERGY AND FUEL MANAGEMENT EXPENSES ALLOCATED TO ETI?

A. The majority of SPO services relate to the procurement, planning, commitment, settlement and dispatch of the Entergy System's generating resources and its wholesale power transactions. Accordingly, for the majority of SPO's services, it is appropriate to apportion the corresponding cost in a manner that relates the need of the EOC for resources and the above related services to the need of the Entergy System as a whole. "LOADOPCO," which is based upon the Responsibility Ratio (the ratio of each EOC's load at the time of the Entergy System peak load to the Entergy System's peak load),[8] accomplishes this. For instance, Project Code F3PCW15830 captures costs associated with planning activities performed for the Entergy System and the EOCs. Associated costs are driven by the load responsibility ratio of each of the System's generating plants. Accordingly, "LOADOPCO," which apportions cost based on load responsibility ratio, is an appropriate billing method for this type of project.

[8] Responsibility Ratio is a defined allocator in the Entergy System Agreement.

Q49. WHY IS BILLING METHOD "DIRECTTX" APPROPRIATE FOR THE ENERGY AND FUEL MANAGEMENT EXPENSES ALLOCATED TO ETI?

A. "DIRECTTX" bills cost 100% to ETI and is appropriate when the services performed relate directly to and benefit only ETI. For example, Project Code F3PPWET306 captures costs associated with the 2011 Western Region RFP as part of the resource planning process for ETI. The associated costs are caused by and are directly related to ETI, and are therefore assigned to ETI, pursuant to billing method DIRECTTX.

Q50. YOU HAVE ADDRESSED THE DIRECT COSTS AND ALLOCATED COSTS USED TO BILL 92% OF THE TOTAL ETI ADJUSTED AMOUNT ASSOCIATED WITH THE ENERGY AND FUEL MANAGEMENT CLASS. WHY HAVE YOU NOT SPECIFICALLY ADDRESSED THE REMAINING 8% OF THE COSTS OF THIS CLASS?

A. The remaining costs are billed through a number of other project codes and billing methods. Given the number of billing methods, project codes and relative dollar amounts, I have not gone into detail in this discussion in an effort to keep the discussion at a manageable level. However, the project codes and billing methods used to bill the remaining costs in this class are provided in my Exhibits PJC-B and PJC-C. A reader may reference these exhibits and then refer to the specific project code summary contained in exhibits to the testimony of Company witness

Tumminello for a discussion of the particular billing method used and the cost drivers for the activities captured in the particular project code.

Q51. HAVE YOU DETERMINED THAT THE COSTS REFLECTED IN THE REMAINING 8% OF COSTS ASSOCIATED WITH THIS CLASS HAVE BEEN BILLED APPROPRIATELY?

A. Yes, I have reviewed each of the project codes and the associated billing methods used to bill the remaining 8% of the costs of this class. The cost drivers reflected in the billing method used to bill the costs of each project code are consistent with and reflect the cost drivers of the services captured in each respective project code. Therefore, the costs billed to ETI reasonably reflect the costs of the services received by ETI and are no higher than the costs charged to other EOCs for the same or similar types of services.

Q52. DO ANY OTHER ENTITIES DUPLICATE THE ENERGY AND FUEL MANAGEMENT CLASS OF SERVICES?

A. No. The SPO is the only group within Entergy that provides the Energy and Fuel Management Class of services. ETI does not duplicate these services.

III. MISO-RELATED CHANGES AND INCREMENTAL COSTS

Q53. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. In this section, I support ETI's request for an incremental $582,000 in ESI costs based on an additional ESI total amount of $3.5 million per year. This amount is associated with an incremental 19 FTEs needed within SPO to support EOC's integration into MISO, scheduled to occur on December 19, 2013. I describe the MISO-related organizational, functional and process changes that have occurred within the SPO organization since the Test Year and which will remain in place during the Rate Year. I also address additional functionalities that will be required.

Q54. WILL THE SPO'S SERVICES BE NECESSARY AFTER THE OPERATING COMPANIES INTEGRATE INTO MISO?

A. Yes. The services currently performed, and described above, will continue to be necessary, albeit with certain modifications, which I describe in this section of my testimony.

A. MISO-Related Changes within SPO

Q55. WHAT CHANGES HAVE BEEN MADE TO THE SPO ORGANIZATION SINCE THE TEST YEAR IN ORDER TO PREPARE FOR MISO?

A. The SPO is still organized into seven groups. Certain of these groups are the same as in the Test Year. Others have been changed and one new

group has been added. The seven groups which currently make up the SPO are:

- EMO;
- LMM Operations;
- Commercial Operations;
- Planning Analysis;
- Mid-Office and Energy Settlements;
- Regulatory and Strategic Initiatives; and
- Power Delivery and Technical Services.

Q56. HOW DO THESE GROUPS RELATE TO THE SEVEN GROUPS IN PLACE DURING THE TEST YEAR?

A. As can be seen, three of the seven groups are the same as in the Test Year: EMO, Planning Analysis, and Power Delivery and Technical Services. The previous Project and Performance Management group is no longer a separate group and, instead, is now part of the Commercial Operations group, which was previously named the Asset Operations group. The regulatory affairs function, previously included in the Regulatory Affairs and Energy Settlements group, is now part of the Regulatory and Strategic Initiatives group, leaving Energy Settlements as a separate group.

The LMM Operations group is a new group in name and function. This group will be responsible for monitoring system conditions, collecting and verifying meter data provided to MISO, coordinating balance authority functions in emergency plans and procedures, and providing stakeholder outreach to embedded entities and industry groups. As I explain below, the functions performed by this group have been transferred from Entergy's Transmission organization to the SPO. I discuss the cost implications of this transfer below.

Q57. WILL THE INTEGRATION INTO MISO RESULT IN OVERARCHING FUNCTIONAL CHANGES FOR THE SPO ORGANIZATION THAT WILL AFFECT THE RESPONSIBILITIES OF THESE SEVEN GROUPS?

A. Yes. The SPO will function in a structure that comprises three primary "offices" – front, middle, and back – as well as a general SPO support function. Each of these offices will engage in a discrete aspect of the MISO market (*e.g.*, operations, credit and compliance, and market settlements), and will allow the SPO to maintain the appropriate level of functional independence, separation of origination and settlement functions, and accountability.

Q58. CAN YOU PROVIDE A GENERAL MAPPING AS TO HOW THE EXISTING SPO FUNCTIONS WOULD FIT INTO THIS THREE-OFFICE AND GENERAL SUPPORT STRUCTURE?

A. Yes. Such a mapping is depicted in the following Table 1:

Table 1
Functional Mapping of SPO Organizations

	Front Office	Middle Office	Back Office	SPO Support
EMO	✓			
LMM Operations	✓			
Commercial Operations	✓			✓
Planning Analysis	✓			
Mid-Office & Energy Settlements		✓	✓	✓
Regulatory Affairs and Strategic Initiatives				✓
Power Delivery & Technical Services	✓			

In the discussion that follows I provide additional information regarding these three offices. I also discuss the MISO-related changes to the functions and responsibilities of the seven SPO groups for supporting the office(s) to which they are assigned. I focus on those changes requiring additional staffing.

1. Front Office

Q59. PLEASE PROVIDE ADDITIONAL DISCUSSION REGARDING THE FUNCTION OF THE FRONT OFFICE ONCE THE OPERATING COMPANIES HAVE INTEGRATED INTO MISO.

A. Currently, the SPO has a responsibility to commit and dispatch all of the resources of the Operating Companies to reliably and economically serve the consolidated loads of the Operating Companies. In the MISO

markets, the SPO (as well as other market participants) will bid load and offer resources into the market. MISO will then consolidate all of that information into a single coordinated economic dispatch, and it will disseminate information regarding the results of that economic dispatch to all of the market participants on a day-ahead basis, so that market participants may make their next-day operating decisions.[9] Similarly, in real-time operations, MISO will be sending price signals and set-points to all of the resources that are participating in the coordinated economic dispatch based on a real-time security constrained economic dispatch model.

The SPO (EMO) will retain responsibility for the actual commitment and dispatch of the Operating Companies' resources, based on those price signals (including both the System Agreement Operating Companies on a collective basis and, separately, those Operating Companies that are not part of the System Agreement). Accordingly, EMO will continue to maintain a dispatch center that operates around the clock for: monitoring real-time conditions; evaluating dispatch instructions from MISO and adjusting them when necessary; and substituting generating units for those previously offered to MISO when appropriate.

[9] Nothing in this testimony should be construed to imply that, upon MISO integration, generating units owned by the Companies will not be controlled and dispatched by the EMO.

Further, ESI will serve as a Local Balancing Authority ("LBA") within MISO and, in that capacity, maintains responsibility for reliability within the LBA area. As further addressed below, the functions and staffing associated with the LBA responsibilities were previously incorporated within the Entergy Transmission organization and have been transferred into the SPO. The LMM Operations function will be responsible for the LBA activities.

Q60. WHAT CHANGES ARE REQUIRED TO THE FUNCTIONS AND STAFFING OF THE ENERGY MANAGEMENT ORGANIZATION?

A. First, there will be changes in forecasting. Currently, the forecast is prepared for the overall Entergy System. However, upon entry into MISO, each Operating Company's load will be bid separately into the MISO Day-Ahead energy market, which will necessitate the preparation of short-term load forecasts for each Operating Company. Also, the load forecasting software will have to be expanded from the current single area model to six areas.

Changes in the current-day operations section of the EMO will include upgrading the Generation Management System ("GMS") to operate in the MISO organized market instead of the current bilateral

market.[10] In addition, the existing production costing software that is designed for use in the current bilateral market will be replaced with new software that is designed for use in the MISO organized market. Because the MISO market runs every day of the year compared to the current bilateral market, which runs only on business days, and each MISO business day extends for about 14 hours, additional staff will be needed to accommodate this change. Altogether, an additional three FTEs are planned for the current day operations.

Changes in the next day operational planning function of the EMO will include replacing the existing production costing software that is designed for use in the current bilateral market with new software that is designed for use in the MISO organized market. This, too, is a fairly major change and will require extensive testing and training for next day operations staff. In the current bilateral market, the power marketing area is focused on discovering the price and availability of bilateral power transactions, consummating transactions, and scheduling transmission for these "physical" schedules. While the power marketing area will continue to monitor opportunities for physical transactions in the MISO market, it is expected that MISO market transactions will largely supplant bilateral physical transactions of one year or less. The power marketing area will

[10] The GMS is an integrated computer and communications system that manages the real-time operations of the generation system.

be the main group responsible for submitting the bids for the Entergy Operating Companies' loads. Additionally, the power marketing area will submit "financial schedules" to MISO for a large group of transactions to facilitate settlement associated with these transactions.[11]

The Weekly Operations function now centers around the Weekly Procurement Process ("WPP"), which is discussed in Attachment V to the Entergy Open Access Transmission Tariff ("OATT"). The OATT will be cancelled upon entry into MISO, and will be superseded by the MISO Tariff. As a result, the WPP will effectively expire and not be replaced.

Q61. ARE ANY CHANGES EXPECTED IN GAS PROCUREMENT?

A. Yes. Entering the MISO Markets will result in a change in the timing of gas procurement decisions vis-à-vis decisions related to unit commitment and dispatch. Additionally, in the event MISO's day-ahead market operations produce a unit commitment and generation schedule that differs from those projected by the models that were used to procure gas, EMO will need to arrange to deal with excess gas (*e.g.,* place it into storage, reschedule it, or sell it); additional gas may have to be bought, nominated and scheduled; and/or EMO will exercise its discretion to deviate from MISO's schedule. An additional four FTEs are planned to

[11] Financial schedules are used in MISO to transfer the generation credits from one Market Participant to another, typically in the case of a bilateral capacity/energy purchase between Market Participants or in the case of a co-owned generating unit.

address the increased workload associated with the changes in purchasing, nominating and scheduling practices. This increase will also include personnel who will be available on Saturdays and Sundays and after regular business hours to cover the longer MISO day.

Q62. WHAT CHANGES ARE NEEDED IN THE POWER DELIVERY AND TECHNICAL SERVICES FUNCTIONS IN THE FRONT OFFICE?

A. Changes in Power Delivery and Technical Services are similar to the changes noted in some of the EMO groups, where the focus of operations will change from transactions in the current bilateral market to operating in the MISO organized market under the MISO Tariff. For example, with the replacement of the Entergy OATT by the MISO Tariff, all transmission service requests managed by Power Delivery and Technical Services will be made to MISO. Likewise, all congestion management analysis will shift from the current physical rights analysis to analysis of marginal congestion costs included in locational marginal prices. This change will also require nominating, acquiring, and managing Auction Revenue Rights ("ARRs") and Financial Transmission Rights ("FTRs"). Currently, five FTEs perform this function and two additional FTEs are planned.

Q63. WHAT CHANGES ARE NEEDED IN PLANNING ANALYSIS?

A. Planning Analysis will adjust its focus for resource planning to meet the MISO requirements. This requires the application of new software that is

designed for the MISO organized market. Because the general resource planning work in the MISO market is similar to the work in the current bilateral market, the current expectation is that no additional staff will be required. The details associated with the MISO market are different and will require significant training in advance of Day 1 operations in MISO.

SPO expects to pursue the strategy of meeting MISO's resource adequacy requirements through execution of the Mid-Term Supply Plan ("MTSP"). The MTSP will determine the capacity short position, if applicable, that must be managed over a duration defined in the plan (which is expected to be three years or longer). The MTSP will also outline the products that may be purchased to close the short position. The approved MTSP is also expected to provide guidance regarding execution of potential transactions (*e.g.*, purchase of capacity credits, tolling agreements, etc.). The MTSP will also inform the execution of transactions (*e.g.*, Power Purchase Agreements) associated with managing long-term energy positions. Participation in MISO's voluntary capacity auction may be an alternative used by the Operating Companies to close any capacity short position.

Q64. WHAT CHANGES ARE EXPECTED IN THE COMMERCIAL OPERATIONS GROUP?

A. After the Operating Companies join MISO, the procurement of long-term resources, including coal and coal transportation is expected to continue

with relatively minor changes from the current practice. Additionally, the functions of performance management, previously discussed, are also expected to continue with relatively minor changes.

Q65. PLEASE PROVIDE ADDITIONAL DETAIL REGARDING THE NEWLY INCORPORATED LMM GROUP WITHIN THE SPO?

A. After MISO assumed the role of Reliability Coordinator for the Entergy Transmission System on December 1, 2012, the Entergy Transmission System needed to maintain certain functionalities associated with operating a LBA. The LBA function is now in the newly formed LMM Operations group of SPO.

In addition, the MISO market structure processes require the use of Meter Data Management Agents ("MDMA") and Meter Data Quality ("MDQ") functionality. This functionality is required to perform the acquisition, aggregation, quality assurance, and reporting of the detailed hourly nodal data that is required in the MISO settlement process. In the past, some of the functions associated with MDMA/MDQ functions were performed by ESI, although those functions were spread throughout various organizations and may have operated at a different scope than will be necessary within MISO. These functions will now be aggregated in the LMM group at SPO.

In summary, for the performance of new LBA and MDMA/MDQ functions, the SPO will require new resources, in addition to those that I

have described above, when the design of those functions is finalized. Those new resources are incremental to SPO but not ESI, and, as explained below, will likely not include additional staffing, and therefore will not add to the costs requested for SPO in this filing.

Q66. WHAT ARE THE IMPLICATIONS ON THIS FILING OF LBA AND MDMA/MDQ RESOURCES BEING "INCREMENTAL TO SPO BUT NOT TO ESI"?

A. The level of base rates requested in the Company's filing does not include the rate effect of the completed transaction that was the subject of the Company's request in PUC Docket No. 41223 ("ITC transaction"). As such, costs associated with Energy Delivery employees (the Entergy Transmission organization) remain in the Company's rates requested in this case. Consequently, costs associated with Energy Delivery employees, infrastructure and systems required to perform the LBA/MDMA function – which are being transferred to the LMM Operations group within the SPO organization – are already in the Company's current rates. While incremental to SPO costs, they are not incremental to ESI's (or ETI's) overall costs.[12]

[12] The rate effect of a completed ITC transaction will be reflected in a Transmission Rider discussed in the testimony of Company witness Jay A. Lewis.

2. Middle Office

Q67. PLEASE PROVIDE ADDITIONAL DISCUSSION REGARDING THE FUNCTION OF THE MID-OFFICE ONCE THE OPERATING COMPANIES HAVE INTEGRATED INTO MISO.

A. The primary focus of the middle (or mid-) office is risk and credit management, reporting, and compliance. The mid-office will establish and implement the overall risk management policy for transactions in the power and fuel markets. The mid-office will also have the overall responsibility for compliance with the rules and regulations promulgated by the FERC, NERC, and regional reliability entities. An additional three FTEs are expected to be required to accomplish these tasks.

Participants in MISO must maintain minimum risk management requirements in order to transact in the market. Those requirements – all of which will be managed by SPO – can be categorized as risk control, credit risk, and market risk activities. MISO's business practices require that entities like ETI demonstrate an effective mid-office program that includes:

1. a formal risk policy addressing market, credit and liquidity risks, which policy must be approved by a group independent of the commercial front office organization;
2. an organizational structure that segregates commercial activity from the risk management function;
3. the delegation of authorized trading activity;