Entergy Arkansas, Inc., Third Revised Rate Schedule FERC No. 94
Entergy Gulf States Louisiana, L.L.C., Rate Schedule FERC No. 181
Entergy Louisiana, LLC, Third Revised Rate Schedule FERC No. 69
Entergy Mississippi, Inc., Third Revised Rate Schedule FERC No. 262
Entergy New Orleans, Inc., Third Revised Rate Schedule FERC No. 8
Entergy Texas, Inc., Rate Schedule FERC No. 181

Original Sheet No. 75

This Service Schedule MSS-6 shall be attached to and become a part of the Agreement dated the 23rd day of April, 1982 and shall be effective with said Agreement or at such later date as may be fixed by any requisite regulatory approval or acceptance for filing.

Attest

ARKANSAS POWER & LIGHT COMPANY

Original signed by
R. J. Estrada
Assistant Secretary

Original signed by
Jerry Maulden
President

Attest

LOUISIANA POWER & LIGHT COMPANY

Original signed by
W. H. Talbot
Secretary

Original signed by
J. M. Wyatt
President

Attest

MISSISSIPPI POWER & LIGHT COMPANY

Original signed by
R. J. Estrada
Assistant Secretary

Original signed by
D. C. Lutken
President

Attest

NEW ORLEANS PUBLIC SERVICE INC.

Original signed by
William C. Nelson
Secretary

Original signed by
James M. Cain
President

Issued by: Kimberly Despeaux
Associate General Counsel

Effective: November 22, 2008

Issued on: November 21, 2008

Filed to comply with unpublished letter order of the Federal Energy Regulatory Commission, Docket No. ER08-460, issued April 22, 2008.

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Original Sheet No. 76

SERVICE SCHEDULE MSS-7

MERGER FUEL PROTECTION PROCEDURE

70.01 Purpose

This Service Schedule provides a procedure for protecting the participating Companies from incurring higher fuel and purchased power costs as a result of the merger with Gulf States. For a Company which incurs an increase in its fuel costs as a result of the merger, the increase in cost will be transferred back to the companies obtaining fuel savings in proportion to those savings, in accordance with the following provisions.

70.02 Participating Companies

Companies covered by this Service Schedule shall include Gulf States and any other Company notifying the Operating Committee prior to the first calculation performed pursuant to 70.03 of its intent to participate and that its participation has the approval of the regulatory agency with jurisdiction over the Company's retail rates. Any Company directed to participate by its retail regulator shall do so.

70.03 Calculation Procedure of Fuel Cost Changes

Each year after the effective date of the Entergy-Gulf States Merger (Merger), merger-related fuel cost changes (MRFC) will be Calculated for each Company in accordance with 70.05. The MRFC will be used to calculate a Cumulative Fuel Change Balance (CFCB) for each Company, as follows:

Year ending CFCB = (Year beginning CFCB x (1 + i)) + MRFC)

where: i = the average yield on ten-year U.S. Treasury Notes for the year just ended.

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Associate General Counsel

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At the end of each of the years prior to the final year, if the CFCB is negative for one or more Companies and positive for one or more Companies, then 50 percent of the Company's positive CFCB (i.e., higher fuel costs due to the merger) shall be transferred to the CFCB of the Company or Companies with a negative balance. At the end of the tenth year (or such shorter period of time as set forth in Section 70.04) of this procedure, the above procedure will apply except that the full amount (100%) of a positive CFCB will be transferred subject to the limitation that such transfer does not cause the CFCB to become positive for another Company. For the Companies receiving the transferred amount, the transfer shall be allocated in proportion to each Company's percentage of the total of the negative balances of the participating companies.

Any year after a positive amount is transferred from a Company's CFCB and that Company's CFCB subsequently becomes negative, then such previous transfers will be reversed to the extent the reversals do not cause the Company's CFCB to become positive.

70.04 Limitation of Term

This procedure shall apply for the shorter of: (1) the ten years following the effective date of the merger, or (2) the period between the effective date of the merger and the date of implementation of retail access in a jurisdiction in which one of the Companies operate.

70.05 Fuel Cost Change Measurement Procedure

Merger-related fuel cost changes (MRFC) for each Company are measured annually as the difference between estimated stand-alone fuel costs (SAFC) and estimated merger fuel costs (MFC), where:

SAFC = The estimated annual cost of fuel and purchased energy incurred to serve the Company's net area dispatch, as determined by a simulation of the dispatch of generating units and system operations under stand-alone (non-combined) operation of the Gulf States and Entergy System (excluding Gulf States) using Entergy's most current delivery of the PROMOD III production cost model and the input assumptions set forth in 70.06.

MFC = The estimated annual cost of fuel and purchased energy incurred to serve a Company's net area requirements as determined by a simulation of the dispatch of generating units and system operations under merged operation (combined) of the system using Entergy's most current delivery of the PROMOD III production cost model and the input assumptions set forth in 70.06.

70.06 Input Assumptions for Production Cost Simulations

Customer Loads

Actual hourly net area load, without off-system sales transactions, will be used as hourly load inputs.

Resources

The Gulf States and Entergy resources available to meet customer loads shall be those reflected in Entergy's most recent Business Plan applicable to that year.

Generating Unit Efficiency

The heat rate data shall be the then current data used in Entergy's Bulk Power Management system (BPMS).

Generating Unit Availability

Generating unit availability data (available MW's for each generating unit) shall be those reflected in the BPMS data for that time period.

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System Operating Constraints

All generating unit constraints, fuel constraints, and transmission constraints as represented in Entergy's most current Business Plan applicable to that year will be reflected in the input assumptions. However, the transmission constraint known as Amite South shall be changed after the end of the fifth post merger year in the Entergy stand-alone analysis to that contained in the merger analysis for the remaining time period.

Fuel Costs

Nuclear -- Actual monthly fuel cost as used in the Intra-System Billing (ISB) program will be used as the nuclear fuel cost input.

Coal -- Actual monthly fuel cost as used in the ISB program will be used as the coal fuel cost input except that the stand-alone fuel cost for North Antelope coal shall be multiplied by the ratio of the stand-alone cost of North Antelope coal to the merger cost of North Antelope coal for each Entergy coal unit as reflected in 70.08.

Gas/Oil -- Fuel cost for each gas/oil unit will be based on actual weighted average fuel cost for each unit as calculated from fuel cost inputs to the ISB program.

Off System Economy Purchases

The simulations will reflect the off-system economy sources listed in 70.09. For the stand-alone simulations, these sources will be allocated to Gulf States and Entergy based on the most current year ending load responsibility ratios. The pricing of these transactions will be based on the actual monthly average on-peak and off-peak price of economy energy purchases, as determined by the ISB, plus a $2/MWH markup for each transaction for which Gulf States would require wheeling service from Entergy.

In addition, the Gulf States stand-alone simulation will also reflect a 300 MW off-peak source to be priced at the actual average monthly off-peak price of economy energy purchases as determined by the ISB. The available capacity for each Entergy stand-alone off-system economy source, as determined above, will be increased (to reflect economy energy not taken in the Gulf States stand-alone simulation) by the following method:

IMW = Monthly on-peak and off-peak increase for each Entergy stand-alone off-system economy source rounded at the nearest whole MW.

= AMW x (1-CF)

where:

AMW = The available capacity (MW) for the off-system economy source in the Gulf States stand-alone.

CF = Monthly on-peak or off-peak capacity factor at which energy is taken in the Gulf States stand-alone simulation for the off-system economy source.

Operating Reserves

An operating reserve level of 6 percent of annual peak will be reflected in the input assumptions.

70.07 PROMOD Benchmark

A benchmark of PROMOD based on the actual 1992 and 1997 operating data will be made to verify the reasonableness of the model.

70.08 North Antelope Coal Prices

The following ratios will be used to increase the actual North Antelope coal prices used in the stand-alone simulation case:

Year	Stand Alone ($/MMBtu)	Combined ($/MMBtu)	Ratio
1994	1.8261	1.7910	1.0196
1995	1.8997	1.8500	1.0269
1996	1.9423	1.9190	1.0122
1997	2.0918	2.0240	1.0335
1998	2.2096	2.1760	1.0155
1999	2.2556	2.2160	1.0179
2000	2.3466	2.2960	1.0221
2001	2.4274	2.3800	1.0199
2002	2.5114	2.4830	1.0114
2003	2.6041	2.5690	1.0137

70.09 Joint Dispatch Economy Purchase Capacities

The following off-system economy resources will be used in the PROMOD simulations, with the figures below being capacity in MW:

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Company	Type of Purchase	Month	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
AECI	On Peak & Off Peak	Year Round	400	400	400	400	400	400	400	400	400	400
Cajun	On Peak & Off Peak	Jan.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Feb.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Mar.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Apr.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	May	110	95	80	120	100	160	160	160	160	160
Cajun	On Peak & Off Peak	Jun.	110	95	80	120	100	160	160	160	160	160
Cajun	On Peak & Off Peak	Jul.	110	95	80	120	100	160	160	160	160	160
Cajun	On Peak & Off Peak	Aug.	110	95	80	120	100	160	160	160	160	160
Cajun	On Peak & Off Peak	Sep.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Oct.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Nov.	200	200	200	200	200	200	200	200	200	200
Cajun	On Peak & Off Peak	Dec.	200	200	200	200	200	200	200	200	200	200
Empire	On Peak & Off Peak	Year Round	50	50	50	50	50	50	50	50	50	50
Oklahoma	On Peak Only	Year Round	300	300	300	300	300	300	300	300	300	300
Oklahoma	On Peak & Off Peak	Year Round	250	150	60	0	0	0	0	0	0	0
Southern	On Peak & Off Peak	Year Round	75	75	75	75	50	50	50	50	50	50
SWEPCO	On Peak & Off Peak	Year Round	100	100	100	100	100	100	100	100	100	100
SWEPCO	On Peak Only	Year Round	200	200	200	200	200	200	200	200	200	200
TVA	On Peak & Off Peak	Year Round	1,000	1,000	1,000	750	500	500	500	500	500	500
Union EL	On Peak & Off Peak	Year Round	400	400	400	400	400	400	400	400	400	400

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This exhibit contains information that is highly sensitive and will be provided under the terms of the terms of the Protective Order (Confidentiality Disclosure Agreement) entered in this case.

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DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

ANDREW J. O'BRIEN

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF ANDREW J. O'BRIEN
2013 RATE CASE

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EXHIBITS

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, EMPLOYER, JOB TITLE AND RESPONSIBILITIES.

A. May name is Andrew J. O'Brien. My business address is 10055 Grogans Mill Road, Parkwood II Building, Suite 300, The Woodlands, 77380. I am employed by Entergy Services, Inc. ("ESI"), as Director, Power Transactions and Dispatch in the Energy Management Organization ("EMO") within the System Planning and Operations ("SPO") organization. In that capacity, among other activities, I am responsible for overseeing the group responsible for the purchase and sale of bulk power for the electric utility Operating Companies of the Entergy System.[1] ESI is an affiliate of the Operating Companies which provides engineering, planning, accounting, technical, and regulatory support services to each of the Operating Companies, including ETI. These services include those performed by the SPO organization, such as the procurement of fuel and purchased power for the Operating Companies and the operation of the Entergy System. ESI frequently serves as agent for the Operating Companies in connection with wholesale transactions. Although each individual Operating Company owns its generating resources and transmission assets, the Entergy System is planned and operated as a

[1] The six Entergy Operating Companies are Entergy Arkansas, Inc. ("EAI"), Entergy Gulf States Louisiana, L.L.C. ("EGSL"), Entergy Louisiana, LLC ("ELL"), Entergy Mississippi, Inc. ("EMI"), Entergy Texas, Inc. ("ETI") and Entergy New Orleans, Inc. ("ENO"). The electric generation and bulk transmission assets of these six Operating Companies are operated on a coordinated basis as a single electric system, referred to as the "Entergy System" or the "System."

single, integrated system pursuant to the terms and conditions of the Entergy System Agreement.[2]

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have been employed by ESI since June 2001. During my career, I have held numerous positions, including my current leadership position, in the areas of commercial negotiations, regulatory, generation dispatch operations as well as resource and operations planning. In June 2001, I accepted a position as Next Day Scheduler in the power marketing department of the EMO. From 2003 to 2006, I worked as a Generation System Dispatcher and then as the Senior Lead Analyst in the Current Day Operations group. In 2007, I accepted the role of Wholesale Executive in the Supply Procurement department and was promoted in 2008 to Manager, Supply Procurement. In this role, I gained significant experience negotiating long-term resource acquisitions, both asset purchases and power purchase agreements. In 2010, I accepted a position within the EMO as Manager, Operations Support with responsibility for overseeing the development and implementation of the

[2] The Entergy System Agreement, discussed in the testimony of Company witness Michael J. Goin, is a FERC-approved rate schedule and contract entered into among ESI and the Operating Companies, which requires the Operating Companies to plan, construct and operate their electric generation and bulk transmission facilities as a single, integrated electric system. It is administered by the Entergy Operating Committee. EAI and EMI have provided notice to the other Operating Companies that they are terminating their participation in the System Agreement effective December 2013 and November 2015, respectively, or on such earlier dates as the FERC may permit.

next-day resource plan including generation commitment and system load forecast. In September 2011, I assumed the position of Manager, Power Marketing, and in February 2013, I was promoted to my current role. I have a Master of Business Administration degree from Texas A&M University and a Bachelor of Science degree in Psychology from Louisiana State University.

Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of ETI.

II. PURPOSE OF TESTIMONY

Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an overview of the Power Marketing Team and its wholesale power procurement strategies, practices, and procedures during the period July 1, 2011 through March 31, 2013 (the "Reconciliation Period"). My testimony:

- describes the Entergy System's purchase power mix in the context of overall System planning objectives;
- describes contract negotiations, contract administration and procurement processes pertinent to the Reconciliation Period; and
- illustrates that the Power Marketing Team maintained effective cost controls with respect to its wholesale power transactions.

III. WHOLESALE POWER MARKETS

A. Overview of Market Conditions

Q5. PLEASE EXPLAIN THE SIGNIFICANCE OF PURCHASED POWER DURING THE RECONCILIATION PERIOD.

A. During the Reconciliation Period, purchased power served base load, intermediate, and peaking functions in meeting the Company's load obligations. Because of the reliance on purchased power during the Reconciliation Period, it was important that the purchased power portfolio be reliable and flexible as well as economical.

Q6. PLEASE DESCRIBE THE WHOLESALE POWER MARKET CONDITIONS THAT THE COMPANY FACED DURING THE RECONCILIATION PERIOD.

A. During the Reconciliation Period the wholesale power markets were stable with some mild volatility. However, the Company continued to receive substantial amounts of energy "put" to the Operating Companies by Qualifying Facilities ("QFs"), reducing the ability to utilize the market for standard products.

Q7. PLEASE EXPLAIN FURTHER HOW QF PUTS HAVE AFFECTED THE COMPANY'S PROCUREMENT EFFORTS?

A. The abundance of QF energy effectively limited the Company's ability to purchase energy from other third-party merchant generators because

those two types of suppliers generally offer limited types of power products. Neither the QFs nor other third-party merchant generators have been willing to provide material levels of power that can be used to match the ever-changing load of the Company. However, the System has worked to provide opportunities for third-party generators to supply energy when they can do so at a lower cost than the cost of the Company's owned or controlled resources.

Q8. WHAT EFFORTS WERE UNDERTAKEN TO ADDRESS THE CHALLENGES PRESENTED BY THE LARGE NUMBER OF QF PUTS?

A. The Company's efforts included the use of weekly, monthly, and other short-term purchases (less than one year) from these generators at a defined heat rate that locked in more efficient generation for the Operating Companies. These purchases are described in more detail in the direct testimony of Company witness Devon S. Jaycox and later in my testimony.

The Company's efforts further included long-term resource planning. During the Reconciliation Period, the SPO determined the types of resources that were necessary to meet the load requirements and the various supply role needs of the Entergy System, including ETI, based on the planning objectives laid out in the Strategic Resource Plan ("SRP"). Company witness Robert R. Cooper discusses long-term planning and

strategies, as well as acquisitions that were made pursuant to the Summer 2009 RFP.

B. Wholesale Purchase Power Mix

Q9. PLEASE SUMMARIZE THE EXPENSES THAT YOU WILL ADDRESS IN THIS SECTION OF YOUR TESTIMONY.

A. The Power Marketing Team is responsible for the procurement and sale of short-term wholesale power. In this section of my testimony, I discuss the mix of long-term purchases, short-term purchases, and purchases from QFs during the Reconciliation Period that are shown in Figure AJO-1 of my testimony. As previously discussed, Company witness Cooper addresses the procurement of longer-term purchased power transactions. Company witnesses Michael J. Goin and Cooper address the allocation of the costs and revenues associated with wholesale power transactions, including power purchased or exchanged with ETI's affiliated (or "Associated") Operating Companies, pursuant to the FERC-approved Entergy System Agreement.

Q10. WHAT IS THE MIX OF POWER PURCHASED FOR THE SYSTEM DURING THE RECONCILIATION PERIOD?

A. Figure AJO-1, below, shows the mix of long-term purchases, short-term purchases, and purchases from QFs during the Reconciliation Period.

Figure AJO-1
Mix of Purchased Power for the System

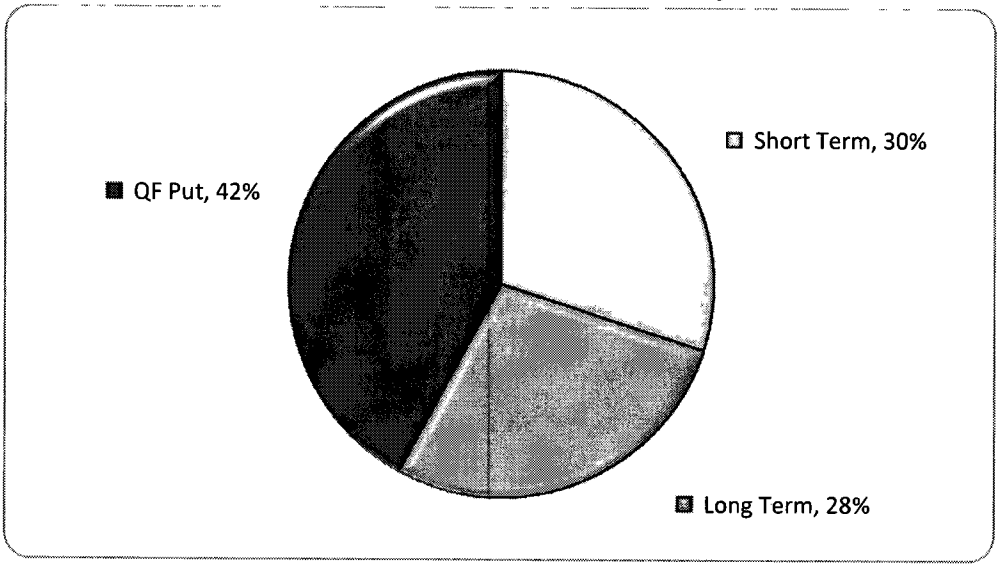
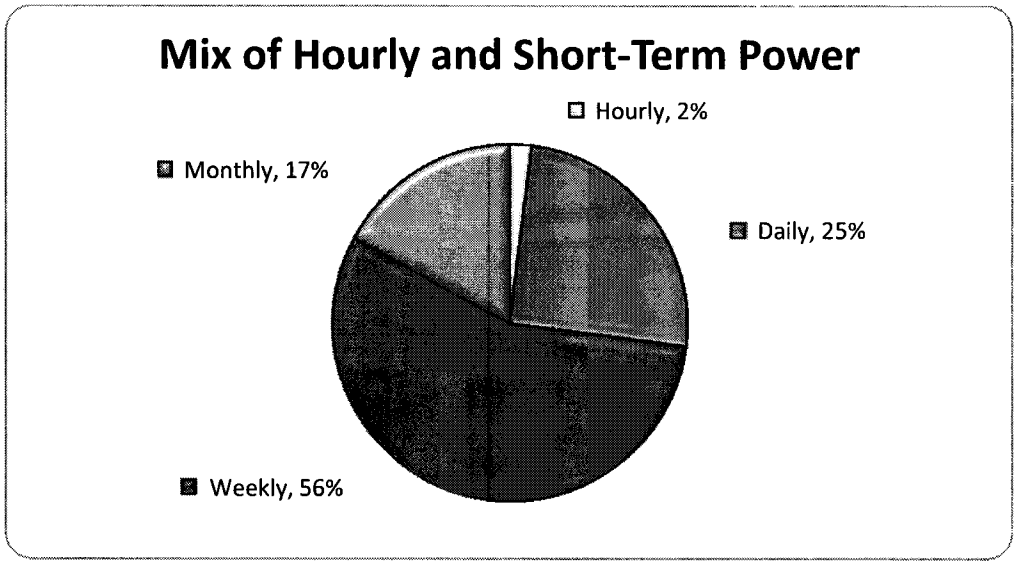


Figure AJO-2, below, shows a more detailed breakdown of the short-term purchases into hourly, daily, weekly, and monthly purchases.

Figure AJO-2
Mix of Hourly and Short-Term Power



IV. RESPONSIBILITIES OF THE POWER MARKETING TEAM

Q11. DESCRIBE THE RESPONSIBILITIES OF THE POWER MARKETING TEAM.

A. The Power Marketing Team is the team within the SPO responsible for the procurement of purchased power with a term of one year or less. The Power Marketing Team is responsible for the purchase and sale of wholesale bulk power for the Operating Companies, including ETI, within the Entergy System.

The Power Marketing Team does not directly determine how much electricity to purchase or sell. As explained more fully in the Direct

Testimony of Company witness Jaycox, these decisions are made by various teams within SPO, including EMO. Members of the Power Marketing Team participate with various planning teams, providing input about market conditions, especially price and availability of purchased power. Once these planning teams determine the appropriate quantities of power that should be purchased or sold for the benefit of the System, the Power Marketing Team performs the actual procurement or sale of short-term purchased power.

The overall responsibilities of the Power Marketing Team are to:

- conduct wholesale transactions operations in a manner that supports the System's commitment to provide quality service and a reliable supply of electric energy;
- acquire supplies of power that provide flexibility at a reasonable price under the facts and circumstances known or reasonably knowable at the time;
- administer existing wholesale contracts in a manner that ensures a reasonable System cost;
- market excess energy when the sales price exceeds the anticipated System incremental cost to supply the sales; and
- participate in the planning process by supplying market prices, availability, and other information regarding purchased power resources.

A. Wholesale Transactions

Q12. PLEASE DESCRIBE THE ROLE OF WHOLESALE TRANSACTIONS IN THE COMPANY'S ENERGY MIX.

A. Exhibit AJO-1 summarizes the relationship of various wholesale transactions that contribute to the System's overall energy mix. There are two categories of purchases and sales: System and Non-System. System Transactions refer to the acquisition or allocation of power by or among the six Operating Companies pursuant to the terms of the System Agreement. Non-System Transactions are wholesale purchases made directly by ETI.

System Transactions are broken out into sub-categories: Associated and Non-Associated. Associated transactions consist of the allocations of power or costs under the System Agreement Service Schedules MSS-1 Reserve Equalization, MSS-3 Exchange of Energy among Companies, and MSS-4 Unit Power Purchase.

Service Schedule MSS-1 prescribes the method for equalizing among the Operating Companies the capability and ownership cost of the reserve generating capability of the System. The reserve capability is the capability in excess of the System's actual or planned load that was built or acquired in order to ensure reliable and efficient operation of the System.

Service Schedule MSS-3 provides for the joint economic dispatch of the System, requiring that the energy from each of the Operating

Companies' available resources, and the associated costs, be allocated among the Operating Companies. As a result of the joint economic dispatch of the System, ETI may provide energy from its generation to other Operating Companies and vice versa. Service Schedule MSS-4 is used for the purchase and sale of unit contingent power between Operating Companies.

Non-Associated System Purchases and Sales consist of transactions with non-affiliated third parties. These transactions may be made for the benefit of the System as a whole and allocated among all of the Operating Companies, or the purchases or sales may be made on behalf of fewer than all of the Operating Companies. Company witnesses Goin and Jaycox explain how the energy, costs, and revenues from these transactions are allocated among the Operating Companies under the terms of the System Agreement. I will address how and when the System enters into these transactions.

Non-System Purchases and Sales are those purchases and sales executed directly between ETI and other non-affiliated entities. The energy, costs, and revenues of these purchases and sales are initially assigned to the Company. Non-System Purchases include capacity purchases and cogeneration purchases as shown in Schedule H-12.4a-g. Non-System Sales include the sale of emergency (or backup) power to third parties.

Q13. WHO IS RESPONSIBLE FOR MANAGING THE ABOVE-MENTIONED NON-ASSOCIATED SYSTEM AND NON-SYSTEM PURCHASES AND SALES?

A. With the exception of QF non-firm energy put to the Entergy System, which I describe later in my testimony, the Power Marketing Team is responsible for managing Non-Associated System and Non-System purchases and sales. The Power Marketing Team also manages long-term and limited-term contracts after their execution, having the responsibility for scheduling the power and obtaining the transmission.

Q14. WHAT ARE THE OBJECTIVES OF THE POWER MARKETING TEAM?

A. One objective of the Power Marketing Team is to purchase energy in the wholesale market when it is more economical than utilizing the System's own generation. Another objective is to purchase energy in the wholesale market when necessary to maintain system reliability. Additionally, the Power Marketing Team may sell energy into the wholesale market that is not committed to the needs of the customers of the Operating Companies, or when such sales are necessary to maintain system reliability. The revenues from the sale of power are credited to fuel and purchased power expenses.

Q15. WHAT PROCESS IS USED FOR ACCOMPLISHING THE ABOVE OBJECTIVES?

A. The Power Marketing Team monitors the wholesale power markets for price and availability of power to purchase and for opportunities to make sales. To accomplish this, the Power Marketing Team is divided into five sub-teams based on the time frame of the intended transaction.

The first sub-team, which is part of the Current Day Team described in Company witness Jaycox's testimony, deals with the hourly power markets and works in shifts in order to cover the market 24 hours a day, seven days a week, 52 weeks a year. This sub-team focuses on short-term economic purchase opportunities, and reliability purchases necessitated by changes in System operations or load.

The second sub-team interfaces with the next-day, next-week, and monthly power markets and looks for opportunities to avoid dispatching generation resources or buying fuel when purchased power is a more economical alternative. This sub-team is a part of the Next-Day Team described by Company witness Jaycox.

The third sub-team interfaces closely with the Monthly Energy Planning Process team. Company witness Jaycox describes the monthly process in more detail. The Monthly Energy Planning Process includes a Monthly RFP that requires a survey by the Power Marketing Team regarding the purchased power price and availability for the upcoming month. Concurrently, market participants are solicited for monthly

proposals to sell power to the System. Analysis of the offers is completed, and contracts are negotiated with those suppliers who provided proposals that result in expected savings in production costs over the applicable month.

The fourth sub-team interfaces closely with the Weekly Procurement Process team. As indicated, for the Weekly Procurement Process, the Power Marketing Team assists with the process but is not responsible for the selection of bids. The Entergy Energy Delivery Organization, with oversight from the Independent Coordinator of Transmission ("ICT"), evaluates resources and determines whether the bids or offers should be accepted. The accepted offers are granted transmission service.

The fifth sub-team deals with the market for purchases of one year or longer in term, which are discussed by Company witness Cooper. The SPO's Commercial Operations Group is responsible for the selection and execution of these types of transactions. The Power Marketing Team is responsible for managing these long-term and limited-term contracts on a daily and hourly basis.

Each sub-team monitors its respective market for both the price and availability of wholesale energy. This information is presented to the appropriate planning teams for analyses that consider the cost of alternative resources. If the analysis performed by a planning team

indicates that a transaction is necessary and/or economical, the Power Marketing Team will arrange and implement the transaction.

Q16. WHAT TOOLS ARE USED BY THE POWER MARKETING TEAM TO MONITOR THE POWER MARKETS?

A. The Power Marketing Team uses several methods to ascertain market prices and availability of purchase power. These include electronic trading platforms, personal contacts with third parties, and publications that report historical market activity and other market news. A real-time online program known as Intercontinental Exchange ("ICE") reports real-time offers, bids, and actual transactions for power in various time frames such as next day, next week, weekend, on-peak, off-peak, next month, next year, and other specific time periods into the future, in both the Entergy System and in surrounding markets. The Power Marketing Team uses ICE to monitor the real-time market activity associated with power bought and sold in the Entergy System as well as in the surrounding regions. This real-time trading platform assists the Power Marketing Team in negotiating with potential counterparties and deciding whether an offer from a marketer is competitive with the market at that time. The Power Marketing Team also surveys the market through person-to-person communication with power traders from utilities, power marketers, and Independent Power Producers ("IPPs"). In addition, the Power Marketing Team also reviews published trading data, such as Platts'

Megawatt Daily ("*MW Daily*") to keep abreast of current market trends and industry news to gain greater insight into market conditions, price, and availability of power.

Q17. WHAT TOOLS ARE USED BY THE POWER MARKETING TEAM TO TRACK AND MANAGE THE ENTERGY SYSTEM'S PURCHASE POWER TRANSACTIONS?

A. The TRADES database was developed by SPO to facilitate the documentation and accounting for all power purchases and sales transactions for the System. This program is used to record all power purchases or sales entered into by the Power Marketing Team with another party. The accounting departments use the TRADES database to verify each transaction for invoicing or paying a counterparty. In addition to providing documentation for power transactions made by the Company, the TRADES database also records a list of valid offers for purchased power that were not accepted by the Power Marketing Team, and indicates the reasons for the rejections. The records of the TRADES database for the Reconciliation Period have been provided in the workpapers to my testimony, under the provisions of an appropriate Protective Order.

Q18. WHAT TYPES OF PRODUCTS DOES THE SYSTEM BUY AND SELL IN THE WHOLESALE MARKET?

A. The majority of the System's short-term power purchases are made pursuant to enabling or umbrella agreements that permit the parties to specify the particular terms of a transaction in a confirmation sheet or by oral agreement. For example, the Western Systems Power Pool ("WSPP") enabling agreement is a FERC-approved agreement under which parties transact for the purchase and sale of power. The SPO also uses the Edison Electric Institute ("EEI") Purchase and Sale Agreement, which is also widely accepted by the electric industry. Copies of enabling agreements utilized by the Company during the Reconciliation Period have been provided in the workpapers for Schedule I-4.

With these enabling agreements in place, the System is able to utilize a wide range of options available in the marketplace to meet the System's needs. The available products vary in duration, pricing, and deliverability. With respect to duration, power is available on an hourly, daily, weekly, monthly and longer-term basis. These various products can be purchased during on-peak, super-peak, or off-peak hours. The System can also benefit from these pricing options to lessen price volatility. Long-term contracts, which provide the capability to schedule delivery of energy at the specified price, can also offer price certainty and protect against the effects of price spikes. Finally, the System can choose different degrees of certainty of deliverability to suit its needs. Non-firm power can be cut by

either party without notice and is typically more economical than firm energy which must be delivered as agreed, that is, backed by a specific unit(s) or the promise to pay liquidated damages in the event of default. The System utilizes a variety of products offered, selecting on duration, price, and firmness to optimize flexibility while reducing overall fuel cost and price volatility.

Q19. FROM WHAT ENTITIES DOES THE SYSTEM BUY POWER AND TO WHAT ENTITIES DOES THE SYSTEM SELL POWER?

A. The System primarily enters into purchase and sale transactions with utilities, power marketers, and IPPs. A complete list of the wholesale power counterparties during the Reconciliation Period is included in Schedules H-12.4a-g and I-15.

B. Non-Associated System Transactions

Q20. PLEASE DESCRIBE THE NON-ASSOCIATED SYSTEM PURCHASES.

A. As previously defined, Non-Associated System purchases are purchases from third-parties made for the benefit of the System. The Power Marketing Team enters into these purchases on an hourly, daily, weekly, monthly, or longer-term basis. As shown in Exhibit AJO-2, the quantity of power purchased each month varies. This variability is a reflection of the role these purchases play as an economic alternative to self-generation. During periods when purchased power costs are below the System's cost

of generation, purchased power will be used as an economic alternative. During periods when purchased power costs are above the System's cost of generation, the System will purchase power only as needed to maintain system reliability. See Schedules H-12.4a-g and H-12.5b-e for a complete listing of all Non-Associated System Purchases and Sales.

Q21. WERE THERE ANY PUBLISHED MARKET PRICES FOR WHOLESALE POWER DURING THE RECONCILIATION PERIOD?

A. Yes. There are a number of published indices that provide an indication of trading volume and prices in the wholesale markets for "standard products," including publications such as MW *Daily*, that provide indices for daily and monthly standard product prices. As I discuss further below, the value of these indices for determining forward-looking prices has decreased substantially due to the emergence of the availability of non-standard products in the wholesale markets.

Q22. PLEASE EXPLAIN YOUR REFERENCE TO "STANDARD PRODUCTS" WITH RESPECT TO MARKET INDICES?

A. As described more fully in Exhibit AJO-3, the next-day and monthly indices are based on purchases and sales of on-peak firm power with liquidated damages over a defined period. As such, these indices reflect a "standard product" block of power that must be delivered and taken ratably (that is, at equal amounts across all hours) over the 16-hour period

between 6:00 a.m. and 10:00 p.m. on a business day. If the purchase is a standard daily product, then the power is delivered over this 16-hour block for one day. If the purchase is a monthly product, the power is delivered over this 16-hour block for every workday, with the exception of some holidays.

Q23. DO THE MARKET INDEX PRICES INCLUDE NON-STANDARD PRODUCTS?

A. No. The power markets are dynamic and buyers and sellers may agree to terms that define a product that differs from the standard product. These "customized" agreements are not represented by the market index price. Significantly, the vast majority of the System's non-associated transactions are for non-standard products. In fact, less than 2% of the System's over 11,000 non-associated transactions are for a standard product. Thus, while the published indices provide a source for evaluating standard products, these indices have become less important as a tool as a result of the power markets' increased availability of non-standard products in recent years.

Q24. WHY DOES THE COMPANY PURCHASE POWER USING A NON-STANDARD PRODUCT?

A. The System enters into short-term non-associated power transactions for a host of reasons, all of which can justify and even require the purchase of

a non-standard product. Stated another way, these various reasons require or make it appropriate for the System to not commit to purchase a level of power ratably during the hours of 6:00 am to 10:00 pm. For example, the System purchases non-standard products for reasons, including: (1) the need for flexibility associated with load volatility; (2) economics; (3) reliability; (4) as part of a reserve sharing agreement; and (5) pursuant to a FERC-filed Generator Imbalance Agreement ("GIA") tariff, to name a few.

Q25. PLEASE EXPLAIN YOUR REFERENCE TO FLEXIBILITY AND ECONOMICS AS REASONS FOR NON-STANDARD PURCHASES.

A. The need for flexibility and the opportunity for economic non-standard purchases are interrelated. As discussed above, the standard power product requires the System to take the same amount of power in each hour for a 16-hour period, from 6:00 a.m. to 10:00 p.m. Because System load fluctuates throughout the day, the purchase of power ratably over a prescribed period of time can result in an over-supply in some hours, forcing the System to back down more economic energy from other sources, resulting in a net higher cost to the customer. Non-standard products can be used by the System to target specific hours where the energy is needed or where it is more economical than other available resources.

As an example, assume that the System is offered a purchase for a standard 16-hour block for a price of $50/MWh. Alternatively, the System has the option to make a purchase or strike on a call option at $100/MWh for a 4-hour period during that same day. Since the System's load varies substantially during the day, it may only need the power for the 4-hour period. The total cost of the purchase for 1 MW would be $800 for the 16-hour block and only $400 for the four-hour purchase. This is a simple hypothetical that ignores the System's cost for the other 12 hours, but it highlights that making a purchase based on the $/MWh price and not taking into account the total cost to the customer can add costs to our customers.

Q26. PLEASE EXPLAIN YOUR REFERENCE TO RELIABILITY.

A. Reliability purchases are necessary to maintain System reliability. These purchases can be made for a variety of reasons, including transmission constraints, a lack of resources, and problems in local areas.

Q27. PLEASE DISCUSS PURCHASES PURSUANT TO THE SPP RESERVE SHARING AGREEMENT.

A. The System is required to make purchases pursuant to an SPP reserve sharing agreement. The reserve sharing agreement allows the System to carry a lower reserve margin, thereby saving on capital expenditures and lowering overall costs, in exchange for the System's obligation to provide

power when requested by the SPP. The agreement provides the System the ability to obtain emergency power when needed. Such purchases are typically for short periods and are priced at the supplier's incremental cost pursuant to a FERC-filed formula rate.

Q28. PLEASE EXPLAIN GIA PURCHASES.

A. GIA purchases refer to System purchases of power generated by non-System resources in excess of scheduled amounts. As such, the System has no control over such purchases and reimburses the supplier at a cost prescribed by the FERC tariff.

C. Non-System Transactions

Q29. PLEASE DESCRIBE NON-SYSTEM TRANSACTIONS.

A. Non-System purchases are those made either under long-term contracts or under the requirements of the Public Utility Regulatory Policies Act ("PURPA").[3] Non-System sales are sales to third parties and provide emergency (or backup) power in the event that a unit is not available.

Q30. PLEASE DESCRIBE THE PURCHASES MADE UNDER PURPA DURING THE RECONCILIATION PERIOD.

A. A supplier of this type of power is generally referred to as a Qualifying Facility or QF because it qualifies to supply power to the Company under

[3] Public Utilities Regulatory Policies Act of 1978; 16 U.S.C. 824a-3.

PURPA. The Company is obligated to purchase the unscheduled, non-firm energy a QF chooses to supply; however, the Company cannot require the QF to supply power under PURPA. The price paid for this energy is equal to the System's avoided energy cost. As shown in Figure AJO-1 and Exhibit AJO-3, the QF non-firm, as-available energy put to the Entergy System was a considerable amount during the Reconciliation Period. Pursuant to P.U.C. Subst. R. 25.242(g)(2), any energy purchased by the Company at a price equal to or below its avoided cost is reasonable and necessary.

D. Affiliate Transactions

Q31. DID THE COMPANY MAKE ANY DISCRETIONARY PURCHASES OF SHORT-TERM ENERGY FROM AFFILIATED COMPANIES DURING THE RECONCILIATION PERIOD?

A. No. However, during the Reconciliation Period, ETI was allocated its responsibility ratio of a limited amount of purchases from affiliates of ETI through the GIA, which is part of the Entergy System's Open Access Transmission Tariff.

Q32. WERE THE PURCHASES FROM ETI AFFILIATES DURING THE RECONCILIATION PERIOD REASONABLE AND NECESSARY?

A. Yes. These purchases were made pursuant to PURPA or a FERC-approved tariff that required the purchases to be made.

Q33. WERE THE PRICES THAT ETI PAID TO AFFILIATES NO HIGHER THAN THE PRICES CHARGED BY THOSE AFFILIATES TO THEIR OTHER AFFILIATES OR DIVISIONS OR TO A NON-AFFILIATED PERSON FOR THE SAME SERVICES?

A. Yes. The prices paid as a result of these purchases were governed by statute or FERC-approved tariff, and were no higher than prices charged to other affiliates for the same product.

E. Surveys of Wholesale Power Markets

Q34. PLEASE DESCRIBE THE ACTIONS THAT EMO HAS TAKEN TO COMPLY WITH THE COMMISSION'S REQUIREMENT FOR NEXT-DAY AND INTRA-DAY SURVEYS OF THE ELECTRIC MARKET.

A. The TRADES database includes all valid purchased power offers received by the System. To be considered, an offer must specify price, quantity, and duration. For accepted offers, the database includes information documenting the reasons particular purchases are made, such as whether the purchase was made to ensure the reliability of the System or was an economy purchase. For offers that are not accepted, in addition to specifying price, quantity, and duration information, the database also includes information documenting the reason that the offer was declined (*e.g.*, that the price was not economical, the counterparty was not pre-approved, or that the purchase was not made because of operating constraints, including minimum load issues or transmission constraints).

Thus, the EMO has not only a survey of the market, but in fact, an inventory of valid offers.

Q35. PLEASE DESCRIBE THE INFORMATION THAT IS COLLECTED REGARDING OFFERS FOR THE SALE OF ELECTRICITY THAT ARE ACCEPTED.

A. In order to collect information on wholesale power transactions, the traders identify the reason for the purchase (*e.g.*, either economic dispatch, economic commit, or reliability) at the time that the purchase was made. If the purchase is made for economic dispatch reasons, the purchase is more economical than existing online generation. If the purchase is made for economic commit reasons, then the purchase is generally avoiding a plant startup. The reasons that reliability may be selected include a plant trip/failure/derate, an unexpected increase in the load forecast, or a transmission constraint.

Q36. PLEASE DESCRIBE THE INFORMATION THAT IS COLLECTED REGARDING OFFERS FOR THE SALE OF ELECTRICITY THAT ARE NOT ACCEPTED.

A. The TRADES database also requires the traders to record information on the valid offers that are received, but that are not accepted. An offer is defined as valid, and therefore recorded, if it includes the following information: price ($/MWh), quantity (MWh), start time, duration (days or

hours), and if it is received from an Entergy-approved counterparty. Offers may be rejected because they are not economically attractive (*e.g.*, the price is greater than the avoided cost for the relevant time period) or because of operational reasons. If an offer is rejected, the information that is collected includes the name of the seller, the amount and price of the power, the schedule proposed for sale, and the relevant avoided cost estimate that led to the rejection. The trader must also identify the reason for the rejection. These explanations are recorded and stored in the TRADES database. To the extent that the trader is informed of a specific transmission constraint, that information is also retained.

Q37. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE PURCHASED POWER EXPENSES OF THE COMPANY DURING THE RECONCILIATION PERIOD.

A. The strategies, practices, and procedures employed by the Power Marketing Team during the Reconciliation Period resulted in a diverse portfolio of products from the evolving purchased power markets that provided electricity for customers at a reasonable total cost.

V. CONCLUSION

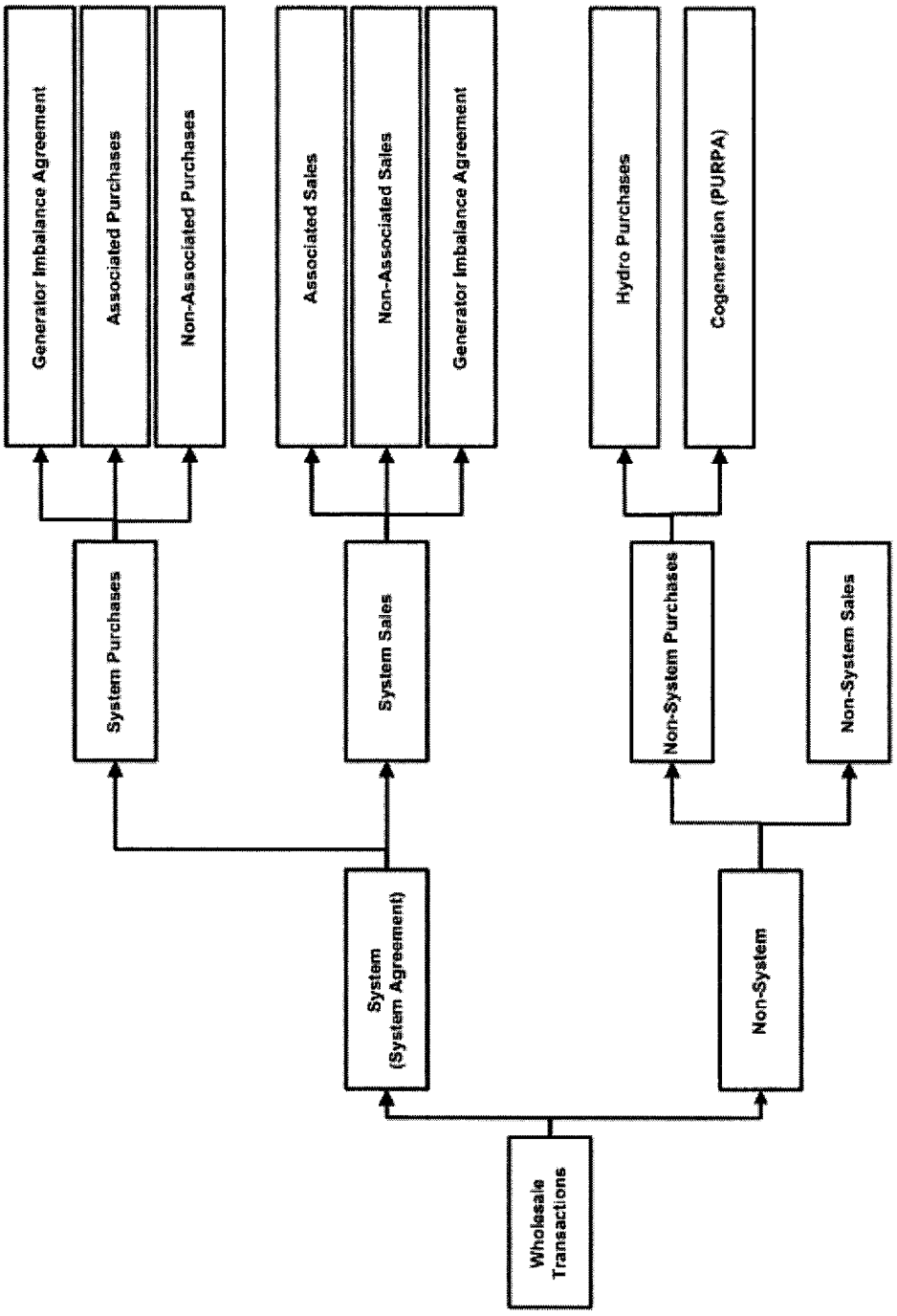
Q38. PLEASE SUMMARIZE THE COMPANY'S PARTICIPATION IN THE WHOLESALE MARKETS DURING THE RECONCILIATION PERIOD.

A. The purchased power expense that the Company incurred was the result of prudent planning and acquisition processes. These expenses were necessary to reliably meet ETI's customers' needs. The Entergy System utilizes a comprehensive process to manage its power acquisitions and sales, consisting of a series of planning and procurement processes that bring together sophisticated analytical tools and a wide range of personnel so that the optimum portfolio of energy sources is developed. The System was also operated pursuant to the terms of the System Agreement regarding participation in the wholesale electric markets and in decisions to utilize purchases of wholesale power to displace owned generation.

Q39. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Relationship of Various Wholesale Transactions



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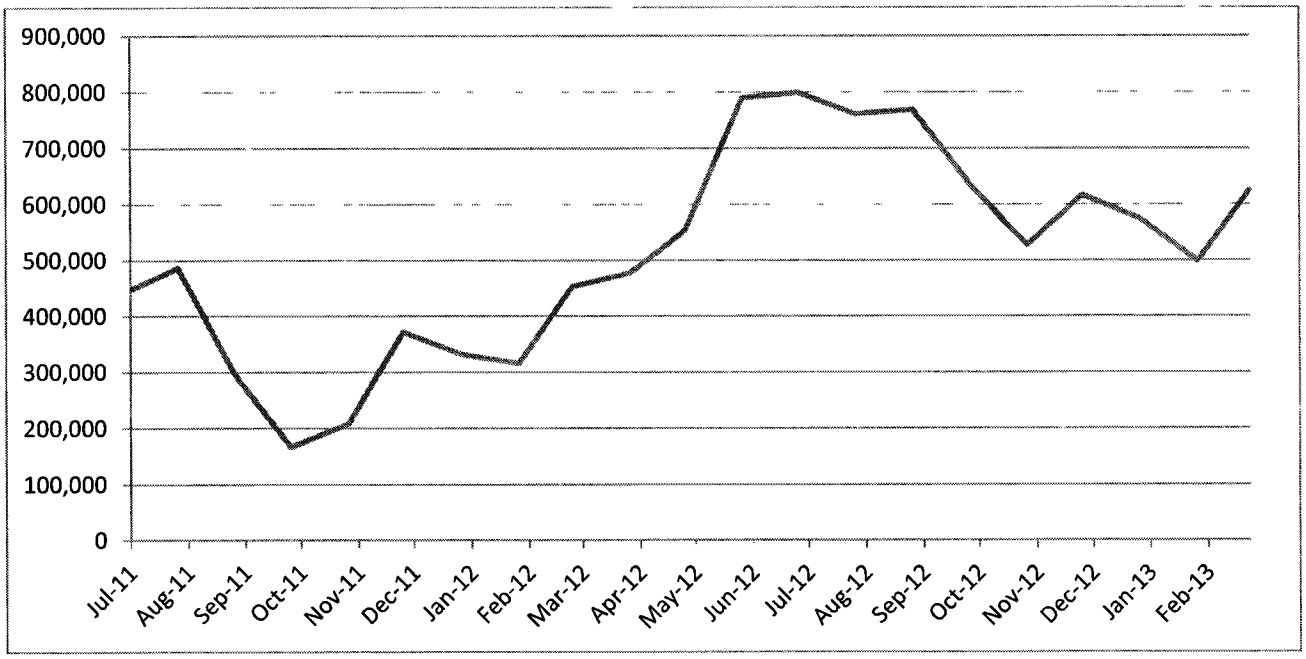
ETI Non-Associated System Purchases



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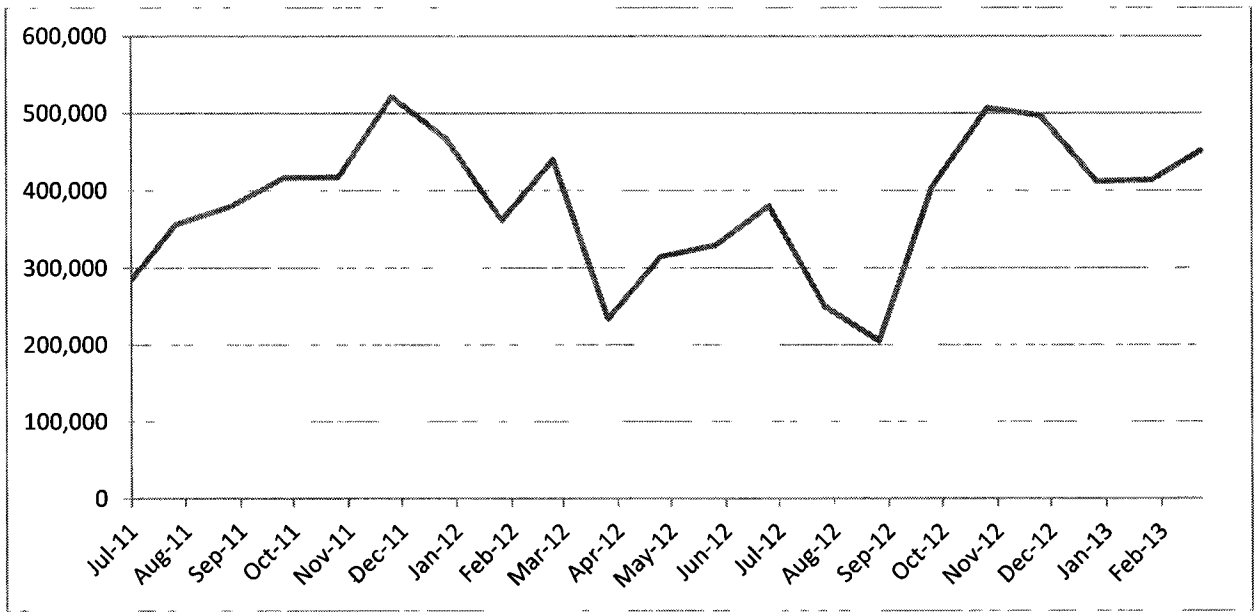
Summary of ETI Cogeneration Purchases



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DOCKET NO. 41791

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

DIRECT TESTIMONY

OF

MICHELLE H. THIRY

ON BEHALF OF

ENTERGY TEXAS, INC.

SEPTEMBER 2013

ENTERGY TEXAS, INC.
DIRECT TESTIMONY OF MICHELLE H. THIRY
2013 RATE CASE

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